

MARSHALL & ILSLEY CORP
Form 10-K
March 02, 2009
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2008

OR

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

Commission File No. 1-33488

MARSHALL & ILSLEY CORPORATION

(Exact name of registrant as specified in its charter)

| | |
|--|--|
| Wisconsin (State or other jurisdiction of incorporation or organization) | 20-8995389 (I.R.S. Employer Identification No.) |
| 770 North Water Street Milwaukee, Wisconsin (Address of principal executive offices) | 53202 (Zip Code) |

Registrant's telephone number, including area code: (414) 765-7801

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Securities registered pursuant to Section 12(b) of the Act:

| Title of Each Class: | Name of Each Exchange on Which Registered: |
|---|---|
| Common Stock \$1.00 par value | New York Stock Exchange |
| Securities registered pursuant to Section 12(g) of the Act: None | |

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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 definition of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

(Check one): Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

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

The aggregate market value of the voting stock held by nonaffiliates of the registrant as of June 30, 2008 was approximately \$3,922,398,000. As of January 31, 2009, the number of shares of Common Stock outstanding was 265,325,075, and the number of shares of Senior Preferred Stock, Series B outstanding was 1,715,000.

DOCUMENTS INCORPORATED BY REFERENCE

Part III incorporates information by reference from the Proxy Statement for the registrant's Annual Meeting of Shareholders to be held on April 28, 2009.

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MARSHALL & ILSLEY CORPORATION
ANNUAL REPORT ON FORM 10-K
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2008

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PART I

ITEM 1. BUSINESS

General

Marshall & Ilsley Corporation (M&I or the Corporation), a Wisconsin corporation, is a registered bank holding company under the Bank Holding Company Act of 1956 (the BHCA) and is certified as a financial holding company under the Gramm-Leach-Bliley Act. As of December 31, 2008, M&I had consolidated total assets of approximately \$62.3 billion and consolidated total deposits of approximately \$41.0 billion, making M&I the largest bank holding company headquartered in Wisconsin. The executive offices of M&I are located at 770 North Water Street, Milwaukee, Wisconsin 53202 (telephone number (414) 765-7801). M&I's principal assets are the stock of its bank and nonbank subsidiaries, which, as of February 15, 2009, consisted of five bank and trust subsidiaries and a number of companies engaged in businesses that the Board of Governors of the Federal Reserve System (the Federal Reserve Board) has determined to be closely-related or incidental to the business of banking. M&I provides its subsidiaries with financial and managerial assistance in such areas as budgeting, tax planning, auditing, compliance assistance, asset and liability management, investment administration and portfolio planning, business development, advertising and human resources management.

M&I provides diversified financial services to a wide variety of corporate, institutional, government and individual customers. M&I's largest affiliates and principal operations are in Wisconsin; however, it has activities in other markets, particularly in certain neighboring Midwestern states, and in Arizona, Nevada and Florida. The Corporation's principal activities consist of banking and wealth management services.

M&I provides banking services, which include lending to and accepting deposits from commercial and community banking customers, through its lead bank, M&I Marshall & Ilsley Bank (M&I Bank); Southwest Bank, an M&I Bank (Southwest Bank), which is headquartered in St. Louis, Missouri; M&I Bank FSB, a federal savings bank subsidiary of M&I located in Las Vegas, Nevada; and an asset-based lending subsidiary headquartered in Minneapolis, Minnesota. M&I provides these services through branch offices of M&I's subsidiary banks located throughout Wisconsin and Arizona, in western and central Florida, central Indiana, the metropolitan areas of Minneapolis, Minnesota, Kansas City, Missouri and St. Louis, Missouri, and Duluth, Minnesota, Belleville, Illinois, and Las Vegas, Nevada, and through the Internet.

Wealth Management includes Marshall & Ilsley Trust Company National Association (M&I Trust Company), M&I Financial Advisors, Inc. (M&I Financial Advisors), the private banking divisions of M&I's bank subsidiaries and other subsidiaries related to the wealth management business. Wealth Management services include trust services, brokerage and insurance services, and investment management and advisory services, which are provided to residents of Wisconsin, Arizona, Minnesota, Missouri, Kansas, Florida, Nevada and Indiana.

Other financial services provided by M&I include personal property lease financing, wholesale lending, investment services to institutional clients and venture capital.

Based on the way M&I organizes its business, M&I has four reportable segments: Commercial Banking, Community Banking, Wealth Management and Treasury. Each of these segments is described in detail below. More information on M&I's business segments is contained in Note 23 of the Notes to the Consolidated Financial Statements contained in Item 8, Consolidated Financial Statements and Supplementary Data.

Commercial Banking

M&I's Commercial Banking segment provides financial expertise in Corporate, Commercial, Correspondent and Commercial Real Estate Banking. Commercial Banking provides a complete line of commercial, corporate and real estate banking products and services, including: traditional commercial loans and lines of credit, letters of credit, asset-based lending, equipment financing, mezzanine financing, global trade services, treasury management and other financial services to middle market, large corporate and public sector clients. Commercial Banking also supports the commercial real estate and correspondent banking markets with products and services including secured and unsecured lines of credit, letters of credit, construction loans for commercial and residential development and land acquisition and development loans.

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Community Banking

M&I's Community Banking segment provides consumer and business banking products and services to customers primarily within the states in which M&I offers banking services. Community Banking services are provided through branches located throughout Wisconsin and Arizona, in western and central Florida, central Indiana, the metropolitan areas of Minneapolis, Minnesota, Kansas City, Missouri and St. Louis, Missouri, and Duluth, Minnesota, Belleville, Illinois, and Las Vegas, Nevada, and through the Internet. Consumer products include loan and deposit products such as mortgages, home equity loans and lines, credit cards, student loans, personal lines of credit and term loans, demand deposit accounts, interest bearing transaction accounts and time deposits. Business banking products include secured and unsecured lines and term loans for working capital, inventory and general corporate use, commercial real estate construction loans, agricultural loans, demand deposit accounts, interest bearing transaction accounts and time deposits.

Wealth Management

The Wealth Management segment, which includes M&I's trust, brokerage and private banking business, provides integrated asset management, trust and banking services through three business lines: Investment Management, Personal Services and Institutional Services. Investment Management is a multi-dimensional asset management service with a broad range of strategies, styles and product delivery options such as separately managed equity and fixed income strategies, managed asset allocation strategies, alternative investments and The Marshall Funds, M&I's family of mutual funds. Personal Services includes Cedar Street Advisors, Personal Wealth Management and M&I Financial Advisors. Cedar Street Advisors manages the complex financial affairs of ultra-high net worth individuals and their families. Personal Wealth Management services assemble and implement an all-inclusive financial roadmap for high net worth individuals and families, providing for their private banking (credit and deposits), investment, estate and tax planning needs. M&I Financial Advisors uses a formulized financial planning process based on an individual's resources, goals, and risk tolerance to develop a personalized financial plan, and then offers a full array of brokerage and insurance solutions to meet that plan. The Institutional Services business includes Retirement Plan Services, Taft-Hartley Services, Not-for-Profit Services, North Star Deferred Exchange and Trust Operations Outsourcing.

Treasury

Treasury provides management of interest rate risk, capital, liquidity, funding and investments to the Corporation and all of its subsidiary banks.

Others

The Other segment includes a Capital Markets Division and a National Consumer Banking Division. The Capital Markets Division provides a variety of products and services designed to address its customers' risk management and investment needs. These services include derivative solutions and investment services, currency conversion and foreign exchange services and risk management. These services are provided primarily to corporate, business banking and financial institution clients. The National Consumer Banking Division provides wholesale home equity consumer lending, indirect automobile financing, and affinity banking services.

Explanatory Note Separation of Marshall & Ilesley Corporation and Metavante Corporation

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Prior to November 1, 2007, Marshall & Ilesley Corporation consisted of two reportable business segments: Banking and Data Services (or Metavante). On November 1, 2007, Marshall & Ilesley Corporation separated the Banking and Data Services businesses into two separate publicly-traded companies: new Marshall & Ilesley Corporation and Metavante Technologies, Inc. (formerly known as Metavante Corporation and referred to in this report as Metavante). This event and the related transactions are referred to in this report as the Separation. The company known as Marshall & Ilesley Corporation prior to November 1, 2007 became a wholly-owned subsidiary of new Marshall & Ilesley Corporation (the ultimate parent company of the Banking business) and was converted into a Wisconsin limited liability company named M&I LLC. Where applicable, the company formerly known as Marshall & Ilesley Corporation and now known as M&I LLC is referred to in this report as Old M&I. Also on November 1, 2007,

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the company that is now the ultimate parent company of the Banking business changed its name to Marshall & Ilsley Corporation. Where it is necessary to distinguish this new entity from Marshall & Ilsley Corporation as a whole, the company that is now the ultimate parent company of the Banking business is referred to in this report as New M&I. In all other instances, unless otherwise noted, the terms M&I or the Corporation refer to Marshall & Ilsley Corporation, the ultimate parent of the Banking business, since November 1, 2007, and to Old M&I prior to November 1, 2007.

Additional information regarding the Separation may be found in Note 2 of the Notes to Consolidated Financial Statements contained in Item 8, Consolidated Financial Statements and Supplementary Data.

Risk Management

Managing risk is an essential component of successfully operating a financial services company. M&I has an enterprise-wide approach to risk governance, measurement, management and reporting risks inherent in its businesses. Risk management practices include key elements such as independent checks and balances, formal authority limits, policies and procedures and portfolio management. M&I's internal audit department also evaluates risk management activities. These evaluations include performing internal audits and reporting the results to management and the Audit and Risk Management Committees, as appropriate.

M&I has established a number of management committees responsible for assessing and evaluating risks associated with the Corporation's businesses including the Credit Policy Committee, Asset Liability Committee and the Enterprise Risk Committee. M&I has in place a Risk Management Committee of the Board of Directors for oversight and governance of its risk management function. The Risk Management Committee consists of three non-management directors and has the responsibility of overseeing management's actions with respect to credit, market, liquidity, fiduciary, operational, compliance, legal and reputational risks as well as M&I's overall risk profile. M&I's Chief Risk Officer is responsible for reporting to the Risk Management Committee.

Operational Risk Management

Operational risk is the risk of loss from human errors, failed or inadequate processes or systems and external events. This risk is inherent in all businesses. Resulting losses could take the form of explicit charges, increased operational costs, harm to M&I's reputation or lost opportunities.

M&I seeks to mitigate operational risk through a system of internal controls to manage this risk at appropriate levels. Primary responsibility for managing internal controls lies with the managers of M&I's various business lines. M&I monitors and assesses the overall effectiveness of its system of internal controls on an ongoing basis. The Enterprise Risk Committee oversees M&I's monitoring, management and measurement of operational risk. In addition, M&I has established several other executive management committees to monitor, measure and report on specific operational risks to the Corporation, including business continuity planning, customer information security and compliance. These committees report to the Risk Management Committee of the Board of Directors on a regular basis.

Corporate Governance Matters

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M&I has adopted a Code of Business Conduct and Ethics that applies to all of M&I's employees, officers and directors, including M&I's Chief Executive Officer, Chief Financial Officer and Controller. The Code of Business Conduct and Ethics is incorporated as an exhibit to this report and is also available on M&I's website at www.micorp.com. M&I intends to disclose any amendment to or waiver of the Code of Business Conduct and Ethics that applies to M&I's Chief Executive Officer, Chief Financial Officer or Controller on its website within five business days following the date of the amendment or waiver.

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M&I makes available free of charge through its website its Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and its insiders' Section 16 reports, and all amendments to these reports, as soon as reasonably practicable after these materials are filed with or furnished to the Securities and Exchange Commission. In addition, certain documents relating to corporate governance matters are available on M&I's website described above. These documents include, among others, the following:

Charter for the Audit Committee of the Board of Directors;

Charter for the Compensation and Human Resources Committee of the Board of Directors;

Charter for the Nominating and Corporate Governance Committee of the Board of Directors;

Categorical Standards for Lending, Banking and Other Business Relationships Involving M&I's Directors;

Corporate Governance Guidelines; and

Code of Business Conduct and Ethics.

Shareholders also may obtain a copy of any of these documents free of charge by calling the M&I Shareholder Information Line at 1 (800) 642-2657. Information contained on any of M&I's websites is not deemed to be a part of this Annual Report.

Acquisitions Announced or Completed in 2008

On January 2, 2008, the Corporation completed its acquisition of First Indiana Corporation ("First Indiana") based in Indianapolis, Indiana. First Indiana, with \$2.1 billion in consolidated assets as of December 31, 2007, had 32 branches in central Indiana which became branches of M&I Bank on February 2, 2008.

On December 3, 2008, the Corporation completed its acquisition of a majority equity interest in Taplin, Canida & Habacht, Inc. ("TCH"). TCH, a Miami, Florida-based institutional fixed income money manager, had approximately \$7.3 billion of assets under management as of December 31, 2008. TCH is part of the Corporation's Wealth Management segment.

More information on M&I's acquisitions can be found in Note 5 of the Notes to the Consolidated Financial Statements contained in Item 8, Consolidated Financial Statements and Supplementary Data.

M&I continues to evaluate opportunities to acquire banking institutions and other financial service providers and frequently conducts due diligence activities in connection with possible transactions. As a result, M&I may engage in discussions, and in some cases, negotiations with prospective targets and may make future acquisitions for cash, equity or debt securities. The issuance of additional shares of M&I common stock

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would dilute a shareholder's ownership interest in M&I. In addition, M&I's acquisitions may involve the payment of a premium over book value, and therefore, some dilution of book value may occur with any future acquisition. Generally, it is M&I's policy not to comment on such discussions or possible acquisitions until a definitive agreement has been signed. M&I's strategy for growth includes strengthening its presence in core markets, expanding into attractive markets and broadening its product offerings.

Principal Sources of Revenue

The table below shows the amount and percentages of M&I's total consolidated revenues resulting from interest and fees on loans and leases, interest on investment securities, and Wealth Management revenues, for each of the last three years (\$ in thousands):

| Years Ended December 31, | Interest and Fees on Loans and Leases | | Interest on Investment Securities | | Wealth Management Revenues | | Total Revenues |
|--------------------------|--|---------------------------------|--------------------------------------|---------------------------------|-------------------------------|---------------------------------|-------------------|
| | Amount | Percent of Total Revenues | Amount | Percent of Total Revenues | Amount | Percent of Total Revenues | |
| 2008 | \$ 2,926,334 | 72.7% | \$ 339,804 | 8.4% | \$ 282,182 | 7.0% | \$ 4,025,809 |
| 2007 | 3,243,109 | 73.7 | 371,074 | 8.4 | 262,835 | 6.0 | 4,398,231 |
| 2006 | 2,856,043 | 74.5 | 339,707 | 8.9 | 221,554 | 5.8 | 3,835,920 |

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M&I business segment information is contained in Note 23 of the Notes to the Consolidated Financial Statements contained in Item 8, Consolidated Financial Statements and Supplementary Data.

Competition

M&I and its subsidiaries face substantial competition from hundreds of competitors in the markets they serve, some of which are larger and have greater resources than M&I. M&I's bank subsidiaries compete for deposits and other sources of funds and for credit relationships with other banks, savings associations, credit unions, finance companies, mutual funds, life insurance companies (and other long-term lenders) and other financial and non-financial companies located both within and outside M&I's primary market areas, many of which offer products functionally equivalent to bank products. M&I's nonbank operations compete with numerous banks, finance companies, leasing companies, mortgage bankers, brokerage firms, financial advisors, trust companies, mutual funds and investment bankers in Wisconsin and throughout the United States.

Employees

As of December 31, 2008, M&I and its subsidiaries employed in the aggregate 10,191 employees. M&I considers employee relations to be excellent. None of the employees of M&I or its subsidiaries are represented by a collective bargaining group.

Supervision and Regulation

As registered bank holding companies, M&I and M&I LLC (referred to collectively in this section as "M&I") are subject to regulation and examination by the Federal Reserve Board under the BHCA. As of February 15, 2009, M&I owned a total of five bank and trust subsidiaries, including two Wisconsin state banks, a Missouri state bank, a federal savings bank, and a national banking association. M&I's two Wisconsin state bank subsidiaries are subject to regulation and examination by the Wisconsin Department of Financial Institutions, as well as by the Federal Reserve Board. M&I's Missouri state bank subsidiary is subject to regulation and examination by the Missouri Department of Economic Development, Division of Finance, and the Federal Reserve Board. M&I's federal savings bank subsidiary is subject to regulation and examination by the Office of Thrift Supervision. M&I's national bank, through which trust operations are conducted, is subject to regulation and examination by the Office of the Comptroller of the Currency. In addition, all of M&I's bank subsidiaries are subject to examination by the Federal Deposit Insurance Corporation ("FDIC").

Under Federal Reserve Board policy, M&I is expected to act as a source of financial strength to each of its bank subsidiaries and to commit resources to support each bank subsidiary in circumstances when it might not do so absent such requirements. In addition, there are numerous federal and state laws and regulations which regulate the activities of M&I and its bank subsidiaries, including requirements and limitations relating to capital and reserve requirements, permissible investments and lines of business, transactions with officers, directors and affiliates, loan limits, consumer protection laws, privacy of financial information, predatory lending, fair lending, mergers and acquisitions, issuances of securities, dividend payments, inter-affiliate liabilities, extensions of credit and branch banking. Information regarding capital requirements for bank holding companies and tables reflecting M&I's regulatory capital position at December 31, 2008 can be found in Note 15 of the Notes to the Consolidated Financial Statements contained in Item 8, Consolidated Financial Statements and Supplementary Data.

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The federal regulatory agencies have broad power to take prompt corrective action if a depository institution fails to maintain certain capital levels. In addition, a bank holding company's controlled insured depository institutions are liable for any loss incurred by the FDIC in connection with the default of, or any FDIC-assisted transaction involving, an affiliated insured bank or savings association. Current federal law provides that adequately capitalized and managed bank holding companies from any state may acquire banks and bank holding companies located in any other state, subject to certain conditions. Banks are permitted to create interstate branching networks in states that have not opted out of interstate branching. M&I Bank currently maintains interstate branches in Arizona, Florida, Indiana, Kansas, Minnesota and Missouri and Southwest Bank maintains an interstate branch in Illinois.

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The laws and regulations to which M&I is subject are constantly under review by Congress, regulatory agencies and state legislatures. In 1999, Congress enacted the Gramm-Leach-Bliley Act (the Act). Among other things, the Act repealed certain restrictions on affiliations between banks and securities firms. The Act also amended the BHCA to permit bank holding companies that qualify as financial holding companies to engage in a broad list of financial activities, and any non-financial activity that the Federal Reserve Board, in consultation with the Secretary of the Treasury, determines is complementary to a financial activity and poses no substantial risk to the safety and soundness of depository institutions or the financial system. The Act treats various lending, insurance underwriting, insurance company, portfolio investment, financial advisory, securities underwriting, dealing and market-making, and merchant banking activities as financial in nature for this purpose.

Under the Act, a bank holding company may become certified as a financial holding company by filing a notice with the Federal Reserve Board, together with a certification that the bank holding company meets certain criteria, including capital, management, and Community Reinvestment Act requirements. New M&I registered as a financial holding company on November 1, 2007, immediately following the Separation.

The Federal Reserve Board has authority to prohibit bank holding companies from paying dividends if it deems such payment to be an unsafe or unsound practice. The Federal Reserve Board has indicated generally that it may be an unsafe or unsound practice for bank holding companies to pay dividends unless the company's net income is sufficient to fund the dividends and the company's expected rate of earnings retention is consistent with its capital needs, asset quality and overall financial condition. M&I depends, in part, upon dividends received from its subsidiary banks to fund its activities, including the payment of dividends. These subsidiary banks are subject to regulatory limitations on the amount of dividends they may pay.

In 2001, Congress enacted the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (the USA PATRIOT Act). The USA PATRIOT Act was designed to deny terrorists and criminals the ability to obtain access to the United States financial system, and has significant implications for depository institutions, brokers, dealers and other businesses involved in the transfer of money. The USA PATRIOT Act mandates financial services companies to implement additional policies and procedures with respect to, or additional measures designed to address, any or all of the following matters, among others: money laundering, terrorist financing, identifying and reporting suspicious activities and currency transactions, and currency crimes.

The earnings and business of M&I and its bank subsidiaries also are affected by the general economic and political conditions in the United States and abroad and by the monetary and fiscal policies of various federal agencies. The Federal Reserve Board impacts the competitive conditions under which M&I operates by determining the cost of funds obtained from money market sources for lending and investing and by exerting influence on interest rates and credit conditions. In addition, legislative and economic factors can be expected to have an ongoing impact on the competitive environment within the financial services industry. The impact of fluctuating economic conditions and federal regulatory policies on the future profitability of M&I and its subsidiaries cannot be predicted with certainty.

Selected Statistical Information

Statistical information relating to M&I and its subsidiaries on a consolidated basis is set forth as follows:

- (1) Average Balance Sheets and Analysis of Net Interest Income for each of the last three years is included in Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations.
- (2)

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Analysis of Changes in Interest Income and Interest Expense for each of the last two years is included in Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations.

- (3) Nonaccrual, Past Due and Restructured Loans and Leases for each of the last five years is included in Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations.
- (4) Summary of Loan and Lease Loss Experience for each of the last five years (including the allocation of the allowance for loans and leases) is included in Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations.

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- (5) Return on Average Shareholders' Equity, Return on Average Assets and other statistical ratios for each of the last five years can be found in Item 6, Selected Financial Data.
- (6) Potential Problem Loans and Leases for the last two years can be found in Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations.

The following tables set forth certain statistical information relating to M&I and its subsidiaries on a consolidated basis.

Investment Securities

The amortized cost of M&I's consolidated investment securities at December 31 of each year are (\$ in thousands):

| | 2008 | 2007 | 2006 |
|---------------------------------------|---------------------|---------------------|---------------------|
| U.S. Treasury and government agencies | \$ 5,664,947 | \$ 5,849,041 | \$ 5,521,975 |
| States and political subdivisions | 1,111,192 | 1,267,876 | 1,300,907 |
| Mortgage backed securities | 175,740 | 119,487 | 116,397 |
| Other | 804,184 | 597,314 | 499,948 |
| Total | \$ 7,756,063 | \$ 7,833,718 | \$ 7,439,227 |

The maturities, at amortized cost, and weighted average yields (for tax-exempt obligations on a fully taxable basis assuming a 35% tax rate) of investment securities at December 31, 2008 are (\$ in thousands):

| | Within One Year | | After One But Within Five Years | | After Five But Within Ten Years | | After Ten Years | | Total | |
|---------------------------------------|---------------------|--------------|---------------------------------|--------------|---------------------------------|--------------|---------------------|--------------|---------------------|--------------|
| | Amount | Yield | Amount | Yield | Amount | Yield | Amount | Yield | Amount | Yield |
| U.S. Treasury and government agencies | \$ 2,139,005 | 3.83% | \$ 2,759,984 | 3.83% | \$ 658,131 | 3.83% | \$ 107,827 | 3.83% | \$ 5,664,947 | 3.83% |
| States and political subdivisions | 127,115 | 7.69 | 154,394 | 7.10 | 362,037 | 6.29 | 467,646 | 6.32 | 1,111,192 | 6.58 |
| Mortgage backed securities | 113,250 | 5.26 | 50,972 | 5.26 | 11,463 | 5.26 | 55 | 5.26 | 175,740 | 5.26 |
| Other | 61,934 | 2.66 | 117,619 | 5.39 | 95,731 | 3.36 | 528,900 | 3.68 | 804,184 | 3.81 |
| Total | \$ 2,441,304 | 4.07% | \$ 3,082,969 | 4.08% | \$ 1,127,362 | 4.59% | \$ 1,104,428 | 4.81% | \$ 7,756,063 | 4.25% |

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M&I's consolidated loans and leases, including loans held for sale, classified by type, at December 31 of each year are (\$ in thousands):

| | 2008 | 2007 | 2006 | 2005 | 2004 |
|---|---------------|---------------|---------------|---------------|---------------|
| Commercial, financial and agricultural | \$ 14,823,923 | \$ 13,730,710 | \$ 11,993,761 | \$ 9,491,368 | \$ 8,396,060 |
| Industrial development revenue bonds | 56,230 | 62,547 | 54,429 | 74,107 | 85,394 |
| Total commercial, financial and agriculture | 14,880,153 | 13,793,257 | 12,048,190 | 9,565,475 | 8,481,454 |
| Real estate: | | | | | |
| Construction | 6,091,501 | 6,691,716 | 6,088,206 | 3,641,942 | 2,265,227 |
| Mortgage: | | | | | |
| Residential | 12,937,934 | 11,518,406 | 10,670,840 | 9,884,283 | 8,548,029 |
| Commercial | 13,371,288 | 12,002,162 | 10,965,607 | 8,825,104 | 8,164,099 |
| Total mortgage | 26,309,222 | 23,520,568 | 21,636,447 | 18,709,387 | 16,712,128 |
| Personal | 1,929,374 | 1,560,573 | 1,458,628 | 1,621,825 | 1,536,809 |
| Lease financing | 774,294 | 730,144 | 703,580 | 632,348 | 537,930 |
| Total loans and leases | 49,984,544 | 46,296,258 | 41,935,051 | 34,170,977 | 29,533,548 |
| Less: | | | | | |
| Allowance for loan and lease losses | 1,202,167 | 496,191 | 420,610 | 363,769 | 358,110 |
| Net loans and leases | \$ 48,782,377 | \$ 45,800,067 | \$ 41,514,441 | \$ 33,807,208 | \$ 29,175,438 |

Loan and Lease Balances and Maturities

The analysis of selected loan and lease maturities at December 31, 2008 and the rate structure for the categories indicated are (\$ in thousands):

| | Maturity | | | Total | Rate Structure of Loans and Leases Due After One Year | | |
|--|---------------------|---|--------------------|---------------|---|--------------------------|--------------|
| | One Year Or Less | Over One Year Through Five Years | Over Five Years | | With Pre- determined Rate | With Floating Rate | Total |
| | | | | | | | |
| Commercial, financial and agricultural | \$ 9,401,059 | \$ 4,973,531 | \$ 449,333 | \$ 14,823,923 | \$ 1,430,376 | \$ 3,992,488 | \$ 5,422,864 |
| Industrial development revenue bonds | 1,550 | 15,005 | 39,675 | 56,230 | 20,371 | 34,309 | 54,680 |
| Real estate construction | 3,428,744 | 2,585,057 | 77,700 | 6,091,501 | 228,934 | 2,433,823 | 2,662,757 |
| Lease financing | 151,464 | 544,059 | 78,771 | 774,294 | 622,830 | | 622,830 |
| Total | \$ 12,982,817 | \$ 8,117,652 | \$ 645,479 | \$ 21,745,948 | \$ 2,302,511 | \$ 6,460,620 | \$ 8,763,131 |

Notes:

- (1) Scheduled repayments are reported in the maturity category in which the payments are due based on the terms of the loan agreements. Demand loans, loans having no stated schedule of repayments and no stated maturity, and overdrafts are reported as due in one year or less.
- (2) The estimated effect arising from the use of interest rate swaps as shown in the rate structure of loans and leases is immaterial.

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The average amount of and the average rate paid on selected deposit categories for each of the years ended December 31 is as follows (\$ in thousands):

| | 2008 | | 2007 | | 2006 | |
|-------------------------------------|----------------------|-------|----------------------|-------|----------------------|-------|
| | Amount | Rate | Amount | Rate | Amount | Rate |
| Noninterest bearing demand deposits | \$ 5,857,485 | | \$ 5,469,774 | | \$ 5,361,014 | |
| Interest bearing demand deposits | 2,377,091 | 0.63% | 2,110,546 | 1.49% | 2,122,694 | 1.47% |
| Savings deposits | 11,887,807 | 1.81 | 11,267,486 | 3.98 | 9,205,997 | 3.71 |
| Time deposits | 19,152,160 | 3.51 | 15,221,091 | 4.93 | 15,446,731 | 4.60 |
| Total deposits | \$ 39,274,543 | | \$ 34,068,897 | | \$ 32,136,436 | |

The maturity distribution of time deposits issued in amounts of \$100,000 and over outstanding at December 31, 2008 (\$ in thousands) is:

| | |
|------------------------------------|----------------------|
| Three months or less | \$ 2,255,952 |
| Over three and through six months | 666,871 |
| Over six and through twelve months | 1,301,878 |
| Over twelve months | 8,076,441 |
| Total | \$ 12,301,142 |

At December 31, 2008, time deposits issued by foreign offices totaled \$1.9 billion. The majority of foreign deposits were in denominations of \$100,000 or more.

Short-Term Borrowings

Information related to M&I's Federal funds purchased and security repurchase agreements for the last three years is as follows (\$ in thousands):

| | 2008 | 2007 | 2006 |
|--|--------------|--------------|--------------|
| Amount outstanding at year end | \$ 1,190,000 | \$ 2,262,355 | \$ 2,838,618 |
| Average amount outstanding during the year | 2,929,677 | 3,144,774 | 2,558,249 |
| Maximum outstanding at any month's end | 3,978,229 | 4,078,168 | 3,533,812 |
| Weighted average interest rate at year end | 0.25% | 3.30% | 5.12% |
| Weighted average interest rate during the year | 2.09 | 5.03 | 4.99 |

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Information relating to the Corporation's other short-term borrowings is included in Note 13 of the Notes to the Consolidated Financial Statements contained in Item 8, Consolidated Financial Statements and Supplementary Data.

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ITEM 1A. RISK FACTORS

The Corporation is subject to a number of risks that may adversely affect its financial condition and results of operations. Many of these risks are outside of the Corporation's direct control. In addition to the other information included or incorporated by reference into this report, readers should carefully consider the following important factors which, among others, could materially impact the Corporation's business, financial condition and results of operations.

The Corporation's earnings are significantly affected by general business and economic conditions, including credit risk and interest rate risk.

The Corporation's business and earnings are sensitive to general business and economic conditions in the United States and, in particular, the states where it has significant operations, including Wisconsin, Arizona, Indiana, Minnesota, Missouri, Kansas and Florida. M&I Bank FSB, a subsidiary of the Corporation, is headquartered in Nevada, but its activities are primarily outside of Nevada and it has no significant exposure to economic conditions in that state. The general business and economic conditions described above include short-term and long-term interest rates, inflation, monetary supply, fluctuations in both debt and equity capital markets, the strength of the U.S. and local economies, real estate values, consumer spending, borrowing and saving habits, all of which are beyond the Corporation's control. For example, an economic downturn, increase in unemployment or higher interest rates could decrease the demand for loans and other products and services and/or result in a deterioration in credit quality and/or loan performance and collectability. Nonpayment of loans could have an adverse effect on the Corporation's financial condition and results of operations and cash flows. Higher interest rates also could increase the Corporation's cost to borrow funds and increase the rate the Corporation pays on deposits.

The Corporation's real estate loans expose the Corporation to increased credit risks.

A substantial portion of the Corporation's loan and lease portfolio consists of real estate-related loans, including construction and residential and commercial mortgage loans. As a result, the deterioration in the U.S. real estate markets, along with the deterioration in the U.S. economy as a whole, has led to an increase in non-performing loans and charge-offs, and the Corporation has had to increase its allowance for loan and lease losses. Further deterioration in the commercial or residential real estate markets and in the U.S. economy would increase the Corporation's exposure to real estate-related credit risk and cause the Corporation to further increase its allowance for loan and lease losses, all of which would have a material adverse effect on the Corporation's financial condition and results of operations.

Various factors may cause the Corporation's allowance for loan and lease losses to increase.

The Corporation's allowance for loan and lease losses represents management's estimate of probable losses inherent in the Corporation's loan and lease portfolio. Management evaluates the allowance each quarter to determine that it is adequate to absorb these inherent losses. This evaluation is supported by a methodology that identifies estimated losses based on assessments of individual problem loans and historical loss patterns of homogeneous loan pools. In addition, environmental factors unique to each measurement date are also considered, including economic conditions in certain geographic or industry segments of the loan portfolio, economic trends, risk profile and portfolio composition. The determination of the appropriate level of the allowance for loan and lease losses is highly subjective and requires management to make significant estimates of current credit risks and future trends, all of which may undergo material changes. Changes in economic conditions affecting borrowers, new information regarding existing loans, identification of additional problem loans and other factors, many of which are outside of the Corporation's control, may require an increase in the allowance for loan and lease losses. Any increase in the allowance for possible loan and lease losses will result in a decrease in net income and capital, and would have a material adverse effect on the Corporation's financial condition and results of operations.

A failure by the Corporation to maintain required levels of capital could have a material adverse effect on the Corporation.

Banking regulations require the Corporation to maintain adequate levels of capital, in order to support its operations and fund outstanding liabilities. Furthermore, each of the Corporation's subsidiary banks is required to maintain specific capital levels. If any of the subsidiary banks fails to maintain the required capital levels, the subsidiary banks could be subject to various sanctions by federal regulators that could adversely impact the

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Corporation. Such sanctions could potentially include, without limitation, the termination of deposit insurance by the Federal Deposit Insurance Corporation, limitations on the subsidiary banks' ability to pay dividends to the Corporation and the issuance of a capital directive by a federal regulatory authority requiring an increase in capital.

The Corporation's ability and the ability of its subsidiary banks to raise additional capital, if needed, may be impaired by changes and trends in the capital markets that are outside the Corporation's control. Accordingly, there can be no assurance that the Corporation or its subsidiary banks will be able to raise additional capital, if needed on terms acceptable to the Corporation or its subsidiary banks.

There can be no assurance that recently enacted legislation will help stabilize the U.S. financial system.

The Emergency Economic Stabilization Act of 2008 (the "EESA") was signed into law in 2008 in response to the financial crises affecting the banking system and financial markets and going concern threats to investment banks and other financial institutions. Pursuant to the EESA, the United States Department of the Treasury (the "UST") was granted the authority to, among other things, purchase up to \$700 billion of mortgages, mortgage-backed securities and certain other financial instruments from financial institutions for the purpose of stabilizing and providing liquidity to the U.S. financial markets. The UST announced a Capital Purchase Program (the "CPP") under the EESA pursuant to which has purchased and will continue to purchase senior preferred stock in participating financial institutions. On November 14, 2008, the Corporation entered into a Letter Agreement, and the related Securities Purchase Agreement - Standard Terms attached thereto, with the UST providing for the issuance to the UST of the Corporation's Senior Preferred Stock, Series B and a warrant to purchase shares of the Corporation's common stock at a specified price.

On February 17, 2009, the American Recovery and Reinvestment Act of 2009 (the "ARRA") was signed into law. The purpose of the ARRA is to make supplemental appropriations for job preservation and creation, infrastructure investment, energy efficiency and science, assistance to the unemployed, and state and local fiscal stabilization.

There can be no assurance as to the actual impact that these legislative initiatives will have on the financial markets or on the Corporation. The failure of these programs to help stabilize the financial markets and a continuation or worsening of current financial market conditions could materially and adversely affect the Corporation's business, financial condition, results of operations, access to credit or the trading price of the Corporation's common stock.

The failure of other financial institutions could adversely affect the Corporation.

The Corporation's ability to engage in funding transactions could be adversely affected by the actions and failure of other financial institutions. Financial institutions are interrelated as a result of trading, clearing, counterparty or other relationships. The Corporation has exposure to many different industries and counterparties, and routinely executes transactions with counterparties in the financial industry, including brokers and dealers, commercial banks, investment banks, insurers, mutual and hedge funds, and other institutional clients. As a result, defaults by, or even questions or rumors about, one or more financial services institutions, or the financial services industry generally, have led to market-wide liquidity problems and could lead to losses or defaults by the Corporation or other institutions. Many of these transactions expose the Corporation to credit risk in the event of default of its counterparty or client. In addition, the Corporation's credit risk may be exacerbated when collateral it holds cannot be relied upon or is liquidated at prices not sufficient to recover the full amount of exposure of the Corporation. Any such losses could materially and adversely affect the Corporation's results of operations.

Current levels of market volatility are unprecedented.

The capital and credit markets have been experiencing volatility and disruption for over a year. Recently, this volatility and disruption has reached unprecedented levels, and in many cases has produced downward pressure on stock prices and credit availability for certain issuers without regard to the underlying financial strength of those issuers. If current levels of market disruption and volatility continue or worsen, there can be no assurance that such conditions will not have a material adverse effect on the Corporation's business, financial condition and results of operations.

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The Corporation's stock price can be volatile.

The Corporation's stock price can fluctuate widely in response to a variety of factors, including the factors described elsewhere in these Risk Factors and the following additional factors:

actual or anticipated variations in the Corporation's quarterly results;

changes or contemplated changes in government regulations;

unanticipated losses or gains due to unexpected events, including losses or gains on securities held for investment purposes;

credit quality ratings;

new technology or services offered by the Corporation's competitors;

significant acquisitions or business combinations, strategic partnerships, joint ventures or capital commitments by or involving the Corporation or its competitors;

changes in accounting policies or practices; or

failure to successfully integrate the Corporation's acquisitions or realize anticipated benefits from the Corporation's acquisitions.

Changes in the Corporation's credit ratings could adversely affect the Corporation's liquidity and financial condition.

The credit ratings of the Corporation and its subsidiaries are important factors in the Corporation's ability to access certain types of liquidity. A downgrade in the credit ratings of the Corporation or any of its subsidiaries could potentially increase the cost of debt, limit the Corporation's access to capital markets, require the Corporation to post collateral, or negatively impact the Corporation's profitability. Furthermore, a downgrade of the credit rating of securities issued by the Corporation or its subsidiaries could adversely affect the ability of the holders to sell those securities.

Sales or other dilution of the Corporation's equity may adversely affect the market price of the Corporation's common stock.

In connection with its participation in the CPP, the Corporation issued preferred securities and a warrant representing the right to purchase the Corporation's common stock. The market price of the Corporation's common stock could decline as a result of sales of a large number of shares of common stock acquired upon exercise of the warrant in the market. If the warrant is exercised, the issuance of additional common stock would dilute the ownership interest of the Corporation's existing shareholders.

Terrorism, acts of war, international conflicts and natural disasters could negatively affect the Corporation's business and financial condition.

Acts or threats of war or terrorism, international conflicts (including conflict in the Middle East), natural disasters, and the actions taken by the U.S. and other governments in response to such events, could disrupt business operations and negatively impact general business and economic conditions in the U.S. If terrorist activity, acts of war, other international hostilities or natural disasters disrupt business operations, trigger technology delays or failures, or damage physical facilities of the Corporation, its customers or service providers, or cause an overall economic decline, the financial condition and operating results of the Corporation could be materially adversely affected. The potential for future occurrences of these events has created many economic and political uncertainties that could seriously harm the Corporation's business and results of operations in ways that cannot presently be predicted.

The Corporation's earnings also are significantly affected by the fiscal and monetary policies of the federal government and its agencies, which could affect repayment of loans and thereby materially adversely affect the Corporation.

The policies of the Federal Reserve Board impact the Corporation significantly. The Federal Reserve Board regulates the supply of money and credit in the United States. Its policies directly and indirectly influence the rate of interest earned on loans and paid on borrowings and interest-bearing deposits and can also affect the value of financial instruments the Corporation holds. Those policies determine to a significant extent the Corporation's cost of funds for lending and investing. Changes in those policies are beyond the Corporation's control and are difficult to predict.

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Federal Reserve Board policies can affect the Corporation's borrowers, potentially increasing the risk that they may fail to repay their loans. For example, a tightening of the money supply by the Federal Reserve Board could reduce the demand for a borrower's products and services. This could adversely affect the borrower's earnings and ability to repay its loan, which could materially adversely affect the Corporation.

The banking and financial services industry is highly competitive, which could adversely affect the Corporation's financial condition and results of operations.

The Corporation operates in a highly competitive environment in the products and services the Corporation offers and the markets in which the Corporation serves. The competition among financial services providers to attract and retain customers is intense. Customer loyalty can be easily influenced by a competitor's new products, especially offerings that provide cost savings to the customer. Some of the Corporation's competitors may be better able to provide a wider range of products and services over a greater geographic area.

The Corporation believes the banking and financial services industry will become even more competitive as a result of legislative, regulatory and technological changes and the continued consolidation of the industry. Technology has lowered barriers to entry and made it possible for non-banks to offer products and services traditionally provided by banks, such as automatic funds transfer and automatic payment systems. Also, investment banks and insurance companies are competing in more banking businesses such as syndicated lending and consumer banking. Many of the Corporation's competitors are subject to fewer regulatory constraints and have lower cost structures. The Corporation expects the consolidation of the banking and financial services industry to result in larger, better-capitalized companies offering a wide array of financial services and products.

Federal and state agency regulation could increase the Corporation's cost structures or have other negative effects on the Corporation.

The Corporation and M&I LLC, their subsidiary banks and many of their non-bank subsidiaries are heavily regulated at the federal and state levels. This regulation is designed primarily to protect consumers, depositors and the banking system as a whole, not shareholders. Congress and state legislatures and federal and state regulatory agencies continually review banking laws, regulations and policies for possible changes. Changes to statutes, regulations or regulatory policies, including changes in interpretation or implementation of statutes, regulations or policies, could affect the Corporation in substantial and unpredictable ways including limiting the types of financial services and products the Corporation may offer, increasing the ability of non-banks to offer competing financial services and products and/or increasing the Corporation's cost structures. Also, the Corporation's failure to comply with laws, regulations or policies could result in sanctions by regulatory agencies and damage to its reputation.

The Corporation is subject to examinations and challenges by tax authorities, which, if not resolved in the Corporation's favor, could adversely affect the Corporation's financial condition and results of operations and cash flows.

In the normal course of business, the Corporation and its affiliates are routinely subject to examinations and challenges from federal and state tax authorities regarding the amount of taxes due in connection with investments it has made and the businesses in which it is engaged. Recently, federal and state taxing authorities have become increasingly aggressive in challenging tax positions taken by financial institutions. These tax positions may relate to tax compliance, sales and use, franchise, gross receipts, payroll, property and income tax issues, including tax base, apportionment and tax credit planning. The challenges made by tax authorities may result in adjustments to the timing or amount of taxable income or deductions or the allocation of income among tax jurisdictions. If any such challenges are made and are not resolved in the Corporation's favor, they could have an adverse effect on the Corporation's financial condition and results of operations and cash flows.

Consumers may decide not to use banks to complete their financial transactions, which could result in a loss of income to the Corporation.

Technology and other changes are allowing parties to complete financial transactions that historically have involved banks at one or both ends of the transaction. For example, consumers can now pay bills and transfer funds directly without banks. The process of eliminating banks as intermediaries, known as disintermediation, could result in the loss of fee income, as well as the loss of customer deposits and income generated from those deposits.

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Maintaining or increasing the Corporation's market share depends on market acceptance and regulatory approval of new products and services and other factors, and the Corporation's failure to achieve such acceptance and approval could harm its market share.

The Corporation's success depends, in part, on its ability to adapt its products and services to evolving industry standards and to control expenses. There is increasing pressure on financial services companies to provide products and services at lower prices. This can reduce the Corporation's net interest margin and revenues from its fee-based products and services. In addition, the Corporation's success depends in part on its ability to generate significant levels of new business in its existing markets and in identifying and penetrating new markets. Growth rates for card-based payment transactions and other product markets may not continue at recent levels. Further, the widespread adoption of new technologies, including Internet-based services, could require the Corporation to make substantial expenditures to modify or adapt its existing products and services or render the Corporation's existing products obsolete. The Corporation may not successfully introduce new products and services, achieve market acceptance of its products and services, develop and maintain loyal customers and/or break into targeted markets.

The Corporation and M&I LLC rely on dividends from their subsidiaries for most of their revenue, and the banking subsidiaries hold a significant portion of their assets indirectly.

The Corporation and M&I LLC are separate and distinct legal entities from their subsidiaries. They receive substantially all of their revenue from dividends from their subsidiaries. These dividends are the principal source of funds to pay dividends on the Corporation's common stock and interest on the Corporation's and M&I LLC's debt. The payment of dividends by a subsidiary is subject to federal law restrictions and to the laws of the subsidiary's state of incorporation. Furthermore, a parent company's right to participate in a distribution of assets upon a subsidiary's liquidation or reorganization is subject to the prior claims of the subsidiary's creditors. In addition, the Corporation's bank and savings association subsidiaries hold a significant portion of their mortgage loan and investment portfolios indirectly through their ownership interests in direct and indirect subsidiaries.

The Corporation depends on the accuracy and completeness of information about customers and counterparties, and inaccurate or incomplete information could negatively impact the Corporation's financial condition and results of operations.

In deciding whether to extend credit or enter into other transactions with customers and counterparties, the Corporation may rely on information provided to it by customers and counterparties, including financial statements and other financial information. The Corporation may also rely on representations of customers and counterparties as to the accuracy and completeness of that information and, with respect to financial statements, on reports of independent auditors. For example, in deciding whether to extend credit to a business, the Corporation may assume that the customer's audited financial statements conform to generally accepted accounting principles and present fairly, in all material respects, the financial condition, results of operations and cash flows of the customer. The Corporation may also rely on the audit report covering those financial statements. The Corporation's financial condition and results of operations could be negatively impacted to the extent it relies on financial statements that do not comply with GAAP or that are materially misleading.

An interruption or breach in security of the Corporation's or the Corporation's third party service providers' communications and information technologies could have a material adverse effect on the Corporation's business.

The Corporation relies heavily on communications and information technology to conduct its business. Any failure, interruption or breach in security of these systems could result in failures or disruptions in the Corporation's customer relationship management, general ledger, deposit, loan and other systems. Despite the Corporation's policies and procedures designed to prevent or limit the effect of such a failure, interruption or security breach of its information systems, there can be no assurance that any such events will not occur or, if they do occur, that they will be

adequately addressed. The occurrence of any failures, interruptions or security breaches of the Corporation's information systems could damage the Corporation's reputation, result in a loss of customers or customer business, subject the Corporation to additional regulatory scrutiny, or expose the Corporation to civil litigation and possible financial liability, any of which could have a material adverse effect on the Corporation's financial condition and results of operations.

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In addition, the Corporation relies on third-party service providers for a substantial portion of its communications, information, operating and financial control systems technology. If any of these third-party service providers experiences financial, operational or technological difficulties, or if there is any other disruption in the Corporation's relationships with them, the Corporation may be required to locate alternative sources of these services. There can be no assurance that the Corporation could negotiate terms as favorable to the Corporation or obtain services with similar functionality as it currently has without the expenditure of substantial resources, if at all. Any of these circumstances could have a material adverse effect the Corporation's business.

The Corporation's accounting policies and methods are the basis of how the Corporation reports its financial condition and results of operations, and they may require management to make estimates about matters that are inherently uncertain.

The Corporation's accounting policies and methods are fundamental to how the Corporation records and reports its financial condition and results of operations. The Corporation's management must exercise judgment in selecting and applying many of these accounting policies and methods in order to ensure that they comply with generally accepted accounting principles and reflect management's judgment as to the most appropriate manner in which to record and report the Corporation's financial condition and results of operations. In some cases, management must select the accounting policy or method to apply from two or more alternatives, any of which might be reasonable under the circumstances yet might result in the Corporation's reporting materially different amounts than would have been reported under a different alternative.

The Corporation has identified three accounting policies as being critical to the presentation of its financial condition and results of operations because they require management to make particularly subjective and/or complex judgments about matters that are inherently uncertain and because of the likelihood that materially different amounts would be reported under different conditions or using different assumptions. These critical accounting policies relate to: (1) the allowance for loan and lease losses, (2) income taxes, and (3) fair value measurements. Because of the inherent uncertainty of estimates about these matters, no assurance can be given that the application of alternative policies or methods might not result in the Corporation's reporting materially different amounts.

Changes in accounting standards could adversely affect the Corporation's reported financial results.

The bodies that set accounting standards for public companies, including the Financial Accounting Standards Board (FASB), the Securities and Exchange Commission and others, periodically change or revise existing interpretations of the accounting and reporting standards that govern the way that the Corporation reports its financial condition and results of operations. These changes can be difficult to predict and can materially impact the Corporation's reported financial results. In some cases, the Corporation could be required to apply a new or revised accounting standard, or a new or revised interpretation of an accounting standard, retroactively, which could have a negative impact on reported results or result in the restatement of the Corporation's financial statements for prior periods.

The Corporation has an acquisition program, which involves risks related to integration of acquired companies or businesses and the potential for the dilution of the value of the Corporation's stock.

The Corporation regularly explores opportunities to acquire banking institutions and other financial services providers. The Corporation cannot predict the number, size or timing of future acquisitions. The Corporation typically does not publicly comment on a possible acquisition or business combination until it has signed a definitive agreement for the transaction. Once the Corporation has signed a definitive agreement, transactions of this type are generally subject to regulatory approvals and other customary conditions. There can be no assurance the Corporation will receive such regulatory approvals without unexpected delays or conditions or that such conditions will be timely met to the Corporation's satisfaction, or at all.

Difficulty in integrating an acquired company or business may cause the Corporation not to realize expected revenue increases, cost savings, increases in geographic or product presence, and/or other projected benefits from the acquisition. Specifically, the integration process could result in higher than expected deposit attrition (run-off), loss of customers and key employees, the disruption of the Corporation's business or the business of the acquired company, or

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otherwise adversely affect the Corporation's ability to maintain existing relationships with clients, employees and suppliers or to enter into new business relationships. The Corporation may not be able to successfully leverage the combined product offerings to the combined customer base. These factors could contribute to the Corporation not achieving the anticipated benefits of the acquisition within the desired time frames, if at all.

Future acquisitions could require the Corporation to issue stock, to use substantial cash or liquid assets or to incur debt. In such cases, the value of the Corporation stock could be diluted and the Corporation could become more susceptible to economic downturns and competitive pressures.

The Corporation is dependent on senior management, and the loss of the services of any of the Corporation's senior executive officers could cause the Corporation's business to suffer.

The Corporation's continued success depends to a significant extent upon the continued services of its senior management. The loss of services of any of the Corporation's senior executive officers could cause the Corporation's business to suffer. In addition, the Corporation's success depends in part upon senior management's ability to implement the Corporation's business strategy.

The Corporation may be a defendant in a variety of litigation and other actions, which may have a material adverse effect on its business, operating results and financial condition.

The Corporation and its subsidiaries may be involved from time to time in a variety of litigation arising out of the Corporation's business. The Corporation's insurance may not cover all claims that may be asserted against it, and any claims asserted against the Corporation, regardless of merit or eventual outcome, may harm the Corporation's reputation. Should the ultimate judgments or settlements in any litigation exceed the Corporation's insurance coverage, they could have a material adverse effect on the Corporation's business, operating results and financial condition and cash flows. In addition, the Corporation may not be able to obtain appropriate types or levels of insurance in the future, nor may the Corporation be able to obtain adequate replacement policies with acceptable terms, if at all.

If the Corporation's share distribution and transactions related to the Separation do not qualify as tax-free distributions or reorganizations under the Internal Revenue Code, then the Corporation and the Corporation's shareholders may be responsible for payment of significant U.S. federal income taxes.

In transactions related to the Separation, old M&I distributed shares of its common stock to effect the Separation. If the share distribution does not qualify as a tax-free distribution under Section 355 of the Internal Revenue Code, Metavante would recognize a taxable gain that would result in significant U.S. federal income tax liabilities to Metavante. Metavante would be primarily liable for these taxes and the Corporation would be secondarily liable. Under the terms of a tax allocation agreement related to the Separation, the Corporation will generally be required to indemnify Metavante against any such taxes unless such taxes would not have been imposed but for an act of Metavante or its affiliates, subject to specified exceptions.

Even if the Corporation's share distribution otherwise qualifies as a tax-free distribution under Section 355 of the Internal Revenue Code, the distribution would result in significant U.S. federal income tax liabilities to Metavante if there is an acquisition of the Corporation's common stock or Metavante's stock as part of a plan or series of related transactions that includes the Corporation's share distribution and that results in an acquisition of 50% or more of the Corporation's outstanding common stock or Metavante stock. In this situation, the Corporation may be required to indemnify Metavante under the terms of a tax allocation agreement related to the Separation unless such taxes would not have been

imposed but for specified acts of Metavante or its affiliates. In addition, mutual indemnity obligations in the tax allocation agreement could discourage or prevent a third party from making a proposal to acquire the Corporation.

The Corporation will be restricted in its ability to issue equity for at least two years following completion of the Separation, which could limit its ability to make acquisitions or to raise capital required to service its debt and operate its business.

The amount of equity that the Corporation can issue to make acquisitions (excluding acquisitions with respect to which the Corporation can prove the absence of substantial negotiations during applicable safe harbor periods) or

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raise additional capital will be limited for at least two years following completion of the Separation, except in limited circumstances. These limitations may restrict the ability of the Corporation to carry out its business objectives and to take advantage of opportunities such as acquisitions that could supplement or grow the Corporation's business.

ITEM 1B. UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 2. PROPERTIES

M&I and M&I Bank occupy offices on all or portions of 15 floors of a 21-story building located at 770 North Water Street, Milwaukee, Wisconsin. M&I Bank owns the building and its adjacent 10-story parking lot and leases the remaining floors to a professional tenant. In addition, various subsidiaries of M&I lease commercial office space in downtown Milwaukee office buildings near the 770 North Water Street facility. M&I Bank also owns or leases various branch offices throughout Wisconsin, as well as 137 branch offices among the Phoenix and Tucson, Arizona metropolitan areas, Kansas City and nearby communities, Florida's west coast and Orlando, Florida, Minneapolis/St. Paul and Duluth, Minnesota, and central Indiana. Southwest Bank owns or leases 17 offices in the St. Louis metropolitan area. M&I Bank of Mayville, a special limited purpose subsidiary of M&I located in Mayville, Wisconsin, and M&I Bank FSB, a federal savings bank subsidiary of M&I located in Las Vegas, Nevada with one office in Milwaukee, Wisconsin, occupy modern facilities which are leased.

ITEM 3. LEGAL PROCEEDINGS

M&I is not currently involved in any material pending legal proceedings, other than litigation of a routine nature and various legal matters which are being defended and handled in the ordinary course of business.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

Not applicable.

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| Name of Officer | Office |
|-------------------------------|--|
| Ann M. Benschoter Age 51 | Senior Vice President since December 2008 of Marshall & Ilsley Corporation; Executive Vice President since December 2008, Senior Vice President since December 2001, and Vice President since August 1998 of M&I Marshall & Ilsley Bank; Director, Marshall & Ilsley Trust Company National Association. |
| Walt A. Buckhanan Age 47 | Vice President and Director of Corporate Diversity since December 2007 of Marshall & Ilsley Corporation; Senior Vice President since April 2008, Vice President of Diversity and Inclusion Management from 2004 to 2007, Vice President and Strategic Sales Manager from February 2003 to 2004 of M&I Marshall & Ilsley Bank; Executive Vice President of North Milwaukee State Bank from August 2001 to February 2003. |
| Patricia M. Cadarin Age 55 | Vice President since June 2001 and Director of Corporate Communications since July 2002 of Marshall & Ilsley Corporation; Senior Vice President of M&I Marshall & Ilsley Bank since June 2005. |
| Ryan R. Deneen Age 44 | Senior Vice President, Director of Corporate Tax of Marshall & Ilsley Corporation since December 2003; Director and President of M&I Business Credit Holdings, Inc., Manager of M&I MEDC Fund, LLC, Director, Vice President and Treasurer of Milease, LLC, President and Secretary of M&I Marshall & Ilsley Holdings II, Inc., Vice President and Assistant Secretary of M&I LLC; Partner with KPMG LLP, a public accounting firm, from 1986 to November 2003. |
| Thomas R. Ellis Age 51 | Senior Vice President of Marshall & Ilsley Corporation since February 2005; Executive Vice President since February 2005, Senior Vice President from 1998 to February 2005 of M&I Marshall & Ilsley Bank; Director of Marshall & Ilsley Trust Company National Association, M&I Business Credit, LLC, M&I Equipment Finance Company, M&I Financial Advisors, Inc., M&I Insurance Services, Inc. and M&I Private Equity Group II, LLC. |
| Randall J. Erickson Age 49 | Senior Vice President, General Counsel since June 2002, Chief Administrative Officer since April 2007, and Corporate Secretary from June 2002 to April 2007 of Marshall & Ilsley Corporation; General Counsel since June 2002, and Corporate Secretary from June 2002 to April 2007 of M&I Marshall & Ilsley Bank; Director, Vice President and Secretary of M&I LLC, M&I Private Equity Group LLC and M&I Ventures, LLC; Director of M&I Bank FSB, M&I Community Development Corporation, M&I Investment Partners Management, LLC, and Milease, LLC; Director and Secretary of M&I Private Equity Group II, LLC; Director and Vice President of SWB Holdings, Inc.; Administrative Trustee of MVBI Capital Trust; Successor Administrator of Trustcorp Statutory Trust I. |
| Mark F. Furlong Age 51 | Chief Executive Officer since April 2007, President since April 2005, Executive Vice President from January 2002 to April 2005, Senior Vice President from April 2001 to January 2002, and Chief Financial Officer from February 2007 to June 2007 and April 2001 to October 2004 of the Corporation; Director and President since July 2004, and Chief Executive Officer since April 2007 of M&I Marshall & Ilsley Bank; Director, Vice President and Treasurer of M&I Private Equity Group LLC, and M&I Ventures L.L.C.; Director of Marshall & Ilsley Trust Company National Association, M&I Bank Mayville, M&I Equipment Finance Company, and Milease, LLC; Senior Vice President of Southwest Bank, an M&I Bank; a Director since April 2006. |
| Mark R. Hogan Age 54 | Senior Vice President and Chief Credit Officer since October 2001 of Marshall & Ilsley Corporation; Executive Vice President since February 2005, Chief Credit Officer since November 1995, Senior Vice President from 1995 to February 2005 of M&I Marshall & Ilsley Bank; Director of M&I Equipment Finance Company, M&I Business Credit, LLC and M&I Private Equity Group II, LLC; Director and Vice President of SWB Holdings, Inc. |

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| Name of Officer | Office |
|---|---|
| <p>Patricia R. Justiliano</p> <p>Age 58</p> | <p>Senior Vice President since 1994 and Corporate Controller since April 1989, Vice President from 1986 to 1994 of Marshall & Ilsley Corporation; Senior Vice President since April 2006, Vice President from January 1999 to April 2006, Controller since September 1998 of M&I Marshall & Ilsley Bank; Director, President and Treasurer of M&I Marshall & Ilsley Holdings, Inc., M&I Marshall & Ilsley Investment II Corporation, M&I Zion Investment II Corporation, M&I Zion Holdings, Inc. and SWB of St. Louis Holdings, Inc.; Director and President of M&I Marshall & Ilsley Regional Holdings, Inc.; Director, Vice President and Treasurer of M&I Insurance Company of Arizona; Director and Treasurer of M&I Mortgage Reinsurance Corporation; Director of M&I Bank FSB, M&I Bank of Mayville, M&I Marshall & Ilsley Investment Corporation, M&I Servicing Corp., M&I Zion Investment Corporation, M&I Custody of Nevada, Inc., SWB Investment Corporation and Louisville Realty Corporation; Vice President and Treasurer of M&I LLC; Manager of SWB of St. Louis Holdings I, LLC and SWB of St. Louis Holdings II, LLC; Senior Vice President of Southwest Bank, an M&I Bank; and Trustee of SWB Investment II Corporation.</p> |
| <p>Brent J. Kelly</p> <p>Age 47</p> | <p>Senior Vice President and Director of Marketing since February 2006 of Marshall & Ilsley Corporation; Senior Vice President, Sales & Marketing, of Cheryl&Co. from June 2002 to December 2005, a division of 1-800-Flowers.com.</p> |
| <p>Beth D. Knickerbocker</p> <p>Age 42</p> | <p>Senior Vice President, Chief Risk Officer since January 2005, Vice President, Senior Compliance Counsel from May 2004 to January 2005 of Marshall & Ilsley Corporation; Attorney at Sutherland Asbill & Brennan LLP, a Washington, D.C. law firm, from December 2000 to May 2004.</p> |
| <p>Kenneth C. Krei</p> <p>Age 59</p> | <p>Senior Vice President of Marshall & Ilsley Corporation since July 2003; Chairman of the Board since January 2005, President and Chief Executive Officer of Marshall & Ilsley Trust Company National Association since July 2003; Chairman of the Board since January 2005, and Chief Executive Officer of M&I Investment Management Corp. since July 2003; Director and President of M&I Investment Partners Management, LLC; Chairman and Director of M&I Financial Advisors, Inc., M&I Insurance Services, Inc., M&I Distributors LLC, and Marshall Funds; Director and Vice President of M&I Realty Advisors, Inc.; Executive Vice President, Investment Advisors at Fifth Third Bancorp from 2001 to 2003.</p> |
| <p>Thomas J. O Neill</p> <p>Age 48</p> | <p>Senior Vice President since April 1997 of Marshall & Ilsley Corporation; Executive Vice President since 2000, Senior Vice President from 1997 to 2000, Vice President from 1991 to 1997 of M&I Marshall & Ilsley Bank; Director and President of M&I Bank FSB, M&I Dealer Finance, Inc., M&I Insurance Company of Arizona, Inc., M&I Mortgage Reinsurance Corporation; Director and Vice President of M&I Community Development Corporation and M&I Realty Advisors, Inc.; Director of M&I Bank of Mayville, Regional Holding Company, Inc. and Louisville Realty Corporation; Manager of M&I MEDC Fund, LLC; Senior Vice President of Southwest Bank, an M&I Bank.</p> |
| <p>Paul J. Renard</p> <p>Age 48</p> | <p>Senior Vice President, Director of Human Resources since 2000, Vice President and manager since 1994 of Marshall & Ilsley Corporation; Senior Vice President of M&I Marshall & Ilsley Bank; Vice President and Assistant Secretary of M&I LLC.</p> |
| <p>John L. Roberts</p> <p>Age 56</p> | <p>Senior Vice President of Marshall & Ilsley Corporation since 1994; Senior Vice President since 1994, Vice President and Controller from 1986 to 1995 of M&I Marshall & Ilsley Bank; Director of M&I Bank FSB; Director and President of M&I Bank of Mayville.</p> |
| <p>Thomas A. Root</p> <p>Age 52</p> | <p>Senior Vice President since 1998, Audit Director since May 1996, Vice President from 1991 to 1998 of Marshall & Ilsley Corporation; Senior Vice President since April 2006, Vice President since 1993 and Audit Director since 1999 of M&I Marshall & Ilsley Bank.</p> |

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| Name of Officer | Office |
|---------------------------------------|--|
| <p>Gregory A. Smith</p> <p>Age 45</p> | <p>Senior Vice President and Chief Financial Officer of Marshall & Ilsley Corporation, since June 2006; Chief Financial Officer of M&I Marshall & Ilsley Bank, since June 2006; Director and President of M&I LLC; Director and Chief Financial Officer of Southwest Bank, an M&I Bank; Director of M&I Insurance Services, Inc., Marshall & Ilsley Trust Company National Association, M&I Financial Advisors, Inc., and Milease, LLC; Chief Financial Officer of M&I Bank of Mayville and M&I Bank FSB; Managing Director, Investment Banking, Credit Suisse from October 2004 to June 2006; Managing Director, Investment Banking, UBS Investment Bank from April 2000 to September 2004.</p> |
| <p>Michael C. Smith</p> <p>Age 50</p> | <p>Senior Vice President and Corporate Treasurer of Marshall & Ilsley Corporation, since March 2006; Senior Vice President since April 2006 of M&I Marshall & Ilsley Bank; Director and President of M&I Northwoods III, L.L.C. and M&I Dealer Auto Securitization, LLC; Director of M&I Community Development Corporation, M&I Bank FSB, M&I Custody of Nevada, Inc., M&I Servicing Corp, M&I Marshall & Ilsley Investment Corporation, M&I Marshall & Ilsley Investment II Corporation, M&I Marshall & Ilsley Holdings, Inc, M&I Zion Holdings, Inc., M&I Zion Investment Corporation, M&I Zion Investment II Corporation, SWB Investment Corporation, SWB of St. Louis Holdings, Inc., and M&I Marshall & Ilsley Regional Holdings, Inc.; Manager of SWB of St. Louis Holdings I, LLC and SWB of St. Louis Holdings II, LLC; Trustee of SWB Investment II Corporation; Senior Vice President, Southwest Bank, an M&I Bank; Successor Administrator of Trustcorp Statutory Trust I; Treasurer, AIG Consumer Finances Group from May 2001 to February 2006.</p> |
| <p>Ronald E. Smith</p> <p>Age 62</p> | <p>Senior Vice President since March 2005 of Marshall & Ilsley Corporation; Executive Vice President since March 2005, Senior Vice President from 2001 to March 2005 of M&I Marshall & Ilsley Bank.</p> |

Table of Contents**PART II****ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES****Stock Listing**

M&I's common stock is traded under the symbol "MI" on the New York Stock Exchange. Common dividends declared and the price range for M&I's common stock for each of the last five years can be found in Item 8, Consolidated Financial Statements and Supplementary Data, Quarterly Financial Information.

