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MARSHALL & ILSLEY CORP/WI/

Form 10-Q

May 10, 2006

1

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2006

OR

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

For the transition period from _____ to _____

Commission file number 1-15403

MARSHALL & ILSLEY CORPORATION
(Exact name of registrant as specified in its charter)

Wisconsin
(State or other jurisdiction of
Incorporation or organization)

39-0968604
(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

None
(Former name, former address and former fiscal year,
if changed since last report)

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 whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one): Large accelerated filer
Accelerated filer Non-accelerated filer

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

Yes No

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Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

| Class ----- | Outstanding at April 30, 2006 ----- |
|--------------------------------|---|
| Common Stock, \$1.00 Par Value | 253,142,886 |

2

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

MARSHALL & ILSLEY CORPORATION
CONSOLIDATED BALANCE SHEETS (Unaudited)
(\$000's except share data)

| | March 31, 2006 | December 31, 2005 | As Adjusted Note March 2005 |
|--|-------------------|----------------------|-----------------------------------|
| | ----- | ----- | ----- |
| Assets ----- | | | |
| Cash and cash equivalents: | | | |
| Cash and due from banks | \$ 1,017,005 | \$ 1,155,263 | \$ 87 |
| Federal funds sold and security resale agreements | 111,498 | 209,869 | 8 |
| Money market funds | 32,065 | 49,219 | 5 |
| | ----- | ----- | ----- |
| Total cash and cash equivalents | 1,160,568 | 1,414,351 | 1,01 |
| Investment securities: | | | |
| Trading securities, at market value | 40,373 | 29,779 | 2 |
| Interest bearing deposits at other banks | 15,766 | 40,659 | 1 |
| Available for sale, at market value | 6,039,645 | 5,701,703 | 5,45 |
| Held to maturity, market value \$603,665 (\$638,135 December 31, 2005 and \$730,046 March 31, 2005) | 587,090 | 618,554 | 69 |
| | ----- | ----- | ----- |
| Total investment securities | 6,682,874 | 6,390,695 | 6,19 |
| Loans held for sale | 159,117 | 277,847 | 13 |
| Loans and leases: | | | |
| Loans and leases, net of unearned income | 35,033,614 | 33,889,066 | 30,44 |
| Less: Allowance for loan and lease losses | 368,760 | 363,769 | 35 |
| | ----- | ----- | ----- |
| Net loans and leases | 34,664,854 | 33,525,297 | 30,08 |
| Premises and equipment, net | 500,261 | 490,687 | 44 |
| Goodwill and other intangibles | 2,483,873 | 2,461,461 | 2,15 |
| Accrued interest and other assets | 1,683,034 | 1,652,379 | 1,60 |
| | ----- | ----- | ----- |
| Total Assets | \$ 47,334,581 | \$ 46,212,717 | \$ 41,64 |
| | ===== | ===== | ===== |

Liabilities and Shareholders' Equity

Deposits:

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| | | | |
|--|---------------|---------------|----------|
| Noninterest bearing | \$ 4,999,788 | \$ 5,525,019 | \$ 4,78 |
| Interest bearing | 23,093,375 | 22,149,202 | 20,91 |
| | ----- | ----- | ----- |
| Total deposits | 28,093,163 | 27,674,221 | 25,70 |
| Federal funds purchased and security repurchase agreements | 2,673,095 | 2,327,258 | 1,86 |
| Other short-term borrowings | 2,879,727 | 3,299,476 | 2,58 |
| Accrued expenses and other liabilities | 1,616,073 | 1,507,621 | 1,50 |
| Long-term borrowings | 7,185,939 | 6,668,670 | 5,89 |
| | ----- | ----- | ----- |
| Total liabilities | 42,447,997 | 41,477,246 | 37,55 |
| Shareholders' equity: | | | |
| Series A convertible preferred stock, \$1.00 par value; 2,000,000 shares authorized | -- | -- | |
| Common stock, \$1.00 par value; 245,115,086 shares issued (244,587,222 shares at December 31, 2005 and 244,432,222 shares at March 31, 2005) | 245,115 | 244,587 | 24 |
| Additional paid-in capital | 1,003,367 | 970,739 | 86 |
| Retained earnings | 4,002,008 | 3,871,614 | 3,49 |
| Accumulated other comprehensive income, net of related taxes | (43,742) | (37,291) | (1 |
| Less: Treasury stock, at cost: 9,029,759 shares (9,148,493 December 31, 2005 and 15,689,406 March 31, 2006) | 284,323 | 277,423 | 47 |
| Deferred compensation | 35,841 | 36,755 | 2 |
| | ----- | ----- | ----- |
| Total shareholders' equity | 4,886,584 | 4,735,471 | 4,08 |
| | ----- | ----- | ----- |
| Total Liabilities and Shareholders' Equity | \$ 47,334,581 | \$ 46,212,717 | \$ 41,64 |
| | ===== | ===== | ===== |

See notes to financial statements.

3

MARSHALL & ILSLEY CORPORATION
CONSOLIDATED STATEMENTS OF INCOME (Unaudited)
(\$000's except per share data)

| | | As Adjusted Note 11 |
|----------------------------------|---|---|
| | Three Months Ended March 31, 2006 | Three Months Ended March 31, 2005 |
| | ----- | ----- |
| Interest and fee income | | |
| ----- | | |
| Loans and leases | \$ 588,883 | \$ 423,921 |
| Investment securities: | | |
| Taxable | 57,868 | 51,943 |
| Exempt from federal income taxes | 15,999 | 15,407 |
| Trading securities | 70 | 69 |
| Short-term investments | 3,565 | 1,344 |
| | ----- | ----- |
| Total interest and fee income | 666,385 | 492,684 |
| Interest expense | | |
| ----- | | |

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| | | |
|---|------------|------------|
| Deposits | 198,126 | 103,490 |
| Short-term borrowings | 39,335 | 21,962 |
| Long-term borrowings | 104,344 | 68,374 |
| | ----- | ----- |
| Total interest expense | 341,805 | 193,826 |
| | ----- | ----- |
| Net interest income | 324,580 | 298,858 |
| Provision for loan and lease losses | 10,995 | 8,126 |
| | ----- | ----- |
| Net interest income after provision for loan and lease losses | 313,585 | 290,732 |
| Other income | | |
| ----- | | |
| Data processing services | 342,980 | 282,934 |
| Trust services | 45,945 | 40,346 |
| Service charges on deposits | 22,772 | 23,570 |
| Gains on sale of mortgage loans | 10,741 | 6,937 |
| Other mortgage banking revenue | 1,714 | 1,243 |
| Net investment securities gains (losses) | 1,052 | 5,849 |
| Life insurance revenue | 6,966 | 6,209 |
| Other | 40,600 | 35,369 |
| | ----- | ----- |
| Total other income | 472,770 | 402,457 |
| Other expense | | |
| ----- | | |
| Salaries and employee benefits | 277,403 | 245,076 |
| Net occupancy | 24,881 | 22,364 |
| Equipment | 32,939 | 31,010 |
| Software expenses | 17,438 | 13,352 |
| Processing charges | 27,013 | 14,925 |
| Supplies and printing | 6,122 | 6,496 |
| Professional services | 11,449 | 10,886 |
| Shipping and handling | 23,902 | 19,635 |
| Amortization of intangibles | 8,875 | 8,092 |
| Other | 75,111 | 71,155 |
| | ----- | ----- |
| Total other expense | 505,133 | 442,991 |
| | ----- | ----- |
| Income before income taxes | 281,222 | 250,198 |
| Provision for income taxes | 94,454 | 84,882 |
| | ----- | ----- |
| Net income | \$ 186,768 | \$ 165,316 |
| | ===== | ===== |
| Net income per common share | | |
| ----- | | |
| Basic | \$ 0.79 | \$ 0.73 |
| Diluted | 0.78 | 0.71 |
| Dividends paid per common share | \$ 0.240 | \$ 0.210 |
| Weighted average common shares outstanding (000's): | | |
| ----- | | |
| Basic | 235,317 | 227,557 |
| Diluted | 240,343 | 232,788 |
| See notes to financial statements. | | |

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CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)
(\$000's)

| | Three Months Ended March 31, | |
|---|------------------------------|--------------|
| | 2006 | 2005 |
| Net Cash Provided by Operating Activities | \$ 225,770 | \$ 178,844 |
| Cash Flows From Investing Activities: | | |
| Proceeds from sales of securities available for sale | 5,449 | 16,286 |
| Proceeds from maturities of securities available for sale | 267,997 | 260,792 |
| Proceeds from maturities of securities held to maturity | 31,788 | 27,412 |
| Purchases of securities available for sale | (382,317) | (445,348) |
| Net increase in loans | (1,196,779) | (1,058,364) |
| Purchases of assets to be leased | (36,680) | (43,929) |
| Principal payments on lease receivables | 52,418 | 48,682 |
| (Purchases) Sales of premises and equipment, net | (27,858) | 4,812 |
| Acquisitions, net of cash and cash equivalents acquired | (1,462) | (12,308) |
| Other | (4,933) | 4,038 |
| | (1,292,377) | (1,197,927) |
| Cash Flows From Financing Activities: | | |
| Net increase (decrease) in deposits | 437,890 | (733,197) |
| Proceeds from issuance of commercial paper | 901,035 | 1,352,463 |
| Principal payments on commercial paper | (968,228) | (1,366,906) |
| Net increase in other short-term borrowings | 44,827 | 699,661 |
| Proceeds from issuance of long-term borrowings | 750,000 | 1,153,537 |
| Payments of long-term borrowings | (271,038) | (21,832) |
| Dividends paid | (56,374) | (47,798) |
| Purchases of common stock | (41,788) | -- |
| Proceeds from exercise of stock options | 19,101 | 11,134 |
| Other | (2,601) | (2,599) |
| | 812,824 | 1,044,463 |
| Net cash provided by financing activities | 812,824 | 1,044,463 |
| Net (decrease) increase in cash and cash equivalents | (253,783) | 25,380 |
| Cash and cash equivalents, beginning of year | 1,414,351 | 988,138 |
| | \$ 1,160,568 | \$ 1,013,518 |
| | ===== | ===== |
| Supplemental cash flow information: | | |
| ----- | | |
| Cash paid during the period for: | | |
| Interest | \$ 344,307 | \$ 186,011 |
| Income taxes | 9,408 | 11,394 |

See notes to financial statements.

5

MARSHALL & ILSLEY CORPORATION
Notes to Financial Statements
March 31, 2006 & 2005 (Unaudited)

- The accompanying unaudited consolidated financial statements should be read in conjunction with Marshall & Ilsley Corporation's ("M&I" or "Corporation") Annual Report on Form 10-K for the year ended December 31, 2005. The unaudited financial information included in this report reflects all adjustments consisting of normal recurring accruals and the adjustments as discussed in Note 11 which are necessary for a fair

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statement of the financial position and results of operations as of and for the three months ended March 31, 2006 and 2005. The results of operations for the three months ended March 31, 2006 and 2005 are not necessarily indicative of results to be expected for the entire year. Certain amounts in the 2005 consolidated financial statements and analyses have been reclassified to conform with the 2006 presentation.