A discussion of the regulatory restrictions on the payment of dividends can be found under Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, and in Note 15 in Item 8, Consolidated Financial Statements and Supplementary Data.

Holdings of Common Equity

At December 31, 2008 M&I had approximately 15,905 record holders of its common stock.

Shares Purchased

The following table reflects the purchases of M&I common stock for the specified period:

| Period | Total Number of Shares Purchased (1) | Average Price Paid Per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | Maximum Number of Shares that May Yet be Purchased Under the Plans or Programs |
|---------------------------------|---|-------------------------------------|---|---|
| October 1 to October 31, 2008 | 76,729 | \$ 18.35 | 0 | 7,217,600 |
| November 1 to November 30, 2008 | 31,372 | 15.27 | 0 | 7,217,600 |
| December 1 to December 31, 2008 | 8,928 | 17.32 | 0 | 7,217,600 |

- (1) Amounts represent shares purchased by rabbi trusts pursuant to nonqualified deferred compensation plans for the three months ended December 31, 2008.

M&I's Share Repurchase Program was publicly reconfirmed in April 2006, 2007 and 2008. The Share Repurchase Program authorizes the purchase of up to 12 million shares annually and renews each year at that level unless changed or terminated by subsequent Board action. M&I

did not repurchase any shares pursuant to the Share Repurchase Program during the fourth quarter of 2008.

In connection with the Corporation's participation in the CPP, the consent of the UST will be required for the Corporation to repurchase its common stock other than in connection with benefit plans consistent with past practice and certain other specified circumstances. See Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources for additional information regarding the CPP.

Table of Contents**ITEM 6. SELECTED FINANCIAL DATA****Consolidated Summary of Earnings**

(\$000 s except share data)

| | Years Ended December 31, | | | | |
|---|--------------------------|---------------------|-------------------|-------------------|-------------------|
| | 2008 | 2007 | 2006 | 2005 | 2004 |
| Interest and Fee Income: | | | | | |
| Loans and leases | \$ 2,926,334 | \$ 3,243,109 | \$ 2,856,043 | \$ 1,959,063 | \$ 1,432,756 |
| Investment securities: | | | | | |
| Taxable | 286,054 | 311,837 | 277,938 | 214,537 | 200,107 |
| Exempt from federal income taxes | 53,750 | 59,237 | 61,769 | 64,127 | 58,826 |
| Trading securities | 2,530 | 1,012 | 614 | 229 | 271 |
| Short-term investments | 9,026 | 18,001 | 14,707 | 7,452 | 2,079 |
| Loan to Metavante | | 35,969 | 43,163 | 43,652 | 22,871 |
| Total interest and fee income | 3,277,694 | 3,669,165 | 3,254,234 | 2,289,060 | 1,716,910 |
| Interest Expense: | | | | | |
| Deposits | 902,944 | 1,231,252 | 1,083,392 | 562,552 | 281,271 |
| Short-term borrowings | 139,627 | 236,671 | 186,746 | 106,220 | 61,144 |
| Long-term borrowings | 454,413 | 585,025 | 476,540 | 329,876 | 196,160 |
| Total interest expense | 1,496,984 | 2,052,948 | 1,746,678 | 998,648 | 538,575 |
| Net interest income | 1,780,710 | 1,616,217 | 1,507,556 | 1,290,412 | 1,178,335 |
| Provision for loan and lease losses | 2,037,707 | 319,760 | 50,551 | 44,795 | 37,963 |
| Net interest income (loss) after provision for loan and lease losses | (256,997) | 1,296,457 | 1,457,005 | 1,245,617 | 1,140,372 |
| Other Income: | | | | | |
| Wealth management | 282,182 | 262,835 | 221,554 | 191,720 | 175,119 |
| Net investment securities gains | 17,229 | 34,814 | 9,701 | 45,514 | 35,336 |
| Other | 448,704 | 431,417 | 350,431 | 336,357 | 316,900 |
| Total other income | 748,115 | 729,066 | 581,686 | 573,591 | 527,355 |
| Other Expense: | | | | | |
| Salaries and employee benefits | 723,245 | 659,871 | 613,394 | 549,859 | 494,462 |
| Goodwill impairment | 1,535,144 | | | | |
| Other | 735,716 | 655,072 | 470,148 | 404,566 | 387,271 |
| Total other expense | 2,994,105 | 1,314,943 | 1,083,542 | 954,425 | 881,733 |
| Income (loss) before income taxes | (2,502,987) | 710,580 | 955,149 | 864,783 | 785,994 |
| Provision (benefit) for income taxes | (459,525) | 213,641 | 307,435 | 278,124 | 256,955 |
| Income (loss) from Continuing Operations | (2,043,462) | 496,939 | 647,714 | 586,659 | 529,039 |
| Income from discontinued operations, net of tax | | 653,997 | 160,124 | 119,531 | 76,814 |
| Net Income (Loss) | \$ (2,043,462) | \$ 1,150,936 | \$ 807,838 | \$ 706,190 | \$ 605,853 |
| Preferred Dividends | (12,737) | | | | |
| Net Income (Loss) Available to Common Shareholders | \$ (2,056,199) | \$ 1,150,936 | \$ 807,838 | \$ 706,190 | \$ 605,853 |

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| | | | | | | | | | | |
|---|----|--------|----|--------|----|--------|----|--------|----|--------|
| Basic earnings per common share: | | | | | | | | | | |
| Continuing Operations | \$ | (7.92) | \$ | 1.91 | \$ | 2.60 | \$ | 2.54 | \$ | 2.37 |
| Discontinued operations | | | | 2.51 | | 0.64 | | 0.52 | | 0.35 |
| Net Income (Loss) | \$ | (7.92) | \$ | 4.42 | \$ | 3.24 | \$ | 3.06 | \$ | 2.72 |
| Diluted earnings per common share: | | | | | | | | | | |
| Continuing Operations | \$ | (7.92) | \$ | 1.87 | \$ | 2.54 | \$ | 2.49 | \$ | 2.32 |
| Discontinued operations | | | | 2.47 | | 0.63 | | 0.50 | | 0.34 |
| Net Income (Loss) | \$ | (7.92) | \$ | 4.34 | \$ | 3.17 | \$ | 2.99 | \$ | 2.66 |
| Other Significant Data: | | | | | | | | | | |
| Return on Average Shareholders' Equity | | n.m.% | | 17.23% | | 14.42% | | 16.21% | | 17.00% |
| Return on Average Assets | | n.m. | | 1.98 | | 1.53 | | 1.63 | | 1.63 |
| Common Dividend Declared | \$ | 1.27 | \$ | 1.20 | \$ | 1.05 | \$ | 0.93 | \$ | 0.81 |
| Dividend Payout Ratio | | n.m.% | | 27.65% | | 33.12% | | 31.10% | | 30.45% |
| Average Equity to Average Assets Ratio | | 11.01 | | 11.48 | | 10.64 | | 10.07 | | 9.59 |
| Ratio of Earnings to Fixed Charges* | | | | | | | | | | |
| Excluding Interest on Deposits | | n.m. x | | 1.85 x | | 2.42 x | | 2.96 x | | 3.99 x |
| Including Interest on Deposits | | n.m. x | | 1.34 x | | 1.54 x | | 1.86 x | | 2.44 x |

* See Exhibit 12 for detailed computation of these ratios.

Table of Contents**Consolidated Average Balance Sheets**

(\$000 s except share data)

| | Years Ended December 31, | | | | |
|--|--------------------------|----------------------|----------------------|----------------------|----------------------|
| | 2008 | 2007 | 2006 | 2005 | 2004 |
| Assets: | | | | | |
| Cash and due from banks | \$ 897,709 | \$ 1,005,362 | \$ 974,120 | \$ 923,387 | \$ 814,236 |
| Investment securities: | | | | | |
| Trading securities | 197,237 | 56,580 | 45,559 | 26,922 | 22,297 |
| Short-term investments | 427,147 | 352,235 | 297,859 | 229,273 | 163,043 |
| Other investment securities: | | | | | |
| Taxable | 6,454,016 | 6,208,495 | 5,664,199 | 4,845,549 | 4,672,117 |
| Tax Exempt | 1,158,185 | 1,287,066 | 1,303,872 | 1,334,793 | 1,199,139 |
| Total investment securities | 8,236,585 | 7,904,376 | 7,311,489 | 6,436,537 | 6,056,596 |
| Loan to Metavante | | 817,885 | 982,000 | 994,055 | 534,519 |
| Loans and Leases: | | | | | |
| Commercial | 14,841,714 | 12,672,367 | 11,175,436 | 8,954,617 | 7,621,077 |
| Real estate | 32,410,830 | 28,865,495 | 25,808,422 | 20,728,918 | 17,215,467 |
| Personal | 1,732,247 | 1,416,411 | 1,478,816 | 1,521,801 | 1,633,794 |
| Lease financing | 722,289 | 695,756 | 661,466 | 567,344 | 552,551 |
| Total loans and leases | 49,707,080 | 43,650,029 | 39,124,140 | 31,772,680 | 27,022,889 |
| Less: Allowance for loan and lease losses | 877,730 | 448,222 | 406,390 | 362,886 | 360,408 |
| Net loans and leases | 48,829,350 | 43,201,807 | 38,717,750 | 31,409,794 | 26,662,481 |
| Premises and equipment, net | 528,846 | 458,819 | 415,150 | 330,273 | 330,492 |
| Accrued interest and other assets | 4,637,427 | 3,555,545 | 2,927,220 | 2,226,048 | 2,161,071 |
| Total assets of continuing operations | 63,129,917 | 56,943,794 | 51,327,729 | 42,320,094 | 36,559,395 |
| Assets of discontinued operations | | 1,265,833 | 1,323,369 | 963,447 | 603,199 |
| Total Assets | \$ 63,129,917 | \$ 58,209,627 | \$ 52,651,098 | \$ 43,283,541 | \$ 37,162,594 |
| Liabilities and Shareholders Equity: | | | | | |
| Deposits: | | | | | |
| Noninterest bearing | \$ 5,857,485 | \$ 5,469,774 | \$ 5,361,014 | \$ 4,972,890 | \$ 4,603,470 |
| Interest bearing: | | | | | |
| Bank issued deposits: | | | | | |
| Bank issued interest bearing activity deposits | 14,232,732 | 13,490,042 | 11,927,756 | 10,415,477 | 10,324,517 |
| Bank issued time deposits | 8,998,604 | 8,555,413 | 7,592,019 | 4,600,614 | 3,436,842 |
| Total bank issued interest bearing deposits | 23,231,336 | 22,045,455 | 19,519,775 | 15,016,091 | 13,761,359 |
| Wholesale deposits | 10,185,722 | 6,553,668 | 7,255,647 | 6,717,682 | 6,044,819 |
| Total interest bearing deposits | 33,417,058 | 28,599,123 | 26,775,422 | 21,733,773 | 19,806,178 |
| Total deposits | 39,274,543 | 34,068,897 | 32,136,436 | 26,706,663 | 24,409,648 |
| Short-term borrowings | 6,163,488 | 4,693,890 | 3,637,634 | 2,924,834 | 2,907,922 |
| Long-term borrowings | 9,749,118 | 11,533,685 | 10,070,881 | 8,189,708 | 5,323,774 |
| Accrued expenses and other liabilities | 991,056 | 1,072,261 | 1,031,954 | 880,447 | 786,067 |
| Liabilities of discontinued operations | | 160,430 | 173,287 | 224,575 | 170,940 |
| Total Liabilities | 56,178,205 | 51,529,163 | 47,050,192 | 38,926,227 | 33,598,351 |
| Shareholders Equity | 6,951,712 | 6,680,464 | 5,600,906 | 4,357,314 | 3,564,243 |
| Total Liabilities and Shareholders Equity | \$ 63,129,917 | \$ 58,209,627 | \$ 52,651,098 | \$ 43,283,541 | \$ 37,162,594 |

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Other Significant Data:

| | | | | | |
|---|-------------|-------------|-------------|-------------|-------------|
| Book Value Per Common Share at Year End | \$ 17.58 | \$ 26.86 | \$ 24.24 | \$ 20.27 | \$ 17.51 |
| Average Common Shares Outstanding | 260,272,334 | 260,906,330 | 249,723,333 | 231,300,867 | 223,123,866 |
| Credit Quality Ratios: | | | | | |
| Net Loan and Lease Charge-offs to Average Loans and Leases | 2.74% | 0.59% | 0.10% | 0.12% | 0.11% |
| Total Nonperforming Loans and Leases* and OREO to End of Period Loans and Leases and OREO | 4.24 | 2.24 | 0.70 | 0.44 | 0.48 |
| Allowance for Loan and Lease Losses to End of Period Loans and Leases | 2.41 | 1.07 | 1.00 | 1.06 | 1.21 |
| Allowance for Loan and Lease Losses to Total Nonperforming Loans and Leases* | 66 | 54 | 157 | 259 | 271 |

* Nonperforming loans and leases includes nonaccrual, renegotiated, and past due 90 days or more.

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ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview

For the year ended December 31, 2008, the Corporation reported a net loss of \$2,043.5 million or \$7.92 per diluted common share compared to income from continuing operations for the year ended December 31, 2007 of \$496.9 million or \$1.87 per diluted common share.

Organic loan growth, disciplined deposit pricing, the ability to access reasonably priced funding sources and banking acquisitions completed in 2008 and 2007 contributed to the growth in net interest income and other banking sources of revenues. Despite the volatile markets, the Corporation's Wealth Management segment continued to report growth in fee income.

The deterioration in the national real estate markets, economic recession and disruption in the capital markets adversely impacted the Corporation's financial condition and results of operations throughout 2008.

As a result of the unprecedented weakness in the financial markets and the decline in the Corporation's common stock price, numerous tests for goodwill impairment were performed throughout 2008. The results of goodwill impairment testing at the end of the fourth quarter of 2008 indicated that the fair value of certain of the Corporation's banking-related Reporting Units were less than their book values, resulting in a non-cash after-tax charge to earnings for goodwill impairment in the amount of \$1,487.9 million or \$5.73 per diluted common share. The Tier 1 and Total regulatory capital ratios were unaffected by this adjustment. See Note 15 Shareholders' Equity in Notes to Consolidated Financial Statements for additional information.

The continued deterioration in the national real estate markets and the economic recession had a negative impact on the Corporation's loan and lease portfolio in 2008. In addition to a significant increase in nonperforming assets, the amount of loan impairment increased in 2008 due to the depressed state of underlying real estate collateral values. The Corporation's construction and development real estate loans, particularly in Arizona, the west coast of Florida and certain correspondent banking business channels, exhibited the most dramatic increase in stress and impairment. The increase in stress and impairment and the accelerated disposition of problem assets resulted in net charge-offs and provision for loan and lease losses that were significantly higher in 2008 when compared to the Corporation's historical experience with net charge-offs and provision for loan and lease losses. The provision for loan and lease losses amounted to \$2,037.7 million in 2008 compared to \$319.8 million in 2007, an increase of \$1,717.9 million. On an after-tax basis, the increase in the provision for loan and lease losses in 2008 compared to 2007 amounted to approximately \$1,099.5 million or \$4.24 per diluted common share.

Throughout 2008, the Corporation experienced elevated levels of expenses due to the increase in operating costs associated with collection efforts and carrying nonperforming assets. The Corporation estimates that the increase in expense associated with collection efforts and carrying nonperforming assets, net of related revenue, amounted to \$85.5 million in 2008 compared to 2007, which, on an after-tax basis, was approximately \$0.21 per diluted common share.

The economic recession and disruption in the capital markets also resulted in an other than temporary investment security loss, write-down of a bank-owned life insurance policy, unexpected losses in the Corporation's Wealth Management segment and other credit and market related losses. Those write-downs and losses were partially offset by gains from the extinguishment of certain debt obligations, securities gains and reversals of litigation accruals associated with the Corporation's membership interests in Visa and an additional income tax benefit related to prior years. During the fourth quarter of 2008, the Corporation recorded severance expense associated with a corporate-wide reduction in force.

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For the year ended December 31, 2008, these items resulted in a net pre-tax loss of \$29.3 million which on an after-tax basis amounted to approximately \$0.05 per diluted common share.

As previously announced, the Corporation is a participant in the United States Department of the Treasury's (UST) Capital Purchase Program (the CPP). During the fourth quarter of 2008, the Corporation issued to the government \$1.7 billion of senior perpetual preferred stock and a warrant to purchase the Corporation's common stock. At December 31, 2008, the Corporation's Tier 1 ratio was 9.49 percent, \$2.0 billion above the well capitalized threshold as defined by regulatory standards.

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According to the American Bankers Association Economic Advisory Committee, the United States economy declined at the sharpest rate in nearly three decades during the fourth quarter of 2008. In light of the economic recession and expectation that 2009 will continue to be a difficult year for the global economy and the real estate markets in particular, the Corporation is committed to preserving its strong capital base while contributing to the objective of the CPP by continuing to lend to creditworthy consumers and businesses and continuing to provide assistance to customers who are increasingly challenged by the economy.

In order to preserve its strong capital base, the Corporation recently announced that it would undertake a series of significant expense reduction initiatives, reduce the quarterly common stock cash dividend to \$0.01 per share and implement several risk-management strategies to reduce its exposure to construction and development loans.

Through a freeze on filling open positions, attrition and staff reductions, the Corporation will reduce its workforce by approximately 830 positions or approximately 8% of its total workforce. Approximately 80 percent of the workforce reductions were completed in 2008. The remaining 20 percent are related to operational efficiencies and are expected to be achieved by the end of 2009. Executive officer and other senior level salaries will be frozen in 2009 and awards and benefits under a variety of other programs for employees will be reduced. However, the Corporation's ability to use performance-based compensation elements will be severely limited under the American Recovery and Reinvestment Act of 2009 (the ARRA) regulations. As a result, the Human Resources and Compensation Committee of the Board of Directors will evaluate what actions to take in response to these regulations, including a potential reversal of the freeze on base salary increases. The Board of Directors also reduced the annual cash retainer for directors by 25%, and the Corporation is reducing a number of other expenses. These expense initiatives are expected to reduce the Corporation's expenses on an annualized, pre-tax basis by approximately \$100 million.

With respect to credit quality, management expects the prevailing economic and national real estate market conditions will continue in 2009 and could extend into 2010. The level of net charge-offs and the recorded allowance for loan and lease losses are based on management's best estimate of the losses incurred at the measurement date. Management recognizes there are significant estimates in the process and the ultimate losses could be significantly different from those currently estimated. Management expects the provision for loan and lease losses will continue to be higher than its pre-2007 historical experience prior to the recession and crisis in the national real estate markets. Rapidly changing collateral values, general economic conditions and numerous other factors continue to create volatility in the housing markets and have increased the possibility that additional losses may have to be recognized with respect to the Corporation's current nonperforming assets. In addition, further deterioration in the economy and national housing markets would likely result in an increase in the amount of nonperforming assets, net charge-offs and provisions for loan and lease losses reported in future quarters. Due to the uncertainty caused by the recession and the resulting rise in unemployment, the crisis in the national real estate markets and numerous other unknown factors that will ultimately affect the timing and amount of nonperforming assets, net charge-offs and the provision for loan and lease losses, it is difficult to develop reliable expectations about nonperforming assets, net charge-offs and provisions for loan and lease losses that will be recognized in 2009.

With regard to other expectations for 2009, management expects the net interest margin will continue to experience compression based on current interest rate volatility occurring in the market together with the numerous other factors that impact net interest income and the net interest margin. Commercial and industrial loans contracted slightly in the fourth quarter of 2008 compared to the third quarter of 2008. Commercial and industrial loan growth is expected to be in the low single-digits in 2009. Commercial real estate loan growth for 2009 is expected to be relatively modest and consistent with the 1.9% linked quarter loan growth the Corporation experienced in the fourth quarter of 2008. Management expects construction and development real estate loans will continue to decline. Wealth Management revenue is affected by market volatility and direction. The uncertainty that currently exists in the markets makes it difficult to make an estimate of Wealth Management revenue in 2009.

Income from continuing operations in 2007 amounted to \$496.9 million or \$1.87 per diluted common share compared to income from continuing operations in 2006 of \$647.7 million or \$2.54 per diluted common share, a decrease of \$150.8 million or \$0.67 per diluted common share. The decrease in income from continuing operations in 2007 compared to 2006 was primarily attributable to the increases in the provision for loan and lease losses. The provision for loan and lease losses amounted to \$319.8 million in 2007 compared to \$50.6 million in 2006, an increase of \$269.2 million. On an after-tax basis, the increase in the provision for loan and lease losses in 2007 compared to 2006 amounted to

approximately \$175.0 million or \$0.66 per diluted common share.

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Organic loan and bank-issued deposit growth, the two banking acquisitions completed in 2007 and a full year of the two banking acquisitions completed in 2006 contributed to the growth in net interest income and other banking sources of revenues. Continued growth in assets under management and assets under administration and acquisitions resulted in solid growth in fee income for Wealth Management. Increased investment securities gains and gains from branch sales were somewhat offset by lower mortgage banking revenue in 2007.

Expenses in 2007 include losses associated with two debt terminations, litigation accruals that arose from the Corporation's membership interests in Visa and a donation to support charitable works in the communities within the Corporation's markets. In the aggregate, these expense and loss items amounted to approximately \$134.5 million and resulted in a decrease to income from continuing operations of \$87.4 million or \$0.32 per diluted common share.

On November 1, 2007, old Marshall & Ilsley Corporation, the Accounting Predecessor to new Marshall & Ilsley Corporation (which is referred to as M&I or the Corporation) and its wholly owned subsidiary, Metavante Corporation, the Accounting Predecessor to Metavante Technologies, Inc., (which is referred to as Metavante), became two separate publicly traded companies. The Corporation refers to this transaction as the Separation.

As part of the Separation, the Corporation received capital contributions of \$1,665 million in cash from Metavante, which consisted of a contribution from Metavante of \$1,040 million and proceeds of \$625 million from Metavante's issuance of a 25% equity interest to WPM L.P., an affiliate of Warburg Pincus LLC. For accounting purposes only, the investment by Warburg Pincus LLC in Metavante was treated as a sale of 25% of Metavante's common stock by the Corporation to Warburg Pincus LLC for cash in the amount of \$625 million. The sale resulted in a tax-free gain in the amount of \$525.6 million. In addition, the Corporation received \$982 million in repayment of indebtedness that was due from Metavante.

The results of operations and financial condition for the periods presented include the effects of the banking-related and wealth management-related acquisitions from the dates of consummation of the acquisitions. All transactions were accounted for using the purchase method of accounting. See Note 5 Business Combinations in Notes to Consolidated Financial Statements for a discussion of the Corporation's banking and Wealth Management acquisitions completed in 2008 and 2007 and 2006.

Forward-Looking Statements

This report contains statements that may constitute forward-looking statements within the meaning of the safe-harbor provisions for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995, such as statements other than historical facts contained or incorporated by reference in this report. These forward-looking statements include statements with respect to M&I's financial condition, results of operations, plans, objectives, future performance and business, including statements preceded by, followed by or that include the words believes, expects, or anticipates, references to estimates or similar expressions. Future filings by M&I with the Securities and Exchange Commission, and future statements other than historical facts contained in written material, press releases and oral statements issued by, or on behalf of, M&I may also constitute forward-looking statements.

All forward-looking statements contained in this report or which may be contained in future statements made for or on behalf of M&I are based upon information available at the time the statement is made and M&I assumes no obligation to update any forward-looking statements, except as required by federal securities law. Forward-looking statements are subject to significant risks and uncertainties, and M&I's actual results may differ materially from the expected results discussed in such forward-looking statements. Factors that might cause actual results to differ from the results discussed in forward-looking statements include, but are not limited to, the risk factors in Item 1A, Risk Factors in this Form 10-K.

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Significant Transactions

Some of the more noteworthy transactions and events in 2008, 2007 and 2006 consisted of the following:

2008

On January 2, 2008, the Corporation completed its acquisition of First Indiana Corporation (First Indiana) based in Indianapolis, Indiana. First Indiana, with \$2.1 billion in consolidated assets as of December 31, 2007, had 32 branches in central Indiana which became branches of M&I Marshall & Ilsley Bank on February 2, 2008. Stockholders of First Indiana received \$32.00 in cash for each share of First Indiana common stock outstanding, or approximately \$530.2 million.

On November 14, 2008, as part of the CPP, the Corporation agreed to sell 1,715,000 shares of the Corporation's Senior Preferred Stock, Series B (the Senior Preferred Stock), having a liquidation preference of \$1,000 per share, for a total price of \$1.715 billion. The Senior Preferred Stock qualifies as Tier 1 capital and pays cumulative compounding dividends at a rate of 5% per year for the first five years and 9% per year thereafter. As a condition to participating in the CPP, the Corporation issued and sold to the UST a warrant (the Warrant) to purchase 13,815,789 shares (the Warrant Shares) of the Corporation's common stock, at an initial per share exercise price of \$18.62, for an aggregate purchase price of approximately \$257.25 million. The term of the Warrant is ten years. Pursuant to the Securities Purchase Agreement entered into in connection with the transaction, until the UST no longer owns any shares of the Senior Preferred Stock, the Warrant or Warrant Shares, the Corporation's employee benefit plans and other executive compensation arrangements for its senior executive officers must continue to comply in all respects with Section 111(b) of Emergency Economic Stabilization Act of 2008 (the EESA) and the rules and regulations promulgated by the UST.

On December 3, 2008, the Corporation completed its acquisition of a majority equity interest in Taplin, Canida & Habacht, Inc. (TCH). TCH, based in Miami, Florida, is an institutional fixed income money manager with approximately \$7.3 billion of assets under management as of December 31, 2008. Total consideration paid at closing in this transaction amounted to \$64.0 million, consisting of 4,863,221 shares of the Corporation's common stock valued at \$13.16 per common share.

On December 18, 2008, the Corporation announced it had introduced a corporate-wide program designed to keep families in their homes by helping home owners avoid delinquency and foreclosure, including a 90-day foreclosure moratorium on all owner-occupied residential loans for customers who agree to work in good faith to reach a successful repayment agreement. In addition to the foreclosure moratorium, the Corporation's homeowner assistance program includes stipulation plans, loan modifications, extensions and short-term forbearance options that have contributed to the higher level of renegotiated loans.

The results of goodwill impairment testing at the end of the fourth quarter of 2008 indicated that the fair value of certain of the Corporation's banking-related Reporting Units were less than their book values, resulting in an after-tax total non-cash charge to earnings for goodwill impairment in the amount of \$1,487.9 million or \$5.73 per diluted common share.

During 2008, the Corporation recognized income of \$39.1 million due to the completion of the initial public offering (IPO) by Visa. As a result of the IPO, Visa redeemed 38.7% of the Class B Visa common stock owned by the Corporation. The gain from the redemption amounted to \$26.9 million and is reported in Net Investment Securities Gains in the Consolidated Statements of Income. In addition, Visa established an escrow for certain litigation matters from the proceeds of the IPO. As a result of the funded escrow, the Corporation reversed \$12.2 million of

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the litigation accruals that were originally recorded in 2007 due to the Corporation's membership interests in Visa. The reversed accrual is reported in the Other line of Other Expense in the Consolidated Statements of Income. On an after-tax basis, these two Visa-related items reduced net loss by approximately \$0.10 per diluted common share.

During 2008, the Corporation recognized an additional income tax benefit of \$20.0 million, or \$0.08 per diluted common share, related to how the TEFRA (interest expense) disallowance should be calculated within a consolidated group.

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During 2008, the Corporation re-acquired and extinguished \$169.2 million of debt. The gain amounted to \$14.7 million and is reported in Gain on Termination of Debt in the Consolidated Statements of Income. On an after-tax basis, this gain reduced net loss by approximately \$0.04 per diluted common share.

Market disruptions in the equity and fixed income markets resulted in unexpected losses in the Corporation's Wealth Management segment. Losses attributable to the Lehman Brothers bankruptcy, costs of providing credit support agreements and other market related losses amounted to \$45.7 million in 2008. The losses are reported in the Other line of Other Expense in the Consolidated Statements of Income. On an after-tax basis, these losses increased net loss by approximately \$0.11 per diluted common share.

The deterioration in the national real estate markets resulted in a significant increase in the provision for losses for unfunded commitments and other credit related charges. In addition, rising fuel costs earlier in 2008 resulted in write-downs of residual values associated with consumer vehicle leases. In total these provisions and write-downs amounted to \$26.9 million and are reported in the Other line of Other Expense in the Consolidated Statements of Income. On an after-tax basis, these items increased net loss by approximately \$0.07 per diluted common share.

During 2008, the Corporation recognized a loss related to one of its bank-owned life insurance (BOLI) policies. The BOLI policy contains a stable value agreement that provides limited cash surrender value protection from declines in the value of the policy's underlying investments. During the fourth quarter of 2008, the value of the policy's underlying investments declined due to disruptions in the credit markets. As a result, the decline in cash surrender value of the policy exceeded the protection provided by the stable value agreement. The loss amounted to \$11.8 million or \$0.05 per diluted common share and is reported as a reduction of Bank-Owned Life Insurance Revenue in the Consolidated Statements of Income.

During 2008, the Corporation recognized an other than temporary loss on an investment in a small-business lending venture. The loss amounted to \$10.0 million and is reported in Net Investment Securities Gains in the Consolidated Statements of Income. On an after-tax basis, this loss increased net loss by approximately \$0.02 per diluted common share.

During 2008, the Corporation recognized severance expense of \$8.7 million in conjunction with its corporate-wide reduction in workforce. The expense is reported in Salaries and Employee Benefits in the Consolidated Statements of Income. On an after-tax basis, this loss increased net loss by approximately \$0.02 per diluted common share.

2007

During 2007, the Corporation completed two banking acquisitions and one wealth management acquisition and, as previously discussed, completed the Separation.

During 2007, the Corporation sold three bank branches located in the Tulsa, Oklahoma market after management determined that exiting that market was a better allocation of resources as compared to the costs of further expansion in that market. The gain, which is a component of Other Income in the Consolidated Statements of Income, amounted to \$29.0 million which increased income from continuing operations by \$16.9 million or \$0.06 per diluted common share.

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During 2007, the Corporation sold its investment in MasterCard Class B common shares in order to monetize the significant appreciation in the market price of the common stock of MasterCard since its initial public offering. The realized gain, which is reported in Net Investment Securities Gains in the Consolidated Statements of Income, amounted to \$19.0 million which increased income from continuing operations by \$12.4 million or \$0.05 per diluted common share.

During 2007, the Corporation called the \$200 million 7.65% junior subordinated deferrable interest debentures and the related M&I Capital Trust A 7.65% trust preferred securities. The Corporation also terminated \$1,000 million of Puttable Reset Securities (PURS), senior bank notes issued by M&I Bank. The Corporation realized losses of \$83.7 million from these transactions, which are reported as Loss on Termination of Debt in the Consolidated Statements of Income. These losses reduced income from continuing operations by \$54.4 million or \$0.20 per diluted common share.

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During 2007, the Corporation recorded liabilities in connection with its share of the proposed settlement of the American Express antitrust litigation against Visa and other Visa litigation matters. While the Corporation is not a named defendant in any of these lawsuits, the Corporation and other Visa member banks are obligated to share in losses in connection with certain lawsuits under Visa's by-laws. The expense, which is reported in Other Expense in the Consolidated Statements of Income, amounted to \$25.8 million which decreased income from continuing operations by \$16.8 million or \$0.06 per diluted common share.

During 2007, the Corporation purchased \$286.6 million of additional bank-owned life insurance. The net realizable value is reported, along with the Corporation's other bank-owned life insurance, Bank-Owned Life Insurance in the Consolidated Balance Sheets. The increase in net realizable value is reported in Bank-Owned Life Insurance Revenue in the Consolidated Statements of Income.

The Corporation has a tradition of being committed to the betterment of the communities within the markets that it serves. Consistent with that tradition, the Corporation made a sizeable contribution to its charitable foundation in 2007. That expense, which is reported in Other Expense in the Consolidated Statements of Income, amounted to \$25.0 million, which decreased income from continuing operations by \$16.3 million or \$0.06 per diluted common share.

During 2007, the Corporation remarketed the 3.90% STACKSSM of M&I Capital Trust B that were originally issued in 2004 as components of the Corporation's 6.50% Common SPACESSM. In connection with the remarketing, the annual interest rate on the remarketed STACKS was reset at 5.626%, M&I Capital Trust B was liquidated and \$400 million of 5.626% senior notes that mature on August 17, 2009 were issued by the Corporation in exchange for the outstanding STACKS. Each Common SPACES also included a stock purchase contract requiring the holder to purchase, in accordance with a settlement rate formula, shares of the Corporation's common stock. The Corporation issued 9,226,951 shares of its common stock in settlement of the stock purchase contracts in exchange for \$400 million in cash.

Beginning in the second quarter and continuing throughout the remainder of 2007, the Corporation completed three accelerated common share repurchases as well as open market repurchases of shares of its common stock under its authorized Stock Repurchase Program. In total, 10,765,889 shares of the Corporation's common stock were acquired in 2007 at an aggregate cost of \$437.1 million.

2006

During 2006, the Corporation completed two banking acquisitions and one wealth management acquisition.

Income from continuing operations for the year ended December 31, 2006 includes the impact of the mark-to-market adjustments associated with certain interest rate swaps. Based on expanded interpretations of the accounting standard for derivatives and hedge accounting it was determined that certain transactions did not qualify for hedge accounting. As a result, any fluctuation in the fair value of the interest rate swaps was recorded in earnings with no corresponding offset to the hedged items or accumulated other comprehensive income. The affected interest rate swaps were terminated in 2006. The impact, which is reported as Net Derivative Losses - Discontinued Hedges in the Consolidated Statements of Income, resulted in a decrease to income from continuing operations of \$12.0 million or \$0.05 per diluted common share.

On January 1, 2006, the Corporation adopted Statement of Financial Accounting Standards No. 123 (revised 2004); *Share-Based Payment* (SFAS 123(R)), the new accounting standard that requires all share-based compensation to be expensed. For the Corporation, additional expense was reported for its stock option awards and its employee stock purchase plan. In conjunction with the adoption of SFAS 123(R), the

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Corporation elected the Modified Retrospective Application method to implement the new accounting standard. Under that method all prior period consolidated and segment financial information was adjusted based on pro forma amounts previously disclosed.

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Net Interest Income

Net interest income is the difference between interest income on earning assets and interest expense on interest bearing liabilities.

Net interest income in 2008 amounted to \$1,780.7 million compared with net interest income of \$1,616.2 million in 2007, an increase of \$164.5 million or 10.2%. Positive contributors to the increase in net interest income in 2008 compared to 2007 included the impact of the acquisitions, organic loan growth, a full year of benefit from the cash received in the Separation and the effect of the CPP cash received from the UST for one and one-half months in 2008. Factors negatively affecting net interest income compared to the prior year included reduced interest income due to the increase in nonaccrual loans and leases, the impact of the financing costs associated with the banking acquisitions, the cost of common stock buybacks in 2007 and early 2008, the cost of purchased bank-owned life insurance, higher wholesale funding costs and a general shift in the bank issued deposit mix from lower cost to higher cost deposit products.

Average earning assets in 2008 amounted to \$57.9 billion compared to \$52.4 billion in 2007, an increase of \$5.5 billion or 10.6%. Increases in average loans and leases accounted for \$6.1 billion of the growth in average earning assets. Metavante's repayment of its indebtedness to the Corporation on November 1, 2007 resulted in a \$0.8 billion decrease in average earning assets in 2008 compared to 2007. Average trading and short-term investments, including federal funds sold and security resale agreements, increased \$0.2 billion or 52.7% in 2008 compared to 2007.

Average interest bearing liabilities increased \$4.5 billion or 10.0% in 2008 compared to 2007. Average interest bearing deposits increased \$4.8 billion or 16.8% in 2008 compared to 2007. Average short-term borrowings increased \$1.5 billion or 31.3% in 2008 compared to 2007. Average long-term borrowings decreased \$1.8 billion or 15.5% in 2008 compared to 2007.

Average noninterest bearing deposits increased \$0.4 billion or 7.1% in 2008 compared to the prior year.

Net interest income in 2007 amounted to \$1,616.2 million compared with net interest income of \$1,507.6 million in 2006, an increase of \$108.6 million or 7.2%. Positive contributors to the increase in net interest income in 2007 compared to 2006 included the impact of the acquisitions, organic loan and bank issued deposit growth and the effect of the cash received from the Separation for two months in 2007. Factors negatively affecting net interest income compared to the prior year included reduced interest income due to the increase in nonaccrual loans, the impact of the financing costs associated with the banking acquisitions and common stock buybacks, a general shift in the bank issued deposit mix from lower cost to higher cost deposit products and the acquisition of additional bank-owned life insurance.

Average earning assets in 2007 amounted to \$52.4 billion compared to \$47.4 billion in 2006, an increase of \$5.0 billion or 10.4%. Increases in average loans and leases accounted for 91.3% of the growth in average earning assets.

Average interest bearing liabilities increased \$4.3 billion or 10.7% in 2007 compared to 2006. The growth in average interest bearing liabilities in 2007 compared to 2006 was fairly evenly distributed between average interest bearing deposits (\$1.8 billion), average short-term borrowings (\$1.0 billion) and average long term borrowings (\$1.5 billion).

Average noninterest bearing deposits increased \$0.1 billion or 2.0% in 2007 compared to the prior year.

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The growth and composition of the Corporation's average loan and lease portfolio for the current year and prior two years are reflected in the following table (\$ in millions):

| | 2008 | 2007 | 2006 | Percent Growth | |
|--|--------------------|--------------------|--------------------|----------------|--------------|
| | | | | 2008 vs 2007 | 2007 vs 2006 |
| Commercial: | | | | | |
| Commercial | \$ 14,841.7 | \$ 12,672.3 | \$ 11,175.4 | 17.1% | 13.4% |
| Commercial real estate: | | | | | |
| Commercial mortgages | 12,805.7 | 11,382.9 | 10,345.6 | 12.5 | 10.0 |
| Construction | 4,476.4 | 3,738.9 | 2,793.0 | 19.7 | 33.9 |
| Total commercial real estate | 17,282.1 | 15,121.8 | 13,138.6 | 14.3 | 15.1 |
| Commercial lease financing | 520.8 | 514.3 | 516.0 | 1.3 | (0.3) |
| Total commercial | 32,644.6 | 28,308.4 | 24,830.0 | 15.3 | 14.0 |
| Personal: | | | | | |
| Residential real estate: | | | | | |
| Residential mortgages | 7,849.4 | 6,672.7 | 5,735.9 | 17.6 | 16.3 |
| Construction | 2,377.8 | 2,793.5 | 2,394.3 | (14.9) | 16.7 |
| Total residential real estate | 10,227.2 | 9,466.2 | 8,130.2 | 8.0 | 16.4 |
| Consumer loans: | | | | | |
| Student | 104.3 | 85.0 | 68.6 | 22.7 | 23.8 |
| Credit card | 262.4 | 244.7 | 231.4 | 7.3 | 5.8 |
| Home equity loans and lines | 4,901.6 | 4,277.4 | 4,539.6 | 14.6 | (5.8) |
| Other | 1,365.5 | 1,086.8 | 1,178.8 | 25.6 | (7.8) |
| Total consumer loans | 6,633.8 | 5,693.9 | 6,018.4 | 16.5 | (5.4) |
| Personal lease financing | 201.5 | 181.5 | 145.5 | 11.0 | 24.7 |
| Total personal | 17,062.5 | 15,341.6 | 14,294.1 | 11.2 | 7.3 |
| Total consolidated average loans and leases | \$ 49,707.1 | \$ 43,650.0 | \$ 39,124.1 | 13.9% | 11.6% |

Average loans and leases increased \$6.1 billion or 13.9% in 2008 compared to 2007. Excluding the effect of the banking acquisitions, total consolidated average loan and lease organic growth was 9.0% in 2008 compared to 2007. Approximately \$2.0 billion of the growth in total consolidated average loans and leases was attributable to the banking acquisitions and \$4.1 billion of the growth was organic. Of the \$2.0 billion of average growth attributable to the banking acquisitions, \$0.8 billion was attributable to average commercial real estate loans, \$0.5 billion was attributable to average commercial loans and leases, \$0.4 billion was attributable to average residential real estate loans and \$0.2 billion was attributable to average home equity loans and lines of credit. Of the \$4.1 billion of average loan and lease organic growth, \$1.7 billion was attributable to average commercial loans and leases, \$1.4 billion was attributable to average commercial real estate loans, \$0.3 billion was attributable to residential real estate loans, \$0.4 billion was attributable to average home equity loans and lines of credit and the remainder was due to other consumer loans and leases.

Total average commercial loan and lease organic growth was \$1.7 billion or 12.0% in 2008 compared to 2007. Total average commercial loan and lease organic growth was strong throughout the first nine months of 2008. That double-digit percentage growth was driven by new business, increased utilization of credit lines by existing customers, declining interest rates and increased exports due to the weaker U.S. dollar. On a linked quarter basis, total average commercial loan and leases contracted slightly in the fourth quarter of 2008 compared to the third quarter of

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2008 as the recession deepened. Management expects that organic commercial loan growth (as a percentage) will be significantly slower than the growth experienced in 2008. Management expects organic commercial loan and lease growth will be in the low single-digits in 2009 compared to 2008.

Average organic commercial real estate loan growth was \$1.4 billion or 8.7% in 2008 compared to 2007. The Corporation continues to experience slowing in construction and development activity which is the result of significant declines in new construction in all of the Corporation's markets, less investor activity in new construction projects and softening in retail and hospitality expansion. Investor activity in multi-family and medical office has been the least

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impacted. The supply and demand of office facilities appears to be in relative balance in the Corporation's markets. However, a significant increase in job losses could adversely affect this sector in future periods. For 2009, organic commercial real estate loan growth is expected to be relatively modest and consistent with the 1.9% linked quarter loan growth the Corporation experienced in the fourth quarter of 2008 compared to the third quarter of 2008.

Average home equity loans and lines, which include the Corporation's wholesale activity, increased \$0.6 billion or 14.6% in 2008 compared to 2007. This growth reflects, in part, the decline in the national investor base and the shift of more production that meets the Corporation's underwriting criteria to portfolio. Management expects this trend to continue in the near-term. Average home equity loan and line growth due to the acquisitions amounted to \$0.2 billion in 2008 compared to 2007.

The Corporation sells some of its residential real estate loan production (residential real estate and home equity loans) in the secondary market. As previously discussed, selected residential real estate loans with credit, rate and term characteristics that are considered desirable are periodically retained in the portfolio. Residential real estate loans originated and sold to the secondary market amounted to \$1.4 billion in 2008 compared to \$1.8 billion in 2007. At December 31, 2008 and 2007, residential mortgage loans held for sale amounted to \$40.3 million. The housing market and the decline in the national investor base continued to adversely affect the origination-for-sale business in 2008. Gains from the sale of mortgage loans amounted to \$22.4 million in 2008 compared to \$28.6 million in 2007.

The sub-prime mortgage banking environment has been experiencing considerable strain from rising delinquencies and liquidity pressures and some sub-prime lenders have failed. The increased scrutiny of the sub-prime lending market is one of the factors that have impacted general market conditions as well as perceptions of the mortgage origination business. The Corporation considers sub-prime loans to be those loans with high loan-to-value, temporary below market interest rates, which are sometimes referred to as teaser rates, or interest deferral options at the time of origination and credit scores that are less than 620. The Corporation believes that loans with these characteristics have contributed to the high levels of foreclosures and losses the industry is currently experiencing. The Corporation does not originate sub-prime mortgages or sub-prime home equity loans or lines for its own portfolio. However, in 2008 and 2007 the Corporation experienced losses and may continue to have loss exposure from loans to entities that are associated with sub-prime mortgage banking. The Corporation does not originate mortgage loans with variable interest-only payment plans, commonly referred to as option ARMs. Option ARMs may include low introductory interest plans with significant escalation in the rate when the agreement calls for the rate to reset. The borrower may also be able to fix the monthly payment amount, potentially resulting in negative amortization of the loan. The Corporation does not originate mortgage loans that permit negative amortization. A negative amortization provision in a mortgage allows the borrower to defer payment of a portion or all of the monthly interest accrued on the mortgage and to add the deferred interest amount to the mortgage's principal balance subject to a stated maximum permitted amount of negative amortization. Once the maximum permitted amount of negative amortization is reached, the borrower's monthly payment is reset and is usually significantly higher than the monthly payment made during periods of negative amortization. The Corporation's Alt-A products were offered to borrowers with higher credit scores and lower loan-to-value ratios who chose the convenience of less than full documentation in exchange for higher reserve requirements and a higher mortgage rate. The Corporation's adjustable rate mortgage loans were underwritten to fully-indexed rates. The Corporation's Alt-A products were changed in the first quarter of 2008 to include full verification of the borrower's income and ability to service the debt.

Average loans and leases increased \$4.5 billion or 11.6% in 2007 compared to 2006. Excluding the effect of the banking acquisitions, total consolidated average loan and lease organic growth was 7.2% in 2007 compared to 2006. Approximately \$1.6 billion of the growth in total consolidated average loans and leases was attributable to the banking acquisitions and \$2.9 billion of the growth was organic. Of the \$1.6 billion of average growth attributable to the banking acquisitions, \$1.1 billion was attributable to average commercial real estate loans, \$0.4 billion was attributable to average commercial loans and leases and the remainder was primarily attributable to average residential real estate loans. Of the \$2.9 billion of average loan and lease organic growth, \$1.1 billion was attributable to average commercial loans and leases, \$0.9 billion was attributable to average commercial real estate loans, and \$1.3 billion was attributable to residential real estate loans. Average home equity loans and lines decreased \$0.3 billion in 2007 compared to 2006.

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Total average commercial loan and lease organic growth was 9.1% in 2007 compared to 2006. Total average commercial real estate organic growth was 6.3% in 2007 compared to 2006.

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Average home equity loans and lines, which include the Corporation's wholesale activity, declined \$0.3 billion or 5.8% in 2007 compared to 2006. An increased number of originations with selected credit, rate and term characteristics were retained on balance sheet in 2007.

Residential real estate loans (residential real estate and home equity loans) originated and sold to the secondary market amounted to \$1.8 billion in 2007 compared to \$2.3 billion in 2006. At December 31, 2007, residential mortgage loans held for sale amounted to \$40.3 million compared to \$139.3 million at December 31, 2006. The housing market and the decline in the national investor base adversely affected the origination-for-sale business in 2007. Gains from the sale of mortgage loans amounted to \$28.6 million in 2007 compared to \$47.3 million in 2006.

Average automobile loans, which are included in other personal loans in the table above, amounted to \$359.5 million in 2007 compared to \$465.1 million in 2006, a decrease of \$105.6 million or 22.7%. Auto loans securitized and sold amounted to \$0.2 billion in 2007 compared to \$0.5 billion in 2006. During the second quarter of 2007, the Corporation opted to discontinue the sale and securitization of automobile loans into the secondary market on a recurring basis. Gains and losses from the sale and securitization of auto loans, including write-downs of auto loans held for sale, were not significant in 2007 or 2006. See Note 9 in Notes to Consolidated Financial Statements for further discussion of the Corporation's securitization activities.

The Corporation refers to certain types of loans that are secured by real estate as construction and development loans. Certain construction and development loans currently have a higher risk profile because the value of the underlying collateral is dependent on the housing-related real estate markets and these loans are concentrated in markets experiencing elevated levels of stress. Construction and development loans consist of:

Commercial Construction Loans primarily to mid-sized local and regional companies to construct a variety of commercial projects.

Commercial Land Loans primarily to mid-sized local and regional companies to acquire and develop land for a variety of commercial projects.

Residential Construction by Individuals Loans to individuals to construct 1-4 family homes.

Residential Land Loans primarily to individuals and mid-sized local and regional builders to acquire and develop land for 1-4 family homes.

Residential Construction by Developers Loans primarily to mid-sized local and regional builders to construct 1-4 family homes in residential subdivisions.

The growth and composition of the Corporation's average construction and development loans for the current year and previous year are reflected in the following table:

Consolidated Average Construction and Development Loans (\$ in millions)

| | 2008 | 2007 | Growth | |
|--|------------------|-----------------|---------------|-------------|
| | | | Amount | Percent |
| Commercial: | | | | |
| Construction | \$ 4,476 | \$ 3,739 | \$ 737 | 19.7% |
| Land | 966 | 819 | 147 | 17.9 |
| Total commercial | 5,442 | 4,558 | 884 | 19.4 |
| Residential: | | | | |
| Construction by individuals | 992 | 1,003 | (11) | (1.1) |
| Land | 2,345 | 2,458 | (113) | (4.6) |
| Construction by developers | 1,386 | 1,791 | (405) | (22.6) |
| Total residential | 4,723 | 5,252 | (529) | (10.1) |
| Total consolidated average construction and development loans | \$ 10,165 | \$ 9,810 | \$ 355 | 3.6% |

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Total consolidated average construction and development loans increased approximately \$0.4 billion or 3.6% in 2008 compared to 2007. Total consolidated average construction and development loans in 2008 include approximately \$0.3 billion of average construction and development loans that were attributable to the banking acquisitions in that year.

At December 31, 2008, total consolidated construction and development loans outstanding amounted to \$9.0 billion, a decrease of \$1.1 billion or 10.5% since December 31, 2007. Approximately \$3.2 billion or 35.2% of these loans were loans associated with Arizona, the west coast of Florida and correspondent banking business channels at December 31, 2008. Nonperforming construction and development loans represented 56.1% of the Corporation's total consolidated nonperforming loans and leases at December 31, 2008. Nonperforming construction and development loans associated with Arizona, the west coast of Florida and correspondent banking business channels represented 37.1% of the Corporation's total consolidated nonperforming loans and leases at December 31, 2008.

The growth and composition of the Corporation's consolidated average deposits for 2008 and prior two years are reflected below (\$ in millions):

| | 2008 | 2007 | 2006 | Percent Growth | |
|--|--------------------|--------------------|--------------------|----------------|--------------|
| | | | | 2008 vs 2007 | 2007 vs 2006 |
| Bank issued deposits: | | | | | |
| Noninterest bearing: | | | | | |
| Commercial | \$ 4,237.7 | \$ 3,915.8 | \$ 3,850.8 | 8.2% | 1.7% |
| Personal | 1,015.9 | 963.5 | 961.3 | 5.4 | 0.2 |
| Other | 603.9 | 590.5 | 548.9 | 2.3 | 7.6 |
| Total noninterest bearing | 5,857.5 | 5,469.8 | 5,361.0 | 7.1 | 2.0 |
| Interest bearing: | | | | | |
| Activity accounts: | | | | | |
| Savings and NOW | 3,247.8 | 2,905.0 | 3,031.5 | 11.8 | (4.2) |
| Money market | 9,186.7 | 8,674.3 | 7,482.5 | 5.9 | 15.9 |
| Foreign activity | 1,798.2 | 1,910.8 | 1,413.7 | (5.9) | 35.2 |
| Total activity accounts | 14,232.7 | 13,490.1 | 11,927.7 | 5.5 | 13.1 |
| Time deposits: | | | | | |
| Other CDs and time | 5,031.5 | 4,734.0 | 4,496.8 | 6.3 | 5.3 |
| CDs \$100,000 and over | 3,967.1 | 3,821.4 | 3,095.2 | 3.8 | 23.5 |
| Total time deposits | 8,998.6 | 8,555.4 | 7,592.0 | 5.2 | 12.7 |
| Total interest bearing | 23,231.3 | 22,045.5 | 19,519.7 | 5.4 | 12.9 |
| Total bank issued deposits | 29,088.8 | 27,515.3 | 24,880.7 | 5.7 | 10.6 |
| Wholesale deposits: | | | | | |
| Money market | 1,829.2 | 1,798.8 | 814.7 | 1.7 | 120.8 |
| NOW | 1.2 | | | n.m. | n.m. |
| Brokered CDs | 7,393.7 | 3,737.4 | 5,011.1 | 97.8 | (25.4) |
| Foreign time | 961.6 | 1,017.4 | 1,429.9 | (5.5) | (28.8) |
| Total wholesale deposits | 10,185.7 | 6,553.6 | 7,255.7 | 55.4 | (9.7) |
| Total consolidated average deposits | \$ 39,274.5 | \$ 34,068.9 | \$ 32,136.4 | 15.3% | 6.0% |

Average total bank issued deposits increased \$1.6 billion or 5.7% in 2008 compared to 2007. Excluding the effect of the banking acquisitions, average total bank issued deposits declined 1.1% in 2008 compared to 2007. Approximately \$1.9 billion of the growth in average total bank issued deposits was attributable to the banking acquisitions, which was offset by a decline in organic bank issued deposits of \$0.3 billion. Of the \$1.9 billion of average growth attributable to the banking acquisitions, \$0.3 billion was attributable to average noninterest bearing

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deposits, \$1.1 billion was attributable to average interest bearing activity deposits and \$0.5 billion was attributable to average time deposits. Average organic noninterest bearing deposits increased \$0.1 billion in 2008 compared to 2007. Average organic interest bearing activity deposits decreased \$0.3 billion and average organic time deposits decreased \$0.1 billion in 2008 compared to 2007.

Noninterest deposit balances tend to exhibit some seasonality with a trend of balances declining somewhat in the early part of the year followed by growth in balances throughout the remainder of the year. A portion of the noninterest deposit balances, especially commercial balances, is sensitive to the interest rate environment. Larger balances tend to be maintained when overall interest rates are low and smaller balances tend to be maintained as overall interest rates increase. The decline in average organic interest deposit bearing activity deposits and average organic time deposit reflects the recent increased level of high-priced competition to attract deposits and the Corporation's decision to maintain its pricing discipline. The Corporation continued to experience shifts in the bank issued deposit mix. In their search for higher yields in the low interest rate environment, both new and existing customers have been migrating their deposit balances to higher cost deposit products. Management expects this behavior to continue.

Wholesale deposits are deposits generated through distribution channels other than the Corporation's own banking branches. The Corporation continues to make use of wholesale funding alternatives, especially brokered and institutional certificates of deposit. The weighted average maturity of brokered and institutional certificates of deposit issued in 2008 was 11.6 years and the weighted average remaining term of outstanding brokered and institutional certificates of deposit at December 31, 2008 was 10.6 years. Wholesale deposits outstanding at December 31, 2008 cannot be put back to the Corporation by investors other than in the case of death or adjudication of incompetence. These deposits allow the Corporation's bank subsidiaries to gather funds across a wider geographic base and at pricing levels considered attractive, where the underlying depositor may be retail or institutional. Average wholesale deposits increased \$3.6 billion or 55.4% in 2008 compared to 2007. Average wholesale deposits in 2008 include \$0.1 billion of average wholesale deposits that were assumed in the 2008 and 2007 banking acquisitions.

Management currently believes that it has adequate liquidity to ensure that funds are available to the Corporation and each of its banks to satisfy their cash flow requirements. However, if capital markets deteriorate more than management currently expects, the Corporation could experience stress on its liquidity position. The Corporation maintains back-up liquidity contingency plans for unanticipated market events.

Average total bank issued deposits increased \$2.6 billion or 10.6% in 2007 compared to 2006. Excluding the effect of the banking acquisitions, average total bank issued deposit organic growth was 4.6% in 2007 compared to 2006. Approximately \$1.4 billion of the growth in average total bank issued deposits was attributable to the banking acquisitions and \$1.2 billion of the growth was organic. Of the \$1.4 billion of average growth attributable to the banking acquisitions, \$0.2 billion was attributable to average noninterest bearing deposits, \$0.5 billion was attributable to average interest bearing activity deposits and \$0.7 billion was attributable to average time deposits. Of the \$1.2 billion of average bank issued deposit organic growth, \$1.1 billion was attributable to average interest bearing activity deposits and \$0.2 billion was attributable to average time deposits. Average organic noninterest bearing deposits declined \$0.1 billion in 2007 compared to 2006.

During 2007, the Corporation was able to competitively price deposit products and maintain pricing discipline which contributed to the growth in average interest bearing bank issued deposits and average bank issued time deposits. The bank issued deposit mix continued to shift in 2007. In their search for higher yields, both new and existing customers migrated their deposit balances to higher cost money market and time deposit products.

Average wholesale deposits decreased \$0.7 billion in 2007 compared to 2006. Average wholesale deposits in 2007 include \$0.2 billion of average wholesale deposits that were assumed in the 2007 and 2006 banking acquisitions.

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Total borrowings decreased \$3.0 billion and amounted to \$13.7 billion at December 31, 2008 compared to \$16.7 billion at December 31, 2007. Total average borrowings amounted to \$15.9 billion in 2008 compared to \$16.2 billion in 2007 a decrease of \$0.3 billion or 1.9%. Throughout 2008, the Corporation made greater use of short-term borrowings as well as wholesale funding alternatives as previously discussed. The increased use of short-term borrowings and wholesale funding alternatives was in response to the widening of credit spreads and general lack of demand by investors for longer term bank debt that was prevalent throughout 2008. During 2008, the Corporation called \$27 million in aggregate principal amount of various higher-cost junior subordinated deferrable interest

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debentures and the related trust preferred securities that had been assumed in acquisitions. During 2008, the Corporation re-acquired and extinguished \$169.2 million of debt. The gain amounted to \$14.7 million and is reported in Gain on Termination of Debt in the Consolidated Statements of Income.

During 2007, the Corporation called the \$200 million 7.65% junior subordinated deferrable interest debentures and the related M&I Capital Trust A 7.65% trust preferred securities. This transaction resulted in a loss of \$9.5 million that is reported in Loss on Termination of Debt in the Consolidated Statements of Income and was primarily due to the contractual call premium paid to retire the debentures and trust preferred securities. During 2007, \$370.0 million of floating rate Federal Home Loan Bank (FHLB) advances were extinguished and the pay fixed / receive floating interest rate swaps that were designated as cash flow hedges on the FHLB advances were terminated. The gain realized from these transactions was primarily due to the acceleration of the fair value adjustments for the interest rate swaps that were recorded in other comprehensive income. That gain amounted to \$5.3 million and is reported in the Other line of Other Income in the Consolidated Statements of Income. Also during 2007, the Corporation remarketed the 3.90% STACKS of M&I Capital Trust B and issued \$400.0 million of 5.626% senior notes of the Corporation that mature on August 17, 2009 in exchange for the STACKS. As a result of the illiquid market and prohibitive cost of remarketing, the \$1.0 billion PURS were terminated in 2007. The loss, which was primarily the cost of purchasing the right to remarket the PURS through 2016, amounted to \$74.2 million and is reported in Loss on Termination of Debt in the Consolidated Statements of Income.

The net interest margin on a fully taxable equivalent basis (FTE) as a percent of average earning assets was 3.12% in 2008 compared to 3.14% in 2007, a decrease of two basis points. The yield on average earning assets was 5.70% in 2008 compared to 7.05% in 2007, a decrease of 135 basis points. The cost of interest bearing liabilities was 3.03% in 2008 compared to 4.58% in 2007, a decrease of 155 basis points.

There were many factors that affected the Corporation's net interest margin in 2008. Some of these factors included the movement of new and existing deposits into higher cost products, loan growth that exceeded the Corporation's ability to generate lower cost bank-issued deposits, a volatile interest rate environment, higher credit spreads and liquidity premiums for term financing and elevated levels of nonaccrual and renegotiated loans. Acquisitions for cash, the buyback of common shares and the purchase of bank-owned life insurance reduced net interest income and were additional sources of contraction to the net interest margin. Management continues to believe that margin contraction is more likely than margin expansion. In a very low interest rate environment, earning assets will continue to re-price downward. However, many deposit categories have re-priced to their floors. As a result, the net interest margin FTE as a percent of average earning assets could continue to have modest downward pressure in the near term. Net interest income and the net interest margin percentage can vary and continue to be influenced by loan and deposit growth, product spreads, pricing competition in the Corporation's markets, prepayment activity, future interest rate changes, levels of nonaccrual and renegotiated loans and various other factors.