2. New Accounting Pronouncements

In March 2006, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 156, Accounting for Servicing of Financial Assets - an amendment of FASB Statement No. 140 ("SFAS 156"). This statement amends FASB No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities. This statement requires an entity to recognize a servicing asset or servicing liability each time it undertakes an obligation to service a financial asset by entering into a servicing contract in certain situations. SFAS 156 requires that all separately recognized servicing assets and servicing liabilities be initially measured at fair value, if practicable. This statement permits the subsequent measurement of servicing assets and servicing liabilities using either a fair value method or an amortization method. The standard permits a one-time reclassification of available-for-sale securities to trading securities by entities with recognized servicing rights, without calling into question the treatment of other available-for-sale securities under Statement 115, provided that the available-for-sale securities are identified in some manner as offsetting the entity's exposure to changes in fair value of servicing assets or servicing liabilities that a servicer elects to subsequently measure at fair value. The Corporation will be required to adopt SFAS 156 beginning January 1, 2007. Management believes that the adoption of this standard will not have a material impact on the Corporation's results of operations or financial position.

In February 2006, the FASB issued Statement of Financial Accounting Standards No. 155, Accounting for Certain Hybrid Financial Instruments - an amendment of FASB Statements No. 133 and 140 ("SFAS 155"). This statement amends FASB Statements No. 133, Accounting for Derivative Instruments and Hedging Activities, and No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities. SFAS 155 permits fair value remeasurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation. This statement will require the Corporation to evaluate interests in securitized financial assets to identify interests that are freestanding derivatives or that are hybrid financial instruments that contain an embedded derivative requiring bifurcation. The amended rule also clarifies which interest-only strips and principal-only strips are not subject to the requirements of SFAS 133 and further clarifies that concentrations of credit risk in the form of subordination are not embedded derivatives. SFAS 155 amends Statement No. 140 to eliminate the prohibition on a qualifying special-purpose entity from holding a derivative financial instrument that pertains to a beneficial interest other than another derivative financial instrument. The Corporation will be required to adopt SFAS 155 for all financial instruments acquired or issued after January 1, 2007. Management believes that the adoption of this standard will not have a material impact on the Corporation's results of operations or financial position.

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3. Comprehensive Income

The following tables present the Corporation's comprehensive income (000's):

| | Three Months Ended March 31, 2006 | | |
|--|-----------------------------------|-----------------------|-------------------|
| | Before-Tax Amount | Tax (Expense) Benefit | Net-of-Tax Amount |
| Net income | | | \$ 186,76 |
| Other comprehensive income: | | | |
| Unrealized gains (losses) on securities: | | | |
| Arising during the period | \$ (15,924) | \$ 5,596 | (10,32) |
| Reclassification for securities transactions included in net income | (448) | 157 | (29) |
| Unrealized gains (losses) | (16,372) | 5,753 | (10,61) |
| Net gains (losses) on derivatives hedging variability of cash flows: | | | |
| Arising during the period | 8,337 | (2,918) | 5,41 |
| Reclassification adjustments for hedging activities included in net income | (1,925) | 674 | (1,25) |
| Net gains (losses) | \$ 6,412 | \$ (2,244) | 4,16 |
| Other comprehensive income (loss) | | | (6,45) |
| Total comprehensive income | | | \$ 180,31 |

| | Three Months Ended March 31, 2005 | | |
|--|-----------------------------------|-----------------------|-------------------|
| | Before-Tax Amount | Tax (Expense) Benefit | Net-of-Tax Amount |
| Net income | | | \$ 165,31 |
| Other comprehensive income: | | | |
| Unrealized gains (losses) on securities: | | | |
| Arising during the period | \$ (75,719) | \$ 26,739 | (48,98) |
| Reclassification for securities transactions included in net income | 26 | (9) | 1 |
| Unrealized gains (losses) | (75,693) | 26,730 | (48,96) |
| Net gains (losses) on derivatives hedging variability of cash flows: | | | |
| Arising during the period | 11,191 | (3,917) | 7,27 |
| Reclassification adjustments for hedging activities included in net income | 3,074 | (1,076) | 1,99 |
| Net gains (losses) | \$ 14,265 | \$ (4,993) | 9,27 |

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| | |
|-----------------------------------|-----------|
| Other comprehensive income (loss) | (39,69) |
| Total comprehensive income | \$ 125,62 |

7

MARSHALL & ILSLEY CORPORATION
Notes to Financial Statements - Continued
March 31, 2006 & 2005 (Unaudited)

4. A reconciliation of the numerators and denominators of the basic and diluted per share computations are as follows (dollars and shares in thousands, except per share data):

| | Three Months Ended March 31, 2006 | | |
|--|-----------------------------------|---------------------------------|---------------------|
| | Income (Numerator) | Average Shares (Denominator) | Per Share Amount |
| Basic Earnings Per Share | | | |
| Income Available to Common Shareholders | \$ 186,768 | 235,317 | \$ 0.79 |
| Effect of Dilutive Securities | | | |
| Stock Options, Restricted Stock and Other Plans | -- | 5,026 | |
| Diluted Earnings Per Share | | | |
| Income Available to Common Shareholders | \$ 186,768 | 240,343 | \$ 0.78 |

| | Three Months Ended March 31, 2005 | | |
|--|-----------------------------------|---------------------------------|---------------------|
| | Income (Numerator) | Average Shares (Denominator) | Per Share Amount |
| Basic Earnings Per Share | | | |
| Income Available to Common Shareholders | \$ 165,316 | 227,557 | \$ 0.73 |
| Effect of Dilutive Securities | | | |
| Stock Options, Restricted Stock and Other Plans | -- | 5,231 | |
| Diluted Earnings Per Share | | | |
| Income Available to Common Shareholders | \$ 165,316 | 232,788 | \$ 0.71 |

Options to purchase shares of common stock not included in the computation of diluted net income per share because the stock options were antidilutive are as follows (shares in thousands):

Three Months Ended March 31,

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| | 2006 ----- | 2005 ----- |
|-------------|---------------------|---------------------|
| Shares | 118 | 3,358 |
| Price Range | \$43.310 - \$47.020 | \$41.870 - \$44.200 |

5. Business Combinations

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

On January 3, 2006, Marshall & Ilsley Trust Company N.A., 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 consideration was \$15.9 million. Additional consideration up to \$1.5 million may be paid over three years based on business growth and retention. FirstTrust Indiana offers asset management, trust administration and estate planning services to high net-worth individuals and institutional customers. Initial goodwill, subject to the completion of appraisals and valuation of the assets acquired and liabilities assumed, 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.

8

MARSHALL & ILSLEY CORPORATION
Notes to Financial Statements - Continued
March 31, 2006 & 2005 (Unaudited)

On January 3, 2006, Metavante completed the acquisition of AdminiSource Corporation ("AdminiSource") of Carrollton, Texas. AdminiSource is a provider of health care payment distribution services, providing printed and electronic payment and remittance advice distribution services for payer organizations nationwide. Total consideration in this transaction consisted of 527,864 shares of M&I common stock valued at \$23.2 million and \$5.0 million in cash. Initial goodwill, subject to the completion of appraisals and valuation of the assets acquired and liabilities assumed, amounted to \$21.1 million. The estimated identifiable intangible asset to be amortized (customer relationships) with an estimated useful life of 10 years amounted to \$8.5 million. The goodwill and intangibles resulting from this transaction are not deductible for tax purposes.

Recent acquisition activities

On April 1, 2006, Marshall & Ilsley Corporation completed the acquisition of Trustcorp Financial, Inc. ("Trustcorp"). With the acquisition of Trustcorp, which had consolidated assets of \$735.7 million at March 31, 2006, the Corporation acquired Missouri State Bank and Trust Company, which provides commercial banking services in Missouri through seven bank locations. Trustcorp shareholders received 0.7011 of a share of M&I common stock and \$7.70 in cash for each share of Trustcorp common stock they own. M&I did not issue any fractional shares in the merger. Instead, Trustcorp shareholders received cash in lieu of any fractional share of M&I common stock based on a value for each M&I share of \$43.93. Total transaction value was approximately \$181 million.

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On April 1, 2006, Marshall & Ilsley 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. As of March 31, 2006, Gold Banc, had consolidated assets of \$4.2 billion. Gold Banc's largest subsidiary, Gold Bank, a Kansas state-chartered bank, was merged with and into M&I Marshall & Ilsley 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 Marshall & Ilsley Bank.

6. Selected investment securities, by type, held by the Corporation were as follows (\$000's):

| | March 31, 2006 | December 31, 2005 | March 2005 |
|---|-------------------|----------------------|---------------|
| | ----- | ----- | ----- |
| Investment securities available for sale: | | | |
| U.S. treasury and government agencies | \$ 4,708,218 | \$ 4,379,148 | \$ 4,219, |
| State and political subdivisions | 719,194 | 703,892 | 571, |
| Mortgage backed securities | 110,252 | 116,464 | 142, |
| Other | 501,981 | 502,199 | 526, |
| | ----- | ----- | ----- |
| Total | \$ 6,039,645 | \$ 5,701,703 | \$ 5,459, |
| | ===== | ===== | ===== |
| Investment securities held to maturity: | | | |
| State and political subdivisions | \$ 585,090 | \$ 616,554 | \$ 696, |
| Other | 2,000 | 2,000 | 2, |
| | ----- | ----- | ----- |
| Total | \$ 587,090 | \$ 618,554 | \$ 698, |
| | ===== | ===== | ===== |

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 March 31, 2006 (\$000's):

| | Less than 12 Months | | 12 Months or More | | Fa Val |
|--|---------------------|----------------------|-------------------|----------------------|-----------|
| | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses | |
| | ----- | ----- | ----- | ----- | ----- |
| U.S. treasury and government agencies | \$ 2,121,289 | \$ 36,196 | \$ 1,999,862 | \$ 59,897 | \$ 4,121 |
| State and political subdivision | 115,486 | 1,636 | 82,276 | 2,004 | 197 |
| Mortgage backed securities | 40,167 | 705 | 70,085 | 2,532 | 110 |
| | ----- | ----- | ----- | ----- | ----- |
| Total | \$ 2,276,942 | \$ 38,537 | \$ 2,152,223 | \$ 64,433 | \$ 4,429 |
| | ===== | ===== | ===== | ===== | ===== |

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The investment securities in the above table were temporarily impaired at March 31, 2006. This temporary impairment represents the amount of loss that would have been realized if the investment securities had been sold on March 31, 2006. The temporary impairment in the investment securities portfolio is predominantly the result of increases in market interest rates since the investment securities were acquired and not from deterioration in the creditworthiness of the issuer.