The net interest margin FTE as a percent of average earning assets was 3.14% in 2007 compared to 3.24% in 2006, a decrease of 10 basis points. The yield on average earning assets was 7.05% in 2007 compared to 6.91% in 2006, an increase of 14 basis points. The cost of interest bearing liabilities was 4.58% in 2007 compared to 4.31% in 2006, an increase of 27 basis points.

Table of Contents**Average Balance Sheets and Analysis of Net Interest Income**

The Corporation's consolidated average balance sheets, interest earned and interest paid, and the average interest rates earned and paid for each of the last three years are presented in the following table (\$ in thousands):

| | 2008 | | | 2007 | | | 2006 | | |
|---|----------------------|-----------------------------|---------------------------------|----------------------|-----------------------------|---------------------------------|----------------------|-----------------------------|---------------------------------|
| | Average Balance | Interest Earned/ Paid | Average Yield or Cost (3) | Average Balance | Interest Earned/ Paid | Average Yield or Cost (3) | Average Balance | Interest Earned/ Paid | Average Yield or Cost (3) |
| Loans and leases (1)(2) | \$ 49,707,080 | \$ 2,928,699 | 5.89% | \$ 43,650,029 | \$ 3,244,771 | 7.43% | \$ 39,124,140 | \$ 2,857,956 | 7.30% |
| Investment securities: | | | | | | | | | |
| Taxable | 6,454,016 | 286,054 | 4.40 | 6,208,495 | 311,837 | 4.97 | 5,664,199 | 277,938 | 4.82 |
| Tax-exempt (1) | 1,158,185 | 78,782 | 6.82 | 1,287,066 | 85,706 | 6.71 | 1,303,872 | 89,865 | 6.97 |
| Federal funds sold and security resale agreements | 223,000 | 5,613 | 2.52 | 204,170 | 10,712 | 5.25 | 227,082 | 11,546 | 5.08 |
| Trading securities (1) | 197,237 | 2,974 | 1.51 | 56,580 | 1,101 | 1.95 | 45,559 | 659 | 1.45 |
| Other short-term investments | 204,147 | 3,413 | 1.67 | 148,065 | 7,289 | 4.92 | 70,777 | 3,161 | 4.47 |
| Loan to Metavante | | | | 817,885 | 35,969 | 4.40 | 982,000 | 43,163 | 4.40 |
| Total interest earning assets | 57,943,665 | 3,305,535 | 5.70% | 52,372,290 | 3,697,385 | 7.05% | 47,417,629 | 3,284,288 | 6.91% |
| Cash and demand deposits due from banks | 897,709 | | | 1,005,362 | | | 974,120 | | |
| Premises and equipment, net | 528,846 | | | 458,819 | | | 415,150 | | |
| Other assets | 4,637,427 | | | 3,555,545 | | | 2,927,220 | | |
| Allowance for loan and lease losses | (877,730) | | | (448,222) | | | (406,390) | | |
| Assets of discontinued operations | | | | 1,265,833 | | | 1,323,369 | | |
| Total assets | \$ 63,129,917 | | | \$ 58,209,627 | | | \$ 52,651,098 | | |
| Interest bearing deposits: | | | | | | | | | |
| Bank issued deposits: | | | | | | | | | |
| Bank issued interest bearing activity deposits | \$ 14,232,732 | \$ 219,562 | 1.54% | \$ 13,490,042 | \$ 478,978 | 3.55% | \$ 11,927,756 | \$ 399,037 | 3.35% |
| Bank issued time deposits | 8,998,604 | 359,091 | 3.99 | 8,555,413 | 420,428 | 4.91 | 7,592,019 | 334,371 | 4.40 |
| Total bank issued deposits | 23,231,336 | 578,653 | 2.49 | 22,045,455 | 899,406 | 4.08 | 19,519,775 | 733,408 | 3.76 |
| Wholesale deposits | 10,185,722 | 324,291 | 3.18 | 6,553,668 | 331,846 | 5.06 | 7,255,647 | 349,984 | 4.82 |
| Total interest bearing deposits | 33,417,058 | 902,944 | 2.70 | 28,599,123 | 1,231,252 | 4.31 | 26,775,422 | 1,083,392 | 4.05 |
| Short-term borrowings | 6,163,488 | 139,627 | 2.27 | 4,693,890 | 236,671 | 5.04 | 3,637,634 | 186,746 | 5.13 |
| Long-term borrowings | 9,749,118 | 454,413 | 4.66 | 11,533,685 | 585,025 | 5.07 | 10,070,881 | 476,540 | 4.73 |
| Total interest bearing liabilities | 49,329,664 | 1,496,984 | 3.03% | 44,826,698 | 2,052,948 | 4.58% | 40,483,937 | 1,746,678 | 4.31% |
| Noninterest bearing deposits | 5,857,485 | | | 5,469,774 | | | 5,361,014 | | |
| Other liabilities | 991,056 | | | 1,072,261 | | | 1,031,954 | | |
| Liabilities of discontinued operations | | | | 160,430 | | | 173,287 | | |
| Shareholders' equity | 6,951,712 | | | 6,680,464 | | | 5,600,906 | | |
| Total liabilities and shareholders' equity | \$ 63,129,917 | | | \$ 58,209,627 | | | \$ 52,651,098 | | |
| Net interest income | | \$ 1,808,551 | | | \$ 1,644,437 | | | \$ 1,537,610 | |

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| | | | |
|--------------------------------------|-------|-------|-------|
| Net yield on interest earning assets | 3.12% | 3.14% | 3.24% |
|--------------------------------------|-------|-------|-------|

Notes:

- (1) Fully taxable equivalent basis, assuming a Federal income tax rate of 35% for all years presented, and excluding disallowed interest expense.
- (2) Loans and leases on nonaccrual status have been included in the computation of average balances.
- (3) Based on average balances excluding fair value adjustments for available for sale securities.

Table of Contents**Analysis of Changes in Interest Income and Interest Expense**

The effects on interest income and interest expense due to volume and rate changes are outlined in the following table. Changes not due solely to either volume or rate are allocated to rate (\$ in thousands):

| | 2008 versus 2007 | | | 2007 versus 2006 | | |
|---|--------------------------------------|--------------|---------------------|--------------------------------------|--------------|---------------------|
| | Increase (Decrease) Due to Change in | | | Increase (Decrease) Due to Change in | | |
| | Average Volume (2) | Average Rate | Increase (Decrease) | Average Volume (2) | Average Rate | Increase (Decrease) |
| Interest on earning assets: | | | | | | |
| Loans and leases (1) | \$ 450,039 | \$ (766,111) | \$ (316,072) | \$ 330,390 | \$ 56,425 | \$ 386,815 |
| Investment securities: | | | | | | |
| Taxable | 11,433 | (37,216) | (25,783) | 24,245 | 9,654 | 33,899 |
| Tax-exempt (1) | (8,160) | 1,236 | (6,924) | (784) | (3,375) | (4,159) |
| Federal funds sold and security resale agreements | 989 | (6,088) | (5,099) | (1,164) | 330 | (834) |
| Trading securities (1) | 2,743 | (870) | 1,873 | 160 | 282 | 442 |
| Other short-term investments | 2,759 | (6,635) | (3,876) | 3,455 | 673 | 4,128 |
| Loan to Metavante | (35,987) | 18 | (35,969) | (7,221) | 27 | (7,194) |
| Total interest income change | \$ 392,204 | \$ (784,054) | \$ (391,850) | \$ 339,899 | \$ 73,198 | \$ 413,097 |
| Expense on interest bearing liabilities: | | | | | | |
| Interest bearing deposits: | | | | | | |
| Bank issued deposits: | | | | | | |
| Bank issued interest bearing activity deposits | \$ 26,365 | \$ (285,781) | \$ (259,416) | \$ 52,337 | \$ 27,604 | \$ 79,941 |
| Bank issued time deposits | 21,761 | (83,098) | (61,337) | 42,389 | 43,668 | 86,057 |
| Total bank issued deposits | 48,384 | (369,137) | (320,753) | 94,966 | 71,032 | 165,998 |
| Wholesale deposits | 183,782 | (191,337) | (7,555) | (33,835) | 15,697 | (18,138) |
| Total interest bearing deposits | 207,653 | (535,961) | (328,308) | 73,860 | 74,000 | 147,860 |
| Short-term borrowings | 74,068 | (171,112) | (97,044) | 54,186 | (4,261) | 49,925 |
| Long-term borrowings | (90,478) | (40,134) | (130,612) | 69,191 | 39,294 | 108,485 |
| Total interest expense change | \$ 206,236 | \$ (762,200) | \$ (555,964) | \$ 187,173 | \$ 119,097 | \$ 306,270 |

Notes:

- (1) Fully taxable equivalent basis, assuming a Federal income tax rate of 35% for all years presented, and excluding disallowed interest expense.
- (2) Based on average balances excluding fair value adjustments for available for sale securities.

Table of Contents**Summary of Loan and Lease Loss Experience and Credit Quality**

The following table presents credit quality information as of and for the year ended December 31, 2008, as well as selected comparative years:

Consolidated Credit Quality Information

December 31, (\$000 s)

| | 2008 | 2007 | 2006 | 2005 | 2004 |
|--|---------------------|---------------------|-------------------|-------------------|-------------------|
| Nonperforming Assets by Type | | | | | |
| Loans and Leases: | | | | | |
| Nonaccrual (1) | \$ 1,526,950 | \$ 686,888 | \$ 264,890 | \$ 134,718 | \$ 127,722 |
| Renegotiated | 270,357 | 224,398 | 125 | 143 | 236 |
| Past Due 90 Days or More | 14,528 | 13,907 | 2,991 | 5,725 | 4,405 |
| Total Nonperforming Loans and Leases | 1,811,835 | 925,193 | 268,006 | 140,586 | 132,363 |
| Other Real Estate Owned | 320,908 | 115,074 | 25,452 | 8,869 | 8,056 |
| Total Nonperforming Assets | \$ 2,132,743 | \$ 1,040,267 | \$ 293,458 | \$ 149,455 | \$ 140,419 |
| Allowance for Loan and Lease Losses | \$ 1,202,167 | \$ 496,191 | \$ 420,610 | \$ 363,769 | \$ 358,110 |
| Consolidated Statistics | | | | | |
| Net Charge-offs to Average Loans and Leases | 2.74% | 0.59% | 0.10% | 0.12% | 0.11% |
| Total Nonperforming Loans and Leases to Total Loans and Leases | 3.62 | 2.00 | 0.64 | 0.41 | 0.45 |
| Total Nonperforming Assets to Total Loans and Leases and Other Real Estate Owned | 4.24 | 2.24 | 0.70 | 0.44 | 0.48 |
| Allowance for Loan and Lease Losses to Total Loans and Leases | 2.41 | 1.07 | 1.00 | 1.06 | 1.21 |
| Allowance for Loan and Lease Losses to Nonperforming Loans and Leases | 66 | 54 | 157 | 259 | 271 |

(1) For 2008, includes \$69,139 of nonaccrual loans that are intended to be sold. Nonaccrual loans held for sale are carried at the lower of cost or fair value.

Nonperforming loans and leases consist of nonaccrual, troubled-debt restructured loans, which the Corporation refers to as renegotiated, and loans and leases that are delinquent 90 days or more and still accruing interest. Nonperforming assets consist of nonperforming loans and leases and other real estate owned (OREO). The Corporation employs a credit review and approval process to help ensure that the amount of nonperforming assets on a long-term basis is maintained within the overall framework of acceptable levels of credit risk. In addition to the negative impact on net interest income and credit losses, nonperforming assets also increase operating costs due to the expense associated with collection efforts and the expenses of carrying OREO.

The Corporation had a significant increase in nonperforming assets in 2008 and 2007 compared to prior years. The increase has been primarily attributable to real estate related loans in areas that were previously experiencing substantial population growth and increased demand for

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housing such as Arizona and Florida. The Corporation's higher growth markets have been disproportionately affected by the excess real estate inventory and deterioration in the national real estate markets as the economy deteriorated into recession.

The Corporation has worked aggressively to isolate, identify and assess its underlying loan and lease portfolio credit quality and has developed and continues to develop strategies to reduce and mitigate its loss exposure. During 2008, the Corporation sold \$430.9 million of nonperforming loans. In addition, at December 31, 2008, the Corporation held \$69.1 million of nonaccrual loans that are intended to be sold.

Generally, loans that are 90 days or more past due as to interest or principal are placed on nonaccrual. Exceptions to these rules are generally only for loans fully collateralized by readily marketable securities or other relatively risk free collateral and certain personal loans. A loan may be placed on nonaccrual when management makes a

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determination that the facts and circumstances warrant such classification irrespective of the current payment status. At December 31, 2008, approximately \$470.3 million or 26.0% of the Corporation's total nonperforming loans and leases were 10 days or less past due. In total, approximately \$638.7 million or 35.3% of the Corporation's total nonperforming loans and leases were less than 90 days past due at December 31, 2008. The amount of cumulative charge-offs recorded on the Corporation's nonaccrual loans outstanding at December 31, 2008 was approximately \$664.1 million or 49.0% of the unpaid principal balance of the affected nonaccrual loans and 30.3% of the unpaid principal balance of its total nonaccrual loans outstanding at December 31, 2008.

At December 31, 2008, nonperforming loans and leases amounted to \$1,811.8 million or 3.62% of consolidated loans and leases compared to \$925.2 million or 2.00% of consolidated loans and leases at December 31, 2007 and \$268.0 million or 0.64% of consolidated loans and leases at December 31, 2006.

Nonaccrual loans and leases are the largest component of nonperforming loans and leases and amounted to \$1,527.0 million or 3.05% of consolidated loans and leases at December 31, 2008 compared to \$686.9 million or 1.48% of consolidated loans and leases at December 31, 2007 and \$264.9 million or 0.63% at December 31, 2006.

At December 31, 2008, renegotiated loans and leases amounted to \$270.4 million. Approximately \$259.8 million or 96.1% of the renegotiated loans and leases at December 31, 2008 were real estate and home equity loans. Approximately \$214.3 million or 82.5% of the renegotiated real estate and home equity loans at December 31, 2008 were loans secured by real estate located in Arizona. At December 31, 2008, approximately \$135.3 million or 52.1% of the renegotiated real estate and home equity loans were construction and development loans.

The Corporation recognizes that the current recession and declining real estate values have resulted in many customers being far more leveraged than prudent and in a very difficult financial position. Potentially distressed homeowners are identified in advance, and proactively offered assistance. In order to avoid foreclosure in the future, the Corporation has restructured loan terms for certain qualified borrowers that have demonstrated the ability to make the restructured payments for a specified period of time. The Corporation's foreclosure abatement program includes several options, including stipulation plans, loan modifications, term extensions, short-term forbearance options and reduced rates that can be used, as necessary and applicable, to reduce contractual payments. In addition, the Corporation has implemented a 90-day foreclosure moratorium on all owner-occupied residential loans for customers who agree to work in good faith to reach a successful repayment agreement. The moratorium applies to loans in all the Corporation's markets and extends through March 31, 2009. The Corporation expects nonaccrual loans will initially increase until the loan terms are restructured. Upon restructuring, nonaccrual loans will decline and the balance of renegotiated loans will increase. The Corporation expects the balance of renegotiated loans will continue to increase in future quarters.

The balance of renegotiated loans at the end of 2007 consisted primarily of the renegotiated portion of the Franklin Credit Management Corp. (Franklin) loan, which was \$224.3 million at December 31, 2007. That balance was reclassified out of renegotiated loans in the first quarter of 2008. In the second half of 2008, Franklin experienced declining cash collections, rising delinquencies and higher than expected servicing expenses. These factors indicated that there was additional impairment associated with Franklin. As a result, charge-offs totaling \$45.8 million were taken in the third and fourth quarters of 2008. These charge-offs represented the remaining subordinated tranches of Franklin. At December 31, 2008, the Corporation's exposure to the accruing portion of Franklin amounted to \$107.1 million.

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The following table presents the major categories of nonperforming loans and leases, including nonaccrual loans held for sale, at December 31, 2008 and 2007:

Major Categories of Nonperforming Loans and Leases

(\$ in millions)

| | December 31, 2008 | | | | December 31, 2007 | | | |
|--|----------------------------|--|---|--|----------------------------|--|---|--|
| | Total Loans & Leases | Percent of Total Loans & Leases | Non- performing Loans & Leases | Percent Non- performing to Loan & Lease Type | Total Loans & Leases | Percent of Total Loans & Leases | Non- performing Loans & Leases | Percent Non- performing to Loan & Lease Type |
| Commercial Loans & Leases | \$ 15,442 | 30.9% | \$ 180.5 | 1.17% | \$ 14,326 | 31.0% | \$ 273.1 | 1.91% |
| Commercial Real Estate | | | | | | | | |
| Commercial Land & Construction | 5,063 | 10.1 | 314.7 | 6.22 | 4,957 | 10.7 | 216.1 | 4.36 |
| Other Commercial Real Estate | 12,542 | 25.1 | 188.2 | 1.50 | 11,097 | 24.0 | 84.2 | 0.76 |
| Total Commercial Real Estate | 17,605 | 35.2 | 502.9 | 2.86 | 16,054 | 34.7 | 300.3 | 1.87 |
| Residential Real Estate | | | | | | | | |
| 1-4 Family | 5,734 | 11.5 | 324.3 | 5.66 | 4,593 | 9.9 | 59.6 | 1.30 |
| Construction by Individuals | 881 | 1.7 | 99.2 | 11.26 | 1,041 | 2.2 | 10.5 | 1.01 |
| Residential Land & Construction by Developers | 3,099 | 6.2 | 603.4 | 19.47 | 4,111 | 8.9 | 223.1 | 5.43 |
| Total Residential Real Estate | 9,714 | 19.4 | 1,026.9 | 10.57 | 9,745 | 21.0 | 293.2 | 3.01 |
| Consumer Loans & Leases | | | | | | | | |
| Home Equity Loans & Lines of Credit | 5,082 | 10.2 | 86.5 | 1.70 | 4,413 | 9.5 | 50.7 | 1.15 |
| Other Consumer Loans & Leases | 2,142 | 4.3 | 15.0 | 0.70 | 1,758 | 3.8 | 7.9 | 0.45 |
| Total Consumer Loans & Leases | 7,224 | 14.5 | 101.5 | 1.41 | 6,171 | 13.3 | 58.6 | 0.95 |
| Total Loans & Leases | \$ 49,985 | 100.0% | \$ 1,811.8 | 3.62% | \$ 46,296 | 100.0% | \$ 925.2 | 2.00% |

Nonperforming commercial loans and leases amounted to \$180.5 million at December 31, 2008 compared to \$273.1 million at December 31, 2007, a decrease of \$92.6 million or 33.9%. Included in nonperforming commercial loans and leases at December 31, 2007 was the Franklin loan discussed above.

Nonperforming real estate loans represented 84.4% of total nonperforming loans and leases and amounted to \$1,529.8 million at December 31, 2008 compared to \$593.5 million at December 31, 2007, an increase of \$936.3 million or 157.8%. At December 31, 2007, nonperforming real estate loans represented 64.1% of total nonperforming loans and leases. Nonperforming real estate loans, other than home equity loans and lines of credit, exhibited the largest increase in 2008 compared to 2007. Those increases reflect the effects of the recession and deterioration in the national real estate markets. This housing-related stress exists in all of the Corporation's markets and includes both core and acquired loans. More specifically, the Corporation's construction and development real estate loans exhibited the most dramatic increase in stress and impairment. The increase in stress and impairment was most notable in the geographical markets of the west coast of Florida and Arizona and, the correspondent banking business channel which includes construction and development real estate loans that are geographically dispersed.

Nonperforming construction and development loans (which include commercial land and construction, construction by individuals and residential land and construction by developers) amounted to \$1,017.3 million and represented 56.1% of total nonperforming loans and leases at December 31, 2008. By comparison, nonperforming construction and development loans amounted to \$449.7 million and represented 48.6% of total nonperforming loans and leases at December 31, 2007. The increase in nonperforming construction and development loans in 2008 compared to 2007 amounted to \$567.6 million or 126.2% which was 60.6% of the total increase in nonperforming real estate loans in 2008 compared to 2007.

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Nonperforming 1-4 family residential real estate loans amounted to \$324.3 million at December 31, 2008 compared to \$59.6 million at December 31, 2007, an increase of \$264.7 million. Increased economic stress on consumers has resulted in further deterioration in these loans in all of the Corporation's markets and most notably in Arizona, which contributed \$196.7 million or 74.3% of the increase in nonperforming 1-4 family residential real estate loans at December 31, 2008 compared to December 31, 2007.

Nonperforming consumer loans and leases amounted to \$101.5 million at December 31, 2008 compared to \$58.6 million at December 31, 2007, an increase of \$42.9 million or 73.2%. Approximately 83.4% of that increase was due to the increase in nonperforming home equity loans and lines of credit in 2008 compared to 2007. As is the case with nonperforming 1-4 family residential real estate loans, increased economic stress on consumers has resulted in further deterioration in consumer loans and leases in all of the Corporation's markets.

The following tables present a geographical summary of nonperforming loans and leases, including nonaccrual loans held for sale, at December 31, 2008 and 2007:

Geographical Summary of Nonperforming Loans & Leases

(\$ in millions)

| | December 31, 2008 | | | | Percent Nonperforming Construction & Development to Total Nonperforming Loans & Leases |
|-------------------|----------------------------|--|---|--|---|
| | Total Loans & Leases | Percent of Total Loans & Leases | Non- performing Loans & Leases | Percent Non- performing to Loan & Lease Type | |
| Wisconsin | \$ 18,048 | 36.1% | \$ 180.4 | 1.00% | 19.1% |
| Arizona | 7,489 | 15.0 | 857.5 | 11.45 | 68.3 |
| Minnesota | 5,210 | 10.4 | 146.2 | 2.81 | 36.3 |
| Missouri | 3,491 | 7.0 | 59.2 | 1.70 | 34.8 |
| Florida | 3,086 | 6.2 | 172.8 | 5.60 | 65.7 |
| Kansas & Oklahoma | 1,282 | 2.6 | 35.6 | 2.77 | 30.1 |
| Indiana | 1,613 | 3.2 | 51.7 | 3.21 | 32.4 |
| Others | 9,766 | 19.5 | 308.4 | 3.16 | 59.2 |
| Total | \$ 49,985 | 100.0% | \$ 1,811.8 | 3.62% | 56.1% |

| | December 31, 2007 | | | | Percent Nonperforming Construction & Development to Total Nonperforming Loans & Leases |
|-----------|----------------------------|--|---|--|---|
| | Total Loans & Leases | Percent of Total Loans & Leases | Non- performing Loans & Leases | Percent Non- performing to Loan & Lease Type | |
| Wisconsin | \$ 17,375 | 37.5% | \$ 92.9 | 0.53% | 13.4% |
| Arizona | 7,706 | 16.7 | 182.0 | 2.36 | 78.4 |

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| | | | | | |
|-------------------|------------------|---------------|-----------------|--------------|--------------|
| Minnesota | 4,965 | 10.7 | 49.2 | 0.99 | 47.6 |
| Missouri | 3,159 | 6.8 | 29.8 | 0.94 | 38.8 |
| Florida | 2,884 | 6.2 | 197.3 | 6.84 | 86.3 |
| Kansas & Oklahoma | 1,303 | 2.8 | 31.1 | 2.38 | 62.3 |
| Indiana | 343 | 0.7 | 4.1 | 1.20 | N/A |
| Others (a) | 8,561 | 18.6 | 338.8 | 3.96 | 20.7 |
| Total | \$ 46,296 | 100.0% | \$ 925.2 | 2.00% | 48.6% |

(a) Nonperforming loans and leases at December 31, 2007 included the renegotiated Franklin loan in the amount of \$224.3 million.

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The housing-related stress continued in both core and acquired loans. Nonperforming loans in Arizona amounted to \$857.5 million, which was 47.3% of total consolidated nonperforming loans and leases at December 31, 2008. Approximately \$585.5 million or 68.3% of nonperforming loans in Arizona at December 31, 2008 were construction and development loans. By comparison, at December 31, 2007, nonperforming loans in Arizona amounted to \$182.0 million, which was 19.7% of total consolidated nonperforming loans and leases at December 31, 2007. Approximately \$142.7 million or 78.4% of nonperforming loans in Arizona at December 31, 2007 were construction and development loans. Nonperforming loans in Florida amounted to \$172.8 million or 5.60% of total Florida loans at December 31, 2008 compared to nonperforming loans in Florida of \$197.3 million or 6.84% of total Florida loans at December 31, 2007. Approximately \$113.5 million or 65.7% of nonperforming loans in Florida at December 31, 2008 were construction and development loans. By comparison, approximately \$170.3 million or 86.3% of nonperforming loans in Florida at December 31, 2007 were construction and development loans. While the level of nonperforming loans in relation to total loans remains elevated in Florida, the Corporation believes that the amount of its nonperforming construction and development loans in Florida may be showing signs of stabilizing.

Loans 90 days past due and still accruing amounted to \$14.5 million at December 31, 2008 compared to \$13.9 million at December 31, 2007 and \$3.0 million at December 31, 2006.

Delinquency can be an indicator of potential problem loans and leases. At December 31, 2008, loans and leases past due 60-89 days and still accruing interest amounted to \$348.8 million or 0.70% of total loans and leases outstanding compared to \$183.5 million or 0.40% of total loans and leases outstanding at December 31, 2007, an increase of \$165.3 million. Approximately \$97.2 million or 58.8% of the increase relates to construction and land development loans and \$87.4 million of the increase relates to other real estate-related loans. Commercial loans and leases past due 60-89 days and still accruing interest decreased \$19.3 million at December 31, 2008 compared to December 31, 2007. Loans and leases past due 60-89 days and still accruing interest amounted to \$89.1 million or 0.21% of total loans and leases outstanding at December 31, 2006.

In addition to its nonperforming loans and leases, the Corporation has loans and leases for which payments are presently current, but which management believes could possibly be classified as nonperforming in the near future. These loans are subject to constant management attention and their classification is reviewed on an ongoing basis. At December 31, 2008, such loans amounted to \$880.6 million or 1.76% of total loans and leases outstanding compared to \$469.2 million or 1.01% of total loans and leases outstanding at December 31, 2007 and \$109.1 million or 0.26% of total loans and leases outstanding at December 31, 2006.

OREO is principally comprised of commercial and residential properties acquired in partial or total satisfaction of problem loans. OREO amounted to \$320.9 million at December 31, 2008, compared to \$115.1 million at December 31, 2007. At December 31, 2008, properties acquired in partial or total satisfaction of problem loans, based on loan type, consisted of construction and development of \$245.7 million, 1-4 family residential real estate of \$63.1 million and commercial real estate of \$12.1 million. At December 31, 2007, properties acquired in partial or total satisfaction of problem loans, based on loan type, consisted of construction and development of \$65.9 million, 1-4 family residential real estate of \$26.6 million and commercial real estate of \$22.6 million. OREO in Arizona represented approximately 50.8% of total OREO at December 31, 2008. As a result of the soft real estate market and the increased possibility of foreclosures due to the elevated levels of nonperforming loans, management expects that OREO will continue to increase in future quarters.

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The following table presents the reconciliation of the consolidated allowance for loan and lease losses for the year ended December 31, 2008, as well as selected comparative years:

Reconciliation of Consolidated Allowance for Loan and Lease Losses (\$000 s)

| | 2008 | 2007 | 2006 | 2005 | 2004 |
|--|--------------|------------|------------|------------|------------|
| Allowance for Loan and Lease Losses at Beginning of Year | \$ 496,191 | \$ 420,610 | \$ 363,769 | \$ 358,110 | \$ 349,561 |
| Provision for Loan and Lease Losses | 2,037,707 | 319,760 | 50,551 | 44,795 | 37,963 |
| Allowance of Banks and Loans Acquired | 32,110 | 11,713 | 45,258 | | 27 |
| Loans and Leases Charged-off: | | | | | |
| Commercial | 178,429 | 85,802 | 16,280 | 21,540 | 16,775 |
| Real Estate Construction and Development | 998,559 | 130,272 | 10,862 | 68 | 33 |
| Real Estate Mortgage and Home Equity | 187,888 | 33,660 | 11,878 | 21,147 | 13,259 |
| Personal | 27,369 | 19,724 | 14,547 | 15,580 | 12,821 |
| Leases | 2,184 | 1,887 | 1,863 | 1,189 | 7,967 |
| Total Charge-offs | 1,394,429 | 271,345 | 55,430 | 59,524 | 50,855 |
| Recoveries on Loans and Leases: | | | | | |
| Commercial | 7,506 | 6,714 | 6,910 | 11,758 | 12,631 |
| Real Estate Construction and Development | 12,112 | 912 | 82 | 1 | 2 |
| Real Estate Mortgage and Home Equity | 4,328 | 1,964 | 2,603 | 2,741 | 3,887 |
| Personal | 4,856 | 3,946 | 4,247 | 3,069 | 3,327 |
| Leases | 1,786 | 1,917 | 2,620 | 2,819 | 1,567 |
| Total Recoveries | 30,588 | 15,453 | 16,462 | 20,388 | 21,414 |
| Net Loans and Leases Charged-off | 1,363,841 | 255,892 | 38,968 | 39,136 | 29,441 |
| Allowance for Loan and Lease Losses at End of Year | \$ 1,202,167 | \$ 496,191 | \$ 420,610 | \$ 363,769 | \$ 358,110 |

Net charge-offs amounted to \$1,363.8 million or 2.74% of average loans and leases in 2008 compared to \$255.9 million or 0.59% of average loans and leases in 2007 and \$39.0 million or 0.10% of average loans and leases in 2006. The increase in net charge-offs in 2008 and 2007 compared to prior years related primarily to the deterioration in the performance of the Corporation's real estate loan portfolio. The Corporation's construction and development real estate loans exhibited the most dramatic increase in impairment. In addition, commercial loans whose performance is dependent on the housing market, such as the Franklin loan discussed above, were adversely affected by the deterioration in the national real estate markets.

Deteriorating conditions in the U.S. housing market became evident in the first half of 2007, accelerated sharply in the second half of the year and continued the accelerated pace in 2008. These deteriorating conditions have been fueled and extended, in part, by rising unemployment due to the recession. As a result, an increasing number of borrowers have been unable to either refinance or sell their properties and consequently have defaulted or are very close to defaulting on their loans. In this stressed housing market that is experiencing increasing delinquencies and rapidly declining real estate values, the adequacy of collateral securing the loan becomes a much more important factor in determining expected loan performance. The Corporation continuously re-assessed, and continues to re-assess the timeliness and propriety of appraisals for collateral dependent loans especially in volatile real estate markets such as Arizona. The Corporation uses a variety of sources, such as recent sales of loans and sales of OREO, to validate the collateral values used to determine the amount of loss exposure at the measurement date. In addition, the Corporation has re-evaluated and continues to re-evaluate the expected timing and amount of expected cash flows required to service debt under various scenarios for both nonperforming loans and performing loans considered to be at a higher risk of going into nonperforming status. In many cases, rapidly declining real estate values have resulted in the determination that the collateral was insufficient to cover the recorded

investment in the loan. These factors resulted in the Corporation's loan and lease portfolio experiencing significantly higher incidences of default and a significant increase in loss severity in 2008.

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Net charge-offs in 2008 were concentrated in three areas which the Corporation refers to as business channels. Net charge-offs for the Arizona business channel amounted to \$493.5 million, net charge-offs for the west coast of Florida business channel amounted to \$201.7 million and net charge-offs for the correspondent banking business channel amounted to \$240.4 million. The aggregate net charge-offs for these three business channels amounted to \$935.6 million or 68.6 % of total net charge-offs for the year ended December 31, 2008. Included in net charge-offs were the net charge-offs related to the loans that were sold during the twelve months ended December 31, 2008.

As previously discussed, real estate related loans, especially construction and development real estate loans were the primary contributors to the increase in nonperforming loans and leases and net charge-offs in 2008. Real estate related loans made up the majority of the Corporation's nonperforming loans and leases at December 31, 2008. Historically, the Corporation's loss experience with real estate loans has been relatively low due to the sufficiency of the underlying real estate collateral. In a stressed real estate market such as currently exists, the value of the collateral securing the loans has become one of the most important factors in determining the amount of loss incurred and the appropriate amount of allowance for loan and lease losses to record at the measurement date. The likelihood of losses that are equal to the entire recorded investment for a real estate loan is remote. However, in many cases, rapidly declining real estate values have resulted in the determination that the estimated value of the collateral was insufficient to cover all of the recorded investment in the loan which has required significant additional charge-offs. Declining collateral values have significantly contributed to the elevated levels of net charge-offs and the increase in the provision for loan and lease losses that the Corporation experienced in recent quarters.

The amount of cumulative charge-offs recorded on the Corporation's nonaccrual loans outstanding at December 31, 2008 was approximately \$664.1 million or 49.0% of the unpaid principal balance of the affected nonaccrual loans and 30.3% of the unpaid principal balance of its total nonaccrual loans outstanding at December 31, 2008. These charge-offs have reduced the carrying value of these nonaccrual loans and leases which reduced the allowance for loan and lease losses required at the measurement date.

Consistent with the credit quality trends noted above, the provision for loan and lease losses amounted to \$2,037.7 million in 2008. By comparison, the provision for loan and lease losses amounted to \$319.8 million and \$50.6 million in 2007 and 2006, respectively. The provision for loan and lease losses is the amount required to establish the allowance for loan and lease losses at the required level after considering charge-offs and recoveries. The ratio of the allowance for loan and lease losses to total loans and leases was 2.41% at December 31, 2008 compared to 1.07% at December 31, 2007 and 1.00% at December 31, 2006.

The following table presents the allocation of the consolidated allowance for loan and lease losses at December 31, 2008, as well as selected comparative years:

Allocation of the Allowance for Loan and Lease Losses (\$000 s)

| | December 31, 2008 | | December 31, 2007 | | December 31, 2006 | |
|--|-------------------|---|-------------------|---|-------------------|---|
| | Amount | Percent of Loans and Leases to Total Loans and Leases | Amount | Percent of Loans and Leases to Total Loans and Leases | Amount | Percent of Loans and Leases to Total Loans and Leases |
| Balance at end of period applicable to: | | | | | | |
| Commercial, Financial & Agricultural Real Estate | \$ 183,194 | 29.8% | \$ 205,258 | 29.8% | \$ 251,475 | 28.7% |
| Residential Mortgage | 599,882 | 29.6 | 46,755 | 30.6 | 20,454 | 31.9 |
| Commercial Mortgage | 364,723 | 35.2 | 185,601 | 34.7 | 83,510 | 34.2 |
| Personal | 46,716 | 3.9 | 26,889 | 3.3 | 18,434 | 3.5 |

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| | | | | | | |
|-----------------|--------------|--------|------------|--------|------------|--------|
| Lease Financing | 7,652 | 1.5 | 31,688 | 1.6 | 46,737 | 1.7 |
| Total | \$ 1,202,167 | 100.0% | \$ 496,191 | 100.0% | \$ 420,610 | 100.0% |

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| | December 31, 2005 | | December 31, 2004 | |
|--|-------------------|---|-------------------|---|
| | Amount | Percent of Loans and Leases to Total Loans and Leases | Amount | Percent of Loans and Leases to Total Loans and Leases |
| Balance at end of period applicable to: | | | | |
| Commercial, Financial & Agricultural Real Estate | \$ 222,078 | 28.0% | \$ 244,042 | 28.7% |
| Residential Mortgage | 12,921 | 34.9 | 12,311 | 32.6 |
| Commercial Mortgage | 63,813 | 30.5 | 49,965 | 31.7 |
| Personal | 24,153 | 4.7 | 14,252 | 5.2 |
| Lease Financing | 40,804 | 1.9 | 37,540 | 1.8 |
| Total | \$ 363,769 | 100.0% | \$ 358,110 | 100.0% |

Management expects prevailing economic and national housing market conditions to continue in 2009, possibly extending into 2010. The level of net charge-offs and the recorded allowance for loan and lease losses are based on management's best estimate of the losses incurred at the measurement date. Management recognizes there are significant estimates in the process and the ultimate losses could be significantly different from those currently estimated. Management expects the provision for loan and lease losses will continue to be higher than its pre-2007 historical experience. Rapidly changing collateral values, general economic conditions and numerous other factors continue to create volatility in the housing markets and have increased the possibility that additional losses may have to be recognized with respect to the Corporation's current loan and lease portfolio. In addition, further deterioration in the economy and national housing markets would likely result in an increase in the amount of nonperforming assets, net charge-offs and provisions for loan and lease losses reported in future quarters. Due to the uncertainty caused by the recession, the crisis in the national real estate markets and numerous other unknown factors that will ultimately affect the timing and amount of nonperforming assets, net charge-offs and the provision for loan and lease losses, it is difficult to develop reliable expectations about nonperforming assets, net charge-offs and provisions for loan and lease losses that will be recognized in 2009.

The Corporation will continue to proactively manage its problem loans and nonperforming assets and be aggressive to isolate, identify and assess its underlying loan and lease portfolio credit quality. The Corporation has developed and continues to develop strategies, such as selective sales of nonperforming loans and restructuring loans to qualified borrowers, to mitigate its loss exposure. Construction and development loans tend to be more complex and may take more time to attain a satisfactory resolution. Depending on the facts and circumstances, acquiring real estate collateral in partial or total satisfaction of problem loans may continue to be the best course of action to take in order to mitigate the Corporation's exposure to loss.

Other Income

Total other income amounted to \$748.1 million in 2008 compared to \$729.1 million in 2007, an increase of \$19.0 million or 2.6%. Total other income in 2008 was positively impacted by revenues from acquisitions, OREO income, organic fee growth in wealth management revenue and service charges on deposits, but was negatively impacted by lower mortgage banking revenues and a write-down on the cash surrender value of a bank-owned life insurance policy. Lower net investment securities gains in 2008 compared to 2007 were offset by the gain recorded on the termination of debt in 2008. Total other income in 2007 was positively impacted by gains from the sale of branches, interest rate swap terminations and a small favorable litigation settlement. The Corporation estimates that its organic growth in total other income in 2008 compared to 2007 was approximately \$42.7 million or 6.6%.

Wealth management revenue was \$282.2 million in 2008 compared to \$262.8 million in 2007, an increase of \$19.4 million or 7.4%. A full year of revenue attributable to the April 20, 2007 acquisition of North Star Financial Corporation and revenue from the December 3, 2008 acquisition

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of a majority equity interest in TCH contributed approximately \$3.7 million to the growth in wealth management revenue in 2008 compared to 2007. Assets under management (AUM) were \$30.4 billion at December 31, 2008 compared to \$25.7 billion at December 31, 2007, an increase of \$4.7 billion or 18.3%. Assets under administration (AUA) decreased by \$1.3 billion or 1.2% and

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amounted to \$104.4 billion at December 31, 2008 compared to \$105.7 billion at December 31, 2007. Both AUM and AUA at December 31, 2008 include the impact of the TCH acquisition which contributed \$7.3 billion to the reported AUM and AUA at year-end 2008. Average AUM for the year ended December 31, 2008 excluding TCH was relatively unchanged compared to average AUM for the year ended December 31, 2007. Average AUA for the year ended December 31, 2008 excluding TCH was also relatively unchanged compared to average AUA for the same period in 2007. Excluding TCH, the contraction in period-end AUM and AUA reflects the effect of certain expected balance drawdowns as well as the impact of the downturn in the equity markets. The market environment resulted in slower revenue growth. However, sales and pipelines have remained stable. Revenue from operations outsourcing services and securities lending continued to grow in 2008. Revenue from operations outsourcing is expected to continue to expand as sales and pipeline opportunities remain strong. The Corporation expects to continue to attract assets for management and administration through increased sales and completion of the integration of TCH. Wealth management revenue is affected by market volatility and direction. The uncertainty that currently exists in the markets makes it difficult to make an estimate of wealth management revenue in 2009.

Service charges on deposits amounted to \$146.2 million in 2008 compared to \$120.6 million in 2007, an increase of \$25.6 million or 21.2%. The banking acquisitions contributed \$16.8 million to the growth in service charges on deposits in 2008 compared to 2007. A portion of this source of fee income is sensitive to changes in interest rates. In a declining rate environment, customers that pay for services by maintaining eligible deposit balances receive a lower earnings credit that results in higher fee income. Excluding the effect of the banking acquisitions, higher service charges on deposits associated with commercial demand deposits accounted for the majority of the increase in revenue in 2008 compared to 2007.

Total mortgage banking revenue was \$26.0 million in 2008 compared with \$34.1 million in 2007, a decrease of \$8.1 million or 23.6%. During 2008, the Corporation sold \$1.4 billion of residential mortgage and home equity loans to the secondary market. During 2007, the Corporation sold \$1.8 billion of residential mortgage and home equity loans to the secondary market. The retained interests in the form of mortgage servicing rights in 2008 and 2007 were not material and at December 31, 2008, the carrying value of mortgage servicing rights was insignificant.

Net investment securities gains amounted to \$17.2 million in 2008 compared to \$34.8 million in 2007. During 2008, in conjunction with the Visa IPO, 38.7% of the Class B Visa common stock owned by the Corporation was redeemed. The gain from the redemption amounted to \$26.9 million. During 2008, the Corporation recognized an other than temporary loss on an investment in a small-business lending venture. That loss amounted to \$10.0 million. During 2007, the Corporation sold its investment in MasterCard Class B common shares at a gain of \$19.0 million and sold other equity securities at a gain of \$7.2 million. The Corporation sold these equity securities in order to monetize the significant appreciation in market price of the securities over the period in which they were held. During 2007, the Corporation also sold \$672.9 million of government agency investment securities designated as available for sale at a gain of \$4.3 million. Net gains associated with the Corporation's private equity investments amounted to \$2.8 million in 2008 and \$7.6 million in 2007. Other than temporary impairment on the residual interests held in the form of interest-only strips associated with the Corporation's auto securitization activities resulted in a loss of \$1.7 million in 2008 and \$1.9 million in 2007.

BOLI revenue amounted to \$35.9 million in 2008 compared to \$37.7 million in 2007, a decrease of \$1.8 million or 4.8%. During the second half of 2007, the Corporation purchased \$286.6 million of additional bank-owned life insurance. That purchase along with bank-owned life insurance acquired in the banking acquisitions increased bank-owned life insurance revenue in 2008 compared to 2007 by approximately \$10.0 million.

The Corporation purchases BOLI policies on the lives of certain officers and employees and is the owner and beneficiary of the policies. The Corporation invests in these BOLI policies to provide an efficient form of funding for long-term retirement and other employee benefits costs. Therefore, the Corporation's BOLI policies are intended to be long-term investments to provide funding for future payment of long-term liabilities. The Corporation records these BOLI policies at each policy's respective cash surrender value, with changes recorded in Bank-Owned Life Insurance Revenue in the Consolidated Statements of Income.

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Certain BOLI policies have a stable value agreement through either a large, well-rated bank or multi-national insurance carrier that provides limited cash surrender value protection from declines in the value of each policy's underlying investments. During the fourth quarter of 2008, the value of the investments underlying one of the

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Corporation's BOLI policies declined significantly due to disruptions in the credit markets, widening of credit spreads and illiquidity in the securities market. These factors caused the decline in the cash surrender value to exceed the protection provided by the stable value agreement. As a result of exceeding the cash surrender value protection, the Corporation recorded a loss of \$11.8 million to reflect the change in cash surrender value related to the affected BOLI policy. The cash surrender value of this BOLI policy was \$238.3 million at December 31, 2008. The cash surrender value of this policy may increase or decrease further depending on market conditions related to the underlying investments. At December 31, 2008, the cash surrender value protection had not been exceeded for any other BOLI policies.

Gain on the termination of debt amounted to \$14.7 million in 2008. During 2008, the Corporation re-acquired and extinguished \$169.2 million of debt. The debt consisted of small blocks of various bank notes issued by M&I Bank. The size of the blocks ranged from \$1.9 million to \$50.0 million with a weighted average buyback price of approximately 91.0% of par.

OREO income primarily consists of gains from the sale of OREO and amounted to \$9.0 million in 2008 compared to \$1.5 million in 2007, an increase of \$7.5 million. The carrying value of OREO properties sold amounted to \$93.2 million in 2008 compared to \$34.7 million in 2007.

Other noninterest income amounted to \$216.9 million in 2008 compared to \$237.5 million in 2007, a decrease of \$20.6 million or 8.7%. During 2007, the Corporation sold its three branches in the Tulsa, Oklahoma market at a gain of \$29.0 million. As previously discussed, \$370.0 million of floating rate FHLB advances were extinguished and the pay fixed / receive floating interest rate swaps that were designated as cash flow hedges on the FHLB advances were terminated in 2007. The gain realized from these transactions was primarily due to the acceleration of the fair value adjustments for the interest rate swaps that were recorded in other comprehensive income and amounted to \$5.3 million. Other income for 2007 also included gains resulting from a favorable lawsuit settlement that in total amounted to \$1.8 million. A final settlement for three branches in Tulsa, Oklahoma that were sold in the fourth quarter of 2007 resulted in additional gain of \$2.4 million in 2008. Increased fees and income from the banking acquisitions as well as organic growth in a variety of sources of fees and income, especially trading income and card-related fees, were offset by lower auto securitization revenues and the loss of service fee revenue charged to Metavante in 2007. The banking acquisitions contributed an additional \$3.2 million to other noninterest income in 2008 compared to 2007. Card-related fees (credit, debit, ATM and stored value) increased \$11.5 million in 2008 compared to 2007. Trading and investment commissions and fees increased other noninterest income by \$19.1 million in 2008 compared to 2007.

Total other income amounted to \$729.1 million in 2007 compared to \$581.7 million in 2006. As previously discussed, total other income in 2006 includes a loss of \$18.4 million from applying fair value accounting (versus hedge accounting) to interest rate swaps associated with transactions that did not qualify for hedge accounting. Excluding that loss, total other income amounted to \$600.1 million in 2006 and the increase in total other income in 2007 compared to 2006 was \$129.0 million or 21.5%. Wealth management revenue was a significant contributor to the growth in other income in 2007 compared to 2006. Gains from the sale of branches and investment securities gains offset lower mortgage banking revenue in 2007 compared to 2006.

Wealth management revenue was \$262.8 million in 2007 compared to \$221.6 million in 2006, an increase of \$41.2 million or 18.6%. Wealth management revenue attributable to the April 20, 2007 acquisition of North Star Financial Corporation and a full year of revenue attributable to the April 1, 2006 acquisition of wealth management products and services from Gold Banc Corporation, Inc. (Gold Banc) contributed approximately \$5.0 million to the growth in wealth management revenue in 2007 compared to 2006. Continued success in the cross-selling and integrated delivery initiatives, improved investment performance and improving results in institutional sales efforts and outsourcing activities were the primary contributors to the remaining revenue growth in 2006 and 2007. Assets under management were \$25.7 billion at December 31, 2007 compared to \$22.5 billion at December 31, 2006, an increase of \$3.2 billion or 14.2%. Assets under administration increased by \$10.2 billion or 10.7% and amounted to \$105.7 billion at December 31, 2007.

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Service charges on deposits amounted to \$120.6 million in 2007 compared to \$106.7 million in 2006, an increase of \$13.9 million or 13.0%. The banking acquisitions contributed \$3.3 million to the growth in service charges on deposits in 2007 compared to 2006. A portion of this source of fee income is sensitive to changes in interest rates. In a declining rate environment, customers that pay for services by maintaining eligible deposit balances receive a lower

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earnings credit that results in higher fee income. Excluding the effect of the banking acquisitions, higher service charges on deposits associated with commercial demand deposits accounted for the majority of the increase in revenue in 2007 compared to 2006.

Total mortgage banking revenue was \$34.1 million in 2007 compared with \$52.4 million in 2006, a decrease of \$18.3 million or 35.0%. During 2007, the Corporation sold \$1.8 billion of residential mortgage and home equity loans to the secondary market. During 2006, the Corporation sold \$2.3 billion of loans to the secondary market. The retained interests in the form of mortgage servicing rights in 2007 and 2006 were not material and at December 31, 2007, the carrying value of mortgage servicing rights was insignificant.

Net investment securities gains amounted to \$34.8 million in 2007 compared to \$9.7 million in 2006. Net gains associated with the Corporation's private equity investments amounted to \$7.6 million in 2007 compared to \$4.6 million in 2006. During 2007, the Corporation sold its investment in MasterCard Class B common shares at a gain of \$19.0 million and sold other equity securities at a gain of \$7.2 million. The Corporation sold these equity securities in order to monetize the significant appreciation in market price of the securities over the period in which they were held. During 2007, the Corporation also sold \$672.9 million of government agency investment securities designated as available for sale at a gain of \$4.3 million. No individual available for sale investment security sold was temporarily impaired at the time of sale. Other than temporary impairment on the residual interests held in the form of interest-only strips associated with the Corporation's auto securitization activities resulted in a loss of \$1.9 million in 2007.

BOLI revenue amounted to \$37.7 million in 2007 compared to \$29.1 million in 2006, an increase of \$8.6 million or 29.6%. During the second half of 2007, the Corporation purchased \$286.6 million of additional BOLI. That purchase, along with BOLI acquired in the banking acquisitions, were the primary contributors to the increase in life insurance revenue in 2007 compared to 2006.

OREO income primarily consists of gains from the sale of OREO and amounted to \$1.5 million in 2007 compared to \$1.6 million in 2006.

Other noninterest income amounted to \$237.5 million in 2007 compared to \$179.0 million in 2006, an increase of \$58.5 million or 32.7%. During 2007, the Corporation sold its three branches in the Tulsa, Oklahoma market at a gain of \$29.0 million. As previously discussed, during 2007 \$370.0 million of floating rate FHLB advances were extinguished and the pay fixed / receive floating interest rate swaps that were designated as cash flow hedges on the FHLB advances were terminated. The gain realized from these transactions was primarily due to the acceleration of the fair value adjustments for the interest rate swaps that were recorded in other comprehensive income and amounted to \$5.3 million. The banking acquisitions contributed approximately \$2.1 million to the year-over-year growth in other noninterest income. Card-related fees (credit, debit, ATM and stored value) increased \$8.2 million in 2007 compared to 2006. Trading and investment commissions and fees increased other noninterest income by \$11.0 million in 2007 compared to 2006.

Other Expense

Total other expense amounted to \$2,994.1 million in 2008 compared to \$1,314.9 million in 2007, an increase of \$1,679.2 million or 127.7%.

Total other expense in 2008 included \$1,604.2 million of expenses that constituted the majority of this increase. Goodwill impairment accounted for \$1,535.1 million of the increase in other expense. Market disruptions resulted in unexpected losses and charges in the Corporation's Wealth Management segment that amounted to \$45.7 million for the year ended December 31, 2008. During 2008, the Corporation incurred increased provisions for loss exposures associated with unfunded loan commitments and other credit-related liabilities that amounted to \$22.0 million for

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the year ended December 31, 2008. As a result of higher gas prices earlier in the year, total other expense in 2008 included residual write-downs of \$4.9 million associated with direct financing consumer vehicle leases. During the fourth quarter of 2008 the Corporation recorded \$8.7 million for severance expense associated with a corporate-wide reduction in force. During 2008, Visa established an escrow for certain litigation matters from the proceeds of its IPO. As a result, the Corporation reversed part of its litigation accruals that were originally recorded in 2007 due to the Corporation's membership interests in Visa. The amount reversed was equal to the Corporation's pro rata share of the funded escrow. Included in total other expense in 2008 is the reversal of \$12.2 million related to the Visa litigation matters.

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Throughout 2008, the Corporation experienced elevated levels of operating expenses due to the increase in expense associated with collection efforts and carrying nonperforming assets. The Corporation estimates that the increase in expense associated with collection efforts and carrying nonperforming assets amounted to \$92.7 million in 2008 compared to 2007.

Total other expense in 2008 included the operating expenses associated with the banking and wealth management acquisitions completed in 2008 and 2007 which the Corporation collectively refers to as the acquisitions. The operating expenses of the acquired entities have been included in the Corporation's consolidated operating expenses from the dates the transactions were completed. Approximately \$55.8 million of the operating expense growth in 2008 compared to 2007 were attributable to the acquisitions.

Total other expense in 2007 includes losses on debt terminations of \$83.7 million, charitable contribution expense of \$25.0 million and loss accruals associated with the Visa litigation of \$25.8 million which in the aggregate amounted to \$134.5 million.

The Corporation estimates that its expense growth in 2008 compared to 2007, excluding the effect of the items previously discussed was approximately \$61.0 million or 5.4%.

Expense control is sometimes measured in the financial services industry by the efficiency ratio statistic. The efficiency ratio is calculated by dividing total other expense by the sum of total other income (including private equity-related investment gains but excluding other securities gains and losses and excluding derivative losses-discontinued hedges) and net interest income FTE. The Corporation's efficiency ratios for the years ended December 31, 2008, 2007, and 2006 were:

Efficiency Ratios

| | 2008 | 2007 | 2006 |
|--------------------------|--------|-------|-------|
| Consolidated Corporation | 117.8% | 56.0% | 50.8% |

The Corporation's 2008 efficiency ratio statistic was adversely impacted by the goodwill impairment, unexpected losses and charges in the Corporation's Wealth Management segment, increased provisions for loss exposures associated with unfunded loan commitments and other credit-related liabilities, the residual write-downs, severance expense and the previously discussed BOLI loss. Conversely, the Corporation's 2008 efficiency ratio statistic was positively impacted by the previously discussed gains on termination of debt and reversal of part of the Corporation's Visa litigation accruals. The net effect of these items was to increase the Corporation's 2008 efficiency ratio statistic by approximately 63.1%.

The Corporation's 2007 efficiency ratio statistic was adversely impacted by the losses on debt terminations, charitable contribution expense and loss accruals associated with the Visa litigation. Conversely, the Corporation's 2007 efficiency ratio statistic was positively impacted by the divestiture of three branches in the Tulsa, Oklahoma market that were sold at a gain of \$29.0 million. The net effect of these items was to increase the Corporation's 2007 efficiency ratio statistic by approximately 4.9%.

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The Corporation estimates that the operating expenses associated with collection efforts and carrying nonperforming assets, net of OREO income, increased the Corporation's 2008 efficiency ratio statistic by approximately 4.2%. By comparison, the operating expenses associated with collection efforts and carrying nonperforming assets, net of OREO income, increased the Corporation's 2007 efficiency ratio statistic by approximately 0.8%.

Salaries and employee benefits expense amounted to \$723.2 million in 2008 compared to \$659.9 million in 2007, an increase of \$63.3 million or 9.6%. Salaries and benefits expense related to the acquisitions contributed approximately \$26.7 million to the expense growth in 2008 compared to 2007. Salaries and employee benefits expense associated with collection efforts increased \$6.3 million in 2008 compared to 2007. Severance expense associated with a corporate-wide reduction in force increased salaries and employee benefits expense \$8.7 million in 2008 compared to 2007. Salaries and employee benefits expense for incentive commissions and incentive compensation decreased \$15.6 million in 2008 compared to 2007.

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Net occupancy and equipment expense amounted to \$126.9 million in 2008 compared to \$112.0 million in 2007, an increase of \$14.9 million or 13.3%. Net occupancy and equipment expense related to the acquisitions contributed approximately \$9.1 million to the expense growth in 2008 compared to 2007. During 2008, the Corporation opened 15 new de novo branches throughout its markets.

Software and processing expenses amounted to \$156.7 million in 2008 compared to \$156.2 million in 2007, an increase of \$0.5 million or 0.3%. Processing expense related to the acquisitions contributed approximately \$1.4 million to the expense growth in 2008 compared to 2007.

Supplies, printing, postage and delivery expense amounted to \$42.1 million in 2008 compared to \$42.5 million in 2007, a decrease of \$0.4 million or 1.0%.

Professional services fees amounted to \$72.0 million in 2008 compared to \$42.5 million in 2007, an increase of \$29.5 million or 69.7%. The acquisitions contributed approximately \$1.3 million to the expense growth in 2008 compared to 2007. Increased legal fees and other fees associated with problem loans contributed approximately \$11.7 million to the expense growth in 2008 compared to 2007. Other professional fees associated with consulting also contributed to the increase in professional services fees in 2008 compared to 2007.

Amortization of intangibles amounted to \$24.3 million in 2008 compared to \$20.6 million in 2007. Amortization of intangibles increased \$3.7 million in 2008 compared to 2007. The increase in intangibles amortization was due to the acquisitions.

As a result of the unprecedented weakness in the financial markets and the decline in the Corporation's common stock price, numerous tests for goodwill impairment were performed throughout 2008. The results of goodwill impairment testing at the end of the fourth quarter of 2008 indicated that the fair value of certain of the Corporation's Reporting Units were less than their book values, resulting in a non-cash charge to pre-tax earnings for goodwill impairment in the amount of \$1,535.1 million. Tier 1 and Total regulatory capital ratios were unaffected by this adjustment.

Statement of Financial Accounting Standards No. 142, *Goodwill and Other Intangible Assets*, (SFAS 142) adopts an aggregate view of goodwill and bases the accounting for goodwill on the units of the combined entity into which an acquired entity is integrated (which are referred to as Reporting Units). A Reporting Unit is an operating segment as defined in Statement of Financial Accounting Standards No. 131, *Disclosures about Segments of an Enterprise and Related Information*, or one level below an operating segment.

SFAS 142 provides guidance for impairment testing of goodwill and intangible assets that are not amortized. Other than goodwill, the Corporation does not have any other intangible assets that are not amortized. Goodwill is tested for impairment using a two-step process that begins with an estimation of the fair value of a Reporting Unit. The first step is a screen for potential impairment and the second step measures the amount of impairment, if any. Based on the test performed at the end of the fourth quarter of 2008, the Wealth Management segment, which consists of the Trust, Private Banking and Brokerage Reporting Units, and the Capital Markets Reporting Unit did not have indicators of potential impairment based on the estimated fair value of those Reporting Units.

Based on their estimated fair values, the Commercial and Community Banking segments and the National Consumer Banking Reporting Unit had indicators of potential impairment and were subjected to the second step of goodwill impairment testing. The deterioration in the national real estate markets, the economic recession and the disruption in the capital markets had the greatest adverse affect on these segments and Reporting Units. As a result of applying the second step of the test, the National Consumer Banking Reporting Unit had no goodwill

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impairment, the Commercial Banking segment recorded goodwill impairment of \$925.6 million and the Community Banking segment recorded goodwill impairment of \$609.5 million.

Losses on termination of debt amounted to \$83.7 million in 2007. During 2007, the Corporation called the \$200 million 7.65% junior subordinated deferrable interest debentures and the related M&I Capital Trust A 7.65% trust preferred securities. The loss, which was primarily due to the contractual call premium, amounted to \$9.5 million. The Corporation also terminated \$1,000 million PURS in 2007. The loss, which was primarily the cost of purchasing the right to remarket the PURS through 2016, amounted to \$74.2 million.

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OREO expenses amounted to \$83.2 million in 2008 compared to \$8.2 million in 2007, an increase of \$75.0 million. Approximately \$57.1 million of the increase in 2008 compared to 2007 is due to valuation write-downs and losses on disposition which reflects both the increased levels of foreclosed properties and the rapid decline in real estate values during 2008. Approximately \$17.9 million of the increase in 2008 compared to 2007 reflects the costs of acquiring and holding the increased levels of foreclosed properties. The Corporation expects higher levels of expenses associated with acquiring and holding foreclosed properties will continue in future quarters. Valuation write-downs and losses on disposition will depend on real estate market conditions.

Other noninterest expense amounted to \$230.5 million in 2008 compared to \$189.5 million in 2007, an increase of \$41.0 million or 21.6%.

Other noninterest expense in 2008 included the impact of the financial market disruption during the year. The market disruption resulted in unexpected losses and charges in the Corporation's Wealth Management segment that increased other expense by \$45.7 million in 2008 compared to 2007. The Lehman Brothers bankruptcy in the third quarter of 2008 resulted in losses from a failed securities lending transaction and other than temporary impairment on investments in Lehman Brothers debt securities that are subject to credit support agreements issued by M&I Trust and the Corporation.

Other noninterest expense in 2008 compared to 2007 increased \$22.0 million due to increased provisions for losses associated with unfunded loan commitments and other credit-related liabilities. Historically, the Corporation's loss exposure with respect to these items has been relatively low. The credit evaluation of the customer, collateral requirements and the ability to access collateral is generally similar to that for loans. Many customers have been directly or indirectly affected by the stress and deterioration of the national real estate markets. For many of the same reasons previously discussed under the section entitled Provision for Loan and Lease Losses and Credit Quality in this Form 10-K, these loss exposures have also increased, which is consistent with the Corporation's recent experience with its loan credit exposures.

Total other noninterest expense in 2008 included residual write-downs of \$4.9 million associated with direct financial leases of SUVs and pick-up trucks.

Other noninterest expense in 2008 includes the reversal of \$12.2 million related to the Visa litigation compared to a Visa loss accrual recorded in 2007 in the amount of \$25.8 million. The Visa litigation is discussed in Note 24 Guarantees in Notes to Consolidated Financial Statements contained in Item 8, Consolidated Financial Statements and Supplementary Data.

The acquisitions contributed approximately \$9.9 million to the growth in other noninterest expense in 2008 compared to 2007. Included in other noninterest expense in 2007 was a \$25.0 million charitable contribution.

Other noninterest expense adjusted for the items previously discussed amounted to \$158.5 million in 2008 compared to \$137.0 million in 2007, an increase of \$21.5 million or 15.7%. Deposit insurance premiums increased \$13.3 million in 2008 compared to 2007.

On December 16, 2008, the Federal Deposit Insurance Corporation (FDIC) released Financial Institution Letter 143-2008 to announce that it had approved a final rule to uniformly increase the deposit insurance assessment rates for the first quarter of 2009. The rule raises the assessment rates by an annualized rate of 7 basis points for the assessment period only in the first quarter of 2009. Annual rates applicable to the first quarter 2009 assessments, which would be collected at the end of June, will be based on the risk category of the institution and range from 12 to 50 basis points.

Total other expense amounted to \$1,314.9 million in 2007 compared to \$1,083.5 million in 2006, an increase of \$231.4 million or 21.4%. Total other expense in 2007 includes losses on debt terminations of \$83.7 million, charitable contribution expense of \$25.0 million and loss accruals associated with the Visa litigation of \$25.8 million. These items accounted for \$134.5 million of the expense growth in 2007 compared to 2006.