7. The Corporation's loan and lease portfolio, including loans held for sale, consisted of the following (\$000's):

| | March 31, 2006 | December 31, 2005 | March 2005 |
|---|---------------------------|--------------------------|-------------------|
| | ----- | ----- | ----- |
| Commercial, financial and agricultural Cash flow hedging instruments at fair value | \$ 10,244,761 (47,220) | \$ 9,599,361 (33,886) | \$ 8,708, (28, |
| | ----- | ----- | ----- |
| Commercial, financial and agricultural | 10,197,541 | 9,565,475 | 8,680, |
| Real estate: | | | |
| Construction | 4,054,364 | 3,641,942 | 2,565, |
| Residential mortgage | 5,370,353 | 5,050,803 | 3,764, |
| Home equity loans and lines of credit | 4,606,136 | 4,833,480 | 5,161, |
| Commercial mortgage | 8,819,281 | 8,825,104 | 8,412, |
| | ----- | ----- | ----- |
| Total real estate | 22,850,134 | 22,351,329 | 19,904, |
| Personal | 1,518,828 | 1,617,761 | 1,456, |
| Lease financing | 626,228 | 632,348 | 542, |
| | ----- | ----- | ----- |
| Total loans and leases | \$ 35,192,731 | \$ 34,166,913 | \$ 30,582, |
| | ===== | ===== | ===== |

8. Financial Asset Sales

During the first quarter of 2006, automobile loans with principal balances of \$154.7 million were sold in securitization transactions. Net gains of \$0.1 million were recognized and are reported in Other income in the Consolidated Statements of Income. Other income associated with auto securitizations, primarily servicing income, amounted to a \$1.9 million in the current quarter.

Key economic assumptions used in measuring the retained interests at the date of securitization resulting from securitizations completed during the quarter were as follows (rate per annum):

| | |
|--|--|
| Prepayment speed (CPR) | 17-42 % |
| Weighted average life (in months) | 20.3 |
| Expected credit losses (based on original balance) | 0.36-1.03 % |
| Residual cash flow discount rate | 12.0 % |
| Variable returns to transferees | Forward one-month LIBOR yield curve |

At March 31, 2006, securitized automobile loans and other automobile loans managed together with them, along with delinquency and credit loss

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information consisted of the following (\$000's):

| | Securitized | Portfolio | Total Managed |
|---|-------------|------------|------------------|
| Loan balances | \$ 984,997 | \$ 173,736 | \$ 1,158,7 |
| Principal amounts of loans 60 days or more past due | 1,098 | 661 | 1,7 |
| Net credit losses year to date | 631 | 570 | 1,2 |

10

MARSHALL & ILSLEY CORPORATION
Notes to Financial Statements - Continued
March 31, 2006 & 2005 (Unaudited)

9. Goodwill and Other Intangibles

The changes in the carrying amount of goodwill for the three months ended March 31, 2006 were as follows (\$000's):

| | Banking | Metavante | Others | T |
|--|------------|--------------|-----------|-------|
| Goodwill balance as of January 1, 2006 | \$ 809,376 | \$ 1,272,039 | \$ 7,804 | \$ 2, |
| Goodwill acquired during the period | -- | 21,096 | 13,367 | |
| Purchase accounting adjustments | (121) | (20,457) | -- | |
| Goodwill balance as of March 31, 2006 | \$ 809,255 | \$ 1,272,678 | \$ 21,171 | \$ 2, |

Goodwill acquired for the Metavante segment includes initial goodwill relating to the acquisition of AdminiSource in the first quarter of 2006. Goodwill for the Others segment includes initial goodwill relating to the acquisition of FirstTrust Indiana in the first quarter of 2006.

Purchase accounting adjustments for Metavante for the three months ended March 31, 2006 represent adjustments made to the initial estimates of fair value associated with the acquisitions of Med-i-Bank, Inc., LINK2GOV Corp. and NYCE Corporation ("NYCE") and its affiliate companies. During the first quarter, Metavante received \$29.9 million as a return of the purchase price associated with the NYCE acquisition. Purchase accounting adjustments for the Banking segment was attributable to the reduction of goodwill allocated to a branch divestiture.

At March 31, 2006, the Corporation's other intangible assets consisted of the following (\$000's):

| | March 31, 2006 | | |
|-------------------------|-----------------------------|---------------------------------------|------------------------|
| | Gross Carrying Amount | Accum- ulated Amort- ization | Net Carryi Value |
| Other intangible assets | | | |

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| | | | |
|--|------------|------------|---------|
| Core deposit intangible | \$ 152,816 | \$ 81,773 | \$ 71, |
| Data processing contract rights/customer lists | 332,372 | 38,831 | 293, |
| Trust customers | 6,750 | 1,405 | 5, |
| Tradename | 8,275 | 873 | 7, |
| Other Intangibles | 1,250 | 483 | |
| | ----- | ----- | ----- |
| | \$ 501,463 | \$ 123,365 | \$ 378, |
| | ===== | ===== | ===== |
| Mortgage loan servicing rights | | | \$ 2, |
| | | | ===== |

Amortization expense of other intangible assets for the three months ended March 31, 2006 and 2005 amounted to \$8.9 million and \$8.1 million, respectively.