Salaries and employee benefits expense amounted to \$659.9 million in 2007 compared to \$613.4 million in 2006, an increase of \$46.5 million or 7.6%. Salaries and benefits expense related to the acquisitions contributed approximately \$25.7 million to the expense growth in 2007 compared to 2006.

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Net occupancy and equipment expense amounted to \$112.0 million in 2007 compared to \$104.0 million in 2006, an increase of \$8.0 million. Net occupancy and equipment expense related to the acquisitions contributed approximately \$4.1 million to the expense growth in 2007 compared to 2006.

Software and processing expenses amounted to \$156.2 million in 2007 compared to \$142.3 million in 2006, an increase of \$13.9 million or 9.8%. Increased volumes of processing associated with the acquisitions along with increased expense associated with new and enhanced commercial and consumer internet banking and deposit system applications as well as other technology enhancements and reduced useful lives associated with lockbox and image software accounted for the increase in software and processing expenses in 2007 compared to 2006.

Supplies, printing, postage and delivery expense amounted to \$42.5 million in 2007 compared to \$41.3 million in 2006, an increase of \$1.2 million or 3.0%. The acquisitions contributed approximately \$0.5 million to the expense growth in 2007 compared to 2006.

Professional services fees amounted to \$42.5 million in 2007 compared to \$34.1 million in 2006, an increase of \$8.4 million or 24.6%. The acquisitions contributed approximately \$2.3 million to the expense growth in 2007 compared to 2006. Increased legal fees associated with problem loans and increased other professional fees associated with process improvement and customer security consulting also contributed to the increase in professional services fees in 2007 compared to 2006.

Amortization of intangibles amounted to \$20.6 million in 2007 compared to \$18.6 million in 2006. Amortization of intangibles increased \$3.2 million in 2007 compared to 2006 due to the acquisitions.

Losses on termination of debt amounted to \$83.7 million in 2007. During 2007, the Corporation called the \$200 million 7.65% junior subordinated deferrable interest debentures and the related M&I Capital Trust A 7.65% trust preferred securities. The loss, which was primarily due to the contractual call premium, amounted to \$9.5 million. The Corporation also terminated \$1,000 million PURS in 2007. The loss, which was primarily the cost of purchasing the right to remarket the PURS through 2016, amounted to \$74.2 million.

OREO expenses amounted to \$8.2 million in 2007 compared to \$3.3 million in 2006, an increase of \$4.9 million. Approximately \$3.3 million of the increase in 2007 compared to 2006 reflects the costs of acquiring and holding the increased levels of foreclosed properties. Approximately \$1.6 million of the increase in 2007 compared to 2006 is due to valuation write-downs and losses on disposition.

Other noninterest expense amounted to \$189.5 million in 2007 compared to \$126.6 million in 2006, an increase of \$62.9 million or 49.7%. Included in other noninterest expense in 2007 was the \$25.0 million charitable contribution and the Visa loss accrual in the amount of \$25.8 million, as previously discussed. The acquisitions contributed approximately \$5.9 million to the growth in other noninterest expense in 2007 compared to 2006.

Income Tax Provision

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The benefit for income taxes amounted to \$459.5 million or 18.4% of the pre-tax loss for the year ended December 31, 2008. The provision for income taxes from continuing operations was \$213.6 million in 2007 and \$307.4 million in 2006. The effective tax rate in 2007 was 30.1% and 32.2% in 2006.

As a result of the Internal Revenue Service's (IRS) decision not to appeal a November 2007 US Tax Court ruling related to how the TEFRA (interest expense) disallowance should be calculated within a consolidated group and the position the IRS has taken in another related case, the Corporation recognized an additional income tax benefit related to years 1996-2007 of \$20.0 million for its similar issue during 2008.

The effective tax rate in 2007 reflects, in part, the effect of the increase in tax-exempt income, primarily life insurance revenue, as previously discussed and increased tax benefits from programs and activities that are eligible for federal income tax credits. Some of these programs and activities provide annual tax benefits in the form of federal income tax credits in future periods as long as the programs and activities continue to qualify under the federal tax regulations.

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Liquidity and Capital Resources

Shareholders' equity was \$6.3 billion or 10.0% of total consolidated assets at December 31, 2008, compared to \$7.0 billion or 11.8% of total consolidated assets at December 31, 2007.

As one of the steps to preserve its strong capital base, the Corporation recently announced that it would reduce the quarterly common stock cash dividend to \$0.01 per share.

Shareholders' equity at December 31, 2008 includes the effect of certain common stock issuances during the current year. In 2008, the Corporation issued 4,863,221 shares of the Corporation's common stock valued at \$64.0 million, or \$13.16 per share to acquire a majority equity interest in Taplin, Canida & Habacht, Inc. During 2008, the Corporation issued 579,111 shares of its common stock for \$8.5 million to fund its obligation under its employee stock purchase plan.

Shareholders' equity at December 31, 2007 includes the effect of certain common stock issuances during the year. In 2007, the Corporation issued 403,508 shares of its common stock valued at \$19.2 million to fund its 2006 obligations under its retirement and employee stock ownership plans. During 2007, the Corporation issued 4,410,647 shares of its common stock and exchanged fully vested stock options to purchase its common stock with a total value of \$219.6 million in connection with the Corporation's acquisition of United Heritage Bankshares of Florida, Inc. Also during 2007, the Corporation issued 441,252 shares of its common stock with a total value of \$21.0 million in connection with the Corporation's acquisition of North Star Financial Corporation. During 2007, the Corporation remarketed the 3.90% STACKS of M&I Capital Trust B that were originally issued in 2004 as components of the Corporation's 6.50% Common SPACES. In connection with the remarketing, the annual interest rate on the remarketed STACKS was reset at 5.626%, M&I Capital Trust B was liquidated and the Corporation issued \$400 million of 5.626% senior notes that mature on August 17, 2009 in exchange for the outstanding STACKS. Each Common SPACES also included a stock purchase contract requiring the holder to purchase, in accordance with a settlement rate formula, shares of the Corporation's common stock. The Corporation issued 9,226,951 shares of its common stock in settlement of the stock purchase contracts in exchange for \$400 million in cash.

On November 14, 2008, as part of the Corporation's participation in the CPP, the Corporation entered into a Letter Agreement with the UST. Pursuant to the Securities Purchase Agreement - Standard Terms (the Securities Purchase Agreement) attached to the Letter Agreement, the Corporation sold 1,715,000 shares of the Corporation's Senior Preferred Stock, Series B (the Senior Preferred Stock), having a liquidation preference of \$1,000 per share, for a total price of \$1,715 million. The Senior Preferred Stock will qualify as Tier 1 capital and pay cumulative compounding dividends at a rate of 5% per year for the first five years and 9% per year thereafter.

The Securities Purchase Agreement provided that the Corporation may not redeem the Senior Preferred Stock during the first three years except with the proceeds from one or more Qualified Equity Offerings (as defined in the Securities Purchase Agreement), and that after three years, the Corporation may redeem shares of the Senior Preferred Stock for the per share liquidation preference of \$1,000 plus any accrued and unpaid dividends. Pursuant to the ARRA, which was signed into law in February 2009, CPP participants are permitted to repay assistance received under the CPP at any time, subject to consultation with the appropriate federal banking agency. However, the Corporation's Restated Articles of Incorporation contain the redemption restrictions contained in the Securities Purchase Agreement. The Corporation may seek to amend the Restated Articles of Incorporation in the future to remove the restrictions in accordance with the ARRA.

As long as any Senior Preferred Stock is outstanding, the Corporation may pay quarterly common stock cash dividends of up to \$0.32 per share, and may redeem or repurchase its common stock, provided that all accrued and unpaid dividends for all past dividend periods on the Senior

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Preferred Stock are fully paid. Prior to the third anniversary of the UST's purchase of the Senior Preferred Stock, unless Senior Preferred Stock has been redeemed or the UST has transferred all of the Senior Preferred Stock to third parties, the consent of the UST will be required for the Corporation to increase its common stock dividend to more than \$0.32 per share per quarter or repurchase its common stock or other equity or capital securities, other than in connection with benefit plans consistent with past practice and certain other circumstances specified in the Securities Purchase Agreement. As previously described, the Corporation recently reduced its quarterly common stock cash dividend to \$0.01 per share. The Senior Preferred Stock will be non-voting except for class voting rights on matters that would adversely affect the rights of the holders of the Senior Preferred Stock.

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As a condition to participating in the CPP, the Corporation issued and sold to the UST a warrant (the Warrant) to purchase 13,815,789 shares (the Warrant Shares) of the Corporation's common stock, at an initial per share exercise price of \$18.62, for an aggregate purchase price of approximately \$257.25 million. The term of the Warrant is ten years. The Warrant will not be subject to any contractual restrictions on transfer, provided that the UST may only transfer a portion or portions of the Warrant with respect to, or exercise the Warrant for, more than one-half of the initial Warrant Shares prior to the earlier of (a) the date on which the Corporation has received aggregate gross proceeds of at least \$1,715 million from one or more Qualified Equity Offerings, (b) December 31, 2009. If the Corporation completes one or more Qualified Equity Offerings on or prior to December 31, 2009 that result in the Corporation receiving aggregate gross proceeds equal to at least \$1,715 million, then the number of Warrant Shares will be reduced to 50% of the original number of Warrant Shares. The Warrant provides for the adjustment of the exercise price and the number of Warrant Shares issuable upon exercise pursuant to customary anti-dilution provisions, such as upon stock splits or distributions of securities or other assets to holders of the Corporation's common stock, and upon certain issuances of the Corporation's common stock at or below a specified price range relative to the initial exercise price. Pursuant to the Securities Purchase Agreement, the UST has agreed not to exercise voting power with respect to any shares of common stock issued upon exercise of the Warrant.

Pursuant to the Securities Purchase Agreement, until the UST no longer owns any shares of the Senior Preferred Stock, the Warrant or Warrant Shares, the Corporation's employee benefit plans and other executive compensation arrangements for its Senior Executive Officers must continue to comply in all respects with Section 111(b) the EESA and the rules and regulations of the UST promulgated thereunder.

The Securities Purchase Agreement permits the UST to unilaterally amend any provision of the Letter Agreement and the Securities Purchase Agreement to the extent required to comply with any changes in the applicable Federal statutes.

For accounting purposes, the proceeds of \$1,715 million were allocated between the preferred stock and the warrant based on their relative fair values. The initial value of the Warrant, which is classified as equity, was \$81.12 million. The entire discount on the Senior Preferred Stock, created from the initial value assigned to the Warrant, will be accreted over a five year period in a manner that produces a level preferred stock dividend yield which is 6.10%. At the end of the fifth year, the carrying amount of the Senior Preferred Stock will equal its liquidation value.

The Corporation has a Stock Repurchase Program under which up to 12 million shares of the Corporation's common stock can be repurchased annually. During the first quarter 2008, the Corporation acquired 4,782,400 shares of its common stock in open market share repurchase transactions under the Stock Repurchase Program. Total cash consideration amounted to \$124.9 million. During 2007, the Corporation completed three accelerated repurchase transactions as well as open market repurchase transactions under its authorized Stock Repurchase Program. In the aggregate, the Corporation acquired 10,765,889 shares of its common stock in these transactions. Total consideration in these transactions amounted to \$437.1 million and consisted of cash of \$434.5 million and common treasury stock valued at \$2.6 million. In connection with the initial accelerated repurchase transaction completed in 2007, the Corporation used 54,035 shares of its treasury common stock to share-settle the final settlement obligation. During 2006, the Corporation repurchased 1.0 million shares of its common stock at an aggregate cost of \$41.8 million. Participation in the CPP requires the Corporation to obtain consent from the UST in order to repurchase common stock under its Stock Repurchase Program.

At December 31, 2008, the net loss in accumulated other comprehensive income amounted to \$158.0 million which represents a negative change in accumulated other comprehensive income of \$104.3 million since December 31, 2007. Net accumulated other comprehensive income associated with available for sale investment securities was a net loss of \$57.1 million at December 31, 2008, compared to a net loss of \$10.3 million at December 31, 2007, resulting in a net loss of \$46.8 million over the twelve month period. The unrealized loss associated with the change in fair value of the Corporation's derivative financial instruments designated as cash flow hedges increased \$55.8 million since December 31, 2007, resulting in a net decrease in shareholders' equity. The accumulated other comprehensive income which represents the amount required to adjust the Corporation's postretirement health benefit liability to its funded status amounted to an unrealized gain of \$1.8 million as of December 31, 2008.

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Federal and state banking laws place certain restrictions on the amount of dividends and loans which a bank may make to its parent company. Such restrictions have not had, and are not expected to have, any material effect on the Corporation's ability to meet its cash obligations.

The Corporation manages its liquidity to ensure that funds are available to each of its banks to satisfy the cash flow requirements of depositors and borrowers and to ensure the Corporation's own cash requirements are met. The Corporation maintains liquidity by obtaining funds from several sources.

The Corporation's most readily available source of liquidity is its investment portfolio. Investment securities available for sale, which totaled \$7.4 billion at December 31, 2008, represent a highly accessible source of liquidity. The Corporation's portfolio of held-to-maturity investment securities, which totaled \$0.2 billion at December 31, 2008, provides liquidity from maturities and interest payments. The Corporation's loans held for sale provide additional liquidity. At December 31, 2008 these loans represent loans that are prepared for delivery to investors, which generally occurs within thirty to ninety days after the loan has been funded or designated as held for sale.

Depositors within M&I's defined markets are another source of liquidity. Core deposits (demand, savings, money market and consumer time deposits) averaged \$23.3 billion in 2008. The Corporation's banking affiliates may also access the Federal funds markets, the Federal Reserve's Term Auction Facility or utilize collateralized borrowings such as treasury demand notes, FHLB advances, agricultural mortgage backed notes or other forms of collateralized borrowings.

The Corporation's banking affiliates may use wholesale deposits, which include foreign (Eurodollar) deposits. Wholesale deposits, which averaged \$10.2 billion in 2008, are deposits generated through distribution channels other than the Corporation's own banking branches. The weighted average remaining term of outstanding brokered and institutional certificates of deposit at December 31, 2008 was 10.6 years. These deposits allow the Corporation's banking subsidiaries to gather funds across a national geographic base and at pricing levels considered attractive, where the underlying depositor may be retail or institutional. Access to wholesale deposits also provides the Corporation with the flexibility not to pursue single service time deposit relationships in markets that have experienced some unprofitable pricing levels.

The Corporation may use certain financing arrangements to meet its balance sheet management, funding, liquidity, and market or credit risk management needs. The majority of these activities are basic term or revolving securitization vehicles. These vehicles are generally funded through term-amortizing debt structures or with short-term commercial paper designed to be paid off based on the underlying cash flows of the assets securitized. These facilities provide access to funding sources substantially separate from the general credit risk of the Corporation and its subsidiaries.

M&I Bank has implemented a global bank note program that permits it to issue up and sell up to a maximum of US\$13.0 billion aggregate principal amount (or the equivalent thereof in other currencies) at any one time outstanding of its senior global bank notes with maturities of seven days or more from their respective date of issue and subordinated global bank notes with maturities more than five years from their respective date of issue. The notes may be fixed rate or floating rate and the exact terms will be specified in the applicable Pricing Supplement or the applicable Program Supplement. This program is intended to enhance liquidity by enabling M&I Bank to sell its debt instruments in global markets in the future without the delays that would otherwise be incurred. At December 31, 2008, approximately \$8.9 billion of new debt could be issued under M&I Bank's global bank note program.

Bank notes outstanding at December 31, 2008 amounted to \$4.1 billion of which \$1.9 billion is subordinated. A portion of the subordinated bank notes qualifies as supplementary capital for regulatory capital purposes.

The national capital markets represent a further source of liquidity to the Corporation.

During the second quarter of 2008, the Corporation filed a shelf registration statement with the Securities and Exchange Commission enabling the Corporation to issue up to 6.0 million shares of its common stock, which may be offered and issued from time to time in connection with acquisitions by the Corporation and/or other consolidated subsidiaries of the Corporation. At December 31, 2008, approximately 1.14 million shares of the Corporation's common stock could be issued under the shelf registration statement for future acquisitions.

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As a result of the Separation, on November 1, 2007, Marshall & Ilsley Corporation (Accounting Predecessor to New Marshall & Ilsley Corporation) became M&I LLC and amounts remaining under the existing shelf registration statements were deregistered. There will be no further issuances of debt by M&I LLC.

On November 6, 2007, New Marshall & Ilsley Corporation filed a shelf registration statement pursuant to which the Corporation was initially authorized to raise up to \$1.9 billion through sales of corporate debt and/or equity securities with a relatively short lead time.

The Corporation has a commercial paper program. At December 31, 2008 commercial paper outstanding amounted to approximately \$17.3 million. At December 31, 2008 all of the commercial paper obligations of M&I LLC, which were issued prior to the Separation, had matured and there will be no further issuances of commercial paper by M&I LLC.

The Corporation and/or M&I Bank may repurchase or redeem its outstanding debt securities from time to time, including, without limitation, senior and subordinated global bank notes, medium-term corporate notes, MiNotes or junior subordinated deferrable interest debentures and the related trust preferred securities. Such repurchases or redemptions may be made in open market purchases, in privately negotiated transactions or otherwise for cash or other consideration. Any such repurchases or redemptions will be made on an opportunistic basis as market conditions permit and are dependent on the Corporation's liquidity needs, compliance with any contractual or indenture restrictions and regulatory requirements and other factors the Corporation deems relevant.

The market impact of the recession and deterioration in the national real estate markets have resulted in a decline in market confidence and a subsequent strain on liquidity in the financial services sector. However, the Separation in 2007 and participation in the CPP in 2008 provided the Corporation with over four billion dollars in cash and significantly increased its regulatory and tangible capital levels. Management expects that it will continue to make use of a wide variety of funding sources, including those that have not shown the levels of stress demonstrated in some of the national capital markets. Notwithstanding the current national capital market impact on the cost and availability of liquidity, management believes that it has adequate liquidity to ensure that funds are available to the Corporation and each of its banks to satisfy their cash flow requirements. However, if capital markets deteriorate more than management currently expects, the Corporation could experience stress on its liquidity position.

Contractual Obligations

The following table summarizes the Corporation's more significant contractual obligations at December 31, 2008. Excluded from the following table are a number of obligations to be settled in cash. These items are reflected in the Corporation's consolidated balance sheet and include deposits with no stated maturity, trade payables, accrued interest payable and derivative payables that do not require physical delivery of the underlying instrument.

| Contractual Obligations | Note Ref | Total | Payments Due by Period (\$ in millions) | | | |
|---|----------|-------------|---|--------------------|---------------------|----------------------|
| | | | Less than One Year | One to Three Years | Three to Five Years | More than Five Years |
| Certificate of Deposit and Other Time Deposit Obligations | (1) | \$ 19,908.3 | \$ 9,121.5 | \$ 2,577.1 | \$ 2,129.8 | \$ 6,079.9 |
| Short-term Debt Obligations | (2) | 4,058.0 | 4,058.0 | | | |
| Long-term Debt Obligations | (3) | 11,102.6 | 2,472.0 | 4,048.3 | 2,266.8 | 2,315.5 |
| Capital Lease Obligations | | 0.2 | | | | 0.2 |
| Minimum Operating Lease Obligations | | 194.8 | 29.1 | 48.8 | 39.9 | 77.0 |

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| | | | | | | |
|--|-----|-------------|-------------|------------|------------|------------|
| Obligations to Purchase Foreign Currencies | (4) | 532.7 | 532.7 | | | |
| Purchase Obligations Facilities (Additions, Repairs and Maintenance) | | 12.6 | 12.6 | | | |
| Purchase Obligations Technology | | 433.8 | 111.4 | 215.5 | 106.9 | |
| Purchase Obligations Other | | 6.4 | 2.8 | 3.0 | 0.6 | |
| Other Obligations: | | | | | | |
| Unfunded Investment Obligations | (5) | 29.7 | 23.0 | 5.1 | 1.3 | 0.3 |
| Defined Contribution Benefit Obligations | (6) | 47.7 | 47.7 | | | |
| Health and Welfare Benefits | (7) | | | | | |
| Total | | \$ 36,326.8 | \$ 16,410.8 | \$ 6,897.8 | \$ 4,545.3 | \$ 8,472.9 |

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Notes:

In the banking industry, interest-bearing obligations are principally utilized to fund interest-bearing assets. As such, interest charges on certificate of deposit and other time deposit obligations and short-term debt obligations were excluded from amounts reported, as the potential cash outflows would have corresponding cash inflows from interest-bearing assets. The same, although to a lesser extent, is the case with respect to interest charges on long-term debt obligations. As long-term debt obligations may be used for purposes other than to fund interest-bearing assets, an estimate of interest charges is included in the amounts reported.

As of December 31, 2008, the Corporation has unrecognized tax benefits that if recognized, would impact the annual effective tax rate in future periods. Due to the uncertainty of the amounts to be ultimately paid as well as the timing of such payments, all uncertain tax liabilities that have not been paid have been excluded from the Contractual Obligations table. See Note 16 in Notes to Consolidated Financial Statements for further information regarding the Corporation's income taxes.

- (1) Certain retail certificates of deposit and other time deposits give customers rights to early withdrawal. Early withdrawals may be subject to penalties. The penalty amount depends on the remaining time to maturity at the time of early withdrawal. Brokered certificates of deposits may be redeemed early upon the death or adjudication of incompetence of the holder.
- (2) Many short-term borrowings such as Federal funds purchased and security repurchase agreements and commercial paper are expected to be reissued and, therefore, do not necessarily represent an immediate need for cash. See Note 13 in Notes to Consolidated Financial Statements for a description of the Corporation's other short-term borrowings.
- (3) See Note 14 in Notes to Consolidated Financial Statements for a description of the Corporation's various long-term borrowings. The amounts shown in the table include interest on both fixed and variable rate obligations. The interest associated with variable rate obligations is based upon rates in effect at December 31, 2008. The contractual amounts to be paid on variable rate obligations are affected by changes in market interest rates. Future changes in market interest rates could materially affect the contractual amounts to be paid.
- (4) See Note 20 in Notes to Consolidated Financial Statements for a description of the Corporation's foreign exchange activities. The Corporation generally matches commitments to deliver foreign currencies with obligations to purchase foreign currencies which minimizes the immediate need for cash.
- (5) The Corporation also has unfunded obligations for certain investments in investment funds. Under the obligations for certain investments in investment funds the Corporation could be required to invest an additional \$45.9 million if the investment funds identify and commit to invest in additional qualifying investments. The investment funds have limited lives and defined periods for investing in new qualifying investments or providing additional funds to existing investments. As a result, the timing and amount of the funding requirements for these obligations are uncertain and could expire with no additional funding requirements.
- (6) See Note 18 in Notes to Consolidated Financial Statements for a description of the Corporation's defined contribution program. The amount shown represents the unfunded contribution for the year ended December 31, 2008.
- (7) The health and welfare benefit plans are periodically funded throughout each plan year with participant contributions and the Corporation's portion of benefits expected to be paid.

The Corporation has generally financed its growth through the retention of earnings and the issuance of debt. It is expected that future growth can be financed through internal earnings retention, additional debt offerings, or the issuance of additional common or preferred stock or other capital instruments.

OFF-BALANCE SHEET ARRANGEMENTS

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The term off-balance sheet arrangement describes the means through which companies typically structure off-balance sheet transactions or otherwise incur risks of loss that are not fully transparent to investors or other users of financial information. For example, in many cases, in order to facilitate transfer of assets or otherwise finance the activities of an unconsolidated entity, a company may be required to provide financial support designed to reduce the

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risks to the entity or other third parties. That financial support may take many different forms such as financial guarantees, subordinated retained interests, derivative instruments or other contingent arrangements that expose the company to continuing risks or contingent liabilities regardless of whether or not they are recorded on the balance sheet.

Certain guarantees may be a source of potential risk to future liquidity, capital resources and results of operations. Guarantees may be in the form of contracts that contingently require the guarantor to make payments to the guaranteed party based on: (1) changes in an underlying instrument or variable such as a financial standby letter of credit or credit support agreement; (2) failure to perform under an obligating agreement such as a performance standby letter of credit; and (3) indemnification agreements that require the indemnifying party to make payments to the indemnified party based on changes in an underlying instrument or variable that is related to an asset, a liability or an equity security of the indemnified party, such as an adverse judgment in a lawsuit. The Corporation, for a fee, regularly enters into standby letters of credit transactions and provides certain indemnifications against loss in conjunction with securities lending activities, which are described in detail in Note 19 Financial Instruments with Off-Balance Sheet Risk and Note 24 Guarantees in Notes to Consolidated Financial Statements.

Companies may structure and facilitate off-balance sheet arrangements by retaining an interest in assets transferred to an unconsolidated entity. Such interests may be in the form of a subordinated retained interest in a pool of receivables transferred to an unconsolidated entity, cash collateral accounts, recourse obligations or other forms of credit, liquidity, or market risk support. These subordinated interests protect the senior interests in the unconsolidated entity in the event a portion of the underlying transferred assets becomes uncollectible or there are insufficient funds to repay senior interest obligations. The Corporation has used such arrangements primarily in conjunction with its indirect automobile lending activities that are described in detail in Note 9 Financial Asset Sales and Variable Interest Entities in Notes to Consolidated Financial Statements.

As described in Note 14 Long-term Borrowings in Notes to Consolidated Financial Statements, the Corporation holds all of the common interest in certain trusts that issued cumulative preferred capital securities which are supported by junior subordinated deferrable interest debentures and a full guarantee issued by the Corporation.

In conjunction with the banking acquisitions of Gold Banc, Trustcorp Financial, Inc., Excel Bank Corporation and First Indiana, the Corporation acquired all of the common interests in trusts that issued cumulative preferred capital securities which are supported by junior subordinated deferrable interest debentures. M&I LLC has fully and unconditionally guaranteed the securities that these trusts have issued. At December 31, 2008, the principal amounts outstanding associated with these trusts amounted to \$16.0 million, \$30.0 million, \$38.0 million and \$15.0 million. The Corporation does not consolidate any of these trusts in accordance with United States generally accepted accounting principles.

At December 31, 2008, the Corporation did not hold any material variable interests in entities that provide it liquidity, market risk or credit risk support, or engage in leasing, hedging or research and development services with the Corporation. Based on the off-balance sheet arrangements with which it is presently involved, the Corporation does not believe that such off-balance sheet arrangements either have, or are reasonably likely to have, a material impact to its current or future financial condition, results of operations, liquidity or capital.

Table of Contents**CRITICAL ACCOUNTING POLICIES**

The Corporation has established various accounting policies that govern the application of accounting principles generally accepted in the United States in the preparation of the Corporation's consolidated financial statements. The significant accounting policies of the Corporation are described in the footnotes to the consolidated financial statements contained herein and updated as necessary in its Quarterly Reports on Form 10-Q. Certain accounting policies involve significant judgments and assumptions by management that may have a material impact on the carrying value of certain assets and liabilities. Management considers such accounting policies to be critical accounting policies. The judgments and assumptions used by management are based on historical experience and other factors, which are believed to be reasonable under the circumstances. Because of the nature of judgments and assumptions made by management, actual results could differ from these judgments and estimates which could have a material impact on the carrying values of assets and liabilities and the results of the operations of the Corporation. Management continues to consider the following to be those accounting policies that require significant judgments and assumptions:

Allowance for Loan and Lease Losses

The allowance for loan and lease losses represents management's estimate of probable losses inherent in the Corporation's loan and lease portfolio. Management evaluates the allowance each quarter to determine that it is adequate to absorb these inherent losses. This evaluation is supported by a methodology that identifies estimated losses based on assessments of individual problem loans and historical loss patterns of homogeneous loan pools. In addition, environmental factors, including economic conditions and regulatory guidance, unique to each measurement date are also considered. This reserving methodology has the following components:

Specific Reserve. The Corporation's nonaccrual loans and renegotiated loans form the basis to identify loans and leases that meet the criteria as being impaired under the definition in SFAS 114. A loan is impaired when, based on current information and events, it is probable that a creditor will be unable to collect all amounts due according to the contractual terms of the loan agreement. For impaired loans, impairment is measured using one of three alternatives: (1) the present value of expected future cash flows discounted at the loan's effective interest rate; (2) the loan's observable market price, if available; or (3) the fair value of the collateral for collateral dependent loans and loans for which foreclosure is deemed to be probable. In general, these loans have been internally identified as credits requiring management's attention due to underlying problems in the borrower's business or collateral concerns. A quarterly review of nonaccrual loans, subject to minimum size, and all renegotiated loans is performed to identify the specific reserve necessary to be allocated to each of these loans. This analysis considers expected future cash flows, the value of collateral and also other factors that may impact the borrower's ability to make payments when due.

Collective Loan Impairment. This component of the allowance for loan and lease losses is comprised of two elements. First, the Corporation makes a significant number of loans and leases, which due to their underlying similar characteristics, are assessed for loss as homogeneous pools. Included in the homogeneous pools are loans and leases from the retail sector and commercial loans under a certain size that have been excluded from the specific reserve allocation previously discussed. The Corporation segments the pools by type of loan or lease and, using historical loss information, estimates a loss reserve for each pool.

The second element reflects management's recognition of the uncertainty and imprecision underlying the process of estimating losses. The Corporation has identified certain loans within certain industry segments that based on financial, payment or collateral performance, warrant closer ongoing monitoring by management. The specific loans mentioned earlier are excluded from this analysis. Based on management's judgment, reserve ranges are allocated to industry segments due to environmental conditions unique to the measurement period. Consideration is given to both internal and external environmental factors such as economic conditions in certain geographic or industry segments of the portfolio, economic trends, risk profile, and portfolio composition. Reserve ranges are then allocated using estimates of loss exposure that management has identified based on these economic trends or conditions.

The Corporation has not materially changed any aspect of its overall approach in the determination of the allowance for loan and lease losses. However, on an on-going basis the Corporation continues to refine the methods used in determining management's best estimate of the allowance for loan and lease losses.

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The following factors were taken into consideration in determining the adequacy of the allowance for loan and lease losses at December 31, 2008:

Deteriorating conditions in the U.S. housing market became evident in the first half of 2007, accelerated sharply in the second half of the year and continued the accelerated pace in 2008. The Corporation had a significant increase in nonperforming assets in 2008 compared to prior years. The increase has been primarily attributable to real estate related loans in areas that were previously experiencing substantial population growth and increased demand for housing such as Arizona and Florida, and in the correspondent banking business. The Corporation's higher growth markets have been disproportionately affected by the excess real estate inventory and deterioration in the national real estate markets as the economy deteriorated into recession. An increasing number of borrowers have been unable to either refinance or sell their properties and consequently have defaulted or are very close to defaulting on their loans. In this stressed housing market that is experiencing increasing delinquencies and rapidly declining real estate values, the adequacy of collateral securing the loan becomes a much more important factor in determining expected loan performance. In many cases, rapidly declining real estate values resulted in the determination that the collateral was insufficient to cover the recorded investment in the loan. These factors resulted in the Corporation's loan and lease portfolio experiencing significantly higher incidences of default and a significant increase in loss severity in 2008. The Corporation has taken these factors into consideration in determining the adequacy of its allowance for loan and leases.

At December 31, 2008, allowances for loan and lease losses continue to be carried for exposures to manufacturing, production agriculture (including dairy and cropping operations and agricultural supply), truck transportation, accommodation, general contracting, and motor vehicle and parts dealers. While most loans in these categories are still performing, the Corporation continues to believe these sectors present a higher than normal risk due to their financial and external characteristics.

The Corporation's primary lending areas are Wisconsin, Arizona, Minnesota, Missouri, Florida and Indiana. Recent acquisitions are in relatively new markets for the Corporation. Included in these new markets is the Kansas City metropolitan area and Tampa, Sarasota and Bradenton, Florida and the Indianapolis and central Indiana market. Each of these regions and markets has cultural and environmental factors that are unique to it. Nonperforming loans in Arizona amounted to \$857.5 million, which was 47.3% of total consolidated nonperforming loans and leases at December 31, 2008. Approximately \$585.5 million or 68.3% of nonperforming loans in Arizona at December 31, 2008 were construction and development loans. Approximately \$142.7 million or 78.4% of nonperforming loans in Arizona at December 31, 2007 were construction and development loans. Nonperforming loans in Florida amounted to \$172.8 million or 5.60% of total Florida loans at December 31, 2008. Approximately \$113.5 million or 65.7% of nonperforming loans in Florida at December 31, 2008 were construction and development loans. Construction and development real estate loans that are concentrated in the west coast of Florida and Arizona have been the primary contributor to the increase in nonperforming loans and leases and net charge-offs in recent quarters.

At December 31, 2008, nonperforming loans and leases amounted to \$1,811.8 million or 3.62% of consolidated loans and leases compared to \$925.2 million or 2.00% of consolidated loans and leases at December 31, 2007 and \$268.0 million or 0.64% of consolidated loans and leases at December 31, 2006. Nonperforming commercial loans and leases amounted to \$180.5 million at December 31, 2008 compared to \$273.1 million at December 31, 2007, a decrease of \$92.6 million or 33.9%. Nonperforming real estate loans represented 84.4% of total nonperforming loans and leases and amounted to \$1,529.8 million at December 31, 2008 compared to \$593.5 million at December 31, 2007, an increase of \$936.3 million or 157.8%. Nonperforming real estate loans, other than home equity loans and lines of credit, exhibited the largest increase in 2008 compared to 2007. Nonperforming construction and development loans (which include commercial land and construction, construction by individuals and residential land and construction by developers) amounted to \$1,017.3 million and represented 56.1% of total nonperforming loans and leases at December 31, 2008. The increase in nonperforming construction and development loans in 2008 compared to 2007 amounted to \$567.6 million or 126.2% which was 60.6% of the total increase in nonperforming real estate loans in 2008 compared to 2007. Nonperforming 1-4 family residential real estate loans amounted to \$324.3 million at December 31, 2008 compared to \$59.6 million at December 31, 2007 an increase of \$264.7 million. Increased economic stress on consumers has resulted in further deterioration in these loans in all of the Corporation's markets and most notably in Arizona, which contributed \$196.7 million or 74.3% of the increase in nonperforming 1-4 family residential real estate loans at December 31, 2008 compared to December 31, 2007. Nonperforming consumer loans and leases amounted to

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\$101.5 million at December 31, 2008 compared to \$58.6 million at December 31, 2007, an increase of \$42.9 million or 73.2%. Approximately 83.4% of that increase was due to the increase in nonperforming home equity loans and lines of credit in 2008 compared to 2007. As is the case with nonperforming 1-4 family residential real estate loans, increased economic stress on consumers has resulted in further deterioration in consumer loans and leases in all of the Corporation's markets.

Nonaccrual loans and leases were the largest component of nonperforming loans and leases and amounted to \$1,527.0 million or 3.05% of consolidated loans and leases at December 31, 2008 compared to \$686.9 million or 1.48% of consolidated loans and leases at December 31, 2007. The amount of cumulative charge-offs recorded on the Corporation's nonaccrual loans outstanding at December 31, 2008 was approximately \$664.1 million or 49.0% of the unpaid principal balance of the affected nonaccrual loans and 30.3% of the unpaid principal balance of its total nonaccrual loans outstanding at December 31, 2008. These charge-offs have reduced the carrying value of these nonaccrual loans and leases which reduced the allowance for loan and lease losses required at the measurement date.

At December 31, 2008, renegotiated loans and leases amounted to \$270.4 million. Approximately \$259.8 million or 96.1% of the renegotiated loans and leases at December 31, 2008 were real estate and home equity loans. Approximately \$214.3 million or 82.5% of the renegotiated real estate and home equity loans at December 31, 2008 were loans secured by real estate located in Arizona. At December 31, 2008, approximately \$135.3 million or 52.1% of the renegotiated real estate and home equity loans were construction and development loans. The present value of expected future cash flows discounted at the loan's effective interest rate was the primary method used to measure impairment and determine the amount of allowance for loan and lease losses required for renegotiated loans and leases at December 31, 2008. Significant judgment is required to estimate expected future cash flows.

Net charge-offs amounted to \$1,363.8 million or 2.74% of average loans and leases in 2008 compared to \$255.9 million or 0.59% of average loans and leases in 2007 and \$39.0 million or 0.10% of average loans and leases in 2006. The increase in net charge-offs in 2008 and 2007 compared to prior years related primarily to the deterioration in the performance of the Corporation's real estate loan portfolio. The Corporation's construction and development real estate loans exhibited the most dramatic increase in impairment. In addition, commercial loans whose performance is dependent on the housing market were adversely affected by the deterioration in the national real estate markets.

Based on the loss estimates discussed, management determined its best estimate of the required allowance for loans and leases. Management's evaluation of the factors previously described resulted in an allowance for loan and lease losses of \$1,202.2 million or 2.41% of loans and leases outstanding at December 31, 2008. The allowance for loan and lease losses was \$496.2 million or 1.07% of loans and leases outstanding at December 31, 2007. Consistent with the credit quality trends noted above, the provision for loan and lease losses amounted to \$2,037.7 million in 2008, compared to \$319.8 million and \$50.6 million in 2007 and 2006, respectively. The resulting provisions for loan and lease losses are the amounts required to establish the allowance for loan and lease losses at the required level after considering charge-offs and recoveries. Management recognizes there are significant estimates in the process and the ultimate losses could be significantly different from those currently estimated.

Income Taxes

Income taxes are accounted for using the asset and liability method. Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on tax assets and liabilities of a change in tax rates is recognized in the income statement in the period that includes the enactment date.

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The determination of current and deferred income taxes is based on complex analyses of many factors, including interpretation of Federal and state income tax laws, the difference between tax and financial reporting basis of assets and liabilities (temporary differences), estimates of amounts currently due or owed, such as the timing of reversals of temporary differences and current accounting standards. The Federal and state taxing authorities who make assessments based on their determination of tax laws periodically review the Corporation's interpretation of Federal and state income tax laws. Tax liabilities could differ significantly from the estimates and interpretations used in determining the current and deferred income tax liabilities based on the completion of taxing authority examinations.

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The Corporation accounts for the uncertainty in income taxes recognized in financial statements in accordance with the recognition threshold and measurement process for a tax position taken or expected to be taken in a tax return in accordance with Financial Accounting Standards Board (FASB) Interpretation No. 48 (FIN 48), *Accounting for Uncertainty in Income Taxes – an Interpretation of FASB Statement No. 109*. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN 48 was adopted by the Corporation on January 1, 2007. See Note 16 – Income Taxes in Notes to Consolidated Financial Statements.

As a result of the Internal Revenue Service’s decision not to appeal a November 2007 US Tax Court ruling related to how the TEFRA (interest expense) disallowance should be calculated within a consolidated group and the position the IRS has taken in another related case, the Corporation recognized an additional income tax benefit related to years 1996-2007 of \$20.0 million for its similar issue in 2008.

The Corporation anticipates it is reasonably possible that unrecognized tax benefits up to approximately \$20 million could be realized within 12 months of December 31, 2008. The realization would principally result from settlements with taxing authorities as it relates to the tax benefits associated with a 2002 stock issuance.

In February 2009, the State of Wisconsin passed legislation that requires combined reporting effective January 1, 2009. The Corporation is evaluating this legislation and has not yet determined the legislation’s effect on the recorded value of its deferred tax assets and the financial statement impact.

Fair Value Measurements

Effective January 1, 2008, the Corporation adopted Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* (SFAS 157), which provides a framework for measuring fair value under accounting principles generally accepted in the United States of America. SFAS 157 defines fair value as 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. SFAS 157 addresses the valuation techniques used to measure fair value. These valuation techniques include the market approach, income approach and cost approach. The market approach uses prices or relevant information generated by market transactions that are identical to or comparable with assets or liabilities. The income approach involves converting future amounts to a single present amount. The measurement is valued based on current market expectations about those future amounts. The cost approach is based on the amount that currently would be required to replace the service capacity of an asset.

SFAS 157 establishes a fair value hierarchy, which prioritizes the inputs to valuation techniques used to measure fair value into three broad levels. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The reported fair value of a financial instrument is categorized within the fair value hierarchy based upon the lowest level of input that is significant to the instrument’s fair value measurement. The three levels within the fair value hierarchy consist of the following:

Level 1 – Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 – Inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument. Fair values for these instruments are estimated using pricing models, quoted prices of financial assets or liabilities with similar characteristics or discounted cash

flows.

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement. Fair values are initially valued based upon a transaction price and are adjusted to reflect exit values as evidenced by financing and sale transactions with third parties.

The Corporation measures financial assets and liabilities at fair value in accordance with SFAS 157. These measurements involve various valuation techniques and models, which involve inputs that are observable, when available. A description of the valuation methodologies used for financial instruments measured at fair value on a recurring basis, as well as the general classification of such instruments pursuant to the valuation hierarchy is disclosed in Note 3 Fair Value Measurements in Notes to Consolidated Financial Statements.

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In addition to financial instruments that are measured at fair value on a recurring basis, fair values are used in purchase price allocations and goodwill impairment testing.

Other than Level 1 inputs, selecting the relevant inputs, appropriate valuation techniques and determining the appropriate category to report the fair value of a financial instrument requires varying levels of judgment depending on the facts and circumstances. The determination of some fair values can be a complex analysis of many factors. Judgment is required when determining the fair value of an asset or liability when either relevant observable inputs do not exist or available observable inputs are in a market that is not active. When relevant observable inputs are not available, the Corporation must use its own assumptions about future cash flows and appropriately risk-adjusted discount rates. Conversely, in some cases observable inputs may require significant adjustments. For example, in cases where the volume and level of trading activity in an asset or liability have declined significantly, the available prices vary significantly over time or among market participants, or the prices are not current, the observable inputs might not be relevant and could require significant adjustment.

Valuation techniques and models used to measure the fair value of financial assets on a recurring basis are reviewed and validated by the Corporation at least quarterly and in some cases monthly. In addition, the Corporation monitors the fair values of significant assets and liabilities using a variety of methods including the evaluation of pricing service information, using exception reports based on analytical criteria, comparisons to previous trades or broker quotes and overall reviews and assessments for reasonableness.

Goodwill Impairment Tests

Goodwill is tested for impairment using a two-step process that begins with an estimation of the fair value of a reporting unit. A reporting unit is an operating segment as defined in Statement of Financial Accounting Standards No. 131, *Disclosures about Segments of an Enterprise and Related Information*, or one level below an operating segment. This first step is a screen for potential impairment. The second step, if necessary, measures the amount of impairment, if any. Goodwill is reviewed for impairment annually as of June 30 or more frequently if indicators of impairment exist. Goodwill has been assigned to seven Reporting Units for purposes of impairment testing.

A significant amount of judgment is involved in determining if an indicator of impairment has occurred. Such indicators may include, among others: a significant decline in expected future cash flows; a sustained, significant decline in equity price and market capitalization; a significant adverse change in legal factors or in the business climate; unanticipated competition; and slower growth rates.

At the end of the fourth quarter of 2008, due to the economic recession, general stock price volatility, and volatility in the Corporation's stock price in particular, the Corporation concluded a triggering event had occurred indicating potential impairment and performed an impairment test of goodwill.

Significant judgment is applied when goodwill is assessed for impairment. This judgment includes developing cash flow projections, selecting appropriate discount rates, identifying relevant market comparables, incorporating general economic and market conditions and selecting an appropriate control premium. The assumptions used in the goodwill impairment assessment and the application of these estimates and assumptions are discussed below.

The estimated fair value for each reporting unit at December 31, 2008 was determined by equally weighting an income approach (50%) and market approach (50%) to assess if potential goodwill impairment existed.

The income approach is based on discounted cash flows which are derived from internal forecasts and economic expectations for each respective reporting unit. The key assumptions used to determine fair value under the income approach included the cash flow period, terminal values based on a terminal growth rate and the discount rate. The discount rate, which represents the estimated cost of equity, was derived using a capital asset pricing model that uses a risk-free rate (20-year Treasury Bonds) which was 3.1% at December 31, 2008. The risk-free rate was adjusted for the risks associated with the operations of the Reporting Units. The discount rates used in the income approach for the seven Reporting Units evaluated at December 31, 2008 ranged from 10% to 25%. An increase to the discount rate of 1% would have lowered the fair value determined under the income approach for the seven Reporting Units evaluated at December 31, 2008 by a range of \$2.4 million to \$86.6 million or 4.9% to 18.3%.

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The market approach is a technique that provides indications of value based upon comparisons of the reporting unit to market values and pricing evidence of public companies in the same or similar lines of businesses. Market ratios (pricing multiples) and performance fundamentals relating to the public companies' stock prices (equity) as of December 31, 2008 were applied to each reporting unit to determine indications of its fair value.

The aggregate fair values were compared to the Corporation's market capitalization as an assessment of the appropriateness of the fair value measurements. The Corporation's stock price fluctuated greatly during 2008. Therefore, when assessing the Corporation's market capitalization, the Corporation used the average stock price for the month of December 2008 and adjusted the stock price for certain material nonpublic information relating to 2008 that became public when the Corporation initially announced its earnings for the three and twelve months ended December 31, 2008. That adjustment was measured as the incremental difference between the change in the Corporation's stock price between December 31, 2008 and the date the certain material nonpublic information became public and the change in the KBW bank stock index (NYSEArca: KBE) between December 31, 2008 and the date the Corporation's certain material nonpublic information became public. The comparison between the aggregate fair values and market capitalization indicated an implied premium. A control premium analysis indicated that the implied premium was within a range of the overall premiums observed in the market place.

As a result of applying the first step of goodwill impairment testing to determine if potential goodwill impairment existed at December 31, 2008, Trust, Private Banking, and Brokerage, the three Reporting Units that comprise the Wealth Management segment, and the Capital Markets reporting unit passed (fair value exceeded the carrying amount) the first step of the goodwill impairment test. The Commercial and Community Banking segments and the National Consumer Banking reporting unit failed (the carrying amount exceeded the fair value) the first step of the goodwill impairment test at December 31, 2008 and were subjected to the second step of the goodwill impairment test.

For the four Reporting Units that passed step one, fair value exceeded the carrying amount by 22% to 79% of their respected estimated fair values. For the three Reporting Units that failed, the carrying amount exceeded fair value by between 93% and 290%.

The second step of the goodwill impairment test compares the implied fair value of the reporting unit goodwill with the carrying amount of that goodwill. The implied fair value of goodwill is determined in the same manner as the amount of goodwill recognized in a business combination is determined. The fair value of a reporting unit is allocated to all of the assets and liabilities of that unit (including any unrecognized intangible assets) as if the reporting unit had been acquired in a business combination and the fair value of the reporting unit was the price paid to acquire the reporting unit. The fair value allocated to all of the assets and liabilities of that unit (including any unrecognized intangible assets) also requires significant judgment, especially for those assets and liabilities that are not measured on a recurring basis such as certain types of loans. The excess of the fair value of the reporting unit over the amounts assigned to its assets and liabilities is the implied fair value of goodwill. The Corporation believes the implied fair value of goodwill is significantly affected by unobservable inputs and would be categorized as Level 3 within the SFAS 157 fair value hierarchy.

For the three Reporting Units that failed step one of the goodwill impairment tests, the fair value assigned to loans and leases significantly affected the determination of the implied fair value of the reporting unit goodwill at December 31, 2008. The implied fair value of a reporting unit's goodwill will generally increase if the fair value of its loans and leases are less than the carrying value of the reporting unit's loans and leases. The fair value of loans and leases was derived from discounted cash flow analysis. Loans and leases as of December 31, 2008 were grouped into over 950 pools based on similar characteristics such as maturity, payment type and payment frequency, rate type and underlying index, recent loan-to-value (LTV) measures and various types of credit indicators such as recent FICO scores and the Corporation's internal loan rating system. Credit spreads were derived from observable information wherever possible. In cases where observable information was not available because of inactive markets or the change in the loan characteristics such as declining collateral values, certain adjustments were judgmentally made to estimate credit spreads consistent with the manner the Corporation believes market participants would assess the fair value of the loan pool. The Corporation has estimated that increasing or decreasing the credit spreads by the equivalent of a 1/4 credit rating adjustment could affect the aggregate fair value of the loans and leases of the three Reporting Units that failed step one of the goodwill impairment tests by approximately 15% of the aggregate fair value of the three Reporting Units that failed step one of the goodwill impairment tests at December 31, 2008.

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Based on the second step of the goodwill impairment test, the Corporation determined that the implied fair value of goodwill was greater than the carrying amount of goodwill for the National Consumer Banking reporting unit at December 31, 2008 and there was no impairment. The implied fair value of goodwill was less than the carrying amount of goodwill for the Commercial Banking and Consumer Banking segments at December 31, 2008. As a result of applying the second step of the test, the Commercial Banking segment incurred goodwill impairment of \$925.6 million and the Community Banking segment incurred goodwill impairment of \$609.5 million. For the year ended December 31, 2008, the pre-tax total non-cash charge to earnings for goodwill impairment amounted to \$1,535.1 million. At December 31, 2008 the remaining goodwill reported in the Consolidated Balance Sheets amounted to \$605.1 million.

Due to the current economic environment and the uncertainties regarding the impact on the Corporation's Reporting Units, there can be no assurance that the Corporation's estimates and assumptions regarding the duration of the economic recession, or the period or strength of recovery, made for purposes of the Corporation's goodwill impairment testing during the year ended December 31, 2008 will prove to be accurate predictions of the future. If the Corporation's assumptions regarding forecasted revenues or margin growth rates of certain Reporting Units is not achieved, the Corporation may be required to record additional goodwill impairment losses in future periods, whether in connection with the Corporation's next annual impairment testing in the second quarter of 2009 or prior to that, if any such changes constitutes a triggering event in other than the quarter in which the annual goodwill impairment test is performed. It is not possible at this time to determine if any such future impairment loss would result or, if it does, whether such charge would be material.

New Accounting Pronouncements

A discussion of new accounting pronouncements that are applicable to the Corporation and have been or will be adopted by the Corporation is included in Note 1 Basis of Presentation and Summary of Significant Accounting Policies in Notes to Consolidated Financial Statements contained in Item 8, Consolidated Financial Statements and Supplementary Data.

Table of Contents**ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

Market risk arises from exposure to changes in interest rates, exchange rates, commodity prices, and other relevant market rate or price risk. The Corporation faces market risk through trading and other than trading activities. While market risk that arises from trading activities in the form of foreign exchange and interest rate risk is immaterial to the Corporation, market risk from other than trading activities in the form of interest rate risk is measured and managed through a number of methods.

Interest Rate Risk

The Corporation uses financial modeling techniques to identify potential changes in income and market value under a variety of possible interest rate scenarios. Financial institutions, by their nature, bear interest rate and liquidity risk as a necessary part of the business of managing financial assets and liabilities. The Corporation has designed strategies to limit these risks within prudent parameters and identify appropriate risk/reward tradeoffs in the financial structure of the balance sheet.

The financial models identify the specific cash flows, repricing timing and embedded option characteristics of the assets and liabilities held by the Corporation. The net change in net interest income in different market rate environments is the amount of earnings at risk. The net change in the present value of the asset and liability cash flows in different market rate environments is the amount of market value at risk. Policies are in place to assure that neither earnings nor market value at risk exceed appropriate limits. The use of a limited array of derivative financial instruments has allowed the Corporation to achieve the desired balance sheet repricing structure while simultaneously meeting the desired objectives of both its borrowing and depositing customers.

The models used include measures of the expected repricing characteristics of administered rate (NOW, savings and money market accounts) and non-rate related products (demand deposit accounts, other assets and other liabilities). These measures recognize the relative insensitivity of these accounts to changes in market interest rates, as demonstrated through current and historical experiences. In addition to contractual payment information for most other assets and liabilities, the models also include estimates of expected prepayment characteristics for those items that are likely to materially change their cash flows in different rate environments, including residential mortgage products, certain commercial and commercial real estate loans and certain mortgage-related securities. Estimates for these sensitivities are based on industry assessments and are substantially driven by the differential between the contractual coupon of the item and current market rates for similar products.

This information is incorporated into a model that projects future net interest income levels in several different interest rate environments. Earnings at risk are calculated by modeling net interest income in an environment where rates remain constant, and comparing this result to net interest income in a different rate environment, and then expressing this difference as a percentage of net interest income for the succeeding 12 months. This calculation is a change from prior years. Previously, earnings at risk were measured as a percentage of the Corporation's budgeted operating income before taxes for the calendar year. This change was made to decrease the volatility of the measurement caused by items unrelated to the margin. Since future interest rate moves are difficult to predict, the following table presents two potential scenarios: a gradual increase of 100bp across the entire yield curve over the course of the year (+25bp per quarter), and a gradual decrease of 100bp across the entire yield curve over the course of the year (-25bp per quarter) for the balance sheet as of December 31, 2008:

| Hypothetical Change in Interest Rates | Impact to 12 months Net Interest Income |
|--|--|
| 100 basis point gradual rise in rates | 0.7% |
| 100 basis point gradual decline in rates | (2.2)% |

These results are based solely on the modeled parallel changes in market rates, and do not reflect the earnings sensitivity that may arise from other factors such as changes in the shape of the yield curve and changes in spread between key market rates. These results also do not include any management action to mitigate potential income variances within the simulation process. Such action could potentially include, but would not be limited to, adjustments to the repricing characteristics of any on- or off-balance sheet item with regard to short-term rate projections and current market value assessments.

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Actual results will differ from simulated results due to the timing, magnitude, and frequency of interest rate changes as well as changes in market conditions and management strategies.

Equity Risk

In addition to interest rate risk, the Corporation incurs market risk in the form of equity risk. The Corporation invests directly and indirectly through investment funds, in private medium-sized companies to help establish new businesses or recapitalize existing ones. These investments expose the Corporation to the change in equity values of the portfolio companies. However, fair values are difficult to determine until an actual sale or liquidation transaction actually occurs. At December 31, 2008, the carrying value of total active private equity investments amounted to approximately \$65.3 million.

At December 31, 2008, Wealth Management administered \$104.4 billion in assets and directly managed \$30.4 billion in assets. Exposure exists to changes in equity values due to the fact that fee income is partially based on equity balances. Quantification of this exposure is difficult due to the number of other variables affecting fee income. Interest rate changes can also have an effect on fee income for the above-stated reasons.

Table of Contents**ITEM 8. CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA FOR YEARS ENDED DECEMBER 31, 2008, 2007, AND 2006****Consolidated Balance Sheets****December 31 (\$000 s except share data)**

| | 2008 | 2007 |
|---|---------------|---------------|
| Assets | | |
| Cash and Cash Equivalents: | | |
| Cash and Due from Banks | \$ 851,336 | \$ 1,368,919 |
| Federal Funds Sold and Security Resale Agreements | 101,069 | 379,012 |
| Money Market Funds | 120,002 | 74,581 |
| | | |
| Total Cash and Cash Equivalents | 1,072,407 | 1,822,512 |
| Interest Bearing Deposits at Other Banks | 9,684 | 8,309 |
| Trading Assets, at Fair Value | 518,361 | 124,607 |
| Investment Securities: | | |
| Available for Sale, at Fair Value | 7,430,552 | 7,442,889 |
| Held to Maturity, Fair Value \$243,395 (\$383,190 in 2007) | 238,009 | 374,861 |
| Loans Held for Sale | 220,391 | 131,873 |
| | | |
| Loans and Leases | 49,764,153 | 46,164,385 |
| Allowance for Loan and Lease Losses | (1,202,167) | (496,191) |
| | | |
| Net Loans and Leases | 48,561,986 | 45,668,194 |
| Premises and Equipment, Net | 564,789 | 469,879 |
| Goodwill | 605,144 | 1,684,945 |
| Other Intangible Assets | 158,305 | 123,016 |
| Bank-Owned Life Insurance | 1,157,612 | 1,114,889 |
| Other Real Estate Owned (OREO) | 320,908 | 115,074 |
| Accrued Interest and Other Assets | 1,478,270 | 767,548 |
| | | |
| Total Assets | \$ 62,336,418 | \$ 59,848,596 |
| | | |
| Liabilities and Shareholders' Equity | | |
| Deposits: | | |
| Noninterest Bearing | \$ 6,879,994 | \$ 6,174,281 |
| Interest Bearing | 34,143,147 | 29,017,073 |
| | | |
| Total Deposits | 41,023,141 | 35,191,354 |
| Federal Funds Purchased and Security Repurchase Agreements | 1,190,000 | 2,262,355 |
| Other Short-term Borrowings | 2,868,033 | 4,548,655 |
| Accrued Expenses and Other Liabilities | 1,381,346 | 940,725 |
| Long-term Borrowings | 9,613,717 | 9,872,778 |
| | | |
| Total Liabilities | 56,076,237 | 52,815,867 |
| Shareholders' Equity: | | |
| Preferred Stock, \$1.00 par value, 5,000,000 Shares Authorized; 1,715,000 Shares Issued and Outstanding of Senior Preferred Stock, Series B (Liquidation Preference of \$1,000 per Share) | 1,715 | |
| Common Stock, \$1.00 par value, 700,000,000 Shares Authorized; 272,318,615 Shares Issued (267,455,394 Shares in 2007) | 272,319 | 267,455 |
| Additional Paid-in Capital | 3,838,867 | 2,059,273 |

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| | | |
|---|---------------|---------------|
| Retained Earnings | 2,538,989 | 4,923,008 |
| Treasury Stock, at Cost: 6,977,434 Shares (3,968,651 in 2007) | (192,960) | (117,941) |
| Deferred Compensation | (40,797) | (45,359) |
| Accumulated Other Comprehensive Income, Net of Related Taxes | (157,952) | (53,707) |
| Total Shareholders' Equity | 6,260,181 | 7,032,729 |
| Total Liabilities and Shareholders' Equity | \$ 62,336,418 | \$ 59,848,596 |

The accompanying notes are an integral part of the Consolidated Financial Statements.

Table of Contents**Consolidated Statements of Income**

Years ended December 31 (\$000 s except share data)

| | 2008 | 2007 | 2006 |
|---|--------------------|------------------|------------------|
| Interest and Fee Income | | | |
| Loans and Leases | \$ 2,926,334 | \$ 3,243,109 | \$ 2,856,043 |
| Investment Securities: | | | |
| Taxable | 286,054 | 311,837 | 277,938 |
| Exempt from Federal Income Taxes | 53,750 | 59,237 | 61,769 |
| Trading Securities | 2,530 | 1,012 | 614 |
| Short-term Investments | 9,026 | 18,001 | 14,707 |
| Loan to Metavante | | 35,969 | 43,163 |
| Total Interest and Fee Income | 3,277,694 | 3,669,165 | 3,254,234 |
| Interest Expense | | | |
| Deposits | 902,944 | 1,231,252 | 1,083,392 |
| Short-term Borrowings | 139,627 | 236,671 | 186,746 |
| Long-term Borrowings | 454,413 | 585,025 | 476,540 |
| Total Interest Expense | 1,496,984 | 2,052,948 | 1,746,678 |
| Net Interest Income | 1,780,710 | 1,616,217 | 1,507,556 |
| Provision for Loan and Lease Losses | 2,037,707 | 319,760 | 50,551 |
| Net Interest Income (Loss) After Provision for Loan and Lease Losses | (256,997) | 1,296,457 | 1,457,005 |
| Other Income | | | |
| Wealth Management | 282,182 | 262,835 | 221,554 |
| Service Charges on Deposits | 146,153 | 120,616 | 106,693 |
| Gain on Sale of Mortgage Loans | 22,370 | 28,588 | 47,281 |
| Other Mortgage Banking Revenue | 3,655 | 5,466 | 5,121 |
| Net Investment Securities Gains | 17,229 | 34,814 | 9,701 |
| Bank-Owned Life Insurance Revenue | 35,940 | 37,744 | 29,134 |
| Net Derivative Losses - Discontinued Hedges | | | (18,449) |
| Gain on Termination of Debt | 14,718 | | |
| OREO Income | 8,975 | 1,496 | 1,606 |
| Other | 216,893 | 237,507 | 179,045 |
| Total Other Income | 748,115 | 729,066 | 581,686 |
| Other Expense | | | |
| Salaries and Employee Benefits | 723,245 | 659,871 | 613,394 |
| Net Occupancy and Equipment | 126,896 | 111,977 | 103,981 |
| Software Expenses | 24,684 | 21,126 | 18,028 |
| Processing Charges | 131,990 | 135,110 | 124,226 |
| Supplies, Printing, Postage and Delivery | 42,131 | 42,547 | 41,293 |
| Professional Services | 72,043 | 42,454 | 34,068 |
| Amortization of Intangibles | 24,282 | 20,551 | 18,643 |
| Goodwill Impairment | 1,535,144 | | |
| Loss on Termination of Debt | | 83,662 | |
| OREO Expenses | 83,212 | 8,184 | 3,336 |
| Other | 230,478 | 189,461 | 126,573 |
| Total Other Expense | 2,994,105 | 1,314,943 | 1,083,542 |
| Income (Loss) Before Income Taxes | (2,502,987) | 710,580 | 955,149 |
| Provision (Benefit) for Income Taxes | (459,525) | 213,641 | 307,435 |
| Income (Loss) from Continuing Operations | (2,043,462) | 496,939 | 647,714 |

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| | | | | |
|---|----------------|--------------|----|---------|
| Income from Discontinued Operations, Net of Tax | | 653,997 | | 160,124 |
| Net Income (Loss) | \$ (2,043,462) | \$ 1,150,936 | \$ | 807,838 |
| Preferred Dividends | | (12,737) | | |
| Net Income (Loss) Available to Common Shareholders | \$ (2,056,199) | \$ 1,150,936 | \$ | 807,838 |
| Per Common Share | | | | |
| Basic: | | | | |
| Continuing Operations | \$ (7.92) | \$ 1.91 | \$ | 2.60 |
| Discontinued Operations | | 2.51 | | 0.64 |
| Net Income (Loss) | \$ (7.92) | \$ 4.42 | \$ | 3.24 |
| Diluted: | | | | |
| Continuing Operations | \$ (7.92) | \$ 1.87 | \$ | 2.54 |
| Discontinued Operations | | 2.47 | | 0.63 |
| Net Income (Loss) | \$ (7.92) | \$ 4.34 | \$ | 3.17 |

The accompanying notes are an integral part of the Consolidated Financial Statements.