The estimated amortization expense of other intangible assets and mortgage loan servicing rights for the next five annual fiscal years are (\$000's):

| | |
|------|-----------|
| 2006 | \$ 35,283 |
| 2007 | 33,192 |
| 2008 | 31,352 |
| 2009 | 30,146 |
| 2010 | 29,183 |

11

MARSHALL & ILSLEY CORPORATION
Notes to Financial Statements - Continued
March 31, 2006 & 2005 (Unaudited)

10. The Corporation's deposit liabilities consisted of the following (\$000's):

| | March 31, 2006 | December 31, 2005 | March 2005 |
|-----------------------------------|-------------------|----------------------|---------------|
| | ----- | ----- | ----- |
| Noninterest bearing demand | \$ 4,999,788 | \$ 5,525,019 | \$ 4,789, |
| Savings and NOW | 10,265,748 | 10,462,831 | 10,104, |
| Cash flow hedge-Brokered MMDA | (5,820) | (5,326) | (4,774) |
| | ----- | ----- | ----- |
| Total Savings and NOW | 10,259,928 | 10,457,505 | 10,099, |
| CD's \$100,000 and over | 7,018,466 | 5,652,359 | 5,672, |
| Cash flow hedge-Institutional CDs | (17,653) | (13,767) | (23, |
| | ----- | ----- | ----- |
| Total CD's \$100,000 and over | 7,000,813 | 5,638,592 | 5,649, |
| Other time deposits | 3,602,642 | 3,434,476 | 2,884, |
| Foreign deposits | 2,229,992 | 2,618,629 | 2,279, |
| | ----- | ----- | ----- |
| Total deposits | \$ 28,093,163 | \$ 27,674,221 | \$ 25,701, |
| | ===== | ===== | ===== |

11. Share-Based Compensation Plans

The Corporation has 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 accelerated or 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.

The Corporation also has a Long-Term Incentive Plan. Under the 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, who elect to participate in the plan, the right to acquire shares of the Corporation's common stock at the purchase price which is 85 percent of the lesser of the fair market value of the Corporation's common stock on the first or last day of the one-year offering period which has historically been from July 1 to June 30.

Effective January 1, 2006, the Corporation adopted Statement of Financial Accounting Standard No. 123 (revised 2004), Share-Based Payment ("SFAS 123(R)"). SFAS 123(R) replaces FASB Statement No. 123 Accounting for Stock-Based Compensation ("SFAS 123"), and supercedes Accounting Principles Board Opinion No. 25 ("APBO 25") Accounting for Stock Issued to Employees. Statement 123(R) requires that compensation cost relating to share-based payment transactions be recognized in financial statements. That cost is measured based on the fair value of the equity or liability instruments issued. Statement 123(R) covers a wide range of share-based compensation arrangements including stock options, restricted stock plans, performance-based awards, stock appreciation rights, and employee stock purchase plans. Statement 123(R) also provides guidance on measuring the fair value of share-based payments awards.

The Corporation elected the Modified Retrospective Application method to implement this new accounting standard. Under that method compensation cost is recognized beginning on the effective date based upon (a) the requirements of SFAS 123(R) for all share-based payments granted after the effective date and (b) the fair value method of accounting provisions of SFAS 123 for all awards granted to employees prior to the effective date of SFAS 123(R) that remain unvested on the effective date.

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MARSHALL & ILSLEY CORPORATION
Notes to Financial Statements - Continued
March 31, 2006 & 2005 (Unaudited)

As permitted under SFAS 123, the Corporation previously recognized compensation cost using the intrinsic value method of accounting prescribed in APBO 25. Under the intrinsic value method, compensation cost is the excess, if any, of the quoted market price of the stock at grant date or other measurement date over the amount paid to acquire the stock. Under APBO 25 no compensation cost was recognized for the nonqualified and incentive stock option plans because the exercise price was equal to the quoted market price at the date of grant and therefore, there is no intrinsic value. Under APBO 25 no compensation cost was recognized for the Corporation's ESPP because the discount (15%) and the plan meets the definition of a qualified plan of the Internal Revenue Code and met the requirements of APBO 25.

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. The fair value method of accounting provided under SFAS 123 is generally similar to the fair value method of accounting under SFAS 123(R).

Under the Modified Retrospective Application method, in addition to recognizing compensation cost beginning on the effective date, financial statements prior to the effective date have been adjusted based on pro forma amounts previously disclosed under SFAS 123 for all periods for which SFAS 123 was effective.

The impact to Shareholders' equity as a result of applying the Modified Retrospective Application method to adopt SFAS 123(R) is as follows (\$000's):

| | December 31, 2005 | March 31, 2005 |
|--|----------------------|-------------------|
| | ----- | ----- |
| Decrease to Retained Earnings | \$ (149,544) | \$ (132,528) |
| Increase to Additional Paid-in Capital | 217,205 | 195,736 |
| | ----- | ----- |
| Net Increase to Shareholders' equity | \$ 67,661 | \$ 63,208 |
| | ===== | ===== |

The net increase to Shareholders' equity represents the deferred income tax benefit outstanding associated with the cumulative effect on net income from January 1, 1995 to December 31, 2005 and March 31, 2005, respectively, from recognizing share-based compensation previously not reported.

The cost for the ESPP and stock options granted after January 1, 1995 determined in accordance with the fair value method of accounting, the Corporation's net income and earnings per share as adjusted is as follows for the three months ended March 31, 2005 (\$000's except per share data):

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| | |
|--|------------|
| Net Income, as originally reported | \$ 169,580 |
| Less: Stock-based employee compensation expense previously not included in net income under the intrinsic method of accounting, net of tax | (4,264) |
| | ----- |
| Restated net income | \$ 165,316 |
| | ===== |
| Basic earnings per share: | |
| As originally reported | \$ 0.75 |
| Restated | 0.73 |
| Diluted earnings per share: | |
| As originally reported | \$ 0.73 |
| Restated | 0.71 |

13

MARSHALL & ILSLEY CORPORATION
Notes to Financial Statements - Continued
March 31, 2006 & 2005 (Unaudited)

The Consolidated Statements of Cash Flows was not materially impacted.