Table of Contents**Consolidated Statements of Cash Flows****Years ended December 31 (\$000 s)**

| | 2008 | 2007 | 2006 |
|---|-----------------|-----------------|-----------------|
| Cash Flows From Operating Activities: | | | |
| Net Income (Loss) | \$ (2,043,462) | \$ 1,150,936 | \$ 807,838 |
| Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities: | | | |
| Depreciation and Amortization | 9,248 | 133,099 | 171,093 |
| Provision for Loan and Lease Losses | 2,037,707 | 319,760 | 50,551 |
| Provision (Benefit) for Deferred Income Taxes | (284,777) | (21,818) | 47,299 |
| Stock based Compensation Expense | 30,757 | 46,923 | 39,775 |
| Excess Tax Expense (Benefit) from Stock-based Compensation Arrangements | 55 | (4,251) | (11,430) |
| Net Gain on Sales of Assets | (87,026) | (101,315) | (32,771) |
| (Gain) Loss on Termination of Debt | (14,718) | 83,662 | |
| Gain on Sale of Metavante | | (525,576) | |
| Proceeds from Sales of Trading Securities and Loans Held for Sale | 9,536,138 | 9,509,819 | 12,599,298 |
| Purchases of Trading Securities and Loans Held for Sale | (9,217,732) | (9,150,076) | (12,282,292) |
| Bank Owned Life Insurance Revenue | (34,371) | (36,731) | (27,677) |
| Write down of OREO | 55,582 | 1,337 | 188 |
| Goodwill Impairment | 1,535,144 | | |
| Change in Accrued Interest and Other Assets | (320,319) | (94,680) | (195,753) |
| Change in Accrued Expenses and Other Liabilities | (444,996) | (347,215) | (317,299) |
| Other | 39,318 | (10,337) | (3,924) |
| Total Adjustments | 2,840,010 | (197,399) | 37,058 |
| Net Cash Provided by Operating Activities | 796,548 | 953,537 | 844,896 |
| Cash Flows From Investing Activities: | | | |
| Proceeds from Sales of Securities Available for Sale | 129,650 | 883,812 | 609,008 |
| Proceeds from Sales of Securities Held to Maturity | 1,633 | | |
| Proceeds from Maturities of Securities Available for Sale | 1,219,955 | 1,355,466 | 1,193,940 |
| Proceeds from Maturities of Securities Held to Maturity | 136,847 | 121,741 | 124,286 |
| Purchases of Securities Available for Sale | (1,084,387) | (2,449,500) | (2,229,324) |
| Net Increase in Loans | (3,736,839) | (4,051,448) | (3,957,011) |
| Proceeds from Loan to Metavante | | 982,000 | |
| Purchases of Assets to be Leased | (263,421) | (327,396) | (260,939) |
| Principal Payments on Lease Receivables | 258,126 | 345,569 | 234,445 |
| Purchases of Premises and Equipment, Net | (101,657) | (87,646) | (104,911) |
| Cash Paid for Acquisitions, Net of Cash and Cash Equivalents Acquired | (476,761) | (33,298) | (130,385) |
| Proceeds (Payments) from Divestitures | 2,460 | 80,074 | (7,554) |
| Net Proceeds from the Separation | | 1,592,646 | |
| Purchase of Bank-Owned Life Insurance | | (286,629) | |
| Net Proceeds from Sale of OREO | 86,069 | 50,495 | 13,301 |
| Net Cash Used in Investing Activities | (3,828,325) | (1,824,114) | (4,515,144) |
| Cash Flows From Financing Activities: | | | |
| Net Increase (Decrease) in Deposits | 4,223,022 | (550,558) | 2,701,936 |
| Proceeds from Issuance of Commercial Paper | 33,741,932 | 19,190,183 | 5,326,917 |
| Principal Payments on Commercial Paper | (34,523,654) | (18,912,746) | (5,185,918) |
| Net Increase (Decrease) in Other Short-term Borrowings | (2,076,047) | 1,619,223 | (106,539) |
| Proceeds from Issuance of Long-term Borrowings | 1,282,056 | 3,220,316 | 2,448,752 |
| Payment of Long-term Borrowings | (1,649,724) | (3,122,833) | (1,225,554) |
| Dividends Paid on Common Stock | (327,820) | (313,298) | (261,535) |
| Purchases of Common Stock | (130,870) | (431,150) | (41,791) |
| Proceeds from the Issuance of Preferred Stock | 1,715,000 | | |
| Proceeds from the Issuance of Common Stock | 27,832 | 112,254 | 84,042 |
| Proceeds from Issuance of Common Stock - Stock Purchase Contracts | | 399,989 | |
| Excess Tax (Expense) Benefit from Stock-based Compensation Arrangements | (55) | 4,251 | 11,430 |
| Other | | (7,800) | (10,585) |

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| | | | |
|---|--------------|--------------|--------------|
| Net Cash Provided by Financing Activities | 2,281,672 | 1,207,831 | 3,741,155 |
| Net (Decrease) Increase in Cash and Cash Equivalents | (750,105) | 337,254 | 70,907 |
| Cash and Cash Equivalents Beginning of Year | 1,822,512 | 1,485,258 | 1,414,351 |
| Cash and Cash Equivalents End of Year | 1,072,407 | 1,822,512 | 1,485,258 |
| Cash and Cash Equivalents of Discontinued Operations | | | (46,178) |
| Cash and Cash Equivalents from Continuing Operations, End of Year | \$ 1,072,407 | \$ 1,822,512 | \$ 1,439,080 |
| Supplemental Cash Flow Information: | | | |
| Cash Paid During the Year for: | | | |
| Interest | \$ 1,509,961 | \$ 2,041,724 | \$ 1,625,191 |
| Income Taxes | 63,693 | 277,474 | 362,451 |

The accompanying notes are an integral part of the Consolidated Financial Statements.

Table of Contents**Consolidated Statements of Shareholders' Equity**

(\$000 s except share data)

| | Compre- hensive Income | Preferred Stock | Common Stock | Additional Paid-In Capital | Retained Earnings | Treasury Common Stock | Deferred Compen- sation | Accumula- ted Other Compre- hensive Income |
|---|------------------------------|--------------------|-----------------|----------------------------------|----------------------|-----------------------------|-------------------------------|--|
| Balance, December 31, 2005 | | \$ | \$ 244,587 | \$ 970,739 | \$ 3,837,339 | \$ (277,423) | \$ (36,755) | \$ (21,061) |
| Comprehensive Income: | | | | | | | | |
| Net Income | \$ 807,838 | | | | 807,838 | | | |
| Unrealized Gains (Losses) on Securities: | | | | | | | | |
| Arising During the Period, Net of Taxes of (\$9,682) | 17,562 | | | | | | | |
| Reclassification for Securities Transactions Included in Net Income, Net of Taxes of \$1,768 | (3,283) | | | | | | | |
| Total Unrealized Gains (Losses) on Securities | 14,279 | | | | | | | 14,279 |
| Net Gains (Losses) on Derivatives Hedging | | | | | | | | |
| Variability of Cash Flows: | | | | | | | | |
| Arising During the Period, Net of Taxes of \$475 | (882) | | | | | | | |
| Reclassification Adjustments For Hedging Activities Included in Net Income, Net of Taxes of \$7,930 | (14,727) | | | | | | | |
| Net Gains (Losses) | (15,609) | | | | | | | (15,609) |
| Other Comprehensive Income | (1,330) | | | | | | | |
| Total Comprehensive Income | \$ 806,508 | | | | | | | |
| Adjustment to Initially Apply SFAS 158, Net of Tax of (\$2,854) | | | | | | | | |
| | | | | | | | | 4,845 |
| Issuance of 17,269,857 Common Shares in the 2006 Business Combinations | | | 17,385 | 763,054 | | (5,099) | | |
| Issuance of 3,434,187 Treasury Common Shares Under Stock Option and Restricted Stock Plans | | | | (20,108) | | 108,269 | (391) | |
| Issuance of 385,192 Treasury Common Shares for Retirement Plan Funding | | | | 4,819 | | 12,130 | | |
| Acquisition of 1,058,273 Common Shares | | | | 1,109 | | (43,815) | | |
| Dividends Declared on Common Stock \$1.05 Per Share | | | | | (261,535) | | | |
| Net Change in Deferred Compensation | | | | | | | (4,153) | |
| Income Tax Benefit for Compensation Expense for Tax Purposes in Excess of Amounts Recognized for Financial Reporting Purposes | | | | 11,430 | | | | |
| Stock Based Compensation Expense | | | | 39,775 | | | | |
| Other | | | | (278) | | | | |
| Balance, December 31, 2006 | | \$ | \$ 261,972 | \$ 1,770,540 | \$ 4,383,642 | \$ (205,938) | \$ (41,299) | \$ (17,546) |

The accompanying notes are an integral part of the Consolidated Financial Statements.

Table of Contents**Consolidated Statements of Shareholders' Equity**

(\$000 s except share data)

| | Compre- hensive Income | Preferred Stock | Common Stock | Additional Paid-In Capital | Retained Earnings | Treasury Common Stock | Deferred Compen- sation | Accumula- ted Other Compre- hensive Income |
|---|------------------------------|--------------------|-----------------|----------------------------------|----------------------|-----------------------------|-------------------------------|--|
| Balance, December 31, 2006 | | \$ | \$ 261,972 | \$ 1,770,540 | \$ 4,383,642 | \$ (205,938) | \$ (41,299) | \$ (17,546) |
| Comprehensive Income: | | | | | | | | |
| Net Income | \$ 1,150,936 | | | | 1,150,936 | | | |
| Unrealized Gains (Losses) on Securities: | | | | | | | | |
| Arising During the Period, Net of Taxes of (\$10,885) | 19,765 | | | | | | | |
| Reclassification for Securities Transactions Included in Net Income, Net of Taxes of \$4,352 | (8,081) | | | | | | | |
| Total Unrealized Gains (Losses) on Securities | 11,684 | | | | | | | 11,684 |
| Net Gains (Losses) on Derivatives Hedging | | | | | | | | |
| Variability of Cash Flows: | | | | | | | | |
| Arising During the Period, Net of Taxes of \$19,671 | (36,531) | | | | | | | |
| Reclassification Adjustments For Hedging Activities Included in Net Income, Net of Taxes of \$5,369 | (9,971) | | | | | | | |
| Net Gains (Losses) | (46,502) | | | | | | | (46,502) |
| Unrealized Gains (Losses) on Funded Status of Defined Benefit Postretirement Plan: | | | | | | | | |
| Effect due to Remeasurement of Benefit Obligation, Net of Taxes of \$382 | (604) | | | | | | | |
| Change Related to the Separation, Net of Taxes of (\$262) | 358 | | | | | | | (358) |
| Reclassification Adjustments for Amortization of Actuarial Loss and Prior Service Credit Amortization Included in Net Income, Net of Taxes of \$635 | (1,097) | | | | | | | |
| Net Gains (Losses) | (1,343) | | | | | | | (1,343) |
| Other Comprehensive Income | (36,161) | | | | | | | |
| Total Comprehensive Income | \$ 1,114,775 | | | | | | | |
| Changes in connection with the Separation | | | (8,596) | (346,405) | (298,272) | 351,705 | 2,938 | 358 |
| Issuance of 9,226,951 Common Shares Under STACKS/SPACES | | | 9,227 | 390,762 | | | | |
| Issuance of 4,851,899 Common Shares in the 2007 Business Combinations | | | 4,852 | 239,526 | | | | |
| Issuance of 4,436,659 Treasury Common Shares Under Stock Option and Restricted Stock Plans | | | | (50,327) | | 161,570 | | |
| Issuance of 403,508 Treasury Common Shares for Retirement Plan Funding | | | | 6,343 | | 12,836 | | |
| Acquisition of 10,792,502 Common Shares | | | | (2,255) | | (438,114) | | |
| Dividends Declared on Common Stock \$1.20 Per Share | | | | | (313,298) | | | |

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| | | | | | | |
|---|----|------------|--------------|--------------|--------------|-------------------------|
| Net Change in Deferred Compensation | | | | | | (6,998) |
| Income Tax Benefit for Compensation Expense for Tax Purposes in Excess of Amounts Recognized for Financial Reporting Purposes | | | | | | |
| Stock Based Compensation Expense | | | | | 4,251 | |
| Other | | | | | 46,923 | |
| | | | | | (85) | |
| Balance, December 31, 2007 | \$ | \$ 267,455 | \$ 2,059,273 | \$ 4,923,008 | \$ (117,941) | \$ (45,359) \$ (53,707) |

The accompanying notes are an integral part of the Consolidated Financial Statements.

Table of Contents**Consolidated Statements of Shareholders Equity**

(\$000 s except share data)

| | Compre- hensive Income | Preferred Stock | Common Stock | Additional Paid-In Capital | Retained Earnings | Treasury Common Stock | Deferred Compen- sation | Accumula- ted Other Compre- hensive Income |
|---|------------------------------|--------------------|-----------------|----------------------------------|----------------------|-----------------------------|-------------------------------|--|
| Balance, December 31, 2007 | | \$ | \$ 267,455 | \$ 2,059,273 | \$ 4,923,008 | \$ (117,941) | \$ (45,359) | \$ (53,707) |
| Comprehensive Income: | | | | | | | | |
| Net Loss | \$ (2,043,462) | | | | (2,043,462) | | | |
| Unrealized Gains (Losses) on Securities: | | | | | | | | |
| Arising During the Period, Net of Taxes of \$24,649 | (46,566) | | | | | | | |
| Reclassification for Securities Transactions Included in Net Income, Net of Taxes of \$112 | (208) | | | | | | | |
| Total Unrealized Gains (Losses) on Securities | (46,774) | | | | | | | (46,774) |
| Net Gains (Losses) on Derivatives Hedging | | | | | | | | |
| Variability of Cash Flows: | | | | | | | | |
| Arising During the Period, Net of Taxes of \$43,579 | (80,934) | | | | | | | |
| Reclassification Adjustments For Hedging Activities Included in Net Income, Net of Taxes of (\$13,528) | 25,124 | | | | | | | |
| Net Gains (Losses) | (55,810) | | | | | | | (55,810) |
| Unrealized Gains (Losses) on Funded Status of Defined Benefit Postretirement Plan: | | | | | | | | |
| Effect due to Remeasurement of Benefit Obligation, Net of Taxes of \$4,524 | (358) | | | | | | | |
| Reclassification Adjustments for Amortization of Actuarial Loss and Prior Service Credit Amortization Included in Net Income, Net of Taxes of \$767 | (1,303) | | | | | | | |
| Net Gains (Losses) | (1,661) | | | | | | | (1,661) |
| Other Comprehensive Income | (104,245) | | | | | | | |
| Total Comprehensive Income | \$ (2,147,707) | | | | | | | |
| Issuance of 1,715,000 Preferred Shares Under U.S. Treasury Capital Purchase Program | | 1,715 | | 1,713,285 | | | | |
| Issuance of 4,863,221 Common Shares in the 2008 Business Combination | | | 4,864 | 59,136 | | | | |
| Issuance of 1,918,432 Treasury Common Shares Under Stock Option and Restricted Stock Plans | | | | (25,668) | | 53,311 | | |
| Acquisition of 4,927,215 Common Shares | | | | 383 | | (128,330) | | |
| Dividends Declared on Preferred Stock | | | | 1,780 | (12,737) | | | |
| Dividends Declared on Common Stock \$1.27 Per Share | | | | | (327,820) | | | |
| Net Change in Deferred Compensation | | | | | | | 4,562 | |
| Income Tax Benefit for Compensation Expense for Tax Purposes in Excess of | | | | (55) | | | | |

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Amounts Recognized for Financial Reporting

Purposes

| | |
|----------------------------------|--------|
| Stock Based Compensation Expense | 30,757 |
| Other | (24) |

| | | | | | | | |
|----------------------------|----------|------------|--------------|--------------|--------------|-------------|--------------|
| Balance, December 31, 2008 | \$ 1,715 | \$ 272,319 | \$ 3,838,867 | \$ 2,538,989 | \$ (192,960) | \$ (40,797) | \$ (157,952) |
|----------------------------|----------|------------|--------------|--------------|--------------|-------------|--------------|

The accompanying notes are an integral part of the Consolidated Financial Statements.

Table of Contents**Notes to Consolidated Financial Statements****December 31, 2008, 2007 and 2006 (\$000 s except share data)**

Marshall & Ilesley Corporation (M&I or the Corporation) is a financial holding company that provides diversified financial services to a wide variety of corporate, institutional, government and individual customers. M&I s largest affiliates and principal operations are in Wisconsin; however, it has activities in other markets, particularly in certain neighboring Midwestern states, and in Arizona, Nevada and Florida. The Corporation s principal activities consist of banking and wealth management services. Banking services, lending and accepting deposits from commercial banking and community banking customers are provided through its lead bank, M&I Marshall & Ilesley Bank (M&I Bank), which is headquartered in Wisconsin, one federally chartered thrift headquartered in Nevada, one state chartered bank headquartered in St. Louis, Missouri, and an asset-based lending subsidiary headquartered in Minneapolis, Minnesota. In addition to branches located throughout Wisconsin, banking services are provided in branches located throughout Arizona, the Minneapolis, Minnesota, Kansas City, Missouri and St. Louis, Missouri metropolitan areas, Duluth, Minnesota, Belleville, Illinois, Las Vegas, Nevada, Florida and central Indiana, as well as on the Internet. Wealth Management, which includes Marshall & Ilesley Trust Company National Association (M&I Trust), M&I Brokerage Services, Inc., the private banking divisions of the Corporation s bank subsidiaries and other subsidiaries related to the wealth management business, provides trust services, brokerage and insurance services, and investment management and advisory services to residents of Wisconsin, Arizona, Minnesota, Missouri, Florida, Nevada and Indiana. Other financial services provided by M&I include personal property lease financing, wholesale lending, investment services to institutional clients and venture capital.

1. Basis of Presentation and Summary of Significant Accounting Policies

Estimates The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported periods. Actual results could differ from those estimates.

Consolidation principles The Consolidated Financial Statements include the accounts of the Corporation, its subsidiaries that are wholly or majority owned and/or over which it exercises substantive control and significant variable interest entities for which the Corporation has determined that, based on the variable interests it holds, it is the primary beneficiary in accordance with Financial Accounting Standards Board (FASB) Interpretation No. 46 (FIN 46R), *Consolidation of Variable Interest Entities an interpretation of Accounting Research Board No. 51 (revised December 2003)*. The primary beneficiary of a variable interest entity is the party that absorbs a majority of an entity s expected losses, receives a majority of an entity s expected residual returns, or both, as a result of holding variable interests. Variable interests are the ownership, contractual or other pecuniary interests in an entity. Investments in unconsolidated affiliates, in which the Corporation has 20 percent or more ownership interest and has the ability to exercise significant influence, but not substantive control, over the affiliates operating and financial policies, are accounted for using the equity method of accounting, unless the investment has been determined to be temporary. All intercompany balances and transactions are eliminated in consolidation.

The Corporation utilizes certain financing arrangements to meet its balance sheet management, funding, liquidity, and market or credit risk management needs. The majority of these activities are basic term or revolving securitization facilities. These facilities are generally funded through term-amortizing debt structures or with short-term commercial paper designed to be paid off based on the underlying cash flows of the assets securitized. These financing entities are contractually limited to a narrow range of activities that facilitate the transfer of or access to various types of assets or financial instruments. In certain situations, the Corporation provides liquidity and/or loss protection agreements. In determining whether the financing entity should be consolidated, the Corporation considers whether the entity is a qualifying special-purpose entity (QSPE) as defined in Statement of Financial Accounting Standards No. 140 (SFAS 140), *Accounting for Transfers and Servicing of*

Financial Assets and Extinguishments of Liabilities. For non-consolidation, a QSPE must be demonstrably distinct, have significantly limited permitted activities, hold assets that are restricted to transferred financial assets and related assets, and have the ability to sell or dispose of non-cash financial assets only in response to specified conditions.

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Notes to Consolidated Financial Statements (Continued)

December 31, 2008, 2007, and 2006 (\$000 s except share data)

Cash and Cash Equivalents For purposes of the Consolidated Financial Statements, the Corporation defines cash and cash equivalents as short-term investments, which have an original maturity of three months or less and are readily convertible into cash. At December 31, 2008 and 2007, \$82,963 and \$62,108, respectively, of cash and due from banks was restricted, primarily due to requirements of the Federal Reserve System to maintain certain reserve balances.

Trading Assets Trading assets include trading securities and trading and other free-standing derivative contracts. Trading securities are designated as trading when purchased and are held principally for sale in the near term. Trading and other free-standing derivative contracts are not linked to specific assets and liabilities on the balance sheet or to forecasted transactions in an accounting hedge relationship and, therefore, do not qualify for hedge accounting under SFAS 133, *Accounting for Derivative Instruments and Hedging Activities* (SFAS 133). Trading and other free-standing derivative contracts are carried at fair value with changes in fair value recorded in the Consolidated Statements of Income.

Investment Securities Securities, when purchased, are designated as Investment Securities Available for Sale or Investment Securities Held to Maturity, and remain in that category until they are sold or mature. The specific identification method is used in determining the cost of securities sold. Investment Securities Held to Maturity are carried at cost, adjusted for amortization of premiums and accretion of discounts. The Corporation designates investment securities as held to maturity only when it has the positive intent and ability to hold them to maturity. All other securities are classified as Investment Securities Available for Sale and are carried at fair value with fair value adjustments net of the related income tax effects reported as a component of Accumulated Other Comprehensive Income in the Consolidated Balance Sheets.

Loans Held for Sale Loans that the Corporation originates and intends to sell or securitize are reported as loans held for sale and are carried at the lower of cost or market (LOCOM) value. Any excess of the cost of a loan held for sale over its market value is recognized as a valuation allowance, with changes in the valuation allowance recognized in the Consolidated Statements of Income. Purchase premiums, discounts and/or other loan basis adjustments on loans held for sale are deferred upon acquisition, included in the cost basis of the loan, and are not amortized. The Corporation determines any LOCOM adjustment on loans held for sale on a pool basis by aggregating those loans based on similar risks and other characteristics, such as product types and interest rates. The market value of loans held for sale is generally based on whole loan sale prices if formally committed or observable market prices of securities that have loan collateral or interests in loans that are similar to the loans held for sale. If market prices are not readily available, the market value is based on a discounted cash flow model, which takes into account the degree of credit risk associated with the loans and the estimated effects of changes in market interest rates relative to the loans' interest rates.

In the event that loans held for sale are reclassified to loans held in portfolio, the loans are transferred at LOCOM on the date of transfer, forming the new cost basis of such loans. Any LOCOM adjustment recognized upon transfer is recognized as a basis adjustment to the portfolio loan. For reclassifications of loans held in portfolio to loans held for sale, the loan is transferred from loans held in portfolio to loans held for sale at LOCOM. If the change in market value on these loans is due to credit concern on such loans, the loans are reclassified net of the portion of the allowance for loan losses that is attributable to the transferred loans, with a corresponding reduction in the allowance for loan losses. The cash proceeds from the sale of loans that were reclassified from loans held in portfolio to loans held for sale are classified as investing activities in the Consolidated Statement of Cash Flows.

Loans and leases Interest on loans, other than direct financing leases, is recognized as income based on the loan principal outstanding during the period. Unearned income on financing leases is recognized over the lease term on a basis that results in an approximate level rate of return on

the lease investment. The Corporation considers a loan to be impaired when, based on current information and events, it determines that it is probable it will be unable to collect all amounts due, including scheduled interest, according to the loan's original loan contract. When a loan is past due 90 days as to either interest or principal, it is generally placed on nonaccrual status. When a loan is placed on nonaccrual status, previously accrued and uncollected interest is charged to interest and fee income on loans. A nonaccrual loan may be restored to an accrual basis when interest and principal payments are brought current and collectibility of future

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Notes to Consolidated Financial Statements (Continued)

December 31, 2008, 2007, and 2006 (\$000 s except share data)

payments is not in doubt. The Corporation classifies certain loans as renegotiated in cases where a borrower experiences financial difficulties and the Corporation makes certain modifications to contractual terms. Loans renegotiated at a rate equal to or greater than that of a new loan with comparable risk at the time the contract is modified are excluded from renegotiated loans in the calendar years subsequent to the renegotiation if the loan is in compliance with the modified terms.

The Corporation defers and amortizes fees and certain incremental direct costs, primarily salary and employee benefit expenses, over the contractual term of the loan or lease as an adjustment to the yield. The unamortized net fees and costs are reported as part of the loan or lease balance outstanding.

The Corporation periodically reviews the residual values associated with its leasing portfolios. Declines in residual values that are judged to be other than temporary are recognized as a loss resulting in a reduction in the net investment in the lease.

Allowance for loan and lease losses The allowance for loan and lease losses is maintained at a level believed adequate by management to absorb estimated losses inherent in the loan and lease portfolio including loans that have been determined to be impaired. For nonaccrual loans greater than an established threshold and all renegotiated loans, impairment is measured using one of three alternatives: (1) the present value of expected future cash flows discounted at the loan's effective interest rate; (2) the loan's observable market price, if available; or (3) the fair value of the collateral for collateral dependent loans and loans for which foreclosure is deemed to be probable. Loans below the established thresholds are evaluated as homogenous pools. Management's determination of the adequacy of the allowance is based on a continual review of the loan and lease portfolio, loan and lease loss experience, economic conditions, growth and composition of the portfolio, and other relevant factors. As a result of management's continual review, the allowance is adjusted through provisions for loan and lease losses charged against income.

Financial asset sales The Corporation sells financial assets, in a two-step process that results in a surrender of control over the assets, as evidenced by true-sale opinions from legal counsel, to unconsolidated entities that securitize the assets. The Corporation retains interests in the securitized assets in the form of interest-only strips and provides additional credit support by maintaining cash reserve accounts. Gain or loss on sale of the assets depends in part on the carrying amount assigned to the assets sold allocated between the asset sold and retained interests based on their relative fair values at the date of transfer. The value of the retained interests is based on the present value of expected cash flows estimated using management's best estimates of the key assumptions—credit losses, prepayment speeds, forward yield curves and discount rates commensurate with the risks involved.

Premises and equipment Land is recorded at cost. Premises and equipment are recorded at cost and depreciated principally on the straight-line method with annual rates varying from 10 to 50 years for buildings and 3 to 10 years for equipment. Long-lived assets which are impaired are written down to fair value and long-lived assets to be disposed of are carried at the lower of the carrying amount or fair value less cost to sell. Maintenance and repairs are charged to expense and betterments are capitalized.

Goodwill and Other Intangible Assets Statement of Financial Accounting Standards No. 142, *Goodwill and Other Intangible Assets*, (SFAS 142) adopts an aggregate view of goodwill and bases the accounting for goodwill on the units of the combined entity into which an acquired

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entity is integrated (those units are referred to as Reporting Units). A Reporting Unit is an operating segment as defined in Statement of Financial Accounting Standards No. 131, *Disclosures about Segments of an Enterprise and Related Information*, or one level below an operating segment.

SFAS 142 provides guidance for impairment testing of goodwill and intangible assets that are not amortized. Goodwill is tested for impairment using a two-step process that begins with an estimation of the fair value of a Reporting Unit. The first step is a screen for potential impairment and the second step measures the amount of impairment, if any. The Corporation tests goodwill for impairment annually. See Note 11 Goodwill and Other Intangibles in Notes to Consolidated Financial Statements for additional information.

Table of Contents**Notes to Consolidated Financial Statements (Continued)****December 31, 2008, 2007, and 2006 (\$000 s except share data)**

Identifiable intangibles arising from purchase acquisitions with a finite useful life are amortized over their useful lives and consist of core deposit intangibles, customer lists, tradename and other intangibles.

Identifiable intangibles that have been determined to have an indefinite useful life are not amortized but are subject to periodic tests for impairment. At December 31, 2008 and 2007, the Corporation did not have any identifiable intangibles that have been determined to have an indefinite useful life.

Bank-Owned Life Insurance (BOLI) The Corporation purchases life insurance policies on the lives of certain officers and employees and is the owner and beneficiary of the policies. The Corporation's investments in these policies are intended to provide funding for future employee benefit costs. The Corporation records these BOLI policies at each policy's respective cash surrender value, with changes recorded in Bank-Owned Life Insurance Revenue in the Consolidated Statements of Income. Certain BOLI policies have a stable value agreement through either a large, well-rated bank or multi-national insurance carrier that provides limited cash surrender value protection from declines in the value of each policy's underlying investments. During the fourth quarter of 2008, the value of the investments underlying one of the Corporation's BOLI policies declined significantly due to disruptions in the credit markets, widening of credit spreads and illiquidity in the securities market. These factors caused the decline in the cash surrender value to exceed the protection provided by the stable value agreement. As a result of exceeding the cash surrender value protection, the Corporation recorded a loss of \$11.8 million to reflect the change in cash surrender value related to the affected BOLI policy. The cash surrender value of this BOLI policy was \$238.3 million at December 31, 2008. The cash surrender value of this policy may increase or decrease further depending on market conditions related to the underlying investments. At December 31, 2008, the cash surrender value protection had not been exceeded for any other BOLI policies.

Other real estate owned (OREO) Other real estate owned consists primarily of assets that have been acquired in satisfaction of debts. Other real estate owned is recorded at fair value, less estimated selling costs, at the date of transfer. Valuation adjustments required at the date of transfer for assets acquired in satisfaction of debts are charged to the allowance for loan and lease losses. During 2008, 2007 and 2006, loans transferred to OREO amounted to \$400,746, \$141,046 and \$25,934, respectively. These amounts are considered non-cash transactions for the purposes of the Consolidated Statements of Cash Flow. Subsequent to transfer, other real estate owned is carried at the lower of cost or fair value, less estimated selling costs, based upon periodic evaluations. OREO Income, in the Consolidated Statements of Income, includes rental income from properties and gains on sales. Property expenses, which include carrying costs, required valuation adjustments and losses on sales, are recorded in OREO Expenses in the Consolidated Statements of Income.

Derivative financial instruments Derivative financial instruments, including certain derivative instruments embedded in other contracts, are carried in the Consolidated Balance Sheets as either an asset or liability measured at its fair value. The fair value of the Corporation's derivative financial instruments is determined based on market prices for comparable transactions, if available, or a valuation model that calculates the present value of expected future cash flows.

Changes in the fair value of derivative financial instruments are recognized currently in earnings unless specific hedge accounting criteria are met. For derivative financial instruments designated as hedging the exposure to changes in the fair value of a recognized asset or liability (fair value hedge), the gain or loss is recognized in earnings in the period of change together with the offsetting loss or gain on the hedged item attributable to the risk being hedged. For derivative financial instruments designated as hedging the exposure to variable cash flows of a

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forecasted transaction (cash flow hedge), the effective portion of the derivative financial instrument's gain or loss is initially reported as a component of accumulated other comprehensive income and is subsequently reclassified into earnings when the forecasted transaction affects earnings. The ineffective portion of the gain or loss is reported in earnings immediately.

At inception of a hedge, the Corporation formally documents the hedging relationship as well as the Corporation's risk management objective and strategy for undertaking the hedge, including identification of the hedging instrument, the hedged transaction, the nature of the risk being hedged, and how the hedging instrument's effectiveness in hedging the exposure will be assessed.

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Notes to Consolidated Financial Statements (Continued)

December 31, 2008, 2007, and 2006 (\$000 s except share data)

The adjustment of the carrying amount of an interest bearing hedged asset or liability in a fair value hedge is amortized into earnings when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged.

If a cash flow hedge is discontinued because it is probable that the original forecasted transaction will not occur, the net gain or loss in accumulated other comprehensive income is immediately reclassified into earnings. If the cash flow hedge is sold, terminated, expires or the designation of the cash flow hedge is removed, the net gain or loss in accumulated other comprehensive income is reclassified into earnings in the same period or periods during which the hedged forecasted transaction affects earnings.

Cash flows from derivative financial instruments are reported in the Consolidated Statements of Cash Flows as operating activities.

Foreign exchange contracts Foreign exchange contracts include such commitments as foreign currency spot, forward, future and option contracts. Foreign exchange contracts and the premiums on options written or sold are carried at market value with changes in market value included in other income.

Treasury stock Treasury stock acquired is recorded at cost and is carried as a reduction of shareholders' equity in the Consolidated Balance Sheets. Treasury stock issued is valued based on average cost. The difference between the consideration received upon issuance and the average cost is charged or credited to additional paid-in capital.

New accounting pronouncements In January 2009, the Financial Accounting Standards Board (FASB) issued FASB Staff Position (FSP) No. EITF 99-20-1, **Amendments to the Impairment Guidance of EITF Issue No. 99-20** (FSP EITF 99-20-1). This FSP amends impairment guidance for investment securities that are beneficial interests in securitized financial assets that are of a lower quality and could contractually be prepaid or otherwise settled in such a way that the holder would not recover substantially all of its recorded investment to be more consistent with other related impairment guidance. The FSP was effective as of December 31, 2008 and applied prospectively by the Corporation. The adoption of FSP EITF 99-20-1 did not have a significant impact to the Corporation's consolidated financial statements.

In December 2008, the FASB issued FSP No. FAS 132(R)-1 (FSP 132(R)-1), **Employers' Disclosures about Postretirement Benefit Plan Assets**. FSP 132(R)-1 requires additional disclosure regarding plan assets held in an employer's defined benefit pension or other postretirement plan to provide disclosures regarding investment allocations, major categories of plan assets, valuation techniques used to measure the fair value of plan assets, the effect of fair value measurements using significant unobservable inputs (Level 3) on changes in plan assets for the period and significant concentrations of risk within plan assets. FSP 132(R)-1 is effective for years ending after December 15, 2009. Earlier application of the provisions of this FSP is permitted. The Corporation adopted FSP 132(R)-1 effective December 31, 2008. See Note 18 Employee Retirement and Health Plans in Notes to Consolidated Financial Statements for further information.

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In September 2008, the FASB ratified EITF Issue No. 08-5 (EITF Issue 08-5), *Issuer s Accounting for Liabilities Measured at Fair Value with a Third-Party Credit Enhancement*. Under EITF Issue 08-5 the measurement or disclosure of the fair value of a liability, such as debt, issued with an inseparable financial guarantee of payment from a third-party should not include the effect of the credit enhancement. Thus, the liability s fair value is determined considering the issuer s credit standing without regard to the effect of the third-party credit enhancement. EITF Issue 08-5 does not apply to a credit enhancement provided by the government or government agencies (for example, deposit insurance or debt guaranteed under the FDIC s Temporary Liquidity Guarantee Program) or a credit enhancement provided between a parent and its subsidiary. The effect of initially applying EITF Issue 08-5 should be included in the change in fair value in the year of adoption. EITF Issue 08-5 was effective on a prospective basis on January 1, 2009. Earlier application was not permitted. As the Corporation has not issued liabilities with inseparable financial guarantees within the scope of EITF Issue 08-5, the adoption of EITF Issue 08-5 did not have a significant impact on its financial statements and related disclosures.

Table of Contents**Notes to Consolidated Financial Statements (Continued)****December 31, 2008, 2007, and 2006 (\$000 s except share data)**

In June 2008, the FASB issued FSP No. EITF 03-6-1 (FSP EITF 03-6-1), *Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities*. Under FSP EITF 03-6-1, unvested share-based payment awards that provide nonforfeitable rights to dividends are considered participating securities to be included in the computation of earnings per share pursuant to the two-class method described in FASB Statement No. 128, *Earnings per Share*. FSP EITF 03-6-1 was effective for the Corporation on January 1, 2009. Once effective, all prior period earnings per share data presented must be adjusted retrospectively to conform to the provisions of the FSP. Early application was not permitted. The Corporation does not expect the adoption of FSP EITF 03-6-1 will have a significant impact on its financial statements and related disclosures.

In May 2008, the FASB issued Statement of Financial Accounting Standards No. 162, *The Hierarchy of Generally Accepted Accounting Principles* (SFAS 162). SFAS 162 identifies the sources of accounting principles and the framework for selecting the principles used in the preparation of financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles (GAAP) in the United States. SFAS 162 became effective November 15, 2008. The Corporation's adoption of SFAS 162 did not result in a change in current practice.

In April 2008, the FASB issued FSP No. FAS 142-3, *Determination of the Useful Life of Intangible Assets* (FSP FAS 142-3). FSP FAS 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset and provides for enhanced disclosures regarding intangible assets. The intent of this FSP is to improve the consistency between the useful life of a recognized intangible asset and the period of expected cash flows used to measure the fair value of the asset. The disclosure provisions were effective for all intangibles recorded as of, and subsequent to, January 1, 2009 and the guidance for determining the useful life applies prospectively to all intangible assets acquired after January 1, 2009. Early adoption was prohibited. The effects of adoption did not have a significant impact on and intangibles recorded at the adoption date.

In March 2008, FASB issued Statement of Financial Accounting Standard No. 161, *Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133* (SFAS 161). SFAS 161 applies to all derivative instruments and related hedged items accounted for under FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities* (SFAS 133). SFAS 161 amends and expands the disclosures provided under SFAS 133 regarding how and why an entity uses derivative instruments, how derivative instruments and related hedged items are accounted for under SFAS 133 and its related interpretations, and how derivative instruments and related hedged items affect an entity's financial position, results of operations, and cash flows. The Corporation adopted SFAS 161 effective December 31, 2008. See Note 21 Derivative Financial Instruments and Hedging Activities in the Notes to Consolidated Financial Statements for additional information.

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 141 (revised 2007), *Business Combinations* (SFAS 141R). SFAS 141R establishes principles and requirements for how an acquirer in a business combination recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, goodwill and any noncontrolling interest in the acquiree. SFAS 141R will be applied prospectively to business combinations for which the acquisition date is on or after January 1, 2009. Early adoption is not permitted.

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While the impact on the Corporation will depend on the facts of a particular business combination, SFAS 141R presents several significant changes from current accounting for business combinations, including accounting for contingent consideration, transaction costs, preacquisition contingencies, restructuring costs and step-acquisitions. Upon adoption, contingent consideration arrangements would be recorded at fair value at the acquisition date. The concept of recognizing contingent consideration at a later date when the amount of that consideration is determinable beyond a reasonable doubt will no longer be applicable. Transaction costs are not an element of fair value of the target, so they would be expensed as incurred. Preacquisition contingencies, such as legal issues, would generally be recorded at fair value. However, if it is more likely than not that a non-contractual contingency will not materialize, nothing would be recorded at the acquisition date and, instead, that contingency will be subject to the recognition criteria prescribed in FASB Statement No. 5, *Accounting for Contingencies*. Adjustments of valuation allowances related to acquired

Table of Contents**Notes to Consolidated Financial Statements (Continued)****December 31, 2008, 2007, and 2006 (\$000 s except share data)**

deferred tax assets and changes to acquired income tax uncertainties will be recognized in earnings, except for qualified measurement period adjustments. The measurement period is a period of up to one year during which the initial amounts recognized for an acquisition can be adjusted. Restructuring costs that the acquirer expects but is not obligated to incur would be recognized separately from the business combination instead of being recognized as if they were a liability assumed at the acquisition date. Upon initially obtaining control, an acquirer will recognize 100% of the fair values of acquired assets, including goodwill, and assumed liabilities, with only limited exceptions, even if the acquirer has not acquired 100% of its target. As a consequence, the current step acquisition model will be eliminated.

2. Discontinued Operations

On November 1, 2007, old Marshall & Ilsley Corporation, the Accounting Predecessor to new Marshall & Ilsley Corporation (which is referred to as M&I or the Corporation) and its wholly owned subsidiary, Metavante Corporation, the Accounting Predecessor to Metavante Technologies, Inc. (which is referred to as Metavante) became two separate publicly traded companies in accordance with the plan the Corporation announced in early April 2007. The Corporation refers to this transaction as the Separation.

As a result of the Separation, the assets, liabilities and net income of Metavante were de-consolidated from the Corporation s historical consolidated financial statements and are reported as discontinued operations. For the year ended December 31, 2007, income from discontinued operations in the Consolidated Statements of Income also includes the expenses attributable to the Separation transaction.

Notwithstanding the legal form of the transactions, new Marshall & Ilsley was considered the divesting entity and treated as the accounting successor to Marshall & Ilsley Corporation and Metavante was considered the accounting spinnee for financial reporting purposes in accordance with Emerging Issues Task Force Issue No. 02-11, *Accounting for Reverse Spinoffs*.

The results of discontinued operations for the years ended December 31, 2007 and 2006 consisted of the following:

| | Years Ended December 31, | |
|---|---------------------------------|-------------|
| | 2007 | 2006 |
| Metavante Income Before Provision for Income Taxes | \$ 242,687 | \$ 240,483 |
| Separation Transaction Expenses and Other Related Costs | (29,833) | |
| Gain on Sale of Metavante | 525,576 | |
| Income Before Provision for Income Taxes | 738,430 | 240,483 |
| Provision for Income Taxes | 84,433 | 80,359 |
| Income from Discontinued Operations, Net of Tax | \$ 653,997 | \$ 160,124 |

Metavante's results of operations for the year ended December 31, 2007 included in the table above reflect results of operations for the ten months ended October 31, 2007. For periods beginning after November 1, 2007, M&I reported the historical consolidated results of operations (subject to certain adjustments) of Metavante in discontinued operations in accordance with the provisions of Statement of Financial Accounting Standards No. 144 (SFAS 144), *Accounting for the Impairment or Disposal of Long-Lived Assets*.

Table of Contents**Notes to Consolidated Financial Statements (Continued)****December 31, 2008, 2007, and 2006 (\$000 s except share data)**

The transaction expenses of the Corporation related to the Separation included in discontinued operations consisted of the following:

| | Year Ended December 31, 2007 |
|-----------------------------------|---|
| Investment Banking Fees | \$ 10,200 |
| Stock Option Expense | 11,969 |
| Accounting, Legal & Tax Fees | 5,002 |
| Consulting Fees | 1,036 |
| Printing, Proxy & Regulatory Fees | 1,008 |
| Other | 618 |
| Total Transaction Expenses | \$ 29,833 |

WPM, L.P., a limited partnership affiliated with Warburg Pincus Private Equity IX, L.P. (Warburg Pincus), and others consummated the transactions provided for in an investment agreement, a separation agreement and related transaction agreements pursuant to which, Warburg Pincus invested \$625 million in Metavante for an equity interest representing 25% of Metavante common stock. For accounting purposes only, the investment by Warburg Pincus in Metavante was treated as a sale of 25% of Metavante s common stock by the Corporation to Warburg Pincus for cash in the amount of \$625 million. The sale resulted in a tax-free gain of \$525.6 million that is reported as a component of discontinued operations in the Consolidated Statements of Income for the year ended December 31, 2007.

As permitted under U.S. generally accepted accounting principles, the Corporation elected not to adjust the Consolidated Statements of Cash Flows for the periods presented to exclude cash flows attributable to discontinued operations.

Included in Cash Paid for Acquisitions, Net of Cash and Cash Equivalents Acquired in the Corporation s Consolidated Statements of Cash Flows for the years ended December 31, 2007 and 2006, are Metavante s acquisitions, which are part of discontinued operations. The total cash consideration associated with Metavante s acquisitions amounted to \$41.0 million in 2007 and \$80.1 million in 2006. During 2006, Metavante received \$29.9 million as a return of purchase price associated with a 2004 acquisition.

The net proceeds from the Separation included in the Consolidated Statements of Cash Flows consisted of the following:

| | Year Ended December 31, 2007 |
|------------------------------|---|
| Cash Dividend from Metavante | \$ 1,040,000 |
| Proceeds from Warburg Pincus | 625,000 |

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| | |
|---|--------------|
| Metavante's Cash and Cash Equivalents maintained at Unaffiliated Entities | (46,388) |
| Capital Contribution to Metavante | (17,500) |
| Cash Paid for Transaction Costs | (8,466) |
| Net Proceeds from the Separation | \$ 1,592,646 |

As part of the Separation, the Corporation and Metavante entered into an agreement to share certain transaction costs and the cash paid to shareholders in lieu of fractional shares. In accordance with that agreement, the Corporation received \$5,066 from Metavante.

On November 1, 2007, the Corporation received \$982 million of cash from Metavante to retire its indebtedness.

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Notes to Consolidated Financial Statements (Continued)

December 31, 2008, 2007, and 2006 (\$000 s except share data)

For accounting purposes only, after the sale to Warburg Pincus of a 25% equity interest in Metavante, and after the dividend from Metavante, the Corporation distributed its remaining 75% ownership interest in Metavante to its shareholders on November 1, 2007. The Corporation's investment in Metavante at the time of the distribution was \$298,272.

3. Fair Value Measurements

On January 1, 2008 the Corporation adopted, except as discussed below, Statement of Financial Accounting Standard No. 157, *Fair Value Measurements* (SFAS 157). SFAS 157 provides enhanced guidance for using fair value to measure assets and liabilities. The standard generally applies whenever other standards require or permit assets or liabilities to be measured at fair value. Under the standard, fair value refers to the price at the measurement date that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in which the reporting entity is engaged. The standard does not expand the use of fair value in any new circumstances. As permitted, adoption of SFAS 157 has been delayed for certain nonfinancial assets and nonfinancial liabilities to January 1, 2009.

All changes resulting from the application of SFAS 157 were applied prospectively with the effect of adoption recognized in either earnings or other comprehensive income depending on the applicable accounting requirements for the particular asset or liability being measured.

In October 2008, the FASB issued FSP No. FAS 157-3 (FSP 157-3), *Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active*. FSP 157-3 clarifies, but does not change, the application of existing principles in FASB Statement No. 157, *Fair Value Measurements*, in a market that is not active and provides an example to illustrate key considerations for determining the fair value of a financial asset when either relevant observable inputs do not exist or available observable inputs are in a market that is not active. FSP 157-3 was effective for the Corporation on September 30, 2008 and the effect of adoption was not significant.

On February 14, 2008, the FASB issued FASB Staff Position No. FAS 157-1, *Application of FASB Statement No. 157 to FASB Statement No. 13 and Other Accounting Pronouncements That Address Fair Value Measurements for Purposes of Lease Classification or Measurement under FASB Statement 13*. This FSP amended SFAS 157 to exclude accounting pronouncements, other than those related to business combinations, that address fair value measurements for purposes of lease classification or measurement.

On February 12, 2008, the FASB issued FASB Staff Position No. FAS 157-2, *Effective Date of FASB Statement No. 157* (FSP FAS 157-2). This FSP delayed the effective date of SFAS 157 for certain nonfinancial assets and nonfinancial liabilities to January 1, 2009. The effect of adoption was not significant to the Corporation's financial statements or related disclosures.

Fair-Value Hierarchy

SFAS 157 establishes a three-tier hierarchy for fair value measurements based upon the transparency of the inputs to the valuation of an asset or liability and expands the disclosures about instruments measured at fair value. A financial instrument is categorized in its entirety and its categorization within the hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The three levels are described below.

Level 1 Inputs to the valuation methodology are quoted prices (unadjusted) for *identical* assets or liabilities in active markets.

Level 2 Inputs to the valuation methodology include quoted prices for *similar* assets and liabilities in active markets and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument. Fair values for these instruments are estimated using pricing models, quoted prices of securities with similar characteristics, or discounted cash flows.

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Notes to Consolidated Financial Statements (Continued)

December 31, 2008, 2007, and 2006 (\$000 s except share data)

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement. Fair values are initially valued based upon transaction price and are adjusted to reflect exit values as evidenced by financing and sale transactions with third parties.

Determination of Fair Value

Following is a description of the valuation methodologies used for instruments measured at fair value on a recurring basis, as well as the general classification of such instruments pursuant to the valuation hierarchy.

Trading Assets and Investment Securities

When available, the Corporation uses quoted market prices to determine the fair value of trading assets and investment securities; such items are classified in Level 1 of the fair value hierarchy.

For the Corporation's investments in government agencies, mortgage-backed securities and obligations of states and political subdivisions where quoted prices are not available for identical securities in an active market, the Corporation determines fair value utilizing vendors who apply matrix pricing for similar bonds where no price is observable or may compile prices from various sources. These models are primarily industry-standard models that consider various assumptions, including time value, yield curve, volatility factors, prepayment speeds, default rates, loss severity, current market and contractual prices for the underlying financial instruments, as well as other relevant economic measures. Substantially all of these assumptions are observable in the marketplace, can be derived from observable data or are supported by observable levels at which transactions are executed in the marketplace. Fair values from these models are verified, where possible, to quoted prices for recent trading activity of assets with similar characteristics to the security being valued. Such methods are generally classified as Level 2. However, when prices from independent sources vary, cannot be obtained or cannot be corroborated, a security is generally classified as Level 3.

For the Corporation's Private Equity Group (formerly referred to as the Corporation's Capital Markets Group), investments generally take the form of investments in private equity funds. The private equity investments are valued using the valuations and financial statements provided by the general partners on a quarterly basis. The transaction price is used as the best estimate of fair value at inception. When evidence supports a change to the carrying value from the transaction price, adjustments are made to reflect expected exit values. These nonpublic investments are included in Level 3 of the fair value hierarchy because they trade infrequently, and, therefore, the fair value is unobservable.

Estimated fair values for residual interests in the form of interest only strips from automobile loan securitizations are based on a discounted cash flow analysis and are classified as a Level 3.

Derivative Financial Instruments

Fair values for exchange-traded contracts are based on quoted prices and are classified as Level 1. Fair values for over-the-counter interest rate contracts are provided either by third-party dealers in the contracts or by quotes provided by the Corporation's independent pricing services. The significant inputs, including the LIBOR curve and measures of volatility, used by these third-party dealers or independent pricing services to determine fair values are considered Level 2, observable market inputs.

Certain derivative transactions are executed with counterparties who are large financial institutions (dealers). These derivative transactions primarily consist of interest rate swaps that were used for fair value hedges, cash flow hedges and economic hedges of interest rate swaps executed with the Corporation's customers. The Corporation and its subsidiaries maintain risk management policies and procedures to monitor and limit exposure to credit risk to derivative transactions with dealers. Approved dealers for these transactions must have and maintain an investment grade rating on long-term senior debt from at least two nationally recognized statistical rating organizations or have a guarantor with an acceptable rating from such organizations. International Swaps and Derivative Association Master

Table of Contents**Notes to Consolidated Financial Statements (Continued)****December 31, 2008, 2007, and 2006 (\$000 s except share data)**

Agreements (ISDA) and Credit Support Annexes (CSA) are employed for all contracts with dealers. These agreements contain bilateral collateral arrangements. Notwithstanding its policies and procedures, the Corporation recognizes that unprecedented events could result in counterparty failure. The Corporation also recognizes that there could be additional credit exposure due to certain industry conventions established for operational efficiencies.

On a quarterly basis, the Corporation performs an analysis using historical and market implied default and recovery rates that also consider certain industry conventions established for operational efficiencies to estimate the potential impact on the reported fair values of these derivative financial assets and liabilities due to counterparty credit risk and the Corporation's own credit risk. Based on this analysis, the Corporation determined that the impact of these factors was insignificant and did not make any additional credit risk adjustments for purposes of determining the reported fair values of these derivative assets and liabilities with dealers at December 31, 2008.

Certain derivative transactions are executed with customers whose counterparty credit risk is similar in nature to the credit risk associated with the Corporation's lending activities. As is the case with a loan, the Corporation evaluates the credit risk of each of these customers on an individual basis and, where deemed appropriate collateral is obtained. The type of collateral varies and is often the same collateral as the collateral obtained to secure a customer's loan. For purposes of assessing the potential impact of counterparty credit risk on the fair values of derivative assets with customers, the Corporation used a probability analysis to estimate the amount of expected loss exposure due to customer default at some point in the remaining term of the entire portfolio of customer derivative contracts outstanding at December 31, 2008. While not significant, the Corporation did factor in the estimated amount of expected loss due to customer default into the reported fair value of its customer derivative assets at December 31, 2008.

Assets and liabilities measured at fair value on a recurring basis are categorized in the tables below based upon the lowest level of significant input to the valuations as of December 31, 2008:

| | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
|---|---|---|--|
| Assets (1) | | | |
| Trading Assets: | | | |
| Trading Securities | \$ | \$ 186,792 | \$ |
| Derivative Assets | 112 | 331,457 | |
| Total Trading Assets | \$ 112 | \$ 518,249 | \$ |
| Investment Securities Available for Sale (2): | | | |
| Investment Securities | \$ 127 | \$ 6,840,021 | \$ 135,953 |
| Private Equity Investments | | | 65,288 |
| Other | | | 5,903 |

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| | | | | |
|--|----|------|--------------|------------|
| Total Investment Securities Available for Sale | \$ | 127 | \$ 6,840,021 | \$ 207,144 |
| Liabilities (1) | | | | |
| Other Short-term Borrowings | \$ | | \$ 23,478 | \$ |
| Accrued Expenses and Other Liabilities: | | | | |
| Derivative Liabilities | \$ | (84) | \$ 286,846 | \$ |

- (1) The amounts presented above exclude certain over-the-counter interest rate swaps that are the designated hedging instruments in fair value and cash flow hedges that are used by the Corporation to manage its interest rate risk. These interest rate swaps are measured at fair value on a recurring basis based on significant other observable inputs and are categorized as Level 2. See Note 21 Derivative Financial Instruments and Hedging Activities in Notes to Consolidated Financial Statements for further information.
- (2) The amounts presented above are exclusive of \$339,779 of investments in Federal Reserve Bank and FHLB stock, which are bought and sold at par and are carried at cost and \$43,481 in affordable housing partnerships, which are generally carried on the equity method.

Table of Contents**Notes to Consolidated Financial Statements (Continued)****December 31, 2008, 2007, and 2006 (\$000 s except share data)****Level 3 Gains and Losses**

The table presented below summarizes the change in balance sheet carrying values associated with financial instruments measured using significant unobservable inputs (Level 3) during the twelve months ended December 31, 2008:

| | Investment securities (1) | Private equity investments (2) | Other | Total |
|--|------------------------------|-----------------------------------|------------|-------------|
| Balance at January 1, 2008 | \$ 2,066 | \$ 54,121 | \$ 9,030 | \$ 65,217 |
| Net payments, purchases and sales | 23,569 | 18,200 | (3,307) | 38,462 |
| Discount accretion | 141 | | 740 | 881 |
| Net transfers in and/or out of Level 3 | 185,698 | | | 185,698 |
| Total gains or losses (realized or unrealized): | | | | |
| Included in earnings | | (7,033) | (1,743) | (8,776) |
| Included in other comprehensive income | (75,521) | | 1,183 | (74,338) |
| Balance at December 31, 2008 | \$ 135,953 | \$ 65,288 | \$ 5,903 | \$ 207,144 |
| Unrealized gains or losses for the year included in earnings attributable to unrealized gains or losses for assets still held at December 31, 2008 | \$ | \$ (9,795) | \$ (1,972) | \$ (11,767) |

- (1) Unrealized changes in fair value for available-for-sale investments (debt securities) are recorded in other comprehensive income, while gains and losses from sales are recorded in Net Investment Securities Gains in the Consolidated Statements of Income.
- (2) Private equity investments are generally recorded at fair value. Accordingly, both unrealized changes in fair value and gains or losses from sales are included in Net Investment Securities Gains in the Consolidated Statements of Income.

The increase in Level 3 investment securities at December 31, 2008 was primarily due to the transfer of certain highly-rated asset backed securities. During the year ended December 31, 2008, the Corporation determined that it could not obtain a sufficient number of observable inputs in the form of market or broker quotes to substantiate a Level 2 classification.

Loans held for sale are recorded at LOCOM and therefore are reported at fair value on a nonrecurring basis. Such fair values are generally based on bids and are considered Level 2 fair values. For nonaccrual loans greater than an established threshold individually evaluated for impairment and all renegotiated loans, impairment is measured based on the fair value of the collateral less estimated selling costs or the fair value to the loan, collectively the collateral value method, or the present value of the estimated cash flows discounted at the loan's original effective interest rate, the discounted cash flow method. A valuation allowance is recorded for the excess of the loan's recorded investment over the amount determined by either the collateral value method or the discounted cash flow method. This valuation allowance is a component of the Allowance for loan and lease losses. The discounted cash flow method is not a fair value measure. For the collateral value method, the Corporation generally obtains appraisals to support the fair value of collateral underlying loans. Appraisals incorporate measures such as recent sales prices for comparable properties and costs of construction. The Corporation considers these fair values Level 3. For those loans individually evaluated for impairment using the collateral value method, a valuation allowance of \$68,837 was recorded for loans with a recorded investment of \$737,700 at December 31, 2008. See Note 8 Allowance for Loan and Lease Losses in Notes to Consolidated Financial Statements for more

information.

On January 1, 2008, the Corporation adopted Statement of Financial Accounting Standard No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities, Including an Amendment of FASB Statement No. 115* (SFAS 159). SFAS 159 permits entities to choose to measure many financial instruments and certain other items generally on an instrument-by-instrument basis at fair value that are not currently required to be measured at fair value. SFAS 159 is intended to provide entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. SFAS 159 does not change requirements for recognizing and measuring dividend income, interest income, or interest

Table of Contents**Notes to Consolidated Financial Statements (Continued)****December 31, 2008, 2007, and 2006 (\$000 s except share data)**

expense. The Corporation did not elect to measure any existing financial instruments at fair value at January 1, 2008. However, the Corporation may elect to measure newly acquired financial instruments at fair value in the future.

4. Earnings Per Common Share

The following presents a reconciliation of the numerators and denominators of the basic and diluted per common share computations (dollars and shares in thousands, except per share data):

| | Year Ended December 31, 2008 | | |
|--|------------------------------|---------------------------------|---------------------|
| | Income (Numerator) | Average Shares (Denominator) | Per Share Amount |
| Basic: | | | |
| Loss from continuing operations | \$ (2,043,462) | | |
| Preferred dividends | (12,737) | | |
| Net loss available to common shareholders | \$ (2,056,199) | 259,615 | \$ (7.92) |
| Effect of dilutive securities: | | | |
| Stock option, restricted stock and other plans | | | |
| Diluted: | | | |
| Loss from continuing operations | \$ (2,043,462) | | |
| Preferred dividends | (12,737) | | |
| Net loss available to common shareholders | \$ (2,056,199) | 259,615 | \$ (7.92) |

| | Year Ended December 31, 2007 | | |
|--|------------------------------|---------------------------------|------------------------|
| | Income (Numerator) | Average Shares (Denominator) | Per Share Amount |
| Basic: | | | |
| Income from continuing operations | \$ 496,939 | | \$ 1.91 |
| Income from discontinued operations | 653,997 | | 2.51 |
| Net income available to common shareholders | \$ 1,150,936 | 260,268 | \$ 4.42 |
| Effect of dilutive securities: | | | |
| Stock option, restricted stock and other plans | | 5,212 | |

Diluted:

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| | | | |
|---|--------------|---------|---------|
| Income from continuing operations | \$ 496,939 | | \$ 1.87 |
| Income from discontinued operations | 653,997 | | 2.47 |
| Net income available to common shareholders | \$ 1,150,936 | 265,480 | \$ 4.34 |

| | Year Ended December 31, 2006 | | |
|--|------------------------------|---------------------------------|------------------------|
| | Income (Numerator) | Average Shares (Denominator) | Per Share Amount |
| Basic: | | | |
| Income from continuing operations | \$ 647,714 | | \$ 2.60 |
| Income from discontinued operations | 160,124 | | 0.64 |
| Net income available to common shareholders | \$ 807,838 | 249,163 | \$ 3.24 |
| Effect of dilutive securities: | | | |
| Stock option, restricted stock and other plans | | 5,421 | |
| Diluted: | | | |
| Income from continuing operations | \$ 647,714 | | \$ 2.54 |
| Income from discontinued operations | 160,124 | | 0.63 |
| Net income available to common shareholders | \$ 807,838 | 254,584 | \$ 3.17 |

Table of Contents**Notes to Consolidated Financial Statements (Continued)****December 31, 2008, 2007, and 2006 (\$000 s except share data)**

The table below presents the options to purchase shares of common stock not included in the computation of diluted earnings per common share because the stock options' exercise price was greater than the average market price of the common shares for the periods ended 2008, 2007 and 2006 (anti-dilutive options). As a result of the Corporation's reported net loss for the year ended December 31, 2008, all of the stock options outstanding were excluded from the computation of diluted earnings per common share. (shares in thousands)

| Year Ended December 31, | Price Range | | Shares |
|--------------------------------|--------------------|---------|---------------|
| 2008 | \$ 8.55 | \$36.82 | 33,439 |
| 2007 | 28.71 | 36.82 | 5,709 |
| 2006 | 45.71 | 48.54 | 3,725 |

5. Business Combinations

The following acquisitions, which are not considered to be material business combinations individually or in the aggregate, were completed during 2008:

On December 3, 2008, the Corporation completed its acquisition of an 80% equity interest in Taplin, Canida & Habacht, Inc. (TCH). TCH, based in Miami, Florida, is an institutional fixed income money manager with approximately \$7.3 billion of assets under management as of December 31, 2008. Total consideration in this transaction amounted to \$64.0 million, consisting of 4,863,221 shares of the Corporation's common stock valued at \$13.16 per common share. This is considered a non-cash transaction for the purposes of the Consolidated Statement of Cash Flows. TCH was integrated with the Corporation's Wealth Management segment. Initial goodwill, subject to the completion of appraisals and valuation of the assets acquired and liabilities assumed, amounted to \$39.2 million. The estimated identifiable intangible asset to be amortized, subject to a completed valuation, amounted to \$24.9 million. The goodwill and intangibles resulting from this acquisition are deductible for tax purposes. The Corporation will acquire the remaining 20% interest in TCH over the next five years through subsequent payments based on certain criteria, which include the future earnings of TCH, as defined in the TCH Purchase Agreement, and therefore cannot be determined at the present time.

On January 2, 2008, the Corporation completed its acquisition of First Indiana Corporation (First Indiana) based in Indianapolis, Indiana. First Indiana, with \$2.1 billion in consolidated assets as of December 31, 2007, had 32 branches in central Indiana which became branches of M&I Bank on February 2, 2008. Stockholders of First Indiana received \$32.00 in cash for each share of First Indiana common stock outstanding, or approximately \$530.2 million. Goodwill amounted to \$412.7 million. The estimated identifiable intangible asset to be amortized (core deposits) with a weighted average life of 5.7 years amounted to \$33.6 million. The goodwill and intangibles resulting from this acquisition are not deductible for tax purposes.