Activity relating to nonqualified and incentive stock options for the three months ended March 31, 2006 and 2005 was:

| | Number of Shares | Option Price Per Share | Weighted- Average Exercise Price |
|--|---------------------|---------------------------|---|
| | ----- | ----- | ----- |
| Shares under option at December 31, 2004 | 22,878,097 | \$10.13 - 44.20 | \$30.70 |
| Options granted | 50,500 | 40.49 - 43.53 | 42.12 |
| Options lapsed or surrendered | (71,524) | 22.80 - 41.95 | 37.45 |
| Options exercised | (476,847) | 10.13 - 41.95 | 23.35 |
| | ----- | ----- | ----- |
| Shares under option at March 31, 2005 | 22,380,226 | \$10.13 - 44.20 | \$30.86 |
| | ===== | ===== | ===== |
| Shares under option at December 31, 2005 | 24,655,317 | \$15.94 - 47.02 | \$33.09 |
| Options granted | 71,900 | 41.30 - 45.35 | 43.51 |
| Options lapsed or surrendered | (173,254) | 34.79 - 42.82 | 41.41 |
| Options exercised | (747,680) | 15.94 - 41.95 | 25.75 |
| | ----- | ----- | ----- |
| Shares under option at March 31, 2006 | 23,806,283 | \$15.94 - 47.02 | \$33.30 |
| | ===== | ===== | ===== |

Stock option awards to directors of the Corporation generally occur during the second quarter and stock option awards to employees primarily occur in the fourth quarter. Generally, the Corporation uses shares of treasury stock to satisfy stock options exercised.

The ranges of nonqualified and incentive stock options outstanding at March 31, 2006 were:

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| Price Range | Number of Shares | | Weighted-Average Exercise Price | | Weighted-Average Aggregate Intrinsic Value | | Weighted-Average Remaining Contractual Life (In Years) | |
|-----------------|------------------|--------------|---------------------------------|--------------|--|--------------|--|--------------|
| | Out-standing | Exer-cisable | Out-standing | Exer-cisable | Out-standing | Exer-cisable | Out-standing | Exer-cisable |
| \$15.00 - 23.99 | 2,445,168 | 2,445,168 | \$21.26 | \$21.26 | \$22.32 | \$22.32 | 4.1 | 4.1 |
| 24.00 - 27.99 | 1,721,636 | 1,721,636 | 25.83 | 25.83 | 17.75 | 17.75 | 3.1 | 3.1 |
| 28.00 - 29.99 | 4,210,538 | 4,201,120 | 28.58 | 28.57 | 15.00 | 15.01 | 5.4 | 5.4 |
| 30.00 - 32.99 | 4,840,154 | 4,812,601 | 31.41 | 31.42 | 12.17 | 12.16 | 4.9 | 4.9 |
| 33.00 - 35.99 | 3,131,982 | 2,314,320 | 34.77 | 34.76 | 8.81 | 8.82 | 7.5 | 7.5 |
| 36.00 - 41.99 | 3,658,850 | 1,706,972 | 41.59 | 41.43 | 1.99 | 2.15 | 8.5 | 8.5 |
| Over \$42.00 | 3,797,955 | 546,625 | 42.86 | 42.82 | 0.72 | 0.76 | 9.6 | 9.6 |
| | 23,806,283 | 17,748,442 | \$33.30 | \$30.55 | \$10.28 | \$13.03 | 6.4 | 5.6 |

The fair value of each stock option grant was estimated as of the date of grant using the Black-Scholes closed form option-pricing model for stock options granted prior to September 30, 2004. A form of a lattice option-pricing model was used for stock options granted after September 30, 2004.

The grant date fair values and assumptions used to determine such value are as follows:

| | Three Months Ended | |
|--|--------------------|-----------------|
| | March 31, 2006 | March 31, 2005 |
| Weighted-average grant date fair value | \$ 7.87 | \$ 7.29 |
| Assumptions: | | |
| Risk-free interest rates | 4.22 - 5.18 % | 3.70 - 4.20 % |
| Expected volatility | 18.50 % | 13.12 - 15.96 % |
| Expected term (in years) | 6.5 | 6.0 |
| Expected dividend yield | 2.20 % | 1.92 % |

14

MARSHALL & ILSLEY CORPORATION
Notes to Financial Statements - Continued
March 31, 2006 & 2005 (Unaudited)

The total intrinsic value of nonqualified and incentive stock options exercised during the three months ended March 31, 2006 and 2005 was \$13.4 million and \$8.7 million, respectively. The total fair value of shares vested during the three months ended March 31, 2006 and 2005 amounted to \$0.4 million and \$0.5 million, respectively.

There was approximately \$33.6 million of total unrecognized compensation expense related to unvested nonqualified and incentive stock options at March 31, 2006. The total unrecognized compensation expense will be recognized over a weighted average period of 1.5 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

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straight line basis for awards granted after the effective date.

For the three months ended March 31, 2006 and 2005 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 \$6.6 million and \$5.8 million, respectively.

Activity relating to the Corporation's Restricted Stock Purchase Rights was:

| | March 31, 2006 | March 31, 2005 |
|---|-------------------|-------------------|
| | ----- | ----- |
| Restricted stock purchase rights outstanding - Beginning of Year | -- | -- |
| Restricted stock purchase rights granted | 7,000 | 7,500 |
| Restricted stock purchase rights exercised | (7,000) | (7,500) |
| | ----- | ----- |
| Restricted stock purchase rights outstanding - End of Year | -- | -- |
| | ===== | ===== |
| Weighted-average grant date market value | \$ 43.69 | \$ 41.34 |
| Aggregate compensation expense | \$ 1,270 | \$ 1,050 |
| Unamortized compensation expense | \$ 11,986 | \$ 9,926 |

Restrictions on stock issued pursuant to the exercise of stock purchase rights generally lapse within a three to seven year period. Accordingly, the compensation related to issuance of the rights are amortized over the vesting period. At March 31, 2006, the unamortized compensation expense will be recognized over a weighted average period of 1.7 years.