The following acquisitions, which are not considered to be material business combinations individually or in the aggregate, were completed during 2007:

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On July 1, 2007, the Corporation completed its acquisition of Excel Bank Corporation (Excel). Pursuant to an Amended and Restated Merger Agreement, shareholders of Excel received \$13.97 per share in cash for each issued and outstanding share of Excel common stock. Total consideration in this transaction amounted to approximately \$105.0 million in the aggregate, consisting of \$101.2 million in cash and the exchange of vested stock options valued at approximately \$3.8 million. Outstanding vested options to acquire Excel common stock were exchanged for options to acquire the Corporation's common stock. Excel, with \$616.0 million in consolidated assets as of June 30, 2007, had four branches in the greater Minneapolis/St. Paul, Minnesota metropolitan area which became branches of M&I Bank on August 1, 2007. Goodwill amounted to \$80.3 million. The estimated identifiable intangible asset to be amortized (core deposits) with a weighted average life of 6.2 years amounted to \$4.2 million. The goodwill and intangibles resulting from this acquisition are deductible for tax purposes.

Table of Contents**Notes to Consolidated Financial Statements (Continued)****December 31, 2008, 2007, and 2006 (\$000 s except share data)**

On April 20, 2007, the Corporation completed its acquisition of North Star Financial Corporation (North Star) of Chicago, Illinois. Total consideration in this transaction amounted to \$21.0 million, consisting of 441,252 shares of the Corporation's common stock valued at \$47.55 per common share. North Star and its subsidiaries provide a variety of wealth management services through personal and other trusts. In addition, North Star offers a variety of other products and services including land trusts, 1031 exchanges for both real and personal property, and ESOP services, including consultative services relating to the transfer of small-business stock ownership. North Star's businesses were integrated with the Corporation's Wealth Management segment. Goodwill amounted to \$16.7 million. The estimated identifiable intangible assets to be amortized (customer relationships, tradename and non-compete agreements) with a weighted average life of 7.0 years amounted to \$10.2 million. This is considered a non-cash transaction for the purposes of the Consolidated Statement of Cash Flows. The goodwill and intangibles resulting from this acquisition are not deductible for tax purposes.

On April 1, 2007, the Corporation completed its acquisition of United Heritage Bankshares of Florida, Inc. (United Heritage). United Heritage Bank, a wholly-owned subsidiary of United Heritage, with \$791.3 million in assets as of March 31, 2007, had 13 branches in the metropolitan Orlando area which became M&I Bank branches in the second quarter of 2007. Total consideration in this transaction amounted to approximately \$219.6 million, consisting of 4,410,647 shares of the Corporation's common stock valued at \$204.3 million and the exchange of vested stock options valued at approximately \$15.3 million. Goodwill amounted to \$147.8 million. The estimated identifiable intangible asset to be amortized (core deposits) with a weighted average life of 7.7 years amounted to \$11.6 million. This is considered a non-cash transaction for the purposes of the Consolidated Statement of Cash Flows. The goodwill and intangibles resulting from this acquisition are not deductible for tax purposes.

The following acquisitions, which are not considered to be material business combinations individually or in the aggregate, were completed during 2006:

On April 1, 2006, the Corporation completed the acquisition of Gold Banc Corporation, Inc. (Gold Banc), a bank holding company headquartered in Leawood, Kansas, which offers commercial banking, retail banking, trust and asset management products and services through various subsidiaries. Gold Banc had consolidated assets of \$4.2 billion at the time of the merger. Total consideration in this transaction, including the effect of terminating Gold Banc's employee stock ownership plan, amounted to \$716.2 million, consisting of 13,672,665 shares of M&I common stock valued at \$601.0 million, the exchange of 119,816 vested options valued at \$2.9 million and total cash consideration of \$112.3 million. Gold Banc's largest subsidiary, Gold Bank, a Kansas state-chartered bank, was merged with and into M&I Bank on April 1, 2006 at which time, the 32 Gold Bank branch offices in Florida, Kansas, Missouri and Oklahoma became interstate branch offices of M&I Bank. Goodwill amounted to \$493.5 million. Approximately \$485.6 million of the goodwill was assigned to Banking and the remainder was assigned to the Corporation's Trust reporting unit of the Wealth Management segment. The estimated identifiable intangible asset to be amortized (core deposits) with an estimated weighted average life of 5.0 years amounted to \$44.1 million. The goodwill and intangibles resulting from this transaction are not deductible for tax purposes.

On April 1, 2006, the Corporation completed the acquisition of St. Louis-based Trustcorp Financial, Inc. (Trustcorp). With the acquisition of Trustcorp, which had consolidated assets of \$735.7 million at the time of the merger, the Corporation acquired Missouri State Bank and Trust Company, which provides commercial banking services in Missouri through seven bank locations. In July 2006, the Missouri State Bank and all of its branches were merged with and into Southwest Bank, the Corporation's St. Louis-based banking affiliate. Total consideration in this transaction amounted to \$182.0 million, consisting of 3,069,328 shares of M&I common stock valued at \$134.9 million, the exchange of 412,317 vested options valued at \$13.4 million and cash consideration of \$33.7 million. Goodwill amounted to \$130.4 million. The estimated

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identifiable intangible asset to be amortized (core deposits) with an estimated weighted average life of 7.5 years amounted to \$10.9 million. The goodwill and intangibles resulting from this transaction are partially deductible for tax purposes.

On January 3, 2006, M&I Trust completed the acquisition of the trust and asset management business assets of FirstTrust Indiana of Indianapolis, Indiana, a division of First Indiana Bank, N.A. (FirstTrust Indiana). The total cash

Table of Contents**Notes to Consolidated Financial Statements (Continued)****December 31, 2008, 2007, and 2006 (\$000 s except share data)**

consideration was \$15.9 million. FirstTrust Indiana offers asset management, trust administration and estate planning services to high net-worth individuals and institutional customers. Goodwill amounted to \$13.4 million. The estimated identifiable intangible asset to be amortized (trust customers) with an estimated weighted average life of 5.9 years amounted to \$2.0 million. The goodwill and intangibles resulting from this transaction are deductible for tax purposes.

The results of operations of the acquired entities have been included in the consolidated results since the dates the transactions were closed.

6. Investment Securities

The amortized cost and fair value of selected securities at December 31 were:

| | 2008 | | 2007 | |
|--|----------------|--------------|----------------|--------------|
| | Amortized Cost | Fair Value | Amortized Cost | Fair Value |
| Investment Securities Available for Sale: | | | | |
| U.S. Treasury and government agencies | \$ 5,664,947 | \$ 5,679,970 | \$ 5,849,041 | \$ 5,824,303 |
| States and political subdivisions | 874,183 | 880,497 | 894,015 | 904,230 |
| Mortgage backed securities | 175,740 | 165,757 | 119,487 | 118,477 |
| Other | 803,063 | 704,207 | 596,314 | 595,879 |
| Cash flow hedge Corporate Notes | 121 | 121 | | |
| Other | 803,184 | 704,328 | 596,314 | 595,879 |
| Total | \$ 7,518,054 | \$ 7,430,552 | \$ 7,458,857 | \$ 7,442,889 |
| Investment Securities Held to Maturity: | | | | |
| States and political subdivisions | \$ 237,009 | \$ 242,395 | \$ 373,861 | \$ 382,190 |
| Other | 1,000 | 1,000 | 1,000 | 1,000 |
| Total | \$ 238,009 | \$ 243,395 | \$ 374,861 | \$ 383,190 |

During the second quarter of 2008, \$1.6 million of investment securities in the Corporation's held to maturity portfolio were downgraded. As a result, the Corporation sold these securities, as permitted under Statement of Financial Accounting Standards No. 115, *Accounting for Certain Investments in Debt and Equity Securities*. The gains associated with this sale were immaterial.

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The unrealized gains and losses of selected securities at December 31 were:

| | 2008 | | 2007 | |
|--|---------------------|----------------------|---------------------|----------------------|
| | Unrealized Gains | Unrealized Losses | Unrealized Gains | Unrealized Losses |
| Investment Securities Available for Sale: | | | | |
| U.S. Treasury and government agencies | \$ 93,541 | \$ 78,518 | \$ 17,188 | \$ 41,926 |
| States and political subdivisions | 19,387 | 13,073 | 15,201 | 4,986 |
| Mortgage backed securities | 214 | 10,197 | 323 | 1,333 |
| Other | 1,966 | 100,822 | 741 | 1,176 |
| Total | \$ 115,108 | \$ 202,610 | \$ 33,453 | \$ 49,421 |
| Investment Securities Held to Maturity: | | | | |
| States and political subdivisions | \$ 5,562 | \$ 176 | \$ 8,375 | \$ 46 |
| Other | | | | |
| Total | \$ 5,562 | \$ 176 | \$ 8,375 | \$ 46 |

Table of Contents**Notes to Consolidated Financial Statements (Continued)****December 31, 2008, 2007, and 2006 (\$000 s except share data)**

The amortized cost and fair value of selected securities by contractual maturity at December 31, 2008 were:

| | Investment Securities Available for Sale | | Investment Securities Held to Maturity | |
|-----------------------------|--|---------------------|--|-------------------|
| | Amortized Cost | Fair Value | Amortized Cost | Fair Value |
| Within one year | \$ 344,585 | \$ 340,790 | \$ 62,195 | \$ 63,121 |
| From one through five years | 5,605,323 | 5,622,839 | 59,283 | 61,192 |
| From five through ten years | 525,137 | 527,200 | 101,231 | 103,593 |
| After ten years | 1,043,009 | 939,723 | 15,300 | 15,489 |
| Total | \$ 7,518,054 | \$ 7,430,552 | \$ 238,009 | \$ 243,395 |

The following table provides the gross unrealized losses and fair value, aggregated by investment category and the length of time the individual securities have been in a continuous unrealized loss position, at December 31, 2008:

| | Less than 12 Months Unrealized | | 12 Months or More Unrealized | | Total Unrealized | |
|---------------------------------------|--------------------------------|------------------|------------------------------|-------------------|---------------------|-------------------|
| | Fair Value | Losses | Fair Value | Losses | Fair Value | Losses |
| U.S. Treasury and government agencies | \$ 875,294 | \$ 27,597 | \$ 1,019,911 | \$ 50,921 | \$ 1,895,205 | \$ 78,518 |
| States and political subdivisions | 126,329 | 4,619 | 130,134 | 8,630 | 256,463 | 13,249 |
| Mortgage backed securities | 65,971 | 4,287 | 62,397 | 5,910 | 128,368 | 10,197 |
| Other | 87,869 | 18,498 | 59,966 | 82,324 | 147,835 | 100,822 |
| Total | \$ 1,155,463 | \$ 55,001 | \$ 1,272,408 | \$ 147,785 | \$ 2,427,871 | \$ 202,786 |

The investment securities in the above table were temporarily impaired at December 31, 2008. This temporary impairment represents the amount of loss that would have been realized if the investment securities had been sold on December 31, 2008. The temporary impairment in the investment securities portfolio is the result of increases in market interest rates since the investment securities were acquired and not from deterioration in the creditworthiness of the issuer. At December 31, 2008, the Corporation had the ability and intent to hold these temporarily impaired investment securities until a recovery of fair value, which may be maturity.

The following table provides the gross unrealized losses and fair value, aggregated by investment category and the length of time the individual securities have been in a continuous unrealized loss position, at December 31, 2007:

| | Less than 12 Months | 12 Months or More | Total |
|--|---------------------|-------------------|-------|
|--|---------------------|-------------------|-------|

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| | Unrealized | | Unrealized | | Unrealized | |
|---------------------------------------|---------------------|------------------|---------------------|------------------|---------------------|------------------|
| | Fair Value | Losses | Fair Value | Losses | Fair Value | Losses |
| U.S. Treasury and government agencies | \$ 1,192,332 | \$ 5,563 | \$ 2,378,349 | \$ 36,363 | \$ 3,570,681 | \$ 41,926 |
| States and political subdivisions | 205,834 | 3,642 | 97,628 | 1,390 | 303,462 | 5,032 |
| Mortgage backed securities | 18,730 | 224 | 61,345 | 1,109 | 80,075 | 1,333 |
| Other | 142,096 | 1,112 | 400 | 64 | 142,496 | 1,176 |
| Total | \$ 1,558,992 | \$ 10,541 | \$ 2,537,722 | \$ 38,926 | \$ 4,096,714 | \$ 49,467 |

The gross investment securities gains and losses, including Wealth Management transactions, amounted to \$32,023 and \$14,697 in 2008, \$46,378 and \$11,560 in 2007, and \$15,810 and \$6,205 in 2006, respectively. See the Consolidated Statements of Cash Flows for the proceeds from the sale of investment securities.

Income tax expense related to net securities transactions amounted to \$6,164, \$12,198, and \$3,428 in 2008, 2007, and 2006, respectively.

At December 31, 2008, securities with a value of approximately \$2,226,773 were pledged to secure public deposits, short-term borrowings, and for other purposes required by law.

Table of Contents**Notes to Consolidated Financial Statements (Continued)****December 31, 2008, 2007, and 2006 (\$000 s except share data)****7. Loans and Leases**

Loans and leases, including loans held for sale at December 31 were:

| | 2008 | 2007 |
|--|----------------------|----------------------|
| Commercial, financial and agricultural | \$ 14,880,153 | \$ 13,793,951 |
| Cash flow hedge variable rate loans | | (694) |
| Commercial, financial and agricultural | 14,880,153 | 13,793,257 |
| Real estate: | | |
| Construction | 6,091,501 | 6,691,716 |
| Residential mortgage | 7,855,888 | 7,105,201 |
| Home equity loans and lines of credit | 5,082,046 | 4,413,205 |
| Commercial mortgage | 13,371,288 | 12,002,162 |
| Total Real Estate | 32,400,723 | 30,212,284 |
| Personal | 1,929,374 | 1,560,573 |
| Lease financing | 774,294 | 730,144 |
| Total Loans and Leases | \$ 49,984,544 | \$ 46,296,258 |

Loans are presented net of unearned income and unamortized deferred fees, which amounted to \$149,894 and \$159,623 in 2008 and 2007, respectively.

Included in the real estate loans category are residential mortgage loans held for sale which amounted to \$40,248 and \$40,253 at December 31, 2008 and 2007, respectively. Student loans held for sale, which are included in the personal loans category, were \$107,542 and \$91,620 at December 31, 2008 and 2007, respectively. At December 31, 2008, the Corporation also had \$72,601 of loans held for sale, of which \$69,139 were on nonaccrual status.

Commercial loans and commercial mortgages are evaluated for the adequacy of repayment sources at the time of approval and are regularly reviewed for any possible deterioration in the ability of the borrower to repay the loan.

The Corporation evaluates the credit risk of each commercial customer on an individual basis and, where deemed appropriate, collateral is obtained. Collateral varies by the type of loan and individual loan customer and may include accounts receivable, inventory, real estate, equipment, deposits, personal and government guarantees, and general security agreements. The Corporation's access to collateral is dependent

upon the type of collateral obtained.

Policies have been established that set standards for the maximum commercial mortgage loan amount by type of property, loan terms, pricing structures, loan-to-value limits by property type, minimum requirements for initial investment and maintenance of equity by the borrower, borrower net worth, property cash flow and debt service coverage as well as policies and procedures for granting exceptions to established underwriting standards.

The Corporation's residential real estate lending policies require all loans to have viable repayment sources. Residential real estate loans are evaluated for the adequacy of these repayment sources at the time of approval, using such factors as credit scores, debt-to-income ratios and collateral values. Home equity loans and lines of credit are generally governed by the same lending policies.

Origination activities for commercial construction loans and residential construction loans are similar to those described above for commercial mortgages and residential real estate lending.

Table of Contents**Notes to Consolidated Financial Statements (Continued)****December 31, 2008, 2007, and 2006 (\$000 s except share data)**

The Corporation's lending activities are concentrated primarily in the Midwest. The Corporation's loan portfolio consists of business loans extending across many industry types, as well as loans to individuals. As of December 31, 2008, total loans to any group of customers engaged in similar activities and having similar economic characteristics, as defined by the North American Industry Classification System, did not exceed 10% of total loans. The following table presents a geographical summary of loans and leases as a percent of total consolidated loans and leases at December 31:

| | 2008 | 2007 |
|-------------------|---------------|---------------|
| Wisconsin | 36.1% | 37.5% |
| Arizona | 15.0 | 16.7 |
| Minnesota | 10.4 | 10.7 |
| Missouri | 7.0 | 6.8 |
| Florida | 6.2 | 6.2 |
| Kansas & Oklahoma | 2.6 | 2.8 |
| Indiana | 3.2 | 0.7 |
| Others | 19.5 | 18.6 |
| Total | 100.0% | 100.0% |

The Corporation offers a variety of loan products with payment terms and rate structures that have been designed to meet the needs of its customers within an established framework of acceptable credit risk. Payment terms range from fully amortizing loans that require periodic principal and interest payments to terms that require periodic payments of interest-only with principal due at maturity. Interest-only loans are typical in commercial and business line-of-credit or revolving line-of-credit loans, home equity lines-of-credit and construction loans (residential and commercial). At December 31, 2008, the Corporation did not have loans with below market or so-called teaser interest rates. At December 31, 2008, the Corporation did not offer, hold or service option adjustable rate mortgages that may expose the borrowers to future increase in repayments in excess of changes resulting solely from increases in the market rate of interest (loans subject to negative amortization).

The Corporation periodically reviews the residual values associated with its leasing portfolios. Declines in residual values that are judged to be other than temporary are recognized as a loss resulting in a reduction in the net investment in the lease. Residual impairment losses of \$4,961 were incurred for the year ended December 31, 2008. There were no residual impairment losses for the year ended December 31, 2007.

An analysis of loans outstanding to directors and officers, including their related interests, by the Corporation and its significant subsidiaries for 2008 is presented in the following table. All of these loans were made in the ordinary course of business with normal credit terms, including interest rates and collateral. The beginning balance has been adjusted to reflect the activity of newly-elected directors and newly-appointed executive officers, and directors and executive officers from the prior year that are no longer affiliated with the Corporation.

| | |
|--|------------|
| Loans to directors and executive officers: | |
| Balance, beginning of year | \$ 160,245 |
| New loans | 407,918 |

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| | |
|----------------------|------------|
| Repayments | (360,350) |
| Balance, end of year | \$ 207,813 |

Table of Contents**Notes to Consolidated Financial Statements (Continued)****December 31, 2008, 2007, and 2006 (\$000 s except share data)****8. Allowance for Loan and Lease Losses**

An analysis of the allowance for loan and lease losses follows:

| | 2008 | 2007 | 2006 |
|--|--------------|-------------|-------------|
| Balance, beginning of year | \$ 496,191 | \$ 420,610 | \$ 363,769 |
| Allowance of loans and leases acquired | 32,110 | 11,713 | 45,258 |
| Provision charged to expense | 2,037,707 | 319,760 | 50,551 |
| Charge-offs | (1,394,429) | (271,345) | (55,430) |
| Recoveries | 30,588 | 15,453 | 16,462 |
| Balance, end of year | \$ 1,202,167 | \$ 496,191 | \$ 420,610 |

As of December 31, 2008 and 2007, nonaccrual loans and leases totaled \$1,526,950 and \$686,888, and renegotiated loans totaled \$270,357 and \$224,398, respectively.

For purposes of impairment testing, loans greater than an established threshold were individually evaluated for impairment. Loans below those scopes were collectively evaluated as homogeneous pools. Renegotiated loans are evaluated at the present value of expected future cash flows discounted at the loan's effective interest rate. The required valuation allowance is included in the allowance for loan and lease losses in the Consolidated Balance Sheets. At December 31, 2008 and 2007, the Corporation's recorded investment in impaired loans and leases and the related valuation allowance are as follows:

| | 2008 | | 2007 | |
|--|--------------------------------|--------------------------------|--------------------------------|--------------------------------|
| | Recorded Investment | Valuation Allowance | Recorded Investment | Valuation Allowance |
| Total nonaccrual and renegotiated loans and leases | \$ 1,797,307 | | \$ 911,286 | |
| Less: nonaccrual loans held for sale | | (69,139) | | |
| Total impaired loans and leases | \$ 1,728,168 | | \$ 911,286 | |
| Loans and leases excluded from individual evaluation | | (803,646) | | (251,789) |
| Impaired loans evaluated | \$ 924,522 | | \$ 659,497 | |
| Valuation allowance required | \$ 513,822 | \$ 99,634 | \$ 45,823 | \$ 15,148 |
| No valuation allowance required | 410,700 | | 613,674 | |
| Impaired loans evaluated | \$ 924,522 | \$ 99,634 | \$ 659,497 | \$ 15,148 |

The recorded investment in impaired loans is net of applications of cash interest payments and net of previous direct write-downs of \$534,578 in 2008 and \$211,874 in 2007 against the loan balances outstanding.

The average recorded investment in total impaired loans and leases for the years ended December 31, 2008 and 2007 amounted to \$1,202,049 and \$453,009, respectively.

Interest payments received on nonaccrual loans are recorded as interest income unless collection of the remaining recorded investment is doubtful at which time payments received are recorded as reductions of principal. Interest on renegotiated loans is recognized on an accrual basis at the renegotiated rate if the loan is in compliance with the modified terms. Interest income recognized on total impaired loans and leases amounted to \$108,259 in 2008, \$42,806 in 2007 and \$14,099 in 2006. The gross income that would have been recognized had such loans and leases been performing in accordance with their original terms would have been \$165,841 in 2008, \$75,164 in 2007 and \$26,970 in 2006.

Table of Contents**Notes to Consolidated Financial Statements (Continued)****December 31, 2008, 2007, and 2006 (\$000 s except share data)****9. Financial Asset Sales and Variable Interest Entities**

The Corporation sold indirect automobile loans to an unconsolidated multi-seller asset-backed commercial paper conduit or basic term facilities, in securitization transactions in accordance with SFAS 140. During 2007, the Corporation opted to discontinue, on a recurring basis, the sale and securitization of automobile loans into the secondary market. Automobile loans previously classified as held for sale were reclassified as portfolio loans at the lower of cost or market. The difference between cost and market was insignificant. For the remaining multi-seller asset-backed commercial paper conduit and basic term facility, servicing responsibilities and subordinated interests are retained. The Corporation receives annual servicing fees based on the loan balances outstanding and rights to future cash flows arising after investors in the securitization trusts have received their contractual return and after certain administrative costs of operating the trusts. The investors and the securitization trusts have no recourse to the Corporation's other assets for failure of debtors to pay when due. The Corporation's retained interests are subordinate to investors' interests. Their value is subject to credit, prepayment and interest rate risks on the transferred financial assets.

During 2008, 2007 and 2006, the Corporation recognized net gain (losses) of (\$354), \$1,155 and (\$119), respectively, on the sale and securitization of automobile loans. Net trading gains (losses) associated with related interest swaps amounted to \$2,627, (\$60) and \$31 in 2008, 2007, and 2006, respectively.

Net gains (losses) associated with the retained interests, held in the form of interest-only strips amounted to (\$1,743) in 2008, (\$1,940) in 2007 and \$866 in 2006 and are included in Net Investment Securities Gains in the Consolidated Statements of Income. During 2008, 2007 and 2006, the Corporation realized \$229, \$1,001 and \$4,021 in gains that were offset by impairment losses of \$1,972, \$2,941 and \$3,155, respectively. The gains realized in 2008, 2007 and 2006 resulted from the excess of cash received over the carrying amount of certain interest-only strips. The impairments in 2008, 2007 and 2006 were the result of the differences between the actual credit losses experienced compared to the expected credit losses used in measuring certain interest-only strips. Those impairments were deemed to be other than temporary.

Retained interests and other assets consisted of the following at December 31:

| | 2008 | 2007 |
|--------------------------|-----------|-----------|
| Interest only strips | \$ 5,903 | \$ 9,030 |
| Cash collateral accounts | 32,158 | 18,784 |
| Servicing advances | 86 | 132 |
| Total retained interests | \$ 38,147 | \$ 27,946 |

At December 31, 2008, key economic assumptions and the sensitivity of the current fair value of residual cash flows to immediate 10 percent and 20 percent adverse changes in those assumptions are as follows (\$ in millions):

| | | Adverse Change in Assumptions | |
|--|------------|----------------------------------|--------|
| | | 10% | 20% |
| Weighted average life of collateral (in months) | 16.3 | | |
| Prepayment speed (CPR) | 16-40% | \$ 0.3 | \$ 0.7 |
| Expected credit losses (based on original balance) | 0.55-3.65% | 0.2 | 0.5 |
| Residual cash flows discount rate (annual) | 12.0% | 0.1 | 0.1 |

These sensitivities are hypothetical and should be used with caution. As the figures indicate, changes in fair value based on a 10 percent adverse variation in assumptions generally can not be extrapolated because the relationship of the change in assumption to the change in fair value may not be linear. Also, the effect of an adverse variation in a particular assumption on the fair value of the retained interest is calculated without changing any other assumption. Realistically, changes in one factor may result in changes in another (for example, increases in market interest rates may result in lower prepayments and increased credit losses), which might magnify or counteract the sensitivities.

Table of Contents**Notes to Consolidated Financial Statements (Continued)****December 31, 2008, 2007, and 2006 (\$000 s except share data)**

Actual and projected net credit losses represented 1.54% of total automobile loans that have been securitized at December 31, 2008, based on original balances at the time of the initial securitization.

The following table summarizes certain cash flows received from and paid to the securitization entities for the years ended December 31:

| | 2008 | 2007 |
|--|------------|------------|
| Proceeds from new securitizations | \$ 168,812 | \$ 168,812 |
| Servicing fees received | 3,431 | 4,897 |
| Net charge-offs | (7,836) | (7,629) |
| Cash collateral account transfers, net | (13,374) | 433 |
| Other cash flows received on retained interests, net | 2,206 | 9,362 |

At December 31, 2008 securitized automobile loans and other automobile loans managed together with them along with delinquency and credit loss information consisted of the following:

| | Securitized | Portfolio | Total Managed |
|---|-------------|------------|------------------|
| Loan balances | \$ 339,479 | \$ 540,130 | \$ 879,609 |
| Principal amounts of loans 60 days or more past due | 3,323 | 1,211 | 4,534 |
| Net credit losses | 7,591 | 2,044 | 9,635 |

The Corporation is committed to community reinvestment and is required under federal law to take affirmative steps to meet the credit needs of the local communities it serves. For this purpose, the Corporation holds variable interests in variable interest entities. The Corporation regularly invests in or lends to entities that: own residential facilities that provide housing for low-to-moderate income families (affordable housing projects); own commercial properties that are involved in historical preservations (rehabilitation projects); or provide funds for qualified low income community investments. These projects are generally located within the geographic markets served by the Corporation's banking segment. The Corporation's involvement in these entities is limited to providing funding in the form of subordinated debt or equity interests. At December 31, 2008, the aggregate carrying value of investments in the form of subordinated debt amounted to \$4,800 and represented an involvement in thirteen unrelated entities.

Generally, the economic benefit from the equity investments consists of the income tax benefits obtained from the Corporation's allocated operating losses from the partnership that are tax deductible, allocated income tax credits for projects that qualify under the Internal Revenue Code and in some cases, participation in the proceeds from the eventual disposition of the property. The Corporation uses the equity method of accounting to account for these investments. To the extent a project qualifies for income tax credits, the project must continue to qualify as an affordable housing project for fifteen years, a rehabilitation project for five years, or a qualified low income community investment for seven years in order to avoid recapture of the income tax credit which generally defines the time the Corporation will be involved in a project.

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The Corporation's maximum exposure to loss as a result of its involvement with these entities is generally limited to the carrying value of these investments plus any unfunded commitments on projects that are not completed. At December 31, 2008, the aggregate carrying value of the subordinated debt and equity investments was \$43,480 and the amount of unfunded commitments outstanding was \$29,733.

Table of Contents**Notes to Consolidated Financial Statements (Continued)****December 31, 2008, 2007, and 2006 (\$000 s except share data)****10. Premises and Equipment**

The composition of premises and equipment at December 31 was:

| | 2008 | 2007 |
|-------------------------------------|------------|------------|
| Land | \$ 137,265 | \$ 121,483 |
| Building and leasehold improvements | 585,485 | 508,090 |
| Furniture and equipment | 309,326 | 289,959 |
| | 1,032,076 | 919,532 |
| Accumulated depreciation | (467,287) | (449,653) |
| Total Premises and Equipment, Net | \$ 564,789 | \$ 469,879 |

Depreciation expense from continuing operations was \$44,160 in 2008, \$43,117 in 2007, and \$42,408 in 2006.

The Corporation leases certain of its facilities and equipment. Rent expense under such operating leases was \$37,270 in 2008, \$29,172 in 2007, and \$23,751 in 2006.

The future minimum lease payments under operating leases that have initial or remaining noncancellable lease terms in excess of one year for 2009 through 2013 are \$29,065, \$26,266, \$22,518, \$20,950, and \$18,979, respectively.

11. Goodwill and Other Intangibles

Statement of Financial Accounting Standards No. 142, *Goodwill and Other Intangible Assets*, (SFAS 142) adopts an aggregate view of goodwill and bases the accounting for goodwill on the units of the combined entity into which an acquired entity is integrated (those units are referred to as Reporting Units). A Reporting Unit is an operating segment as defined in Statement of Financial Accounting Standards No. 131, *Disclosures about Segments of an Enterprise and Related Information*, or one level below an operating segment.

SFAS 142 provides guidance for impairment testing of goodwill and intangible assets that are not amortized. Other than goodwill, the Corporation does not have any other intangible assets that are not amortized. Goodwill is tested for impairment using a two-step process that

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begins with an estimation of the fair value of a Reporting Unit. The first step is a screen for potential impairment and the second step measures the amount of impairment, if any. Based on the test performed at the end of the fourth quarter of 2008, the Wealth Management segment which consists of the Trust, Private Banking and Brokerage reporting units, and the Capital Markets reporting unit did not have indicators of potential impairment based on the estimated fair value of those reporting Units.

Based on their estimated fair values, the Commercial and Community Banking segments and the National Consumer Banking Reporting Unit had indicators of potential impairment and were subjected to the second step of goodwill impairment testing. The deterioration in the national real estate markets, economic recession and disruption in the capital markets had the greatest adverse affect on these segments. As a result of applying the second step of the test, the National Consumer Banking Reporting Unit had no goodwill impairment, but the Commercial Banking segment and the Community Banking segment recorded goodwill impairment in 2008.

The changes in carrying amount of goodwill for the twelve months ended December 31, 2008 were as follows:

| | Commercial Banking | Community Banking | Wealth Management | Others | Total |
|--|-------------------------------|------------------------------|------------------------------|---------------|--------------|
| Goodwill balance as of December 31, 2007 | \$ 922,264 | \$ 560,332 | \$ 114,572 | \$ 87,777 | \$ 1,684,945 |
| Goodwill acquired during the year | 330,570 | 82,178 | 39,209 | | 451,957 |
| Purchase accounting adjustments | 46 | | 3,340 | | 3,386 |
| Reallocation of goodwill | | (33,000) | | 33,000 | |
| Goodwill impairment | (925,634) | (609,510) | | | (1,535,144) |
| Goodwill balance as of December 31, 2008 | \$ 327,246 | \$ | \$ 157,121 | \$ 120,777 | \$ 605,144 |

Table of Contents**Notes to Consolidated Financial Statements (Continued)****December 31, 2008, 2007, and 2006 (\$000 s except share data)**

Goodwill acquired during 2008 included initial goodwill of \$412,748 for the acquisition of First Indiana and \$39,209 for the purchase of Taplin, Canida & Habacht, Inc.

Purchase accounting adjustments are the adjustments to the initial goodwill recorded at the time an acquisition is completed. Such adjustments generally consist of adjustments to the assigned fair value of the assets acquired and liabilities assumed resulting from the completion of appraisals or other valuations, adjustments to initial estimates recorded for transaction costs or exit liabilities, if any, and the reduction of goodwill allocated to sale transactions. Purchase accounting adjustments of \$3,340 for the Wealth Management segment represent adjustments made to the initial estimates of fair value associated with the acquisition of North Star and a reduction due to the divestiture of a component of North Star.

During 2008 management consolidated certain lending activities and transferred the assets and the related goodwill from the Community Banking segment to the National Consumer Banking Division reporting unit, which is a component of Others.

The table below reflects the operating segments as organized prior to the Separation. The changes in the carrying amount of goodwill for the twelve months ended December 31, 2007 are as follows:

| | Banking | Others | Total |
|--|----------------|---------------|--------------|
| Goodwill balance as of December 31, 2006 | \$ 1,425,197 | \$ 29,056 | \$ 1,454,253 |
| Goodwill acquired during the period | 228,076 | 16,747 | 244,823 |
| Purchase accounting adjustments | (14,362) | 231 | (14,131) |
| Goodwill balance as of December 31, 2007 | \$ 1,638,911 | \$ 46,034 | \$ 1,684,945 |

For the year ended December 31, 2007, purchase accounting adjustments for Banking represent adjustments related to the initial goodwill recorded for Gold Banc and Trustcorp, a reduction in goodwill allocated to the divestiture of the Tulsa, Oklahoma branches, and reduction in goodwill related to the divestiture of an insignificant business line. Purchase accounting adjustments for the Others segment includes adjustments to the initial goodwill for the trust reporting unit of Gold Banc.

The Corporation's other intangible assets consisted of the following at December 31, 2008:

| Gross Carrying Value | Accumulated Amortization | Net Carrying Value | Weighted Average Amortiza- |
|----------------------------|-----------------------------|--------------------------|----------------------------------|
|----------------------------|-----------------------------|--------------------------|----------------------------------|

| | | | | tion |
|---------------------------------------|------------|--------------|-----------------|---------------|
| | | | | Period |
| | | | | (Yrs) |
| Other intangible assets: | | | | |
| Core deposit intangible | \$ 254,229 | \$ (134,008) | \$ 120,221 | 6.2 |
| Trust customers | 11,384 | (4,049) | 7,335 | 6.9 |
| Tradenname | 1,335 | (453) | 882 | 5.0 |
| Other intangibles | 29,047 | (1,583) | 27,464 | 9.6 |
| | \$ 295,995 | \$ (140,093) | \$ 155,902 | 6.6 |
| Mortgage loan servicing rights | | | \$ 2,403 | |

Table of Contents**Notes to Consolidated Financial Statements (Continued)****December 31, 2008, 2007, and 2006 (\$000 s except share data)**

The Corporation's other intangible assets consisted of the following at December 31, 2007:

| | Gross Carrying Value | Accumulated Amortization | Net Carrying Value | Weighted Average Amortiza- tion Period (Yrs) |
|---------------------------------------|-------------------------------------|-------------------------------------|-----------------------------------|---|
| Other intangible assets: | | | | |
| Core deposit intangible | \$ 220,674 | \$ (113,607) | \$ 107,067 | 6.2 |
| Trust customers | 11,479 | (2,924) | 8,555 | 6.9 |
| Tradenname | 1,360 | (189) | 1,171 | 5.0 |
| Other intangibles | 4,156 | (412) | 3,744 | 7.0 |
| | \$ 237,669 | \$ (117,132) | \$ 120,537 | 6.2 |
| Mortgage loan servicing rights | | | \$ 2,479 | |

Amortization expense of other acquired intangible assets amounted to \$22,982, \$19,199 and \$17,178 in 2008, 2007 and 2006, respectively. Amortization of mortgage loan servicing rights was \$1,300, \$1,352 and \$1,465 in 2008, 2007 and 2006, respectively.

The estimated amortization expense of other intangible assets and mortgage loan servicing rights for the next five years are:

| | |
|------|-----------|
| 2009 | \$ 24,705 |
| 2010 | 21,430 |
| 2011 | 18,905 |
| 2012 | 16,660 |
| 2013 | 14,858 |

Mortgage loan servicing rights are subject to the prepayment risk inherent in the underlying loans that are being serviced. The actual remaining life could be significantly different due to actual prepayment experience in future periods.

At December 31, 2008 and 2007, none of the Corporation's other intangible assets were determined to have indefinite lives.

12. Deposits

The composition of deposits at December 31 was:

| | 2008 | 2007 |
|-----------------------------------|---------------|---------------|
| Noninterest bearing demand | \$ 6,879,994 | \$ 6,174,281 |
| Savings and NOW | 14,207,085 | 13,903,479 |
| CDs \$100,000 and over | 12,301,142 | 8,075,691 |
| Cash flow hedge Institutional CDs | 27,737 | 18,027 |
| Total CDs \$100,000 and over | 12,328,879 | 8,093,718 |
| Other time deposits | 5,743,480 | 4,412,933 |
| Foreign deposits | 1,863,703 | 2,606,943 |
| Total Deposits | \$ 41,023,141 | \$ 35,191,354 |

Table of Contents**Notes to Consolidated Financial Statements (Continued)****December 31, 2008, 2007, and 2006 (\$000 s except share data)**

At December 31, 2008 and 2007, brokered deposits amounted to \$11,401,772 and \$6,071,679, respectively.

At December 31, 2008, the scheduled maturities for CDs \$100,000 and over, other time deposits, and foreign deposits were:

| | |
|---------------------|---------------|
| 2009 | \$ 9,121,551 |
| 2010 | 1,849,158 |
| 2011 | 727,954 |
| 2012 | 722,928 |
| 2013 and thereafter | 7,486,734 |
| Total | \$ 19,908,325 |

13. Other Short-term Borrowings

Other Short-term borrowings at December 31 were:

| | 2008 | 2007 |
|--|--------------|--------------|
| U.S. Treasury demand notes TAF | \$ 2,500,000 | \$ |
| U.S. Treasury demand notes term | | 2,150,000 |
| U.S. Treasury demand notes | 36,654 | 98,113 |
| Federal Home Loan Bank (FHLB) note payable | 260,000 | 260,000 |
| Senior bank notes | 22,000 | 1,227,659 |
| Commercial paper | 17,264 | 798,986 |
| Other | 32,115 | 13,897 |
| Other short-term borrowings | \$ 2,868,033 | \$ 4,548,655 |

The United States Federal Reserve (the Fed) implemented a temporary Term Auction Facility (TAF), which is a program designed to address elevated pressures in short-term funding markets. Under the TAF program, the Fed auctions collateralized loans to qualified depository institutions. At December 31, 2008, the Corporation had two TAF borrowings outstanding, which included \$2.0 billion with a term of 85 days and \$0.5 billion with a term of 84 days.

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At December 31, 2007, U.S. Treasury demand notes-term represents a note issued by the U.S. Treasury for treasury, tax and loan. The term of this note was five days.

At December 31, 2008, the FHLB short-term note payable has a fixed interest rate of 1.05% and matured on February 9, 2009. The Corporation was required to pledge mortgage related assets as collateral to the FHLB to secure the borrowing.

During 2007, holders of approximately \$1.2 billion of the Corporation's senior bank notes - Extendible Monthly Securities elected not to extend. As a result, the notes due between August 2008 and October 2008 were reclassified from long-term borrowings to short-term borrowings. This reclassification is considered a non-cash transaction for purposes of the Consolidated Statements of Cash Flows.

The Corporation issues commercial paper in order to meet short-term funding needs. Maturities of commercial paper range from 1 day to 270 days. At December 31, 2007, commercial paper in the amount of \$244,739 represented obligations of M&I LLC that existed prior to the Separation. As of November 1, 2007, the commercial paper program for M&I LLC was closed and a new commercial paper program was established for the Corporation.

Table of Contents**Notes to Consolidated Financial Statements (Continued)**

December 31, 2008, 2007, and 2006 (\$000 s except share data)

14. Long-term Borrowings

Long-term borrowings at December 31 were:

| | 2008 | 2007 |
|--|--------------|--------------|
| Parent Corporation: | | |
| Medium-term notes Series E, F and MiNotes | \$ 463,040 | \$ 451,509 |
| 4.375% senior notes | 599,653 | 599,080 |
| 5.626% senior notes | 399,323 | 398,162 |
| Floating rate subordinated notes | 32,709 | 33,612 |
| 7.50% subordinated notes | 22,331 | |
| 5.80% junior subordinated deferrable interest debentures | 15,896 | 15,583 |
| Floating rate junior subordinated deferrable interest debentures | 30,119 | 30,475 |
| 6.00% junior subordinated deferrable interest debentures | 37,883 | 37,767 |
| 10.60% junior subordinated deferrable interest debentures | 15,887 | 16,394 |
| Floating rate junior subordinated deferrable interest debentures | | 10,000 |
| Floating rate junior subordinated deferrable interest debentures | | 5,000 |
| Subsidiaries: | | |
| Borrowings from Federal Home Loan Bank (FHLB): | | |
| Floating rate advances | 1,591,900 | 800,000 |
| Cash flow hedge FHLB advances | 98,430 | 38,331 |
| Floating rate advances | 1,690,330 | 838,331 |
| Fixed rate advances | 1,685,257 | 1,780,639 |
| Senior bank notes: | | |
| Floating rate bank notes | 1,129,172 | 1,749,316 |
| Cash flow hedge Floating rate bank notes | 30,666 | 13,034 |
| Floating rate bank notes | 1,159,838 | 1,762,350 |
| Fixed rate bank notes | 1,075,123 | 1,923,377 |
| Senior bank notes Amortizing bank notes | 36,357 | 72,692 |
| Senior bank notes Extendible Monthly Securities | | 21,993 |
| Subordinated bank notes: | | |
| Floating rate subordinated bank notes | 600,000 | 600,000 |
| Fixed rate subordinated bank notes | 1,276,759 | 1,275,497 |
| 3.875% bank notes Farmer Mac | 472,937 | |
| Nonrecourse notes | 62 | 265 |
| Other | 213 | 52 |
| Total long-term borrowings | \$ 9,613,717 | \$ 9,872,778 |

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At December 31, 2008, Series E notes outstanding amounted to \$79,975 with fixed rates of 4.50% to 5.02%. Series E notes outstanding mature at various times and amounts through 2023. At December 31, 2008, the Series F note outstanding amounted to \$250,000 with a fixed rate of 5.35%. The Series F note matures in 2011. The MiNotes, issued in minimum denominations of one thousand dollars or integral multiples of one thousand dollars, may have maturities ranging from nine months to 30 years and may be at fixed or floating rates. At December 31, 2008, MiNotes outstanding amounted to \$137,180 with fixed rates ranging from 3.40% to 6.30%. MiNotes outstanding mature at various times through 2038.

The Corporation issued \$600 million of 4.375% senior notes in 2004. Interest is paid semi-annually and the notes mature on August 1, 2009.

During 2007, the Corporation remarketed the 3.90% STACKSSM of M&I Capital Trust B that were originally issued in 2004 as components of the Corporation's 6.50% Common SPACESSM. In connection with the remarketing,

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Notes to Consolidated Financial Statements (Continued)

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the annual interest rate on the remarketed STACKS was reset at 5.626%, M&I Capital Trust B was liquidated and \$400 million of 5.626% senior notes that mature on August 17, 2009 were issued by the Corporation in exchange for the outstanding STACKS. Each Common SPACES also included a stock purchase contract requiring the holder to purchase, in accordance with a settlement rate formula, shares of the Corporation s common stock. The Corporation issued 9,226,951 shares of its common stock in settlement of the stock purchase contracts in exchange for \$400.0 million in cash.

The Corporation s floating rate subordinated-debt securities mature November 2011 and pay interest semiannually at a variable rate, based upon six-month LIBOR plus 3.75%. At December 31, 2008, 40% of the subordinated notes qualified as Tier 2 or supplementary capital for regulatory capital purposes.

In conjunction with the acquisition of First Indiana, the Corporation assumed \$22,500 of subordinated notes maturing in November 2013. These subordinated notes carry a fixed interest rate of 7.50% with interest payable semiannually. At December 31, 2008, 80% of the subordinated notes qualified as Tier 2 or supplementary capital for regulatory capital purposes.

In conjunction with the acquisitions of Gold Banc, Trustcorp, Excel and First Indiana, M&I LLC acquired all of the common interests in trusts that issued cumulative preferred capital securities that are supported by junior subordinated deferrable interest debentures. These trusts are 100% owned unconsolidated finance subsidiaries of the Corporation. M&I LLC has fully and unconditionally guaranteed the securities that the trusts have issued. The junior subordinated deferrable interest debentures qualify as Tier 1 capital for regulatory capital purposes.

Gold Banc Trust III was formed in March 2004, and issued \$16,000 of trust-preferred securities to institutional investors. Gold Banc Trust III used the proceeds from the issuance of the trust-preferred securities, as well as Gold Banc s \$495 capital investment in the trust, to purchase \$16,495 of junior subordinated debt securities issued by Gold Banc. The debentures mature on April 23, 2034, and may be redeemed, at the option of the Corporation after April 23, 2009. The interest rate of the debentures is fixed at 5.80% for a five-year period through April 23, 2009. Thereafter, interest is at a floating rate equal to the three-month London Inter-Bank Offered Rate (LIBOR) plus 2.75%, adjustable quarterly. Interest is payable quarterly. The dividend rate on the trust-preferred securities is identical to the interest rate of the related junior subordinated deferrable interest debentures.

Gold Banc Trust IV was formed in March 2004, and issued \$30,000 of trust-preferred securities to institutional investors. Gold Banc Trust IV used the proceeds from the issuance of the trust-preferred securities, as well as Gold Banc s \$928 capital investment in the trust, to purchase \$30,928 of floating rate junior subordinated debt securities issued by Gold Banc. The debentures mature on April 7, 2034 and may be redeemed, at the option of the Corporation after April 7, 2009. The interest rate of the debentures is a floating rate equal to three-month LIBOR plus 2.75%, adjustable quarterly. Interest is payable quarterly. The dividend rate on the trust-preferred securities is identical to the interest rate of the related junior subordinated deferrable interest debentures.

Gold Banc Capital Trust V was formed in November 2004, and issued \$38,000 of trust-preferred securities to institutional investors. Gold Banc Capital Trust V used the proceeds from the issuance of the trust-preferred securities, as well as Gold Banc s \$1,176 capital investment in the

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trust, to purchase \$39,176 of junior subordinated deferrable interest debentures issued by Gold Banc. The debentures mature on December 15, 2034, and may be redeemed, at the option of the Corporation after December 15, 2009. The interest rate of the debentures is fixed at 6.00% for a five-year period through December 15, 2009. Thereafter, interest is at a floating rate equal to three-month LIBOR plus 2.10%, adjustable quarterly. Interest is payable quarterly. The dividend rate on the trust-preferred securities is identical to the interest rate of the related junior subordinated deferrable interest debentures.

Trustcorp Statutory Trust I was formed in August 2000, and issued \$15,000 of 10.60% Cumulative Preferred Trust Securities. Trustcorp Statutory Trust I used the proceeds from the issuance of the cumulative preferred trust securities, as well as Trustcorp's \$464 capital investment in the trust, to purchase \$15,464 of junior subordinated

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deferrable interest debentures issued by Trustcorp. The debentures mature on September 7, 2030. Interest is payable semi-annually. The dividend rate on the cumulative preferred trust securities is identical to the interest rate of the related junior subordinated deferrable interest debentures.

During 2008, the Corporation called \$15 million in aggregate principal amount of its floating rate junior subordinated deferrable interest debentures and the related \$10 million EBC Statutory Trust I trust preferred securities and \$5 million EBC Statutory Trust II trust preferred securities. No gain or loss was recognized as a result of these transactions.

In conjunction with the acquisition of First Indiana, the Corporation acquired the common interest in a trust that issued cumulative preferred securities and the related \$12,000 junior subordinated deferrable debentures. During 2008, the Corporation called \$12 million in principal amount of these debentures and the related cumulative preferred capital securities. No gain or loss was recognized as a result of this transaction.

On November 6, 2007, new Marshall & Ilsley Corporation filed a shelf registration statement pursuant to which the Corporation was initially authorized to raise up to \$1.9 billion through sales of corporate debt and/or equity securities with a relatively short lead time.

As a result of the Separation on November 1, 2007, Marshall & Ilsley Corporation (Accounting Predecessor to new Marshall & Ilsley Corporation) became M&I LLC and all amounts remaining under existing shelf registration statements were deregistered. There will be no further issuances of debt by M&I LLC.

At December 31, 2008, floating rate FHLB advances outstanding mature at various times between 2011 and 2018. The interest rate is reset monthly based on one-month LIBOR. Fixed rate FHLB advances have interest rates, which range from 3.50% to 8.47% and mature at various times in 2009 through 2026.

The Corporation is required to maintain unencumbered first mortgage loans and mortgage-related securities such that the outstanding balance of FHLB advances does not exceed 85% (70% for multi-family and 50% for home equity loans) of the book value of this collateral. In addition, a portion of these advances are collateralized by all FHLB stock.

The floating rate senior bank notes have interest rates based on one-month or three-month LIBOR with a spread that ranges from a plus 0.11% to a plus 0.30%. Interest payments are either monthly or quarterly. The floating rate senior bank notes outstanding mature at various times and amounts from 2009 to 2011.

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The fixed rate senior bank notes have interest rates, which range from 2.90% to 5.52% and pay interest semi-annually. The fixed rate senior bank notes outstanding mature at various times and amounts from 2009 through 2017.

The senior bank notes Amortizing have a maturity date of August 18, 2009. The senior bank notes pay interest semi-annually at a fixed semi-annual coupon interest rate of 2.90%. In addition, principal in the amount of \$18,182 is paid every coupon payment period beginning on August 18, 2004 and ending on August 18, 2009.

During 2007, M&I Bank issued \$600 million of floating rate subordinated bank notes. The notes mature in 2012 and have an interest rate based on the three-month LIBOR plus 0.27%, adjustable quarterly. Interest is payable quarterly. At December 31, 2008, 60% of the floating rate subordinated bank notes qualified as Tier 2 or supplementary capital for regulatory capital purposes.

The fixed rate subordinated bank notes have interest rates that range from 4.85% to 7.88% and mature at various times in 2010 through 2020. Interest is paid semi-annually. A portion of these notes qualify as Tier 2 or supplementary capital for regulatory capital purposes.

During 2008, M&I Bank issued \$475 million of agricultural mortgage backed notes due August 19, 2011. These notes carry an unconditional guarantee of principal and interest and are secured by Federal Agricultural Mortgage Corporation (Farmer Mac). The interest rate is fixed at 3.875% and payable semi-annually.

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The nonrecourse notes are reported net of prepaid interest and represent borrowings by the commercial leasing subsidiary from banks and other financial institutions. These notes have a weighted average interest rate of 5.04% at December 31, 2008 and are due in installments over varying periods through 2009. Lease financing receivables at least equal to the amount of the notes are pledged as collateral.

During 2008, the Corporation completed buybacks of \$169,169 in senior bank notes. The Corporation realized a gain of \$14,718, which is included in the Corporation's Consolidated Statements of Income as Gain on Termination of Debt.

In December 2007, the Corporation purchased the right to remarket the Puttable Reset Securities (PURS) and retired the outstanding notes. The Corporation realized a loss of \$74,184, which is included in Losses on Termination of Debt in the Corporation's Consolidated Statements of Income for the year ended December 31, 2007.

During 2007, the Corporation's 7.65% junior subordinated deferrable interest debentures and the related M&I Capital Trust A 7.65% cumulative preferred capital securities were called and M&I Capital Trust A was liquidated. The loss of \$9,478 associated with the call is included in Losses on Termination of Debt in the Corporation's Consolidated Statements of Income for the year ended December 31, 2007. The loss was primarily due to the contractual call premium paid to retire the debentures and trust preferred securities.

Scheduled maturities of long-term borrowings are \$2,086,250, \$1,217,361, \$2,303,321, \$1,441,494 and \$572,507 for 2009 through 2013, respectively.

FDIC's Temporary Liquidity Guarantee Program

On December 5, 2008, the Corporation announced that it and its eligible affiliates will be participating in the two components of the FDIC's Temporary Liquidity Guarantee Program—the Debt Guarantee Program (the DGP) and the Transaction Account Guarantee Program (the TAGP).

Under the DGP, certain senior unsecured debt issued by M&I and its eligible affiliates will be guaranteed by the FDIC, and the debt will be backed by the full faith and credit of the United States. The expiration date of the FDIC's guarantee is the earlier of the maturity date of the debt or June 30, 2012.

Under the TAGP, through December 31, 2009, all noninterest-bearing transaction accounts (which the TAGP defines as including all noninterest-bearing personal and business checking accounts, NOW accounts earning no more than 0.5 percent interest, and Interest on Lawyer Trust Accounts) held at M&I's affiliate banks, M&I Bank, M&I Bank FSB, and Southwest Bank, an M&I Bank, are fully guaranteed by the

FDIC for the entire amount in the account. Coverage under the TAGP is in addition to and separate from the coverage available under the FDIC's general deposit rules.

15. Shareholders' Equity

The Corporation has 5,000,000 shares of preferred stock authorized, with a par value of \$1.00 per share. At December 31, 2008, there were 1,715,000 shares of Senior Preferred Stock, Series B issued and outstanding with a liquidation preference of \$1,000.00 per share.

On November 14, 2008, as part of the United States Treasury Department's (the UST) Capital Purchase Program (CPP), the Corporation entered into a Letter Agreement with the UST. Pursuant to the Securities Purchase Agreement Standard Terms (the Securities Purchase Agreement) attached to the Letter Agreement, the Corporation sold 1,715,000 shares of the Corporation's Senior Preferred Stock, Series B (the Senior Preferred Stock), having a liquidation preference of \$1,000 per share, for a total price of \$1,715 million. The Senior Preferred Stock will qualify as Tier 1 capital and pay cumulative compounding dividends at a rate of 5% per year for the first five years and 9% per year thereafter.

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The Securities Purchase Agreement provided that the Corporation may not redeem the Senior Preferred Stock during the first three years except with the proceeds from one or more Qualified Equity Offerings (as defined in the Securities Purchase Agreement), and that after three years, the Corporation may redeem shares of the Senior Preferred Stock for the per share liquidation preference of \$1,000 plus any accrued and unpaid dividends. Pursuant to the American Recovery and Reinvestment Act of 2009 (the ARRA), which was signed into law in February 2009, CPP participants are permitted to repay assistance received under the CPP at any time, subject to consultation with the appropriate federal banking agency. However, the Corporation's Restated Articles of Incorporation contain the redemption restrictions contained in the Securities Purchase Agreement. The Corporation may seek to amend the Restated Articles of Incorporation in the future to remove the restrictions in accordance with the ARRA.

As long as any Senior Preferred Stock is outstanding, the Corporation may pay quarterly common stock cash dividends of up to \$0.32 per share, and may redeem or repurchase its common stock, provided that all accrued and unpaid dividends for all past dividend periods on the Senior Preferred Stock are fully paid. Prior to the third anniversary of the UST's purchase of the Senior Preferred Stock, unless Senior Preferred Stock has been redeemed or the UST has transferred all of the Senior Preferred Stock to third parties, the consent of the UST will be required for the Corporation to increase its common stock dividend to more than \$0.32 per share per quarter or repurchase its common stock or other equity or capital securities, other than in connection with benefit plans consistent with past practice and certain other circumstances specified in the Securities Purchase Agreement. The Senior Preferred Stock will be non-voting except for class voting rights on matters that would adversely affect the rights of the holders of the Senior Preferred Stock.

As a condition to participating in the CPP, the Corporation issued and sold to the UST a warrant (the Warrant) to purchase 13,815,789 shares (the Warrant Shares) of the Corporation's common stock, at an initial per share exercise price of \$18.62, for an aggregate purchase price of approximately \$257.25 million. The term of the Warrant is ten years. The Warrant will not be subject to any contractual restrictions on transfer, provided that the UST may only transfer a portion or portions of the Warrant with respect to, or exercise the Warrant for, more than one-half of the initial Warrant Shares prior to the earlier of (a) the date on which the Corporation has received aggregate gross proceeds of at least \$1,715 million from one or more Qualified Equity Offerings, (b) December 31, 2009. If the Corporation completes one or more Qualified Equity Offerings on or prior to December 31, 2009 that result in the Corporation receiving aggregate gross proceeds equal to at least \$1,715 million, then the number of Warrant Shares will be reduced to 50% of the original number of Warrant Shares. The Warrant provides for the adjustment of the exercise price and the number of Warrant Shares issuable upon exercise pursuant to customary anti-dilution provisions, such as upon stock splits or distributions of securities or other assets to holders of the Corporation's common stock, and upon certain issuances of the Corporation's common stock at or below a specified price range relative to the initial exercise price. Pursuant to the Securities Purchase Agreement, the UST has agreed not to exercise voting power with respect to any shares of common stock issued upon exercise of the Warrant.

Pursuant to the Securities Purchase Agreement, until the UST no longer owns any shares of the Senior Preferred Stock, the Warrant or Warrant Shares, the Corporation's employee benefit plans and other executive compensation arrangements for its Senior Executive Officers must continue to comply in all respects with Section 111(b) the EESA and the rules and regulations of the UST promulgated thereunder.

The Securities Purchase Agreement permits the UST to unilaterally amend any provision of the Letter Agreement and the Securities Purchase Agreement to the extent required to comply with any changes in the applicable Federal statutes.

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For accounting purposes, the proceeds of \$1,715 million were allocated between the preferred stock and the warrant based on their relative fair values. The initial value assigned to the Warrant, which is classified as equity, was \$81.12 million. The entire discount on the Senior Preferred Stock, created from the initial value assigned to the Warrant, will be accreted over a five year period in a manner that produces a level preferred stock dividend yield which is 6.10%. At the end of the fifth year, the carrying amount of the Senior Preferred Stock will equal its liquidation value.

Table of Contents**Notes to Consolidated Financial Statements (Continued)****December 31, 2008, 2007, and 2006 (\$000 s except share data)**

During 2004, the Corporation and M&I Capital Trust B issued 16,000,000 units of Common SPACESSM. Each unit has a stated value of \$25.00 for an aggregate value of \$400.0 million. Each Common SPACES consisted of (i) a stock purchase contract under which the investor agreed to purchase for \$25, a fraction of a share of the Corporation's common stock on the stock purchase date and (ii) a 1/40, or 2.5%, undivided beneficial interest in a preferred security of M&I Capital Trust B, also referred to as the STACKSSM, with each share having an initial liquidation amount of \$1,000. The stock purchase date was August 15, 2007. Holders of the STACKS were entitled to receive quarterly cumulative cash distributions through the stock purchase date fixed initially at an annual rate of 3.90% of the liquidation amount of \$1,000 per STACKS. In addition, the Corporation was required to make quarterly contract payments under the stock purchase contract at the annual rate of 2.60% of the stated amount of \$25 per stock purchase contract.

During 2007, the Corporation remarketed the STACKS of M&I Capital Trust B that were originally issued in 2004 as components of the Common SPACES. In connection with the remarketing, the annual interest rate on the remarketed STACKS was reset at 5.626%, M&I Capital Trust B was liquidated and \$400 million of 5.626% senior notes that mature on August 17, 2009 were issued by the Corporation in exchange for the outstanding STACKS. Each Common SPACES also included a stock purchase contract requiring the holder to purchase, in accordance with a settlement rate formula, shares of the Corporation's common stock. Proceeds of the remarketing, after deducting the remarketing fee payable to the remarketing agents, was used to satisfy the obligations of holders of the Common SPACES to purchase the Corporation's common stock under the stock purchase contract. On August 15, 2007, upon settlement of each stock purchase contract, the Corporation delivered 0.5767 shares of common stock for each SPACES unit, or 9,226,951 shares in total. No fractional shares were issued upon settlement of the stock purchase contracts.

The Corporation issues treasury common stock in conjunction with exercises of stock options and restricted stock, acquisitions, and from time-to-time issues treasury stock to fund a portion of its retirement plan obligations. Treasury shares are acquired from restricted stock forfeitures, shares tendered to cover tax withholding associated with stock option exercises and vesting of key restricted stock and mature shares tendered for stock option exercises in lieu of cash. Under its approved share repurchase program, the Corporation is currently authorized to repurchase up to 12 million shares of its common stock per year. During 2008, the Corporation acquired 4,782,400 shares of its common stock in open market share repurchase transactions under the Stock Repurchase Program. Total cash consideration amounted to \$124.9 million. During 2007, the Corporation completed three accelerated repurchase transactions as well as open market repurchase transactions under its approved share repurchase program. In the aggregate, the Corporation acquired 10,765,889 shares of its common stock in these transactions. Total consideration in these transactions amounted to \$437.1 million and consisted of cash of \$434.5 million and common treasury stock valued at \$2.6 million. In conjunction with the initial accelerated repurchase transaction executed in 2007, the Corporation used 54,035 shares of its treasury common stock to share-settle the final settlement obligation. The Corporation repurchased 1.0 million shares with an aggregate cost of \$41.8 million in 2006. Participation in the CPP requires the Corporation to obtain consent from the UST in order to repurchase common shares under its Stock Repurchase Program.

The Corporation sponsors a deferred compensation plan for its non-employee directors and the non-employee directors and advisory board members of its affiliates. Participants may elect to have their deferred fees used to purchase M&I common stock with dividend reinvestment. Such shares will be distributed to plan participants in accordance with the plan provisions. At December 31, 2008 and 2007, 883,760 and 837,350 shares of M&I common stock, respectively, were held in a grantor trust. The aggregate cost of such shares is included in Deferred Compensation as a reduction of Shareholders' Equity in the Consolidated Balance Sheets and amounted to \$16,800 at December 31, 2008 and \$18,906 at December 31, 2007.

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The Corporation amended its deferred compensation plan for its non-employee directors and selected key employees to permit participants to defer the gain from the exercise of nonqualified stock options. In addition, the gain upon vesting of restricted common stock to participating executive officers may be deferred. Shares of M&I common stock, which represent the aggregate value of the gains deferred are maintained in a grantor trust with dividend reinvestment. Such shares will be distributed to plan participants in accordance with the plan provisions. At

Table of Contents**Notes to Consolidated Financial Statements (Continued)****December 31, 2008, 2007, and 2006 (\$000 s except share data)**

December 31, 2008 and 2007, 921,644 and 686,974 shares of M&I common stock, respectively, were held in the grantor trust. The aggregate cost of such shares is included in Deferred Compensation as a reduction of Shareholders' Equity in the Consolidated Balance Sheets and amounted to \$23,977 at December 31, 2008 and \$26,453 at December 31, 2007.

Federal banking regulatory agencies established capital adequacy rules which take into account risk attributable to balance sheet assets and off-balance sheet activities. All banks and bank holding companies must meet a minimum total risk-based capital ratio of 8%. Of the 8% required, at least half must be comprised of core capital elements defined as Tier 1 capital. The Federal banking agencies also have adopted leverage capital guidelines which banking organizations must meet. Under these guidelines, the most highly rated banking organizations must meet a minimum leverage ratio of at least 3% Tier 1 capital to total assets, while lower rated banking organizations must maintain a ratio of at least 4% to 5%. Failure to meet minimum capital requirements can result in certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Consolidated Financial Statements.

At December 31, 2008 and 2007, the most recent notification from the Federal Reserve Board categorized the Corporation as well capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since that notification that management believes have changed the Corporation's category.

To be well capitalized under the regulatory framework, the Tier 1 capital ratio must meet or exceed 6%, the total capital ratio must meet or exceed 10% and the leverage ratio must meet or exceed 5%.

The Corporation's risk-based capital and leverage ratios are as follows (\$ in millions):

| | Risk-Based Capital Ratios | | | |
|---|----------------------------|--------|----------------------------|--------|
| | As of December 31, 2008 | | As of December 31, 2007 | |
| | Amount | Ratio | Amount | Ratio |
| Tier 1 capital | \$ 5,357.2 | 9.49% | \$ 5,448.4 | 10.22% |
| Tier 1 capital adequacy minimum requirement | 2,257.1 | 4.00 | 2,133.0 | 4.00 |
| Excess | \$ 3,100.1 | 5.49% | \$ 3,315.4 | 6.22% |
| Total capital | \$ 7,445.4 | 13.19% | \$ 7,505.0 | 14.07% |
| Total capital adequacy minimum requirement | 4,514.2 | 8.00 | 4,266.0 | 8.00 |
| Excess | \$ 2,931.2 | 5.19% | \$ 3,239.0 | 6.07% |
| Risk-adjusted assets | \$ 56,427.8 | | \$ 53,324.8 | |

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| | Leverage Ratio | | | | | | | | | |
|---|-------------------------|----------|---------|------|-------------------------|----------|---------|---------|------|--------|
| | As of December 31, 2008 | | | | As of December 31, 2007 | | | | | |
| | Amount | | Ratio | | Amount | | Ratio | | | |
| Tier 1 capital to adjusted total assets | \$ | 5,357.2 | 8.56% | | \$ | 5,448.4 | 9.46% | | | |
| Minimum leverage adequacy requirement | 1,877.6 | 3,129.4 | 3.00 | 5.00 | 1,728.4 | 2,880.6 | 3.00 | 5.00 | | |
| Excess | \$ | 3,479.6 | 2,227.8 | 5.56 | 3.56% | \$ | 3,720.0 | 2,567.8 | 6.46 | 4.46 % |
| Adjusted average total assets | \$ | 62,587.3 | | | \$ | 57,612.9 | | | | |

At December 31, 2008 and 2007 the estimated deferred tax liabilities that reduced the carrying value of acquired intangibles used in determining Tier 1 capital amounted to \$55,884 and \$44,563, respectively.

Table of Contents**Notes to Consolidated Financial Statements (Continued)****December 31, 2008, 2007, and 2006 (\$000 s except share data)**

All of the Corporation's banking subsidiaries' risk-based capital and leverage ratios meet or exceed the defined minimum requirements, and have been deemed well capitalized as of December 31, 2008 and 2007. The following table presents the risk-based capital ratios for the Corporation's significant banking subsidiaries:

| | Tier 1 | Total | Leverage |
|---|---------------|--------------|-----------------|
| M&I Marshall & Ilsley Bank | | | |
| December 31, 2008 | 8.27% | 12.19% | 7.42% |
| December 31, 2007 | 7.88 | 12.01 | 7.43 |
| Southwest Bank, an M&I Bank | | | |
| December 31, 2008 | 10.70% | 11.89% | 7.84% |
| December 31, 2007 | 10.91 | 11.76 | 10.65 |
| M&I Bank FSB | | | |
| December 31, 2008 | 12.72% | 13.72% | 8.74% |
| December 31, 2007 | 17.76 | 18.66 | 14.77 |

Banking subsidiaries are restricted by banking regulations from making dividend distributions above prescribed amounts and are limited in making loans and advances to the Corporation. At December 31, 2008, the retained earnings of subsidiaries available for distribution as dividends without regulatory approval, while maintaining well capitalized risk-based capital and leverage ratios, was approximately \$149.1 million.

16. Income Taxes

Effective January 1, 2007, the Corporation adopted the provisions of FASB Interpretation No. 48 (FIN 48), *Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109*, and there was no effect on the consolidated financial statements. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in financial statements in accordance with FASB Statement No. 109, *Accounting for Income Taxes*. FIN 48 prescribes a recognition threshold and measurement process for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition.

The Corporation, along with its subsidiaries, files income tax returns in the U.S. and various state jurisdictions. With limited exceptions, the Corporation is no longer subject to examinations by federal and state taxing authorities for taxable years before 2004.

As of December 31, 2008, the total amount of gross unrecognized tax benefits was \$77.7 million, of which \$73.6 million relate to benefits that, if recognized, would impact the annual effective tax rate. A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

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| | 2008 | 2007 |
|--|-----------|-----------|
| Balance beginning of year | \$ 76,697 | \$ 76,172 |
| Additions based on tax positions related to the current year | 4,164 | 7,606 |
| Additions for tax positions of prior years | 14,442 | 594 |
| Reductions for tax positions of prior years | (16,674) | (780) |
| Reductions for lapse of statute of limitations | (865) | (3,867) |
| Settlements | (16) | (3,028) |
| Balance end of year | \$ 77,748 | \$ 76,697 |

The Corporation anticipates it is reasonably possible within twelve months of December 31, 2008, that unrecognized tax benefits of up to approximately \$20 million could be realized. The realization would principally result from settlements with taxing authorities as it relates to the tax benefits associated with a 2002 stock issuance.

Table of Contents**Notes to Consolidated Financial Statements (Continued)****December 31, 2008, 2007, and 2006 (\$000 s except share data)**

Upon adoption of FIN 48, the Corporation changed its policy to include interest and penalties related to income tax liabilities in income tax expense. Prior to adoption of FIN 48, the Corporation recorded interest and penalties related to income tax liabilities to other expense, a component of Income Before Income Taxes. The total amount of net interest expense included in the income statement as it pertains to the unrecognized tax benefits for 2008 and 2007 is \$2.3 million and \$0.5 million, respectively. This amount is net of interest income received from settlements, reversal of interest expense on lapsing of the statute of limitations, and decreases of prior year's positions. Included in the total liability for unrecognized tax benefits as of December 31, 2008 and 2007 is \$12.1 million and \$6.8 million, respectively, of interest. The Corporation has not accrued any penalties for any unrecognized tax benefits.

Total income tax expense (benefit) for the years ended December 31, 2008, 2007, and 2006 was allocated as follows:

| | 2008 | 2007 | 2006 |
|--|--------------|------------|------------|
| Income (loss) from continuing operations before income taxes | \$ (459,525) | \$ 213,641 | \$ 307,435 |
| Shareholders' Equity: | | | |
| Compensation expense (benefit) for tax purposes in excess of amounts recognized for financial reporting purposes | 55 | (4,251) | (11,430) |
| Unrealized gains (losses) on accumulated other comprehensive income | (60,103) | (19,262) | 11,102 |
| | \$ (519,573) | \$ 190,128 | \$ 307,107 |

The current and deferred portions of the provision (benefit) for income taxes of continuing operations were:

| | 2008 | 2007 | 2006 |
|--|--------------|------------|------------|
| Current: | | | |
| Federal | \$ (157,794) | \$ 224,580 | \$ 254,776 |
| State | (16,954) | 10,879 | 13,995 |
| Total current | (174,748) | 235,459 | 268,771 |
| Deferred: | | | |
| Federal | (275,969) | (22,163) | 34,925 |
| State | (8,808) | 345 | 3,739 |
| Total deferred | (284,777) | (21,818) | 38,664 |
| Total provision (benefit) for income taxes - continuing operations | \$ (459,525) | \$ 213,641 | \$ 307,435 |

The following is a reconciliation between the amount of the provision (benefit) for income taxes of continuing operations and the amount of tax computed by applying the statutory Federal income tax rate (35%):

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| | 2008 | 2007 | 2006 |
|--|------------------|----------------|----------------|
| Tax computed at statutory rates | \$ (876,045) | \$ 248,703 | \$ 334,302 |
| Increase (decrease) in taxes resulting from: | | | |
| Federal tax-exempt income | (19,373) | (18,157) | (19,343) |
| State income taxes, net of Federal tax benefit | (16,746) | 7,296 | 11,527 |
| Bank-owned life insurance | (12,579) | (13,211) | (10,197) |
| Non-deductible goodwill | 490,730 | | |
| Federal tax credits | (8,969) | (10,166) | (8,801) |
| TEFRA refund claims | (20,000) | | |
| Other | 3,457 | (824) | (53) |
| Total provision (benefit) for income taxes continuing operations | \$ (459,525) | \$ 213,641 | \$ 307,435 |

Table of Contents**Notes to Consolidated Financial Statements (Continued)****December 31, 2008, 2007, and 2006 (\$000 s except share data)**

The tax effects of temporary differences that give rise to significant elements of the deferred tax assets and deferred tax liabilities at December 31 are as follows:

| | 2008 | 2007 |
|---|-------------------|-------------------|
| Deferred tax assets: | | |
| Deferred compensation | \$ 65,435 | \$ 61,926 |
| Share-based compensation | 80,868 | 73,533 |
| Allowance for loan and lease losses | 499,438 | 201,972 |
| Accrued postretirement benefits | 14,835 | 16,029 |
| Accrued expenses | 22,351 | 38,441 |
| Deductible goodwill | 27,688 | |
| Net Operating Loss Carryforwards (NOLs) | 62,900 | 43,995 |
| Accumulated other comprehensive income | 88,847 | 28,744 |
| Other | 119,608 | 65,466 |
| Total deferred tax assets before valuation allowance | 981,970 | 530,106 |
| Valuation allowance | (135,711) | (80,167) |
| Net deferred tax assets | 846,259 | 449,939 |
| Deferred tax liabilities: | | |
| Lease revenue reporting | 150,426 | 127,527 |
| REIT dividends | 33,064 | 43,521 |
| Premises and equipment, principally due to depreciation | 23,285 | 18,453 |
| Deductible goodwill | | 10,950 |
| Purchase accounting adjustments | 47,455 | 33,621 |
| Other | 30,162 | 29,420 |
| Total deferred tax liabilities | 284,392 | 263,492 |
| Net deferred tax asset | \$ 561,867 | \$ 186,447 |

The Corporation continues to carry a valuation allowance to reduce certain state deferred tax assets which include, in part, certain state net operating loss carryforwards which expire at various times through 2023. At December 31, 2008, the Corporation believes it is more likely than not that these items will not be realized. However, as time passes the Corporation will be able to better assess the amount of tax benefit it will realize from using these items.

In 2006, the Corporation was awarded a \$75,000 allocation of tax credit authority under the Community Development Financial Institutions Fund. Under the program, the Corporation invested \$75,000 in a wholly-owned subsidiary, which will make qualifying loans and investments. In return, the Corporation will receive federal income tax credits that will be recognized over seven years, including the year in which the funds were invested in the subsidiary. The Corporation recognizes these tax credits for financial reporting purposes in the same year the tax benefit is recognized in the Corporation's tax return. The investment resulted in a tax credit that reduced income tax expense by \$3,750 in 2008, 2007 and 2006, respectively.

17. Stock Option, Restricted Stock and Employee Stock Purchase Plans

The Corporation has equity incentive plans (collectively, the Equity Incentive Plans) which provide for the grant of nonqualified and incentive stock options, stock appreciation rights, rights to purchase shares of restricted stock and the award of restricted stock units to key employees and directors of the Corporation at prices ranging from zero to the market value of the shares at the date of grant. The Equity Incentive Plans generally provide for the grant of options to purchase shares of the Corporation s common stock for a period of ten years from the date of grant. Stock options granted generally become exercisable over a period of three years from the date of grant. However, stock options granted to directors of the Corporation vest immediately and stock options granted after 1996 provide immediate vesting for grants to individuals who meet certain age and years of service criteria at the date of grant. Restrictions on stock or units issued pursuant to the Equity Incentive Plans generally lapse within a three to seven year period.

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Notes to Consolidated Financial Statements (Continued)

December 31, 2008, 2007, and 2006 (\$000 s except share data)

In connection with the Separation, the Corporation and Metavante entered into an Employee Matters Agreement to allocate between them the assets, liabilities, and responsibilities with respect to certain employee compensation, benefit plans and programs, and certain employment matters with respect to their employees (the Employee Matters Agreement). On November 1, 2007, in connection with the Separation, the Marshall & Ilsley stock options awarded to Metavante employees and outstanding at November 1, 2007 were converted to Metavante stock options in accordance with the formula prescribed in the Employee Matters Agreement. Upon the conversion, the outstanding Marshall & Ilsley stock options awarded to Metavante employees were cancelled and are available for future awards to employees of the Corporation. Marshall & Ilsley stock options awarded to Marshall & Ilsley employees and outstanding at November 1, 2007 were converted to stock options of the New Marshall & Ilsley in accordance with the formula prescribed in the Employee Matters Agreement. Options issued as a result of the conversion were taken from those available for future awards to employees of the Corporation. On a net basis, shares available for future award to employees declined by approximately 4.1 million shares as a result of the Separation. The conversion formula was intended to retain, following the Separation, the aggregate spread and the ratio of exercise price to the share value on the options as the option holders had immediately prior to the Separation, thereby maintaining the intrinsic value of the options. Such options were subject to the same terms and conditions (including vesting) as the corresponding Marshall & Ilsley option to which it related. The Corporation determined that no incremental stock compensation expense was recognized as a result of the conversion because the fair value of the outstanding option awards immediately after the Separation was less than the fair value of the option awards immediately before the Separation.

The Corporation also has a long-term incentive plan. Under this plan, performance units may be awarded from time to time. Once awarded, additional performance units will be credited to each participant based on dividends paid by the Corporation on its common stock. At the end of a designated vesting period, participants will receive a cash award equal to the Corporation's average common stock price over the last five days of the vesting period multiplied by some percent (0%-275%) of the initial performance units credited plus those additional units credited as dividends based on the established performance criteria. The vesting period is three years from the date the performance units were awarded.

The Corporation also has a qualified employee stock purchase plan (the ESPP) which gives employees (excluding executive officers) who elect to participate in the plan the right to acquire shares of the Corporation's common stock at a purchase price which is 85 percent of the fair market value of the Corporation's common stock on the last day of each three month period within the one-year offering period. Employee contributions under the ESPP are made ratably during the plan period. Employees may withdraw from the plan prior to the end of the one year offering period.

In conjunction with the Separation, Metavante employees that had elected to participate in the ESPP were refunded their accumulated cash balances in accordance with the Employee Matters Agreement.

Under the fair value method of accounting, compensation cost is measured at the grant date based on the fair value of the award using an option-pricing model that takes into account the stock price at the grant date, the exercise price, the expected life of the option, the volatility of the underlying stock, expected dividends and the risk-free interest rate over the expected life of the option. The resulting compensation cost for stock options that vest is recognized over the service period, which is usually the vesting period.

Table of Contents**Notes to Consolidated Financial Statements (Continued)****December 31, 2008, 2007, and 2006 (\$000 s except share data)**

Activity relating to nonqualified and incentive stock options was:

| | Number of Shares | Option Price Per Share | Weighted- Average Exercise Price |
|---|---------------------|---------------------------|---|
| Shares under option at December 31, 2006 | 26,324,536 | \$ 5.71 48.54 | \$ 35.68 |
| Options granted | 4,190,533 | 41.21 49.20 | 42.43 |
| Vested options exchanged in acquisition | 649,767 | 8.96 34.50 | 17.37 |
| Options lapsed or surrendered | (310,564) | 16.77 48.07 | 44.88 |
| Options exercised | (3,345,900) | 5.71 45.74 | 26.82 |
| Shares under option at October 31, 2007 | 27,508,372 | \$ 8.56 49.20 | \$ 37.25 |
| Option conversion due to the Separation | 9,247,773 | 6.41 36.82 | 27.88 |
| Options lapsed or surrendered in connection with the Separation | (5,108,249) | 17.06 35.98 | 29.69 |
| Options granted | 15,775 | 26.48 31.47 | 29.45 |
| Options lapsed or surrendered | (334,058) | 15.53 35.98 | 23.17 |
| Options exercised | (379,458) | 11.99 26.04 | 22.37 |
| Shares under option at December 31, 2007 | 30,950,155 | \$ 6.41 36.82 | \$ 27.70 |
| Options granted | 4,821,543 | 11.50 29.75 | 18.92 |
| Options lapsed or surrendered | (1,325,651) | 10.28 36.06 | 28.80 |
| Options exercised | (1,007,321) | 6.41 26.04 | 18.96 |
| Shares under option at December 31, 2008 | 33,438,726 | \$ 8.55 36.82 | \$ 26.65 |

The range of options outstanding at December 31, 2008 were:

| Price Range | Number of Shares | | Weighted-Average Exercise Price | | Weighted-Average Aggregate Intrinsic Value | | Weighted-Average Remaining Contractual Life (In Years) | |
|---------------|------------------|-------------|---------------------------------|-------------|--|-------------|--|-------------|
| | Outstanding | Exercisable | Outstanding | Exercisable | Outstanding | Exercisable | Outstanding | Exercisable |
| \$ 8.55-18.99 | 6,840,071 | 2,909,968 | \$ 17.83 | \$ 16.77 | \$ (4.19) | \$ (3.13) | 7.2 | 3.7 |
| 19.00-21.99 | 3,080,882 | 3,061,082 | 21.24 | 21.25 | (7.60) | (7.61) | 3.8 | 3.7 |
| 22.00-23.99 | 4,722,086 | 4,691,216 | 23.50 | 23.51 | (9.86) | (9.87) | 2.3 | 2.2 |
| 24.00-26.99 | 3,038,599 | 2,883,932 | 26.00 | 26.02 | (12.36) | (12.38) | 5.0 | 4.8 |
| 27.00-31.49 | 7,249,581 | 5,097,889 | 31.27 | 31.23 | (17.63) | (17.59) | 7.4 | 6.8 |
| 31.50-34.49 | 4,884,594 | 4,567,162 | 32.13 | 32.11 | (18.49) | (18.47) | 7.3 | 7.3 |
| 34.50-36.82 | 3,622,913 | 2,581,415 | 35.92 | 35.94 | (22.28) | (22.30) | 7.9 | 7.9 |
| | 33,438,726 | 25,792,664 | \$ 26.65 | \$ 27.05 | \$ (13.01) | \$ (13.41) | 6.1 | 5.2 |

Options exercisable at December 31, 2007 and 2006 were 23,877,880 and 19,826,071, respectively. The weighted-average exercise price for options exercisable was \$26.14 at December 31, 2007 and \$32.54 at December 31, 2006.

The fair value of each option grant was estimated as of the date of grant using the Black-Scholes closed form option-pricing model for options granted prior to September 30, 2004. A form of a lattice option-pricing model was used for options granted after September 30, 2004.

Table of Contents**Notes to Consolidated Financial Statements (Continued)****December 31, 2008, 2007, and 2006 (\$000 s except share data)**

The grant date fair values and assumptions used to determine such value are as follows:

| | 2008 | Post-Separation | 2007 (1) Pre-Separation | 2006 |
|--|--------------|-----------------|----------------------------|--------------|
| Weighted-average grant date fair value | \$ 6.84 | \$ 6.36 | \$ 7.39 | \$ 9.11 |
| Assumptions: | | | | |
| Risk-free interest rates | 1.56-3.65% | 3.71-3.74% | 4.10-5.50% | 4.22-5.66% |
| Expected volatility | 20.90-34.80% | 19.90% | 16.60-19.90% | 18.20-18.50% |
| Expected term (in years) | 6.2-7.4 | 6.8-7.2 | 6.5-7.3 | 6.3-7.2 |
| Expected dividend yield | 3.03-4.99% | 2.91% | 2.33-2.91% | 2.20-2.29 % |

(1) The data for 2007 has been separated to show the grant date fair values and assumptions prior to and after the Separation.

The total intrinsic value of nonqualified and incentive stock options exercised during the years ended December 31, 2008, 2007 and 2006 was \$6.6 million, \$72.3 million and \$55.2 million, respectively. The total fair value of shares vested during the years ended December 31, 2008, 2007 and 2006 amounted to \$25.5 million, \$30.2 million and \$47.4 million, respectively.

There was approximately \$44.9 million and \$33.0 million of total unrecognized compensation expense related to unvested nonqualified and incentive stock options at December 31, 2008 and 2007, respectively. The total unrecognized compensation expense will be recognized over a weighted average period of 1.6 years. For awards with graded vesting, compensation expense was recognized using an accelerated method prior to the adoption of SFAS 123(R) and is recognized on a straight line basis for awards granted after the effective date.

For the years ended December 31, 2008, 2007 and 2006 the expense for nonqualified and incentive stock options that is included in Salaries and Employee Benefits expense in the Consolidated Statements of Income amounted to \$23.1 million, \$19.5 million and \$23.3 million, respectively. These amounts are considered non-cash expenses for the Statements of Cash Flow purposes.

For the years ended December 31, 2008, 2007 and 2006 the expense for directors' nonqualified and incentive stock options that is included in Other Expense in the Consolidated Statements of Income amounted to \$0.1 million, \$0.2 million and \$0.6 million, respectively.

Activity relating to the Corporation's Restricted Stock Purchase Rights was:

| | December 31 | |
|------|-------------|------|
| 2008 | 2007 | 2006 |

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| | | | | |
|--|-------------------|-----------|-----------|-----------|
| Restricted stock purchase rights outstanding | Beginning of Year | | | |
| Restricted stock purchase rights granted | | 332,000 | 335,900 | 220,855 |
| Restricted stock purchase rights exercised | | (332,000) | (335,900) | (220,855) |

Restricted stock purchase rights outstanding End of Year

| | | | |
|--|-----------|-----------|-----------|
| Weighted-average grant date market value | \$ 19.36 | \$ 43.17 | \$ 47.21 |
| Aggregate compensation expense | \$ 5,799 | \$ 9,101 | \$ 6,024 |
| Unamortized deferred compensation | \$ 14,936 | \$ 15,011 | \$ 16,686 |

Restrictions on stock issued pursuant to the exercise of restricted stock purchase rights generally lapse within a three to seven year period. Accordingly, the compensation related to issuance of the rights is amortized over the vesting period. At December 31, 2008, the unamortized compensation expense will be recognized over a weighted average period of 2.1 years. These amounts are considered non-cash expenses for the Consolidated Statements of Cash Flow purposes.

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Notes to Consolidated Financial Statements (Continued)

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Marshall & Ilsley restricted common stock outstanding on November 1, 2007 was converted to shares of common stock of New Marshall & Ilsley and Metavante in the same manner as the other holders of Marshall & Ilsley were converted. Unvested restricted stock is subject to the same terms and conditions (including vesting) as the corresponding Marshall & Ilsley restricted common stock award to which it related.

Compensation under the long-term incentive plan is paid in cash at the end of the designated vesting period. This plan meets the definition of a liability award. Unlike equity awards, liability awards are remeasured at fair value at each balance sheet date until settlement. For the years ended December 31, 2008, 2007 and 2006 the expense for the Long-Term Incentive Plan that is included in Salaries and Employee Benefits expense in the Consolidated Statements of Income amounted to (\$4.3) million, \$1.6 million and \$8.6 million, respectively.

The compensation cost per share for the ESPP was \$2.88, \$4.24 and \$7.44 for the plan years ended December 31, 2008, June 30, 2008 and 2007, respectively. Employee contributions under the ESPP are made ratably during the plan period. Employees may withdraw from the plan prior to the end of the one year offering period. The total shares to be purchased are estimated at the beginning of the plan period based on total expected contributions for the plan period and 85% of the market price at that date. During 2008 and 2007, common shares purchased by employees under the ESPP amounted to 579,111 and 375,401, respectively. For the years ended December 31, 2008, 2007 and 2006 the total expense for the ESPP that is included in Salaries and Employee Benefits expense in the Consolidated Statements of Income amounted to \$1.7 million, \$1.6 million and \$1.8 million, respectively. These amounts are considered non-cash expenses for the Statements of Cash Flow purposes.

Shares reserved for the granting of options and stock purchase rights at December 31, 2008 were 5,171,362.

18. Employee Retirement and Health Plans

The Corporation has a defined contribution program that consists of a 401(k) component, including employer matching contributions, and an employer contribution component that is allocated based on compensation. Employee 401(k) contributions into the retirement program of up to 6% of eligible compensation are matched at 50% by the Corporation. The employer contribution component provides for a guaranteed contribution to eligible participants equal to 2% of compensation. At the Corporation's option, an additional amount may also be contributed and may vary from year to year up to a maximum of an additional 6% of eligible compensation. Total expense relating to these plans was \$47,440, \$42,650, and \$39,702 in 2008, 2007, and 2006, respectively. Effective as of the Separation, employees of Metavante ceased to be participants in the defined contribution program. The Corporation transferred assets from the trust relating to the Marshall & Ilsley Retirement Program to the trust established for the Metavante profit sharing retirement plan that was equal to account balances of all Metavante employees and former Metavante employees with an account balance under the Marshall & Ilsley Retirement Program.

The Corporation also has supplemental retirement plans to provide retirement benefits to certain of its key executives. Total expense relating to these plans amounted to \$3,933 in 2008, \$3,889 in 2007, and \$4,587 in 2006.

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The Corporation sponsors a defined benefit health plan that provides health care benefits to eligible current and retired employees. Eligibility for retiree benefits is dependent upon age, years of service, and participation in the health plan during active service. The plan is contributory and in 1997 and 2002 the plan was amended. Employees hired after September 1, 1997, including employees retained from mergers, will be granted access to the Corporation's plan upon becoming an eligible retiree; however, such retirees must pay 100% of the cost of health care benefits. The plan continues to contain other cost-sharing features such as deductibles and coinsurance. During 2008, the Corporation made an additional contribution to the postretirement medical plan of \$1.0 million. The Corporation may make an additional contribution to its plan in 2009.

In accordance with the Employee Matters Agreement, active employees of Metavante Technologies, Inc. exited the Marshall & Ilsley welfare plans and became covered under new plans adopted by Metavante Technologies, Inc.

Table of Contents**Notes to Consolidated Financial Statements (Continued)****December 31, 2008, 2007, and 2006 (\$000 s except share data)**

In conjunction with the Separation, current and former Metavante employees ceased to be participants in the Corporation's health plan effective November 1, 2007. A portion of the assets held in a trust that is used to fund such obligations, which included Metavante's contributions made through November 1, 2007, was transferred by the Corporation to a new trust created by Metavante.

In addition, the Corporation assumed Metavante's obligation to provide postretirement medical benefits to all of Metavante's existing retirees eligible for such coverage and those retirement-eligible employees that were also eligible for postretirement medical benefits but had not yet retired as of November 1, 2007. The assets held in a trust that is used to fund such obligations, which included Metavante's contributions made through November 1, 2007, were retained by the Corporation.

The Corporation uses a measurement date of December 31 for its retirement plans. The following table summarizes the accumulated postretirement benefit obligation (APBO) reflecting Medicare Part D subsidy, and plan asset activity for the retirement plans:

| | 2008 | 2007 |
|--|-----------|-----------|
| Change in Benefit Obligation | | |
| APBO, beginning of year | \$ 65,029 | \$ 57,303 |
| Service cost | 951 | 976 |
| Interest cost on APBO | 3,936 | 3,358 |
| Plan participants' contributions | 3,540 | 2,993 |
| Actuarial (gains) losses | (3,111) | (1,337) |
| Gross benefits paid | (5,899) | (7,145) |
| Less: Federal subsidy on benefits paid | 772 | 722 |
| Acquisitions/divestitures | 1,159 | 8,159 |
| | | |
| APBO, end of year | \$ 66,377 | \$ 65,029 |
| | | |
| | 2008 | 2007 |
| Change in Plan Assets | | |
| Fair value of plan assets, beginning of year | \$ 32,391 | \$ 16,613 |
| Actual return on plan assets | (5,938) | 1,180 |
| Employer contribution/payments | 5,707 | 9,813 |
| Plan participants' contributions | 3,540 | 2,993 |
| Gross benefits paid | (5,899) | (7,145) |
| Acquisitions/divestitures | | 8,937 |
| | | |
| Fair value of plan assets, end of year | \$ 29,801 | \$ 32,391 |
| | | |
| Weighted annual discount rate used in determining ABPO | 6.00% | 6.00% |
| Expected long term rate of retirement plan assets | 5.25 | 5.25 |

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The weighted average discount rate used in determining the APBO was based on matching the Corporation's estimated plan duration to a yield curve derived from a portfolio of high-quality corporate bonds with yields within the 10th to 90th percentiles. The portfolio consisted of over 500 actual Aa quality bonds at various maturity points across the full maturity spectrum that were all United States issues.

The long term rate used in determining the expected return on retirement plan assets was based on a historical return experience for a diversified asset allocation of equities and fixed income securities, along with equity and bond indices used for forward looking return projections.

The assumed health care cost trend for 2009 is 8.00% for pre-age 65 and post-age 65 retirees. The rate was assumed to decrease gradually to 5.00% for pre-age 65 and post-age 65 retirees in 2015 and remain at that level thereafter.

Table of Contents**Notes to Consolidated Financial Statements (Continued)****December 31, 2008, 2007, and 2006 (\$000 s except share data)**

The 2007 change in benefit obligation and plan assets from acquisitions/divestitures relate to the Separation.

The funded status at December 31:

| | 2008 | 2007 |
|---------------------------|-------------|-------------|
| Funded Status | | |
| Fair value of plan assets | \$ 29,801 | \$ 32,391 |
| Benefit obligations | (66,377) | (65,029) |
| Funded status | \$ (36,576) | \$ (32,638) |

At December 31, 2008 and 2007, \$36,576 and \$32,638, respectively, are included in Accrued Expenses and Other Liabilities in the Consolidated Balance Sheets.

The amounts recognized in accumulated other comprehensive income (pre-tax) for the years ended December 31, 2008 and 2007 consists of:

| | 2008 | 2007 |
|----------------------|-----------------|-------------------|
| Net actuarial loss | \$ 14,009 | \$ 9,428 |
| Prior service credit | (12,658) | (15,029) |
| Total | \$ 1,351 | \$ (5,601) |

The estimated amounts that will be amortized from accumulated other comprehensive income into net periodic benefit cost in 2009 are as follows:

| | |
|----------------------|-------------------|
| Actuarial loss | \$ 839 |
| Prior service credit | (2,238) |
| Total | \$ (1,399) |

Net periodic postretirement benefit cost for the years ended December 31, 2008, 2007 and 2006 includes the following components:

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| | 2008 | 2007 | 2006 |
|----------------------------------|----------|----------|----------|
| Service cost | \$ 951 | \$ 976 | \$ 1,305 |
| Interest cost on APBO | 3,936 | 3,358 | 3,144 |
| Expected return on plan assets | (1,740) | (1,116) | (716) |
| Prior service amortization | (2,371) | (2,148) | (2,096) |
| Actuarial loss amortization | 301 | 416 | 1,065 |
| Net periodic postretirement cost | \$ 1,077 | \$ 1,486 | \$ 2,702 |

The assumed health care cost trend rate has a significant effect on the amounts reported for the health care plans. A one-percentage point change on assumed health care cost trend rates would have the following effects:

| | One Percentage Point Increase | One Percentage Point Decrease |
|---|--|--|
| Effect on accumulated postretirement benefit obligation | \$ 6,120 | \$ (5,391) |
| Effect on aggregate service and interest cost | 597 | (521) |

Table of Contents**Notes to Consolidated Financial Statements (Continued)****December 31, 2008, 2007, and 2006 (\$000 s except share data)**

The fair value of the postretirement medical plan assets at December 31, by asset category are as follows:

| | 2008 | 2007 |
|--------------------------------|------------------|------------------|
| Plan Assets by Category | | |
| Equity mutual fund | \$ 12,440 | \$ 15,745 |
| Fixed income securities | 9,868 | 15,297 |
| Cash equivalents | 7,493 | 1,401 |
| Total | \$ 29,801 | \$ 32,443 |

The Corporation's primary investment objective is to achieve a combination of income and growth of capital through the investment in a diversified portfolio of equity and fixed income securities. The portfolio seeks to maximize potential total return consistent with minimizing overall volatility. The long-term target asset mix is 50% equities and 50% fixed income securities. At December 31, 2008, the equity mutual fund consisted of a pooled large cap equity fund. This equity mutual fund is valued with quoted prices in active markets for identical assets, and as such, considered Level 1. The fixed income securities are comprised of a short-term municipal (tax-exempt) fund and a corporate and government bond market index fund. These fixed income securities are also valued with quoted prices in active markets for identical assets, and is considered Level 1.

Management has established acceptable guidelines for the types of investments held in the portfolio. The acceptable ranges for the long-term allocation of funds among asset classes within the portfolio are: 40% to 60% equities, 40% to 60% fixed income securities, and 0% to 10% cash reserves. Individual fixed income securities will have maturities of thirty years or less. The average maturity of the portfolio will not exceed ten years. In order to maintain diversification, management has set limits with regards to holdings of individual investments as a percentage of the total portfolio. Based on the Corporation's investment objective, the asset allocation of the plan assets are aligned with meeting the funding objectives of the benefit obligation of the postretirement plan.

On December 8, 2003 the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the Act) was signed into law. The Act introduced a prescription drug benefit program under Medicare (Medicare Part D) as well as a 28% Federal subsidy to sponsors of retiree health care benefit plans that provide a benefit that is at least actuarially equivalent to Medicare Part D.

The following expected benefit payments to be paid, which reflect future service, as appropriate, are as follows:

| | Total Without Medicare Part D | Estimated Medicare Part D Subsidy |
|------|--|--|
| 2009 | \$ 5,399 | \$ (781) |

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| | | |
|-----------|--------|---------|
| 2010 | 5,968 | (860) |
| 2011 | 6,506 | (930) |
| 2012 | 6,867 | (998) |
| 2013 | 6,978 | (1,045) |
| 2014-2018 | 35,133 | (5,420) |

Table of Contents**Notes to Consolidated Financial Statements (Continued)****December 31, 2008, 2007, and 2006 (\$000 s except share data)****19. Financial Instruments with Off-Balance Sheet Risk**

Financial instruments with off-balance sheet risk at December 31 were:

| | 2008 | 2007 |
|--|---------------|---------------|
| Financial instruments whose amounts represent credit risk: | | |
| Commitments to extend credit: | | |
| To commercial customers | \$ 14,968,521 | \$ 15,998,615 |
| To individuals | 4,525,367 | 4,321,591 |
| Commercial letters of credit | 38,152 | 85,703 |
| Mortgage loans sold with recourse | 54,558 | 60,805 |
| Credit support agreement | 90,000 | |
| Standby letters of credit | 2,952,025 | 2,496,964 |

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates and may require payment of a fee. The majority of the Corporation's commitments to extend credit generally provide for the interest rate to be determined at the time the commitment is utilized. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements.

The Corporation evaluates each customer's credit worthiness on an individual basis. Collateral obtained, if any, upon extension of credit, is based upon management's credit evaluation of the customer. Collateral requirements and the ability to access collateral is generally similar to that required on loans outstanding as described in Note 7 Loans and Leases in Notes to Consolidated Financial Statements.

Commercial letters of credit are contingent commitments issued by the Corporation to support the financial obligations of a customer to a third party. Commercial letters of credit are issued to support payment obligations of a customer as buyer in a commercial contract for the purchase of goods. Letters of credit have maturities which generally reflect the maturities of the underlying obligations. The credit risk involved in issuing letters of credit is the same as that involved in extending loans to customers. If deemed necessary, the Corporation holds various forms of collateral to support letters of credit.

Certain mortgage loans sold have limited recourse provisions. The losses arising from the limited recourse provisions are not material.

The credit support agreements in which the Corporation and its trust subsidiary, Marshall & Ilsley Trust Company N.A. entered into, represents the maximum aggregate contribution, contingent upon certain criteria, related to the trust's securities lending activities. See Note 24 Guarantees in Notes to Consolidated Financial Statements for further information.

Standby letters of credit are commitments the Corporation issues to guarantee the performance of a customer to a third-party and represent the maximum potential future obligation guaranteed by the Corporation under these commitments. Standby letters of credit have maturities which generally reflect the maturities of the underlying obligations. The credit risk involved in issuing standby letters of credit is the same as that involved in extending loans to customers. If deemed necessary, the Corporation holds various forms of collateral to support standby letters of credit. The standby letters of credit are net of participation agreements conveyed to others.

20. Foreign Exchange Contracts

Foreign exchange contracts are commitments to purchase or deliver foreign currency at a specified exchange rate. The Corporation enters into foreign exchange contracts primarily in connection with trading activities to enable customers involved in international trade to hedge their exposure to foreign currency fluctuations and to minimize the Corporation's own exposure to foreign currency fluctuations resulting from the above. Foreign exchange contracts

Table of Contents**Notes to Consolidated Financial Statements (Continued)****December 31, 2008, 2007, and 2006 (\$000 s except share data)**

include such commitments as foreign currency spot, forward, future and, to a much lesser extent, option contracts. The risks in these transactions arise from the ability of the counterparties to perform under the terms of the contracts and the risk of trading in a volatile commodity. The Corporation actively monitors all transactions and positions against predetermined limits established on trades and types of currency to ensure reasonable risk taking.

Matching commitments to deliver foreign currencies with commitments to purchase foreign currencies minimizes the Corporation's market risk from unfavorable movements in currency exchange rates.

At December 31, 2008 the Corporation's foreign currency position resulting from foreign exchange contracts by major currency was as follows (U.S. dollars):

| Currency | Commitments to Deliver Foreign Exchange | Commitments to Purchase Foreign Exchange |
|--|--|---|
| Euro | \$ 325,492 | \$ 325,666 |
| Canadian Dollar | 59,456 | 58,862 |
| British Pound Sterling | 53,382 | 53,236 |
| Swiss Franc | 46,747 | 46,833 |
| Australian Dollar | 31,823 | 31,755 |
| Mexican Peso | 6,659 | 6,678 |
| Japanese Yen | 6,261 | 6,255 |
| South African Rand | 2,446 | 2,440 |
| All Other | 910 | 943 |
| Total | \$ 533,176 | \$ 532,668 |
| Average amount of contracts during 2008 to deliver/purchase foreign exchange | \$ 629,220 | \$ 628,883 |

21. Derivative Financial Instruments and Hedging Activities

Interest rate risk, the exposure of the Corporation's net interest income and net fair value of its assets and liabilities to adverse movements in interest rates, is a significant market risk exposure that can have a material effect on the Corporation's financial condition, results of operations and cash flows. The Corporation has established policies that neither earnings nor fair value at risk should exceed established guidelines and assesses these risks by modeling the impact of changes in interest rates that may adversely impact expected future earnings and fair values.

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The Corporation has strategies designed to confine these risks within the established limits and identify appropriate risk / reward trade-offs in the financial structure of its balance sheet. These strategies include the use of derivative financial instruments to help achieve the desired balance sheet repricing structure while meeting the desired objectives of its customers.

The Corporation employs certain over-the-counter interest rate swaps that are the designated hedging instruments in fair value and cash flow hedges that are used by the Corporation to manage its interest rate risk. These interest rate swaps are measured at fair value on a recurring basis based on significant other observable inputs and are categorized as Level 2. See Note 3 Fair Value Measurements in Notes to Consolidated Financial Statements for additional information.

Table of Contents**Notes to Consolidated Financial Statements (Continued)****December 31, 2008, 2007, and 2006 (\$000 s except share data)*****Trading Instruments and Other Free Standing Derivatives***

The Corporation enters into various derivative contracts which are designated as trading and other free standing derivative contracts. These derivative contracts are not linked to specific assets and liabilities on the balance sheet or to forecasted transactions in an accounting hedge relationship and, therefore, do not qualify for hedge accounting under SFAS 133. They are carried at fair value with changes in fair value recorded as a component of other noninterest income.

Trading and other free standing derivatives are used primarily to focus on providing derivative products to customers which enables them to manage their exposures to interest rate risk. The Corporation's market risk from unfavorable movements in interest rates is generally economically hedged by concurrently entering into offsetting derivative contracts. The offsetting derivative contracts generally have nearly identical notional values, terms and indices. The Corporation uses interest rate futures to economically hedge the exposure to interest rate risk arising from the interest rate swap (designated as trading) entered into in conjunction with its auto securitization activities.

Interest rate lock commitments on residential mortgage loans intended to be held for sale are considered free standing derivative instruments. The option to sell the mortgage loans at the time the commitments are made are also free standing derivative instruments. The change in fair value of these derivative instruments due to changes in interest rates tend to offset each other and act as economic hedges. At December 31, 2008 and 2007, the estimated fair values of interest rate lock commitments on residential mortgage loans intended to be held for sale and related option to sell were insignificant.

The following tables summarize the balance sheet category and fair values of trading derivatives not designated as hedging instruments under SFAS 133:

| December 31, 2008 | Notional Amount (\$ in millions) | Balance Sheet Category | Fair Value (\$ in millions) |
|--|---|--|--|
| Assets: | | | |
| Interest Rate Contracts Swaps | \$ 4,593.2 | Trading Assets | \$ 326.8 |
| Interest Rate Contracts Purchased Interest Rate Caps | 175.2 | Trading Assets | 1.4 |
| Equity Derivative Contracts Equity-Indexed CDs | 49.2 | Trading Assets | 3.3 |
| Equity Derivative Contracts Warrants | 0.1 | Trading Assets | 0.1 |
| Total assets | | | 331.6 |
| Liabilities: | | | |
| Interest Rate Contracts Swaps | \$ 4,395.8 | Accrued Expenses and Other Liabilities | \$ 282.2 |
| Interest Rate Contracts Sold Interest Rate Caps | 180.0 | Accrued Expenses and Other Liabilities | 1.4 |

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| | | | | |
|---------------------------------------|-----------------------|---------|--|----------------|
| Interest Rate Contracts | Interest Rate Futures | 1,637.0 | Accrued Expenses and Other Liabilities | (0.1) |
| Equity Derivative Contracts | Equity-Indexed CDs | 49.2 | Accrued Expenses and Other Liabilities | 3.3 |
| Total liabilities | | | | 286.8 |
| Net positive fair value impact | | | | \$ 44.8 |

Table of Contents**Notes to Consolidated Financial Statements (Continued)****December 31, 2008, 2007, and 2006 (\$000 s except share data)**

| December 31, 2007 | Notional Amount (\$ in millions) | Balance Sheet Category | Fair Value (\$ in millions) |
|--|--|--|--------------------------------|
| Assets: | | | |
| Interest Rate Contracts Swaps | \$ 2,661.9 | Trading Assets | \$ 71.0 |
| Interest Rate Contracts Purchased Interest Rate Caps | 56.9 | Trading Assets | 0.0 |
| Equity Derivative Contracts Warrants | 0.1 | Trading Assets | 0.5 |
| Total assets | | | 71.5 |
| Liabilities: | | | |
| Interest Rate Contracts Swaps | \$ 2,245.7 | Accrued Expenses and Other Liabilities | \$ 58.2 |
| Interest Rate Contracts Sold Interest Rate Caps | 56.9 | Accrued Expenses and Other Liabilities | 0.0 |
| Interest Rate Contracts Interest Rate Futures | 2,399.0 | Accrued Expenses and Other Liabilities | 0.3 |
| Total liabilities | | | 58.5 |
| Net positive fair value impact | | | \$ 13.0 |

The following tables summarize the income statement categories of the gain or (loss) recognized in income on trading derivatives not designated as hedging instruments under SFAS 133:

| | Category of Gain or (Loss) | | Amount of Gain or (Loss) Recognized in Income on Derivative (\$ in millions) |
|--|----------------------------|-------|---|
| | Recognized in Income on | | |
| | Derivative | | |
| For the Year Ended December 31, 2008 | | | |
| Interest Rate Contracts Swaps | Other Income | Other | \$ 32.7 |
| Interest Rate Contracts Purchased Interest Rate Caps | Other Income | Other | 0.0 |
| Interest Rate Contracts Sold Interest Rate Caps | Other Income | Other | (0.0) |
| Interest Rate Contracts Interest Rate Futures | Other Income | Other | (10.1) |
| Equity Derivative Contracts Equity-Indexed CDs | Other Income | Other | 0.0 |
| Equity Derivative Contracts Warrants | Other Income | Other | (0.4) |

| | Category of Gain or (Loss) | | Amount of Gain or (Loss) Recognized in Income on Derivative (\$ in millions) |
|--|----------------------------|-------|---|
| | Recognized in Income on | | |
| | Derivative | | |
| For the Year Ended December 31, 2007 | | | |
| Interest Rate Contracts Swaps | Other Income | Other | \$ 11.0 |
| Interest Rate Contracts Purchased Interest Rate Caps | Other Income | Other | 0.0 |
| Interest Rate Contracts Sold Interest Rate Caps | Other Income | Other | (0.0) |

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| | | | | |
|-----------------------------|-----------------------|--------------|-------|--------|
| Interest Rate Contracts | QSPE | Other Income | Other | (14.3) |
| Interest Rate Contracts | Interest Rate Futures | Other Income | Other | (4.3) |
| Equity Derivative Contracts | Warrants | Other Income | Other | (0.3) |

The Corporation uses various derivative instruments that qualify as hedging relationships under SFAS 133. These instruments are designated as either fair value hedges or cash flow hedges. The Corporation recognizes these derivative instruments as either assets or liabilities at fair value in the statement of financial position. The following provides further explanation of the hedging relationships.

Fair Value Hedges

The Corporation has fixed rate CDs and fixed rate long-term debt which expose the Corporation to variability in fair values due to changes in market interest rates. To limit that variability, the Corporation has entered into received-fixed / pay floating interest rate swaps.

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Notes to Consolidated Financial Statements (Continued)

December 31, 2008, 2007, and 2006 (\$000 s except share data)

The Corporation structures the interest rate swaps so that all of the critical terms of the fixed rate CDs and fixed rate borrowings match the receive fixed leg of the interest rate swaps at inception of the hedging relationship. As a result, the Corporation expects the hedging relationship to be highly effective in achieving offsetting changes in fair value due to changes in market interest rates both at inception and on an ongoing basis.

At December 31, 2008, no component of the derivative instruments gain or loss was excluded from the assessment of hedge effectiveness for derivative financial instruments designated as fair value hedges.

During 2006, the Corporation terminated fair value hedges on certain long-term borrowings. The adjustment to the fair value of the hedged instrument of \$4.7 million is being amortized as expense into earnings over the expected remaining term of the borrowings using the effective interest method.

The impact from fair value hedges to total net interest income for the year ended December 31, 2008 was a positive \$110.1 million. The impact to net interest income due to ineffectiveness was not material.

The impact from fair value hedges to total net interest income for the year ended December 31, 2007 was a negative \$2.4 million. The impact to net interest income due to ineffectiveness was a positive \$0.3 million for the year ended December 31, 2007.

Cash Flow Hedges

The Corporation has variable rate investment securities, loans, deposits and borrowings which expose the Corporation to variability in interest payments due to changes in interest rates. The Corporation believes it is prudent to limit the variability of a portion of its interest receipts and payments. To meet this objective, the Corporation enters into various types of derivative financial instruments to manage fluctuations in cash flows resulting from interest rate risk. At December 31, 2008, these instruments consisted of interest rate swaps.

The Corporation invests in floating rate investment securities indexed to three-month LIBOR. As a result, the Corporation's interest receipts are exposed to variability in cash flows due to changes in three-month LIBOR.

In order to hedge the interest rate risk associated with the floating rate investment securities indexed to three-month LIBOR, the Corporation has entered into receive fixed / pay LIBOR-based floating interest rate swaps designated as cash flow hedges against the LIBOR-based interest payments received.

The Corporation originates and holds floating rate commercial loans that reprice monthly on the first business day to one-month LIBOR. As a result, the Corporation's interest receipts are exposed to variability in cash flows due to changes in one-month LIBOR. In order to hedge the interest rate risk associated with the floating rate commercial loans indexed to one-month LIBOR, the Corporation entered into receive fixed / pay LIBOR-based floating interest rate swaps designated as cash flow hedges against the first LIBOR-based interest payments received that, in the aggregate for each period, are interest payments on such principal amount of its then existing LIBOR-indexed floating-rate commercial loans equal to the notional amount of the interest rate swaps outstanding. During 2008, the cash flow hedge matured.

The Corporation regularly issues floating rate institutional CDs indexed to three-month LIBOR. As a result, the Corporation's interest payments are exposed to variability in cash flows due to changes in three-month LIBOR.

In order to hedge the interest rate risk associated with floating rate institutional CDs, the Corporation has entered into pay fixed / receive LIBOR-based floating interest rate swaps designated as cash flow hedges against the interest payments on the forecasted issuance of floating rate institutional CDs.

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Notes to Consolidated Financial Statements (Continued)

December 31, 2008, 2007, and 2006 (\$000 s except share data)

For certain institutional CDs, hedge effectiveness is assessed at inception and each quarter on an on-going basis using regression analysis that regresses daily observations of three-month LIBOR to itself with a five day mismatch on either side for potential reset date differences between the interest rate swaps and the floating rate institutional CDs. The regression analysis is based on a rolling five years of daily observations. Ineffectiveness is measured using the hypothetical derivative method and is recorded as a component of interest expense on deposits.

The Corporation structures the interest rate swaps so that all of the critical terms of the LIBOR-based floating rate deposits and borrowings match the floating leg of the interest rate swaps at inception of the hedging relationship. As a result, the Corporation expects those hedging relationships to be highly effective in achieving offsetting changes in cash flows due to changes in market interest rates both at inception and on an ongoing basis.

At December 31, 2008, no component of the derivative instruments gain or loss was excluded from the assessment of hedge effectiveness for derivative financial instruments designated as cash flow hedges.

Changes in the fair value of the interest rate swaps designated as cash flow hedges are reported in accumulated other comprehensive income. These amounts are subsequently reclassified to interest income or interest expense as a yield adjustment in the same period in which the related interest on the variable rate loans and short-term borrowings affects earnings. Ineffectiveness arising from differences between the critical terms of the hedging instrument and hedged item is recorded in interest income or expense.

During 2007, \$370 million of FHLB floating rate advances were retired. In conjunction with the retirement of debt, \$370 million in notional value of receive floating / pay fixed interest rate swaps designated as cash flow hedges against the retired floating rate advances were terminated. The unrealized gain in accumulated other comprehensive income aggregating \$5.3 million (\$3.4 million after tax) was recognized and is included in other noninterest income.

The impact to total net interest income from cash flow hedges, including amortization of terminated cash flow hedges, for the year ended December 31, 2008 was a negative \$38.7 million. The impact due to ineffectiveness was immaterial. The estimated reclassification from accumulated other comprehensive income in the next twelve months is approximately \$57.2 million.

The impact to total net interest income from cash flow hedges, including amortization of terminated cash flow hedges, for the year ended December 31, 2007 was a positive \$15.3 million. The impact due to ineffectiveness was immaterial.

For the year ended December 31, 2006, the total effect on net interest income resulting from derivative financial instruments, was a positive \$22.4 million including the amortization of terminated derivative financial instruments.

Credit risk arises from the potential failure of counterparties to perform in accordance with the terms of the contracts. The Corporation maintains risk management policies that define parameters of acceptable market risk within the framework of its overall asset/liability management strategies and monitor and limit exposure to credit risk. The Corporation believes its credit and settlement procedures serve to minimize its exposure to credit risk. Credit exposure resulting from derivative financial instruments is represented by their fair value amounts, increased by an estimate of potential adverse position exposure arising from changes over time in interest rates, maturities and other relevant factors. At December 31, 2008, the estimated credit exposure arising from derivative financial instruments was approximately \$116.2 million.

Table of Contents**Notes to Consolidated Financial Statements (Continued)****December 31, 2008, 2007, and 2006 (\$000 s except share data)**

The following tables summarize the balance sheet category and fair values of derivatives designated as hedging instruments under SFAS 133:

| December 31, 2008 | | | | | | |
|---------------------------------------|------------|--------------------------|---------------|-----------------------|----------|-----------|
| Derivatives | | | | | | Weighted |
| Designated as | | | | | | Average |
| Hedging Instruments | Hedged | Notional | Balance Sheet | Fair | Value | Remaining |
| under SFAS 133 | Derivative | Amount | Category | Value | Term | Term |
| Type | Item | (\$ in millions) | Category | (\$ in millions) | (Years) | (Years) |
| Assets | | | | | | |
| Interest Rate Contracts | | | | | | |
| Receive Fixed Rate Swaps | Cash Flow | Corporate Notes -AFS | \$ 57.4 | Investment Securities | \$ 0.1 | 1.6 |
| Total assets | | | | 0.1 | | |
| Liabilities | | | | | | |
| Interest Rate Contracts | | | | | | |
| Receive Fixed Rate Swaps | Fair Value | Institutional CDs | \$ 25.0 | Deposits | \$ (2.5) | 27.4 |
| Receive Fixed Rate Swaps | Fair Value | Callable CDs | 5,970.2 | Deposits | (100.4) | 13.5 |
| Receive Fixed Rate Swaps | Fair Value | Brokered Bullet CDs | 209.6 | Deposits | (14.5) | 4.4 |
| Pay Fixed Rate Swaps | Cash Flow | Institutional CDs | 550.0 | Deposits | 27.7 | 1.3 |
| Receive Fixed Rate Swaps | Fair Value | Fixed Rate Bank Notes | 436.4 | Long-Term Borrowings | (54.0) | 7.3 |
| Pay Fixed Rate Swaps | Cash Flow | FHLB Advances | 1,060.0 | Long-Term Borrowings | 98.4 | 3.0 |
| Pay Fixed Rate Swaps | Cash Flow | Floating Rate Bank Notes | 429.6 | Long-Term Borrowings | 30.7 | 2.3 |
| Receive Fixed Rate Swaps | Fair Value | Medium Term notes | 6.9 | Long-Term Borrowings | (0.3) | 19.2 |
| Total liabilities | | | | (14.9) | | |
| Net positive fair value impact | | | | \$ 15.0 | | |

Table of Contents**Notes to Consolidated Financial Statements (Continued)**

December 31, 2008, 2007, and 2006 (\$000 s except share data)

| December 31, 2007 | | | | | | |
|---------------------------------------|------------|--------------------------|-----------|----------------------|------------------|-----------|
| Derivatives | | | | | | |
| Designated as | | | | | | |
| Hedging Instruments | Derivative | Hedged | Notional | Balance Sheet | Fair Value | Weighted |
| under SFAS 133 | Type | Item | Amount | Category | (\$ in | Average |
| | | | (\$ in | | millions) | Remaining |
| | | | millions) | | | Term |
| | | | | | | (Years) |
| Assets | | | | | | |
| Interest Rate Contracts | | | | | | |
| Receive Fixed Rate Swaps | Cash Flow | Variable Rate Loans | \$ 100.0 | Loans and Leases | \$ (0.7) | 0.5 |
| Total assets | | | | | (0.7) | |
| Liabilities | | | | | | |
| Interest Rate Contracts | | | | | | |
| Receive Fixed Rate Swaps | Fair Value | Institutional CDs | \$ 50.0 | Deposits | \$ (0.3) | 28.5 |
| Receive Fixed Rate Swaps | Fair Value | Callable CDs | 520.7 | Deposits | 2.0 | 7.9 |
| Pay Fixed Rate Swaps | Cash Flow | Institutional CDs | 1,175.0 | Deposits | 18.0 | 1.3 |
| Receive Fixed Rate Swaps | Fair Value | Fixed Rate Bank Notes | 125.0 | Long-Term Borrowings | 1.9 | 8.5 |
| Receive Fixed Rate Swaps | Fair Value | Fixed Rate Bank Notes | 372.7 | Long-Term Borrowings | (3.1) | 7.6 |
| Pay Fixed Rate Swaps | Cash Flow | FHLB Advances | 800.0 | Long-Term Borrowings | 38.3 | 4.5 |
| Pay Fixed Rate Swaps | Cash Flow | Floating Rate Bank Notes | 550.0 | Long-Term Borrowings | 13.0 | 1.9 |
| Total liabilities | | | | | 69.8 | |
| Net negative fair value impact | | | | | \$ (70.5) | |

The effect of Fair Value Hedges on the Consolidated Statements of Income for the Year Ended December 31, 2008 (\$ in millions):

| Derivatives | | | | |
|--------------------------|---------------------------------------|--|---------------------------------------|--|
| Designated as | | | | |
| Hedging Instruments | Category of Gain or (Loss) Recognized | Amount of Gain or (Loss) Recognized in | Category of Gain or (Loss) Recognized | Amount of Gain or (Loss) Recognized in |
| under SFAS 133 | in Income on Derivative | Income on Derivative | in Income on Hedged Item | Income on Hedged Item |
| Interest Rate Contracts | | | | |
| | Interest Expense: | | Interest Expense: | |
| | Deposits: | | Deposits: | |
| Receive Fixed Rate Swaps | Institutional CDs | \$ 3.4 | Institutional CDs | \$ (2.2) |
| Receive Fixed Rate Swaps | Callable CDs | 204.8 | Callable CDs | (102.5) |
| Receive Fixed Rate Swaps | Brokered Bullet CDs | 16.2 | Brokered Bullet CDs | (14.5) |

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| | Long-Term Borrowings: | | Long-Term Borrowings: | |
|--------------------------|-----------------------|----------|-----------------------|------------|
| Receive Fixed Rate Swaps | Fixed Rate Bank Notes | 57.4 | Fixed Rate Bank Notes | (52.7) |
| Receive Fixed Rate Swaps | Medium Term Notes | 0.3 | Medium Term Notes | (0.5) |
| Receive Fixed Rate Swaps | Other | | Other | 0.4 |
| | Total | \$ 282.1 | Total | \$ (172.0) |

Table of Contents**Notes to Consolidated Financial Statements (Continued)**

December 31, 2008, 2007, and 2006 (\$000 s except share data)

The effect of Fair Value Hedges on the Consolidated Statements of Income for the Year Ended December 31, 2007 (\$ in millions):

| Derivatives Designated as Hedging Instruments under SFAS 133 | Category of Gain or (Loss) Recognized in Income on Derivative | Amount of Gain or (Loss) Recognized in Income on Derivative | Category of Gain or (Loss) Recognized in Income on Hedged Item | Amount of Gain or (Loss) Recognized in Income on Hedged Item |
|---|--|--|---|---|
| Interest Rate Contracts | | | | |
| | Interest Expense: | | Interest Expense: | |
| | Deposits | | Deposits | |
| Receive Fixed Rate Swaps | Institutional CDs | \$ 0.9 | Institutional CDs | \$ (0.3) |
| Receive Fixed Rate Swaps | Callable CDs | (1.0) | Callable CDs | 2.1 |
| | Long-Term Borrowings | | Long-Term Borrowings | |
| Receive Fixed Rate Swaps | Fixed Rate Bank Notes | 14.2 | Fixed Rate Bank Notes | (18.5) |
| Receive Fixed Rate Swaps | Medium-term Notes | | Medium-term Notes | (0.2) |
| Receive Fixed Rate Swaps | Other | | Other | 0.4 |
| | Total | \$ 14.1 | Total | \$ (16.5) |

The effect of Cash Flow Hedges for the Year Ended December 31, 2008 (\$ in millions):

| Derivatives in SFAS 133 Cash Flow Hedging Relationships | Amount of Gain or (Loss) Recognized in OCI on Derivative (Effective Portion) | | | Category of Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portions) | Amount of Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion) | | |
|--|---|----------|--------|---|--|----------|--------|
| | Gross | Tax | Net | | Gross | Tax | Net |
| Interest Rate Contracts | | | | Interest and Fee Income | | | |
| Investment Securities Corporate Notes AFS | | | | Investment Securities Corporate Notes AFS | | | |
| | \$ 0.1 | \$ (0.0) | \$ 0.1 | | \$ 0.0 | \$ (0.0) | \$ 0.0 |
| Loans and Leases Variable Rate Loans | 0.4 | (0.1) | 0.3 | Loans and Leases Variable Rate Loans | 0.2 | (0.1) | 0.1 |
| Interest Rate Contracts | | | | Interest Expense | | | |
| Deposits: | | | | Deposits: | | | |
| Institutional CDs | (23.2) | 8.1 | (15.1) | Institutional CDs | 13.5 | (4.7) | 8.8 |

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| Long-term Borrowings: | | | Long-term Borrowings: | | | | |
|--------------------------|------------|---------|-----------------------|--------------------------|---------|-----------|---------|
| FHLB Advances | (75.8) | 26.5 | (49.3) | FHLB Advances | 15.7 | (5.5) | 10.2 |
| Floating Rate Bank Notes | (26.0) | 9.1 | (16.9) | Floating Rate Bank Notes | 8.4 | (2.9) | 5.5 |
| Other | | | | Other (1) | 0.8 | (0.3) | 0.5 |
| | \$ (124.5) | \$ 43.6 | \$ (80.9) | | \$ 38.6 | \$ (13.5) | \$ 25.1 |

(1) Represents amortization for the year ended December 31, 2008 from the termination of swaps.

The gain recognized in income representing the ineffective portion of the hedging relationships and excluded from the assessment of hedge effectiveness was not material for the year ended December 31, 2008.

- (1) Represents amortization for the year ended December 31, 2007 from the termination of swaps.
- (2) For the year ended December 31, 2007, the gain or (loss) recognized in income represents the ineffective portion of the hedging relationships and excluded from the assessment of hedge effectiveness.

22. Fair Value of Financial Instruments

The book values and estimated fair values for on and off-balance sheet financial instruments as of December 31, 2008 and 2007 are presented in the following table. Derivative financial instruments designated as hedging instruments are included in the book values and fair values presented for the related hedged items. Derivative financial instruments designated as trading and other free standing derivatives are included in Trading assets.

Table of Contents**Notes to Consolidated Financial Statements (Continued)**

December 31, 2008, 2007, and 2006 (\$000 s except share data)

Balance Sheet Financial Instruments (\$ in millions)

| | 2008 | | 2007 | |
|--|------------|------------|------------|------------|
| | Book Value | Fair Value | Book Value | Fair Value |
| Financial Assets: | | | | |
| Cash and short term investments | \$ 1,082.1 | \$ 1,082.1 | \$ 1,830.8 | \$ 1,830.8 |
| Trading assets | 518.4 | 518.4 | 124.6 | 124.6 |
| Investment securities available for sale | 7,430.6 | 7,430.6 | 7,442.9 | 7,442.9 |
| Investment securities held to maturity | 238.0 | 243.4 | 374.9 | 383.2 |
| Net loans and leases | 48,782.4 | 45,224.8 | 45,800.1 | 46,456.9 |
| Interest receivable | 219.3 | 219.3 | 267.8 | 267.8 |
| Financial Liabilities: | | | | |
| Deposits | 41,023.1 | 41,537.2 | 35,191.4 | 35,244.7 |
| Short-term borrowings | 4,058.0 | 4,059.0 | 6,811.0 | 6,811.0 |
| Long-term borrowings | 9,613.7 | 9,332.4 | 9,872.8 | 9,995.8 |
| Interest payable | 240.1 | 240.1 | 253.1 | 253.1 |

Where readily available, quoted market prices are utilized by the Corporation. If quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. These techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. The calculated fair value estimates, therefore, cannot be substantiated by comparison to independent markets and, in many cases, could not be realized upon immediate settlement of the instrument. The current reporting requirements exclude certain financial instruments and all nonfinancial assets and liabilities from its disclosure requirements. Accordingly, the aggregate fair value amounts presented do not represent the underlying value of the entire Corporation.

The following methods and assumptions are used in estimating the fair value for financial instruments.

Cash and short-term investments

The carrying amounts reported for cash and short-term investments approximate the fair values for those assets.

Trading assets and investment securities

Fair value is based on market prices where available. Estimated fair values for residual interests in the form of interest-only strips from automobile loan securitizations are based on discounted cash flow analysis. The fair value of trading assets and investment securities are categorized as Level 1, Level 2 and Level 3, based on the inputs to the valuations. See Note 3 Fair Value Measurements in Notes to Consolidated Financial Statements for additional information.

Net loans and leases

Loan and lease balances are assigned fair values based on a discounted cash flow analysis. The discount rate is based on the LIBOR swap curve, with rate adjustments for credit quality, cost and profit factors. Net loans and leases include loans held for sale. At December 31, 2008, the fair value of net loans and leases are considered Level 2 and Level 3 in the Fair Value Hierarchy.

Deposits

The fair value for demand deposits or any interest bearing deposits with no fixed maturity date is considered to approximate the carrying value. Time deposits with defined maturity dates are considered to have a fair value which approximates the book value if the maturity date was within three months of December 31. The remaining time deposits are assigned fair values based on a discounted cash flow analysis using discount rates that approximate interest rates currently being offered on time deposits with comparable maturities. At December 31, 2008, the fair value of deposits are considered Level 2 in the Fair Value Hierarchy.

Table of Contents**Notes to Consolidated Financial Statements (Continued)****December 31, 2008, 2007, and 2006 (\$000 s except share data)*****Borrowings***

Short-term borrowings are carried at cost that approximates fair value. Long-term debt is generally valued using a discounted cash flow analysis with a discount rate based on current incremental borrowing rates for similar types of arrangements or, if not readily available, based on a build up approach similar to that used for loans and deposits. The fair value of borrowings are considered Level 2 in the Fair Value Hierarchy. Long-term borrowings include their related current maturities.

Off-Balance Sheet Financial Instruments (\$ in millions)

Fair values of off-balance sheet financial instruments have been estimated based on the equivalent fees, net of expenses, that would be charged for similar contracts and customers at December 31:

| | 2008 | 2007 |
|------------------------------|-------------|-------------|
| Loan commitments | \$ 14.2 | \$ 11.9 |
| Commercial letters of credit | 0.3 | 0.6 |
| Credit support agreements | 5.9 | |
| Standby letters of credit | 12.9 | 9.7 |

See Note 19 Financial Instruments with Off-Balance Sheet Risk in Notes to Consolidated Financial Statements for additional information.

23. Business Segments

The Corporation's operating segments are presented based on its management structure and management accounting practices. The structure and practices are specific to the Corporation; therefore, the financial results of the Corporation's business segments are not necessarily comparable with similar information for other financial institutions.

During the second quarter of 2008, management consolidated certain lending activities and transferred the assets and the related goodwill from the Community Banking segment to the National Consumer Banking Division reporting unit, which is a component of Others. Prior period segment information has been adjusted to reflect the transfer.

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In conjunction with the Separation, the Corporation reorganized its operating segments. The corresponding information for the prior periods has been adjusted.

The Corporation manages interest rate risk centrally at the corporate level by employing a funds transfer pricing (FTP) methodology. This methodology insulates the business segments from interest rate volatility, enabling them to focus on servicing customers. The FTP system assigns charge rates and credit rates to classes of assets and liabilities, respectively, based on expected duration. The net impact of the FTP methodology is included in Treasury. Net interest income is presented on a fully taxable equivalent basis.

The financial results of the business segments include allocations for shared services and corporate expenses. Even with these allocations, the financial results are not necessarily indicative of the business segments' financial condition and results of operations as if they were to exist as independent entities. Additionally, the business segments form synergies by taking advantage of cross-sell opportunities and when funding operations by accessing the capital markets as a collective unit. The financial information for each segment is reported on the basis used internally by the Corporation's management to evaluate performance and allocate resources. The allocation has been consistently applied for all period presented. Revenues from affiliated transactions are typically charged at rates available to and transacted with unaffiliated customers. The accounting policies of the Corporation's segments are generally the same as those described in Note 1 Basis of Presentation and Summary of Significant Accounting Policies in Notes to Consolidated Financial Statements.

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Notes to Consolidated Financial Statements (Continued)

December 31, 2008, 2007, and 2006 (\$000 s except share data)

Based on the way the Corporation organizes its segments, the Corporation has determined that it has four reportable segments, which include Commercial Banking, Community Banking, Wealth Management and Treasury.

Commercial Banking

The Commercial Banking segment provides financial expertise in Corporate, Commercial, Correspondent and Commercial Real Estate Banking. Commercial Banking provides a complete line of commercial, corporate and real estate banking products and services, including: traditional commercial loans and lines of credit, letters of credit, asset-based lending, equipment financing, mezzanine financing, global trade services, treasury management and other financial services to middle market, large corporate and public sector clients. Commercial banking also supports the commercial real estate and correspondent market with products and services including secured and unsecured lines of credit, letters of credit, construction loans for commercial and residential development and land acquisition and development loans.

Community Banking

Community Banking provides consumer and business banking products and services to customers primarily within M&I's footprint states. Banking services are provided through branches located throughout Wisconsin, Arizona, the Minneapolis, Minnesota, Kansas City, Missouri and St. Louis, Missouri metropolitan areas, and Orlando, Florida metropolitan areas, Duluth Minnesota, Belleville, Illinois, Las Vegas, Nevada and Florida's west coast. Consumer products include loan and deposit products: mortgage, home equity loans and lines, credit cards, student loans, personal lines and term loans, demand deposit accounts, interest bearing transaction accounts and time deposits. Business banking products include secured and unsecured lines and term loans for working capital, inventory and general corporate use, commercial real estate construction loans, agricultural loans, demand deposit accounts, interest bearing transaction accounts and time deposits.

Wealth Management

The Wealth Management segment, which includes M&I's trust, brokerage and private banking business, provides integrated asset management, trust and banking services through three business lines: Investment Management, Personal Services and Institutional Services. Investment Management is a multi-dimensional asset management service with a broad range of strategies, styles and product delivery options such as separately managed equity and fixed income strategies, managed asset allocation strategies, alternative investments and The Marshall Funds, M&I's family of mutual funds. Personal Services includes Cedar Street Advisors, Personal Wealth Management and M&I Financial Advisors. Cedar Street Advisors manages the complex financial affairs of ultra-high net worth individuals and their families. Personal Wealth Management services assemble and implement an all-inclusive financial roadmap for high net worth individuals and families, providing for their private banking (credit and deposits), investment, estate and tax planning needs. M&I Financial Advisors uses a formalized financial planning process based on an individual's resources, goals, and risk tolerance to develop a personalized financial plan, and then offers a full array of brokerage and insurance solutions to meet that plan. The Institutional Services business includes Retirement Plan Services, Taft-Hartley Services, Not-for-Profit Services, North Star Deferred Exchange and Trust Operations Outsourcing.

Treasury

Treasury provides management of interest rate risk, capital, liquidity, funding and investments to the Corporation and all of its subsidiary banks.

Others

The Other segment includes a Capital Markets and a National Consumer Banking Division. The Capital Markets Division provides a variety of products and services designed to address its customers' risk management and investment needs. These services include derivative solutions and investment services, currency conversion and foreign

Table of Contents**Notes to Consolidated Financial Statements (Continued)****December 31, 2008, 2007, and 2006 (\$000 s except share data)**

exchange services and risk management. These services are provided primarily to corporate, business banking and financial institution clients. The National Consumer Banking Division provides wholesale home equity consumer lending, indirect automobile financing, and affinity banking services.

Total Revenues by type in Others consist of the following (\$ in millions):

| | 2008 | 2007 | 2006 |
|------------------------------------|-----------------|-----------------|-----------------|
| Capital Markets Division | \$ 54.8 | \$ 37.5 | \$ 35.8 |
| National Consumer Banking Division | 134.5 | 87.1 | 125.2 |
| Administrative & Other | 66.7 | 103.0 | 38.7 |
| Other | 267.2 | 240.6 | 210.8 |
| Total | \$ 523.2 | \$ 468.2 | \$ 410.5 |

Results of operations and identifiable assets by segment for each of the three years ended December 31 are:

| | Year Ended December 31, 2008 (\$ in millions) | | | | | | | Eliminations, Reclassifications & Adjustments | Consolidated |
|--|---|----------------------|----------------------|----------------|------------------|-----------------------|--------------|---|--------------|
| | Commercial Banking | Community Banking | Wealth Management | Treasury | Others | Corporate Overhead | | | |
| Net interest income | \$ 776.6 | \$ 792.8 | \$ 61.9 | \$ 59.9 | \$ 170.1 | \$ (53.4) | \$ (27.2) | \$ 1,780.7 | |
| Provision for loan and lease losses | 1,519.1 | 316.9 | 23.5 | | 178.2 | | | 2,037.7 | |
| Net interest income after provision for loan and lease losses | (742.5) | 475.9 | 38.4 | 59.9 | (8.1) | (53.4) | (27.2) | (257.0) | |
| Other income | 105.1 | 183.3 | 291.3 | 48.9 | 353.1 | 102.8 | (336.4) | 748.1 | |
| Goodwill impairment | 925.6 | 609.5 | | | | | | 1,535.1 | |
| All other expense | 283.3 | 693.1 | 293.4 | 20.9 | 398.4 | 106.3 | (336.4) | 1,459.0 | |
| Income before income taxes | (1,846.3) | (643.4) | 36.3 | 87.9 | (53.4) | (56.9) | (27.2) | (2,503.0) | |
| Income tax expense (benefit) | (381.3) | (47.8) | 13.9 | 35.2 | (34.7) | (17.6) | (27.2) | (459.5) | |
| Segment income | \$ (1,465.0) | \$ (595.6) | \$ 22.4 | \$ 52.7 | \$ (18.7) | \$ (39.3) | \$ | \$ (2,043.5) | |
| Identifiable assets | \$ 25,771.3 | \$ 18,805.6 | \$ 1,688.3 | \$ 8,674.3 | \$ 7,773.8 | \$ 2,289.0 | \$ (2,665.9) | \$ 62,336.4 | |

Table of Contents**Notes to Consolidated Financial Statements (Continued)****December 31, 2008, 2007, and 2006 (\$000 s except share data)**

| | Year Ended December 31, 2007 (\$ in millions) | | | | | | | Eliminations, Reclassifi- cations & Adjustments | Consolidated |
|---|---|----------------------|----------------------|------------|------------|-----------------------|--------------|--|--------------|
| | Commercial Banking | Community Banking | Wealth Management | Treasury | Others | Corporate Overhead | | | |
| Net interest income | \$ 685.4 | \$ 805.5 | \$ 52.1 | \$ 15.2 | \$ 119.2 | \$ (33.7) | \$ (27.5) | \$ 1,616.2 | |
| Provision for loan and lease losses | 237.6 | 48.6 | 3.8 | | 29.8 | | | 319.8 | |
| Net interest income after provision for loan and lease losses | 447.8 | 756.9 | 48.3 | 15.2 | 89.4 | (33.7) | (27.5) | 1,296.4 | |
| Other income | 87.4 | 149.6 | 269.7 | 46.4 | 349.0 | 131.3 | (304.3) | 729.1 | |
| Other expense | 196.9 | 579.3 | 221.8 | 87.6 | 361.8 | 171.8 | (304.3) | 1,314.9 | |
| Income before income taxes | 338.3 | 327.2 | 96.2 | (26.0) | 76.6 | (74.2) | (27.5) | 710.6 | |
| Income tax expense (benefit) | 135.3 | 130.9 | 35.6 | (10.4) | (20.6) | (29.6) | (27.5) | 213.7 | |
| Segment income | \$ 203.0 | \$ 196.3 | \$ 60.6 | \$ (15.6) | \$ 97.2 | \$ (44.6) | \$ | \$ 496.9 | |
| Identifiable assets | \$ 25,403.7 | \$ 19,630.5 | \$ 1,551.3 | \$ 8,918.0 | \$ 4,866.7 | \$ 3,439.8 | \$ (3,961.4) | \$ 59,848.6 | |
| | Year Ended December 31, 2006 (\$ in millions) | | | | | | | Eliminations, Reclassifi- cations & Adjustments | Consolidated |
| | Commercial Banking | Community Banking | Wealth Management | Treasury | Others | Corporate Overhead | | | |
| Net interest income | \$ 625.1 | \$ 783.6 | \$ 43.0 | \$ 1.9 | \$ 112.6 | \$ (29.7) | \$ (28.9) | \$ 1,507.6 | |
| Provision for loan and lease losses | 38.5 | 27.8 | 2.7 | | (18.4) | | | 50.6 | |
| Net interest income after provision for loan and lease losses | 586.6 | 755.8 | 40.3 | 1.9 | 131.0 | (29.7) | (28.9) | 1,457.0 | |
| Other income | 74.0 | 131.6 | 232.2 | 17.4 | 297.9 | 111.6 | (283.0) | 581.7 | |
| Other expense | 167.5 | 530.3 | 191.9 | 12.1 | 335.9 | 110.4 | (264.5) | 1,083.6 | |
| Income before income taxes | 493.1 | 357.1 | 80.6 | 7.2 | 93.0 | (28.5) | (47.4) | 955.1 | |
| Income tax expense (benefit) | 197.2 | 142.8 | 32.4 | 2.9 | (16.7) | (15.8) | (35.4) | 307.4 | |
| Segment income | \$ 295.9 | \$ 214.3 | \$ 48.2 | \$ 4.3 | \$ 109.7 | \$ (12.7) | \$ (12.0) | \$ 647.7 | |
| Identifiable assets (a) | \$ 21,676.7 | \$ 17,913.3 | \$ 1,174.9 | \$ 7,923.7 | \$ 5,556.4 | \$ 781.9 | \$ (114.6) | \$ 54,912.3 | |

(a) Excludes assets of discontinued operations.

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Notes to Consolidated Financial Statements (Continued)

December 31, 2008, 2007, and 2006 (\$000 s except share data)

24. Guarantees

Letters of Credit

Standby letters of credit are contingent commitments issued by the Corporation to support the obligations of a customer to a third party and to support public and private financing, and other financial or performance obligations of customers. Standby letters of credit have maturities that generally reflect the maturities of the underlying obligations. The credit risk involved in issuing standby letters of credit is the same as that involved in extending loans to customers. If deemed necessary, the Corporation holds various forms of collateral to support the standby letters of credit. The gross amount of standby letters of credit issued at December 31, 2008 was \$3.1 billion. Of the amount outstanding at December 31, 2008, standby letters of credit conveyed to others in the form of participations amounted to \$130.5 million. Since many of the standby letters of credit are expected to expire without being drawn upon, the amounts outstanding do not necessarily represent future cash requirements. At December 31, 2008, the estimated fair value associated with letters of credit amounted to \$12.9 million.

Trust Preferred Securities

In conjunction with the acquisitions of Gold Banc, Trustcorp, Excel and First Indiana, the Corporation acquired all of the common interests in the trusts that issued cumulative preferred capital securities which are supported by junior subordinated deferrable interest debentures. At December 31, 2008, the principal amounts outstanding associated with these trusts were \$16.0 million, \$30.0 million, \$38.0 million and \$15.0 million. The full guarantees were assumed by M&I LLC. See Note 14 Long Term Borrowings in Notes to Consolidated Financial Statements for further information.

Securities Lending

As part of securities custody activities and at the direction of its clients, the Corporation's Wealth Management segment lends securities owned by its clients to borrowers who have been evaluated for credit risk in a manner similar to that employed in making lending decisions. In connection with these activities, M&I Trust has issued an indemnification against loss resulting from the default by a borrower under the master securities loan agreement due to the failure of the borrower to return loaned securities when due. The borrowing party is required to fully collateralize securities received with cash or marketable securities. As securities are loaned, collateral is maintained at a minimum of 100% of the fair value of the securities plus accrued interest and the collateral is revalued on a daily basis. The amount of securities loaned subject to indemnification was \$8.2 billion at December 31, 2008 and \$11.2 billion at December 31, 2007. Because of the requirement to fully collateralize securities borrowed, management believes that the exposure to credit loss from this activity is remote and there are no liabilities reflected on the Consolidated Balance Sheets at December 31, 2008 and December 31, 2007, related to these indemnifications.

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During 2008, Lehman Brothers declared bankruptcy and failed to return loaned securities when due. As a result of the indemnification against loss resulting from the default by Lehman Brothers under the master securities loan agreement, M&I Trust recognized a loss for the difference between the amount paid to acquire the replacement securities and the collateral available to purchase the replacement securities. The collateral shortfall was due to an unexpected volatile market condition that existed when the replacement securities were acquired. The loss amounted to \$8.4 million and is reported in the line Other within Other Expense in the Consolidated Statements of Income.

Credit Support Agreements

Certain entities within the Wealth Management segment are the investment advisor and trustee of the M&I Employee Benefit Stable Principal Fund (SPF). The SPF periodically participates in securities lending activities. Although not obligated to do so, during 2008, M&I Trust and M&I Corporation entered into capital support agreements with SPF in order to provide stability to SPF and investors in SPF due to volatile market conditions. Under the terms of the agreements, M&I Trust would be required to contribute capital to SPF, not to exceed \$30.0 million in the aggregate and for no consideration, should certain asset loss events occur. The Corporation would be required to contribute

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Notes to Consolidated Financial Statements (Continued)

December 31, 2008, 2007, and 2006 (\$000 s except share data)

capital, should certain asset loss events occur after the M&I Trust s \$30.0 million capital contribution, not to exceed \$60.0 million in the aggregate and for no consideration. The agreements expire on March 31, 2009 and contain terms that provide for three month renewals with all of the significant terms, including maximum contribution limits, remaining unchanged. At December 31, 2008, the estimated fair value of the contingent liability under the agreements that is recorded within other liabilities in the consolidated balance sheet amounted to \$5.9 million. As of December 31, 2008, no contributions have been made under the agreements.

Visa Litigation

As a result of the Corporation s banking subsidiaries participation in the Visa USA network, principally related to debit and credit cards, the Corporation owns 0.406831 % of Visa, Inc. (Visa) for which there is no investment or carrying value recorded.

In preparation for an initial public offering (the IPO) of its common stock, Visa s by-laws were modified in 2007 to provide for indemnification of Visa by its members for any ultimate losses related to certain existing litigation (covered litigation).

In general terms, the covered litigation consists of the following:

American Express Anti-Trust Litigation: This litigation was recently settled for \$2.1 billion.

Discover Litigation: The Discover litigation is a parallel proceeding to the American Express litigation. Visa initially disclosed that it had recorded a liability of \$650 million.

Attridge Litigation: Attridge is a purported consumer class action filed against Visa. The complaint alleges unfair competition. Visa has not made any disclosures about its potential loss exposure.

Interchange Litigation: Included in the Interchange litigation are two lawsuits. The Interchange lawsuits allege violations of the antitrust rules by Visa in connection with the interchange fee charged to merchants by issuing banks in connection with the processing of Visa credit card transactions. Visa has not made any disclosures about its potential loss exposure.

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In 2007, the Corporation accrued \$25.8 million as its estimate of the fair value of its indemnification obligation to Visa. The amount accrued was based in part on the announced settled litigation with American Express and Visa's disclosure of its estimate of probable loss for the Discover litigation. However, the other litigation matters are only in the early stages of discovery and it is impossible to determine the probable loss on those matters at this time. The Corporation is not a named defendant in any of Visa's litigation matters, and has no access to information about the matters other than as disclosed by Visa. For these reasons, the estimated fair value of the amount accrued on the other litigation matters involved a significant amount of judgment and management cannot estimate the Corporation's maximum obligation. In conjunction with the January 2, 2008 acquisition of First Indiana, the Corporation assumed First Indiana's indemnification obligation to Visa with an estimated fair value of \$0.5 million.

During the first quarter of 2008, Visa completed the IPO. In conjunction with the IPO, Visa established a \$3.0 billion escrow for the litigation matters subject to the indemnification from the proceeds of the IPO. As a result of the funded escrow, the Corporation reversed \$12.2 million of the litigation accruals that were originally recorded and assumed based on the Corporation's membership interests in Visa and the funded escrow. In addition, Visa redeemed 38.7% of the Visa Class B common stock owned by the Corporation for cash in the amount of \$26.9 million. The Corporation's remaining Visa Class B common stock was placed in escrow for a period of three years, and it is expected that any indemnification obligations in excess of the funded escrow will be funded by the escrowed stock.

During 2008, Visa announced that it had agreed to settle the litigation with Discover. Visa announced that \$1.7425 billion of the settlement would be funded from the escrow created under Visa's retrospective responsibility

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Notes to Consolidated Financial Statements (Continued)

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plan. Prior to the establishment of the \$3.0 billion escrow from the proceeds of the IPO for the litigation matters subject to the indemnification, Visa disclosed that it had recorded a liability of \$0.650 billion for the Discover litigation. During the fourth quarter of 2008, Visa issued escrowed common stock to offset the additional reserve requirements.

The Corporation's 998,826 shares of Visa Class B common stock will be convertible into Visa Class A common stock based on a conversion factor that is currently 0.6296. However, the ultimate conversion factor is dependent on the resolution of the pending litigation.

The Corporation expects the ultimate value of its membership interests to exceed its indemnification obligations. However, additional accruals may be necessary depending on the resolution of the pending Visa litigation.

25. Other Contingent Liabilities

In the normal course of business, the Corporation and its subsidiaries are routinely defendants in or parties to a number of pending and threatened legal actions, including, but not limited to, actions brought on behalf of various classes of claimants, employment matters, and challenges from tax authorities regarding the amount of taxes due. In certain of these actions and proceedings, claims for monetary damages or adjustments to recorded tax liabilities are asserted. In view of the inherent difficulty of predicting the outcome of such matters, particularly matters that will be decided by a jury and actions that seek large damages based on novel and complex damage and liability legal theories or that involve a large number of parties, the Corporation cannot state with confidence the eventual outcome of these matters or the timing of their ultimate resolution, or estimate the possible loss or range of loss associated with them; however, based on current knowledge and after consultation with legal counsel, management does not believe that judgments or settlements in excess of amounts already reserved, if any, arising from pending or threatened legal actions, employment matters, or challenges from tax authorities, either individually or in the aggregate, would have a material adverse effect on the consolidated financial position or liquidity of the Corporation, although they could have a material effect on operating results for a particular period.

Table of Contents**Notes to Consolidated Financial Statements (Continued)****December 31, 2008, 2007, and 2006 (\$000 s except share data)****26. Condensed Financial Information Parent Corporation Only**

In conjunction with the Separation on November 1, 2007, Marshall & Ilsley Corporation (Accounting Predecessor to New Marshall & Ilsley Corporation) became M&I LLC, a wholly-owned subsidiary of New Marshall & Ilsley, which became Marshall & Ilsley Corporation. The Condensed Balance Sheets, Condensed Statements of Income and Condensed Statements of Cash Flows as of and for the years ended December 31, 2008 and 2007 present the Parent Corporation only on a consolidated basis, which is more reflective of the financial position, results of operations and cash flows of the Parent Corporation and its activities.

Condensed Balance Sheets**December 31**

| | 2008 | 2007 |
|--|--------------|--------------|
| Assets | | |
| Cash and cash equivalents | \$ 1,975,442 | \$ 3,157,670 |
| Investments in affiliates: | | |
| Banks | 5,419,990 | 5,772,944 |
| Nonbanks | 539,891 | 576,323 |
| Premises and equipment, net | 9,177 | 8,356 |
| Other assets | 306,396 | 286,465 |
| Total assets | \$ 8,250,896 | \$ 9,801,758 |
| Liabilities and Shareholders' Equity | | |
| Commercial paper | \$ 17,264 | \$ 798,986 |
| Other liabilities | 356,610 | 372,461 |
| Long-term borrowings: | | |
| Medium-term notes Series E, F and MiNotes | 463,040 | 451,509 |
| 4.375% senior notes | 599,653 | 599,080 |
| 5.626% senior notes | 399,323 | 398,162 |
| Floating rate subordinated notes due to M&I Capital Trust A | 32,709 | 33,612 |
| 7.50% subordinated notes | 22,331 | |
| 5.80% junior subordinated deferrable interest debentures due to Gold Banc Trust III | 15,896 | 15,583 |
| Floating rate junior subordinated deferrable interest debentures due to Gold Banc Trust IV | 30,119 | 30,475 |
| 6.00% junior subordinated deferrable interest debentures due to Gold Banc Trust V | 37,883 | 37,767 |
| 10.60% junior subordinated deferrable interest debentures due to Trustcorp Statutory Trust I | 15,887 | 16,394 |
| Floating rate junior subordinated deferrable interest debentures due to EBC Statutory Trust I | | 10,000 |
| Floating rate junior subordinated deferrable interest debentures due to EBC Statutory Trust II | | 5,000 |
| Total long-term borrowings | 1,616,841 | 1,597,582 |

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| | | |
|--|--------------|--------------|
| Total liabilities | 1,990,715 | 2,769,029 |
| Shareholders' equity | 6,260,181 | 7,032,729 |
| Total liabilities and shareholders' equity | \$ 8,250,896 | \$ 9,801,758 |

Scheduled maturities of long-term borrowings are \$1,005,387 in 2009, \$18,731 in 2010, \$282,045 in 2011, \$14,466 in 2012 and \$22,592 in 2013. See Note 14 in Notes to Consolidated Financial Statements for a description of the long-term borrowings.

Table of Contents**Notes to Consolidated Financial Statements (Continued)**

December 31, 2008, 2007, and 2006 (\$000 s except share data)

Consolidating Balance Sheets

December 31, 2008

| | M&I LLC | Marshall & Ilsley Corporation | Eliminations & Reclassifications | Consolidated Parent Corporation |
|---|---------------------|-------------------------------|----------------------------------|---------------------------------|
| Assets | | | | |
| Cash and cash equivalents | \$ 380,667 | \$ 1,594,775 | \$ | \$ 1,975,442 |
| Investments in affiliates: | | | | |
| Banks | 5,419,990 | | | 5,419,990 |
| Nonbanks | 539,891 | | | 539,891 |
| M&I LLC | | 4,817,366 | (4,817,366) | |
| Premises and equipment, net | 7,208 | 1,969 | | 9,177 |
| Other assets | 75,970 | 241,684 | (11,258) | 306,396 |
| Total assets | \$ 6,423,726 | \$ 6,655,794 | \$ (4,828,624) | \$ 8,250,896 |
| Liabilities and Shareholders' Equity | | | | |
| Commercial paper | \$ | \$ 17,264 | \$ | \$ 17,264 |
| Other liabilities | 29,165 | 338,703 | (11,258) | 356,610 |
| Long-term borrowings | 1,577,195 | 39,646 | | 1,616,841 |
| Total liabilities | 1,606,360 | 395,613 | (11,258) | 1,990,715 |
| Shareholders' equity | 4,817,366 | 6,260,181 | (4,817,366) | 6,260,181 |
| Total liabilities and shareholders' equity | \$ 6,423,726 | \$ 6,655,794 | \$ (4,828,624) | \$ 8,250,896 |

Table of Contents**Notes to Consolidated Financial Statements (Continued)**

December 31, 2008, 2007, and 2006 (\$000 s except share data)

Condensed Statements of Income

Years Ended December 31

| | 2008 | 2007 | 2006 |
|---|-----------------------|---------------------|-------------------|
| Income | | | |
| Cash dividends: | | | |
| Bank affiliates | \$ 66,259 | \$ 168 | \$ 301,898 |
| Nonbank affiliates | 80,885 | 402 | 34,391 |
| Interest from affiliates | 46,267 | 82,010 | 79,845 |
| Service fees and other | 102,291 | 133,077 | 116,418 |
| Total income | 295,702 | 215,657 | 532,552 |
| Expense | | | |
| Interest | 100,044 | 118,908 | 115,859 |
| Salaries and employee benefits | 52,513 | 61,166 | 58,779 |
| Administrative and general | 54,003 | 110,886 | 51,991 |
| Total expense | 206,560 | 290,960 | 226,629 |
| Income (loss) from continuing operations before income taxes and equity in undistributed net income of affiliates | 89,142 | (75,303) | 305,923 |
| Benefit from income taxes | (17,603) | (29,629) | (15,840) |
| Income (loss) from continuing operations before equity in undistributed net income of affiliates | 106,745 | (45,674) | 321,763 |
| Discontinued operations, net of income taxes | | 500,646 | |
| Income before equity in undistributed net income of affiliates | 106,745 | 454,972 | 321,763 |
| Equity in undistributed net income (loss) of affiliates, net of dividends paid: | | | |
| Banks | (2,087,410) | 470,535 | 281,346 |
| Nonbanks | (62,797) | 225,429 | 204,729 |
| Net income (loss) | \$ (2,043,462) | \$ 1,150,936 | \$ 807,838 |

Table of Contents**Notes to Consolidated Financial Statements (Continued)**

December 31, 2008, 2007, and 2006 (\$000 s except share data)

Consolidating Statements of Income

Year Ended December 31, 2008

| | M&I LLC | Marshall & Ilsley Corporation | Eliminations & Reclassifications | Consolidated Parent Corporation |
|--|-----------------------|-------------------------------|----------------------------------|---------------------------------|
| Income | | | | |
| Cash dividends: | | | | |
| Bank affiliates | \$ 66,259 | \$ | \$ | \$ 66,259 |
| Nonbank affiliates | 80,875 | 10 | | 80,885 |
| Interest from affiliates | 14,438 | 31,829 | | 46,267 |
| Service fees and other | (7,534) | 109,825 | | 102,291 |
| Total income | 154,038 | 141,664 | | 295,702 |
| Expense | | | | |
| Interest | 83,833 | 16,211 | | 100,044 |
| Salaries and employee benefits | (10) | 52,523 | | 52,513 |
| Administrative and general | 2,173 | 51,830 | | 54,003 |
| Total expense | 85,996 | 120,564 | | 206,560 |
| Income from continuing operations before income taxes and equity in undistributed net income of affiliates | 68,042 | 21,100 | | 89,142 |
| Provision for (benefit from) income taxes | (28,542) | 10,939 | | (17,603) |
| Income before equity in undistributed net income of affiliates | 96,584 | 10,161 | | 106,745 |
| Equity in undistributed net loss of affiliates, net of dividends paid: | | | | |
| Banks | (2,087,410) | | | (2,087,410) |
| Nonbanks | (62,797) | | | (62,797) |
| M&I LLC | | (2,053,623) | 2,053,623 | |
| Net income (loss) | \$ (2,053,623) | \$ (2,043,462) | \$ 2,053,623 | \$ (2,043,462) |

Table of Contents**Notes to Consolidated Financial Statements (Continued)**

December 31, 2008, 2007, and 2006 (\$000 s except share data)

Condensed Statements of Cash Flows

Years Ended December 31

| | 2008 | 2007 | 2006 |
|---|----------------|--------------|-------------|
| Cash Flows From Operating Activities: | | | |
| Net income (loss) | \$ (2,043,462) | \$ 1,150,936 | \$ 807,838 |
| Non-cash items included in income: | | | |
| Equity in undistributed net loss (income) of affiliates | 2,150,207 | (695,964) | (486,075) |
| Depreciation and amortization | 4,582 | 3,586 | 4,340 |
| Excess tax benefit from stock based comp. arrangements | 55 | 907 | (805) |
| Gain on sale of Metavante | | (525,576) | |
| Other | (29,106) | 64,984 | 15,685 |
| Net cash provided by (used in) operating activities | 82,276 | (1,127) | 340,983 |
| Cash Flows From Investing Activities: | | | |
| Increases in indebtedness of affiliates | | (16,350) | (476,150) |
| Decreases in indebtedness of affiliates | | 1,319,700 | 460,710 |
| Increases in investments in affiliates | (1,739,728) | (121,106) | (215,753) |
| Net proceeds from the Separation | | 1,639,034 | |
| Purchases of premises and equipment, net | (2,130) | (1,154) | (913) |
| Other | (8,434) | 55,202 | 40,034 |
| Net cash (used in) provided by investing activities | (1,750,292) | 2,875,326 | (192,072) |
| Cash Flows From Financing Activities: | | | |
| Dividends paid on common stock | (327,820) | (313,298) | (261,535) |
| Proceeds from the issuance of commercial paper | 33,741,932 | 19,190,183 | 5,055,511 |
| Principal payments on commercial paper | (34,523,654) | (18,912,746) | (4,835,925) |
| Proceeds from the issuance of long-term borrowings | 17,489 | | 250,000 |
| Payments on long-term borrowings | (34,066) | (230,214) | (201,037) |
| Purchases of common stock | (130,870) | (431,150) | (41,791) |
| Proceeds from the issuance of preferred stock | 1,715,000 | | |
| Proceeds from the issuance of common stock | 27,832 | 512,243 | 84,042 |
| Excess tax benefit from stock-based comp. arrangements | (55) | (907) | 805 |
| Other | | (7,800) | (10,400) |
| Net cash provided by (used in) financing activities | 485,788 | (193,689) | 39,670 |
| Net (decrease) increase in cash and cash equivalents | (1,182,228) | 2,680,510 | 188,581 |
| Cash and cash equivalents, beginning of year | 3,157,670 | 477,160 | 288,579 |
| Cash and cash equivalents, end of year | \$ 1,975,442 | \$ 3,157,670 | \$ 477,160 |

Table of Contents**Notes to Consolidated Financial Statements (Continued)**

December 31, 2008, 2007, and 2006 (\$000 s except share data)

Consolidating Statements of Cash Flows

Year Ended December 31, 2008

| | M&I LLC | Marshall & Ilsley Corporation | Eliminations & Reclassifications | Consolidated Parent Corporation |
|--|----------------|-------------------------------|----------------------------------|---------------------------------|
| Cash Flows From Operating Activities: | | | | |
| Net income (loss) | \$ (2,053,623) | \$ (2,043,462) | \$ 2,053,623 | \$ (2,043,462) |
| Non-cash items included in income: | | | | |
| Equity in undistributed net loss of affiliates | 2,150,207 | 2,053,623 | (2,053,623) | 2,150,207 |
| Depreciation and amortization | 3,968 | 614 | | 4,582 |
| Excess tax benefit from stock based comp. arrangements | 55 | | | 55 |
| Other | (40,555) | 11,449 | | (29,106) |
| Net cash provided by operating activities | 60,052 | 22,224 | | 82,276 |
| Cash Flows From Investing Activities: | | | | |
| Increases in investments in affiliates | (452,976) | (1,286,752) | | (1,739,728) |
| Purchases of premises and equipment, net | 35 | (2,165) | | (2,130) |
| Other | (8,333) | (101) | | (8,434) |
| Net cash used in investing activities | (461,274) | (1,289,018) | | (1,750,292) |
| Cash Flows From Financing Activities: | | | | |
| Dividends paid | | (327,820) | | (327,820) |
| Proceeds from issuance of commercial paper | | 33,741,932 | | 33,741,932 |
| Principal payments on commercial paper | (244,739) | (34,278,915) | | (34,523,654) |
| Proceeds from issuance of long-term borrowings | | 17,489 | | 17,489 |
| Payments on long-term borrowings | (21,520) | (12,546) | | (34,066) |
| Purchases of common stock | | (130,870) | | (130,870) |
| Proceeds from issuance of preferred stock | | 1,715,000 | | 1,715,000 |
| Proceeds from issuance of common stock | | 27,832 | | 27,832 |
| Excess tax benefit from stock-based comp. arrangements | (55) | | | (55) |
| Other | | | | |
| Net cash (used in) provided by financing activities | (266,314) | 752,102 | | 485,788 |
| Net decrease in cash and cash equivalents | (667,536) | (514,692) | | (1,182,228) |
| Cash and cash equivalents, beginning of year | 1,048,203 | 2,109,467 | | 3,157,670 |
| Cash and cash equivalents, end of year | \$ 380,667 | \$ 1,594,775 | \$ | \$ 1,975,442 |

Table of Contents**Quarterly Financial Information (Unaudited)**

Following is unaudited financial information for each of the calendar quarters during the years ended December 31, 2008 and 2007. (\$000 s except per share data)

| | Dec. 31 | Quarter Ended | | March 31 |
|---|----------------|---------------|--------------|------------|
| | | Sept. 30 | June 30 | |
| 2008 | | | | |
| Total Interest and Fee Income | \$ 785,425 | \$ 798,651 | \$ 814,608 | \$ 879,010 |
| Total Interest Expense | 323,386 | 358,002 | 366,970 | 448,626 |
| Net Interest Income | 462,039 | 440,649 | 447,638 | 430,384 |
| Provision for Loan and Lease Losses | 850,443 | 154,962 | 885,981 | 146,321 |
| Net Interest Income (Loss) After Provision for Loan and Lease Losses | (388,404) | 285,687 | (438,343) | 284,063 |
| Other Income | 166,053 | 183,832 | 186,997 | 211,233 |
| Other Expense | 1,937,920 | 360,003 | 380,395 | 315,787 |
| Income (Loss) Before Income Taxes | (2,160,271) | 109,516 | (631,741) | 179,509 |
| Provision (Benefit) for Income Taxes | (281,253) | 26,378 | (237,950) | 33,300 |
| Income (Loss) from Continuing Operations Discontinued Operations, Net of Tax | (1,879,018) | 83,138 | (393,791) | 146,209 |
| Net Income (Loss) | \$ (1,879,018) | \$ 83,138 | \$ (393,791) | \$ 146,209 |
| Preferred Dividends | (12,737) | | | |
| Net Income (Loss) Available to Common Shareholders | \$ (1,891,755) | \$ 83,138 | \$ (393,791) | \$ 146,209 |
| Per Common Share: | | | | |
| Income (Loss) from Continuing Operations: | | | | |
| Basic | \$ (7.25) | \$ 0.32 | \$ (1.52) | \$ 0.56 |
| Diluted | (7.25) | 0.32 | (1.52) | 0.56 |
| Net Income (Loss): | | | | |
| Basic | \$ (7.25) | \$ 0.32 | \$ (1.52) | \$ 0.56 |
| Diluted | (7.25) | 0.32 | (1.52) | 0.56 |
| 2007 | | | | |
| Total Interest and Fee Income | \$ 928,555 | \$ 939,133 | \$ 911,961 | \$ 889,516 |
| Total Interest Expense | 509,729 | 535,961 | 512,225 | 495,033 |
| Net Interest Income | 418,826 | 403,172 | 399,736 | 394,483 |
| Provision for Loan and Lease Losses | 235,060 | 41,526 | 26,026 | 17,148 |
| Net Interest Income (Loss) After Provision for Loan and Lease Losses | 183,766 | 361,646 | 373,710 | 377,335 |
| Other Income | 203,645 | 183,306 | 186,565 | 155,550 |
| Other Expense | 446,094 | 293,475 | 294,334 | 281,040 |
| Income (Loss) Before Income Taxes | (58,683) | 251,477 | 265,941 | 251,845 |
| Provision (Benefit) for Income Taxes | (34,238) | 77,751 | 87,064 | 83,064 |

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| | | | | |
|---|------------|------------|------------|------------|
| Income (Loss) from Continuing Operations | (24,445) | 173,726 | 178,877 | 168,781 |
| Discontinued Operations, Net of Tax | 518,391 | 46,213 | 41,412 | 47,981 |
| Net Income Available to Common Shareholders | \$ 493,946 | \$ 219,939 | \$ 220,289 | \$ 216,762 |

Per Common Share:

| | | | | |
|---|-----------|---------|---------|---------|
| Income (Loss) from Continuing Operations: | | | | |
| Basic | \$ (0.09) | \$ 0.66 | \$ 0.69 | \$ 0.66 |
| Diluted | (0.09) | 0.65 | 0.68 | 0.65 |
| Net Income: | | | | |
| Basic | \$ 1.86 | \$ 0.84 | \$ 0.85 | \$ 0.85 |
| Diluted | 1.83 | 0.83 | 0.83 | 0.83 |

Table of Contents**Quarterly Financial Information (Unaudited) (continued)**

| | 2008 | 2007 | 2006 | 2005 | 2004 |
|----------------------------------|---------|---------|---------|---------|---------|
| Common Dividends Declared | | | | | |
| First Quarter | \$ 0.31 | \$ 0.27 | \$ 0.24 | \$ 0.21 | \$ 0.18 |
| Second Quarter | 0.32 | 0.31 | 0.27 | 0.24 | 0.21 |
| Third Quarter | 0.32 | 0.31 | 0.27 | 0.24 | 0.21 |
| Fourth Quarter | 0.32 | 0.31 | 0.27 | 0.24 | 0.21 |
| | \$ 1.27 | \$ 1.20 | \$ 1.05 | \$ 0.93 | \$ 0.81 |

Price Range of Stock*

(Low and High Close)

| | 2008 | Post-Separation 2007 | Pre-Separation 2007 | 2006 | 2005 | 2004 |
|-----------------------|----------|-------------------------|------------------------|----------|----------|----------|
| First Quarter | | | | | | |
| Low | \$ 21.71 | \$ | \$ 46.18 | \$ 40.91 | \$ 40.21 | \$ 36.18 |
| High | 28.98 | | 49.23 | 45.35 | 43.65 | 40.39 |
| Second Quarter | | | | | | |
| Low | 15.33 | | 45.86 | 43.36 | 41.23 | 36.60 |
| High | 26.36 | | 49.83 | 46.44 | 45.06 | 41.15 |
| Third Quarter | | | | | | |
| Low | 11.50 | | 40.41 | 44.76 | 42.83 | 37.32 |
| High | 29.50 | | 48.21 | 48.54 | 47.28 | 41.21 |
| Fourth Quarter | | | | | | |
| Low | 11.74 | 26.36 | 41.96 | 45.53 | 40.18 | 40.28 |
| High | 22.98 | 32.58 | 45.97 | 49.07 | 44.40 | 44.43 |

* The results for 2007 have been separated to show the prices prior to and after the Separation on November 1, 2007. As a result, the fourth quarter pre-Separation prices are through October 31, 2007 only. The post-Separation prices are from November 1, 2007 through December 31, 2007.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Board of Directors of Marshall & Ilsley Corporation:

We have audited the accompanying consolidated balance sheets of Marshall & Ilsley Corporation and subsidiaries (the Corporation) as of December 31, 2008 and 2007, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2008. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Marshall & Ilsley Corporation and subsidiaries as of December 31, 2008 and 2007, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2008, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Corporation's internal control over financial reporting as of December 31, 2008, based on the criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 27, 2009, expressed an unqualified opinion on the Corporation's internal control over financial reporting.

/s/ Deloitte & Touche LLP

Milwaukee, Wisconsin

February 27, 2009

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ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Not applicable.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

The Corporation maintains a set of disclosure controls and procedures that are designed to ensure that information required to be disclosed by the Corporation in the reports filed by it under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and to ensure that information required to be disclosed by the Corporation in such reports is accumulated and communicated to the Corporation's Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. The Corporation carried out an evaluation, under the supervision and with the participation of its management, including the Chief Executive Officer and President and the Senior Vice President and Chief Financial Officer, of the effectiveness of the design and operation of its disclosure controls and procedures pursuant to Rule 13a-15(e) of the Exchange Act. Based on that evaluation, the Chief Executive Officer and President and the Senior Vice President and Chief Financial Officer concluded that the Corporation's disclosure controls and procedures are effective, as of the end of the period covered by this report, for the purposes for which they are designed.

Management's Report on Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting. As such term is defined in Exchange Act Rule 13a-15(f), internal control over financial reporting is a process designed by, or under the supervision of, the principal executive and principal financial officers, or persons performing similar functions, and effected by the board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States. Internal control over financial reporting includes those policies and procedures that:

- (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of assets of the Corporation;
- (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of the financial statements in accordance with accounting principles generally accepted in the United States, and that receipts and expenditures of the Corporation are being made only in accordance with authorizations of management and the directors of the Corporation; and
- (3) provide reasonable assurance regarding prevention of unauthorized acquisition, use, or disposition of the Corporation's assets that could have a material effect on the financial statements.

Management conducted an evaluation of the effectiveness of the Corporation's internal control over financial reporting based on the criteria in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this

evaluation under the criteria in *Internal Control - Integrated Framework*, management concluded that internal control over financial reporting was effective as of December 31, 2008.

The effectiveness of internal control over financial reporting as of December 31, 2008 has been audited by Deloitte & Touche LLP, an independent registered public accounting firm, as stated in their report dated February 27, 2009, which is included herein.

Changes in Internal Controls

There have been no changes in the Corporation's internal control over financial reporting identified in connection with the evaluation discussed above that occurred during the Corporation's fourth fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Corporation's internal control over financial reporting.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Board of Directors of Marshall & Ilsley Corporation:

We have audited the internal control over financial reporting of Marshall & Ilsley Corporation and subsidiaries (the Corporation) as of December 31, 2008, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Corporation's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Corporation's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Corporation maintained, in all material respects, effective internal control over financial reporting as of December 31, 2008, based on the criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements as of and for the year ended December 31, 2008, of the Corporation and our report dated February 27, 2009, expressed an unqualified opinion on those financial statements.

/s/ Deloitte & Touche LLP

Milwaukee, Wisconsin

February 27, 2009

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ITEM 9B. OTHER INFORMATION

Not applicable.

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PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Incorporated herein by reference to M&I's definitive proxy statement for the Annual Meeting of Shareholders to be held on April 28, 2009, except for information as to executive officers and M&I's Code of Business Conduct and Ethics which is set forth in Part I of this report.

ITEM 11. EXECUTIVE COMPENSATION

Incorporated herein by reference to M&I's definitive proxy statement for the Annual Meeting of Shareholders to be held on April 28, 2009.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Incorporated herein by reference to M&I's definitive proxy statement for the Annual Meeting of Shareholders to be held on April 28, 2009.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

Incorporated herein by reference to M&I's definitive proxy statement for the Annual Meeting of Shareholders to be held on April 28, 2009, except for information as to executive officers which is set forth in Part I of this report.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Incorporated herein by reference to M&I's definitive proxy statement for the Annual Meeting of Shareholders to be held on April 28, 2009.

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PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) 1. Financial Statements

Consolidated Financial Statements:

Balance Sheets December 31, 2008 and December 31, 2007

Statements of Income years ended December 31, 2008, 2007 and 2006

Statements of Cash Flows years ended December 31, 2008, 2007 and 2006

Statements of Shareholders' Equity years ended December 31, 2008, 2007 and 2006

Notes to Consolidated Financial Statements

Quarterly Financial Information (Unaudited)

Report of Independent Registered Public Accounting Firm

2. Financial Statement Schedules

All schedules are omitted because they are not required, not applicable or the required information is contained elsewhere.

3. Exhibits

See Index to Exhibits of this Form 10-K, which is incorporated herein by reference. Shareholders may obtain a copy of any Exhibit free of charge by calling M&I's Shareholder Information Line at 1 (800) 642-2657.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

MARSHALL & ILSLEY CORPORATION

By:

/s/ Mark F. Furlong
Mark F. Furlong
President and Chief Executive Officer

Date: February 27, 2009

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated:

/s/ Gregory A. Smith
Gregory A. Smith

Senior Vice President and Chief Financial Officer (Principal Financial Officer)

Date: February 27, 2009

/s/ Patricia R. Justiliano
Patricia R. Justiliano

Senior Vice President and Corporate Controller

(Principal Accounting Officer)

Date: February 27, 2009

Directors: Andrew N. Baur, Jon F. Chait, John W. Daniels, Jr., Mark F. Furlong, Ted D. Kellner, Dennis J. Kuester, David J. Lubar, Katharine C. Lyall, John A. Mellowes, Robert J. O Toole, San W. Orr, Jr., Peter M. Platten, III, John S. Shiely, Debra S. Waller, George E. Wardeberg and James B. Wigdale.

By:

/s/ Randall J. Erickson
Randall J. Erickson
As Attorney-In-Fact*

Date: February 27, 2009

* Pursuant to authority granted by powers of attorney, copies of which are filed herewith.

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MARSHALL & ILSLEY CORPORATION

INDEX TO EXHIBITS

(Item 15(a)3)

ITEM

- (2) (a) Investment Agreement, dated as of April 3, 2007, among Marshall & Ilsley Corporation, Metavante Holding Company, Metavante Corporation, Montana Merger Sub Inc. and WPM, L.P., incorporated by reference to Old M&I's Current Report on Form 8-K filed April 9, 2007, SEC File No. 1-15403
- (b) Separation Agreement, dated as of April 3, 2007, among Marshall & Ilsley Corporation, Metavante Holding Company, Metavante Corporation and New Marshall & Ilsley Corporation, incorporated by reference to Old M&I's Current Report on Form 8-K filed April 9, 2007, SEC File No. 1-15403
- (3) (a) Restated Articles of Incorporation, incorporated by reference to M&I's Registration Statement on Form S-3 filed on November 6, 2007, SEC File No. 333-147162
- (b) Articles of Amendment to the Company's Restated Articles of Incorporation, incorporated by reference to M&I's Current Report on Form 8-K filed November 14, 2008, SEC File No. 1-33488
- (c) Amended and Restated By-Laws, incorporated by reference to M&I's Registration Statement on Form S-3 filed on November 6, 2007, SEC File No. 333-147162
- (4) (a) Warrant for Purchase of Shares of Common Stock, incorporated by reference to M&I's Current Report on Form 8-K filed November 14, 2008, SEC File No. 1-33488
- (b) Form of Certificate for the Senior Preferred Stock, incorporated by reference to M&I's Current Report on Form 8-K filed November 14, 2008, SEC File No. 1-33488
- (10) (a) Deferred Compensation Trust between Marshall & Ilsley Corporation and Bessemer Trust Company dated April 28, 1987, as amended, incorporated by reference to M&I's Annual Report on Form 10-K for the fiscal year ended December 31, 1988, SEC File No. 1-15403*
- (b) Marshall & Ilsley Corporation Amended and Restated Supplementary Retirement Benefits Plan, incorporated by reference to Old M&I's Annual Report on Form 10-K for the fiscal year ended December 31, 1996, SEC File No. 1-15403*
- (c) Letter Agreement, dated June 17, 2002, between M&I Marshall & Ilsley Bank and Andrew N. Baur and Noncompete Agreement, dated June 17, 2002, between M&I and Andrew N. Baur, incorporated by reference to Old M&I's Registration Statement on Form S-4 (Reg. No. 333-92472)*
- (d) Amended and Restated Directors Deferred Compensation Plan of Marshall & Ilsley Corporation*
- (e) Marshall & Ilsley Corporation Amended and Restated Deferred Compensation Trust II between M&I and Marshall & Ilsley Trust Company National Association, incorporated by reference to Old M&I's Quarterly Report on Form 10-Q for the quarter ended September 30, 2003, SEC File No. 1-15403*
- (f) Marshall & Ilsley Corporation Amended and Restated Deferred Compensation Trust III between M&I and Marshall & Ilsley Trust Company National Association, incorporated by reference to Old M&I's Quarterly Report on Form 10-Q for the quarter ended September 30, 2003, SEC File No. 1-15403*
- (g) Marshall & Ilsley Corporation 2003 Death Benefit Plan, incorporated by reference to Old M&I's Annual Report on Form 10-K for the fiscal year ended December 31, 2003*
- (h) Death Benefit Award Agreement, dated December 30, 2003, between M&I and Mr. Kuester, incorporated by reference to Old M&I's Annual Report on Form 10-K for the fiscal year ended December 31, 2003*
- (i) Death Benefit Award Agreement, dated December 30, 2003, between M&I and Mr. Wigdale, incorporated by reference to Old M&I's Annual Report on Form 10-K for the fiscal year ended December 31, 2003*
- (j)

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Marshall & Ilsley Corporation Amended and Restated Annual Executive Incentive Compensation Plan, incorporated by reference to Old M&I's Annual Report on Form 10-K for the fiscal year ended December 31, 2003*

- (k) Marshall & Ilsley Corporation Amended and Restated Executive Deferred Compensation Plan*

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- (l) Consulting Agreement dated December 15, 2004, between M&I and Mr. Wigdale, incorporated by reference to Old M&I's Current Report on Form 8-K filed December 17, 2004, SEC File No. 1-15403*
- (m) Consulting Agreement dated December 15, 2004 between Southwest Bank of St. Louis and Mr. Baur, incorporated by reference to Old M&I's Current Report on Form 8-K filed December 17, 2004, SEC File No. 1-15403*
- (n) 2005 Directors Deferred Compensation Plan of Marshall & Ilsley Corporation*
- (o) Marshall & Ilsley Corporation 2005 Executive Deferred Compensation Plan*
- (p) Form of Restricted Stock Agreement, incorporated by reference to Old M&I's Quarterly Report on Form 10-Q for the quarter ended June 30, 2005, SEC File No. 1-15403*
- (q) Amended and Restated Marshall & Ilsley Corporation Nonqualified Retirement Benefit Plan, incorporated by reference to Old M&I's Annual Report on Form 10-K for the year ended December 31, 2005, SEC File No. 1-15403*
- (r) Marshall & Ilsley Corporation Amended and Restated 1994 Long-Term Incentive Plan for Executives*
- (s) Transition and Consulting Agreement between the M&I and Dennis J. Kuester dated December 21, 2006, incorporated by reference to Old M&I's Current Report on Form 8-K dated December 21, 2006, SEC File No. 1-15403*
- (t) Letter Agreement from M&I to Mark F. Furlong dated December 21, 2006 Containing the Terms of the Supplemental Executive Retirement Benefit, incorporated by reference to Old M&I's Current Report on Form 8-K dated December 21, 2006, SEC File No. 1-15403*
- (u) Marshall & Ilsley Corporation 2006 Equity Incentive Plan, as amended October 19, 2006, incorporated by reference to Old M&I's Annual Report on Form 10-K for the year ended December 31, 2006, SEC File No. 1-15403*
- (v) Marshall & Ilsley Corporation 2003 Executive Stock Option and Restricted Stock Plan, effective January 1, 2006, retroactive to January 1, 2005, as further amended on February 16, 2006 and October 19, 2006, incorporated by reference to Old M&I's Annual Report on Form 10-K for the year ended December 31, 2006, SEC File No. 1-15403*
- (w) Marshall & Ilsley Corporation 2000 Executive Stock Option and Restricted Stock Plan, effective January 1, 2006, retroactive to January 1, 2005, as further amended on October 19, 2006, incorporated by reference to Old M&I's Annual Report on Form 10-K for the year ended December 31, 2006, SEC File No. 1-15403*
- (x) Marshall & Ilsley Corporation Amended and Restated 1997 Executive Stock Option and Restricted Stock Plan, effective January 1, 2006, retroactive to January 1, 2005, as further amended on October 19, 2006, incorporated by reference to Old M&I's Annual Report on Form 10-K for the year ended December 31, 2006, SEC File No. 1-15403*
- (y) Marshall & Ilsley Corporation 1995 Directors Stock Option Plan, as amended on August 15, 2002, as further amended on October 19, 2002, incorporated by reference to Old M&I's Annual Report on Form 10-K for the year ended December 31, 2006, SEC File No. 1-15403*
- (z) Marshall & Ilsley Corporation 1993 Executive Stock Option Plan, as amended on February 13, 1997, December 14, 1995, and December 12, 1996, as further amended on October 19, 2006, incorporated by reference to Old M&I's Annual Report on Form 10-K for the year ended December 31, 2006, SEC File No. 1-15403*
- (aa) Gold Banc Corporation, Inc. 1996 Equity Compensation Plan, as amended February 2, 2001, as further amended on October 19, 2006, incorporated by reference to Old M&I's Annual Report on Form 10-K for the year ended December 31, 2006, SEC File No. 1-15403*
- (bb) First Business Bancshares of Kansas City, Inc. 1994 Key Employee Stock Option Plan, as amended on October 19, 2006, incorporated by reference to Old M&I's Annual Report on Form 10-K for the year ended December 31, 2006, SEC File No. 1-15403*

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- (cc) American Bancshares, Inc. and American Bank of Bradenton Incentive Stock Option Plan of 1996, as amended on October 19, 2006, incorporated by reference to Old M&I's Annual Report on Form 10-K for the year ended December 31, 2006, SEC File No. 1-15403*
- (dd) American Bancshares, Inc. 1999 Stock Option and Equity Incentive Plan, as amended on October 19, 2006, incorporated by reference to Old M&I's Annual Report on Form 10-K for the year ended December 31, 2006, SEC File No. 1-15403*
- (ee) Trustcorp Financial, Inc. 1997 Non-Qualified Stock Option Plan, as amended, incorporated by reference to Old M&I's Registration Statement on Form S-8 filed April 4, 2006, SEC File No. 333-132977*
- (ff) United Community Bankshares of Florida, Inc. Director Stock Option Plan, incorporated by reference to the United Community Bankshares of Florida, Inc. (n/k/a United Heritage Bankshares of Florida, Inc.) Quarterly Report on Form 10-QSB for the quarter ended March 31, 2003, SEC File No. 000-50287*
- (gg) United Community Bankshares of Florida, Inc. Officers and Employees Stock Option Plan, incorporated by reference to the United Community Bankshares of Florida, Inc. (n/k/a United Heritage Bankshares of Florida, Inc.) Quarterly Report on Form 10-QSB for the quarter ended March 31, 2003, SEC File No. 000-50287*
- (hh) Tax Allocation Agreement, dated as of April 3, 2007, among Marshall & Ilsley Corporation, Metavante Holding Company, Metavante Corporation and New Marshall & Ilsley Corporation, incorporated by reference to Old M&I's Current Report on Form 8-K filed April 9, 2007, SEC File No. 1-15403
- (ii) Employee Matters Agreement, dated as of April 3, 2007, among Marshall & Ilsley Corporation, Metavante Holding Company, Metavante Corporation and New Marshall & Ilsley Corporation, incorporated by reference to Old M&I's Current Report on Form 8-K filed April 9, 2007, SEC File No. 1-15403
- (jj) Form of Shareholders Agreement, incorporated by reference to Old M&I's Current Report on Form 8-K filed April 9, 2007, SEC File No. 1-15403
- (kk) Form of Stock Purchase Right Agreement, incorporated by reference to Old M&I's Current Report on Form 8-K filed April 9, 2007, SEC File No. 1-15403
- (ll) Excel Bank Corporation 2005 Equity Incentive Plan, incorporated by reference to Old M&I's Registration Statement on Form S-3 filed July 5, 2007, SEC File No. 333-144360*
- (mm) Amendment No. 1 to the Employee Matters Agreement, dated as of August 21, 2007, among M&I, Metavante Corporation, Metavante Holding Company and New M&I, incorporated by reference to Old M&I's Current Report on Form 8-K filed September 5, 2007, SEC File No. 1-15403
- (nn) Assignment and Assumption Agreement dated January 1, 2007 relating to Mr. Furlong's Supplemental Executive Retirement Benefit, by and between M&I LLC, M&I and Mr. Furlong, incorporated by reference to M&I's Annual Report on Form 10-K for the year ended December 31, 2007, SEC File No. 1-33488*
- (oo) Form of Change of Control Agreements dated January 1, 2008 between M&I and Messrs. Furlong, O'Neill and Gregory A. Smith, incorporated by reference to M&I's Annual Report on Form 10-K for the year ended December 31, 2007, SEC File No. 1-33488*
- (pp) Form of Change of Control Agreements dated January 1, 2008 between M&I and Messrs. Deneen, Ellis, Hogan, Kelly, Renard, Roberts, Root, Michael C. Smith and Ronald E. Smith and Ms. Justiliano and Ms. Knickerbocker, incorporated by reference to M&I's Annual Report on Form 10-K for the year ended December 31, 2007, SEC File No. 1-33488*
- (qq) Form of Change of Control Agreements dated December 18, 2008 between M&I and Messrs. Erickson and Krei, incorporated by reference to M&I's Current Report on Form 8-K filed December 23, 2008, SEC File No. 1-33488*
- (rr) Letter Agreement, dated November 14, 2008, between M&I and the U.S. Treasury, including the Securities Purchase Agreement attached thereto, incorporated by reference to M&I's Current Report on Form 8-K filed November 14, 2008, SEC File No. 1-33488

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- (ss) Form of Omnibus Amendment Agreements dated November 11, 2008 between M&I and Mr. Furlong, Gregory A. Smith and Messrs. O Neill, Krei and Erickson, incorporated by reference to M&I's Current Report on Form 8-K filed November 14, 2008, SEC File No. 1-33488*
- (11) Computation of Earnings Per Common Share, incorporated by reference to Note 4 of Notes to Consolidated Financial Statements included in Item 8, Consolidated Financial Statements and Supplementary Data
- (12) Computation of Ratio of Earnings to Fixed Charges
- (14) Code of Business Conduct and Ethics, incorporated by reference to M&I's Annual Report on Form 10-K for the fiscal year ended December 31, 2004, SEC File No. 1-15403
- (21) Subsidiaries
- (23) Consent of Deloitte & Touche LLP
- (24) Powers of Attorney
- (31) (a) Certification of Chief Executive Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as amended
- (31) (b) Certification of Chief Financial Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as amended
- (32) (a) Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350
- (32) (b) Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350

The total amount of securities authorized pursuant to any instrument defining the rights of holders of long-term debt of M&I does not exceed 10% of the total assets of M&I and its subsidiaries on a consolidated basis. M&I agrees to furnish to the Commission upon request a copy of any such instrument.

* Management contract or compensatory plan or arrangement.