As participants in the Long-Term Incentive Plan will receive a cash award 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 three months ended March 31, 2006 and 2005 the (benefit)/expense for the Long-Term Incentive Plan that is included in Salaries and employee benefits expense in the Consolidated Statements of Income amounted to \$(1.8) million and \$0.6 million, respectively.

Under SFAS 123(R), compensation expense is recognized for the ESPP. The compensation cost per share is approximately equal to the sum of: the initial discount (15% of beginning of plan period price per share), plus the value of a one year call option on 85% of a share of common stock and the value of a one year put option on 15% of a share of common stock for each share purchased. The compensation cost per share for the ESPP was \$9.96 and \$8.04 for the three months ended March 31, 2006 and 2005, 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 estimated 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. The Corporation estimates that 346,342 shares will be purchased on July 1, 2006. For the three months ended March 31, 2006 and 2005 the total expense for the ESPP that is included in Salaries and employee benefits expense in the Consolidated Statements of Income amounted to \$0.9 million and \$0.7 million, respectively.

MARSHALL & ILSLEY CORPORATION
 Notes to Financial Statements - Continued
 March 31, 2006 & 2005 (Unaudited)

12. Derivative Financial Instruments and Hedging Activities

The following is an update of the Corporation's use of derivative financial instruments and its hedging activities as described in its Annual Report on Form 10-K for the year ended December 31, 2005. Generally there were no substantive changes in the types of derivative financial instruments the Corporation employs or its hedging activities in the three months ended March 31, 2006.

Trading Instruments and Other Free Standing Derivatives

Loan commitments accounted for as derivatives are not material to the Corporation and the Corporation does not employ any formal hedging strategies for these commitments.

Trading and 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. They are carried at fair value with changes in fair value recorded as a component of other noninterest income.

At March 31, 2006, free standing interest rate swaps consisted of \$1.8 billion in notional amount of receive fixed / pay floating with an aggregate negative fair value of \$34.5 million and \$1.4 billion in notional amount of pay fixed / receive floating with an aggregate positive fair value of \$35.1 million.

At March 31, 2006, interest rate caps purchased amounted to \$15.0 million in notional amount with a positive fair value of \$0.1 million and interest rate caps sold amounted to \$15.0 million in notional amount with a negative fair value of \$0.1 million.

At March 31, 2006, the notional value of interest rate futures designated as trading was \$2.0 billion with an immaterial fair value.

Fair Value Hedges

The following table presents updated information with respect to selected fair value hedges.

Fair Value Hedges
 March 31, 2006

| Hedged Item | Hedging Instrument | Notional Amount (\$ in mil) | Fair Value (\$ in mil) | Weighted Average Remaining Term (Yrs) |
|-----------------------|--------------------|-----------------------------|------------------------|---------------------------------------|
| Fixed Rate CDs | Receive Fixed Swap | \$ 954.6 | \$ (31.0) | 8. |
| Medium Term Notes | Receive Fixed Swap | 359.5 | (10.4) | 7. |
| Fixed Rate Bank Notes | Receive Fixed Swap | 1,052.3 | (39.8) | 6. |
| Institutional CDs | Receive Fixed Swap | 130.0 | (0.7) | 1. |

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| | | | | |
|---------------------|--------------------|-------|-------|----|
| Brokered Bullet CDs | Receive Fixed Swap | 343.5 | (1.3) | 0. |
|---------------------|--------------------|-------|-------|----|

The impact from fair value hedges to total net interest income for the three months ended March 31, 2006 was a positive \$1.7 million. The impact to net interest income due to ineffectiveness was not material.

16

MARSHALL & ILSLEY CORPORATION
Notes to Financial Statements - Continued
March 31, 2006 & 2005 (Unaudited)

Cash Flow Hedges

The following table updates the Corporation's cash flow hedges.

Cash Flow Hedges
March 31, 2006

| Hedged Item | Hedging Instrument | Notional Amount (\$ in mil) | Fair Value (\$ in mil) | Weighted Average Remaining Term (Yrs) |
|--------------------------|-----------------------|-----------------------------------|------------------------------|--|
| Variable Rate Loans | Receive Fixed Swap | \$ 1,150.0 | \$ (47.2) | 3.6 |
| Institutional CDs | Pay Fixed Swap | 1,555.0 | 17.7 | 1.6 |
| Federal Funds Purchased | Pay Fixed Swap | 250.0 | 0.0 | 1.4 |
| FHLB Advances | Pay Fixed Swap | 1,220.0 | 31.5 | 2.8 |
| Floating Rate Bank Notes | Pay Fixed Swap | 425.0 | 3.8 | 2.0 |
| Money Market Account | Pay Fixed Swap | 250.0 | 5.8 | 1.3 |

The impact to total net interest income from cash flow hedges, including amortization of terminated cash flow hedges was a positive \$1.9 million for the three months ended March 31, 2006. The impact due to ineffectiveness was not material.

For the three months ended March 31, 2005, the total effect on net interest income resulting from derivative financial instruments was a positive \$4.3 million including the amortization of terminated derivative financial instruments.

13. Postretirement Health Plan

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 or retained from mergers after September 1, 1997 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.

Net periodic postretirement benefit costs for the three months ended

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March 31, 2006 and 2005 included the following components (\$'000's):

| | Three Months Ended March 31, | |
|-----------------------------|------------------------------|----------|
| | 2006 | 2005 |
| Service cost | \$ 570 | \$ 553 |
| Interest on APBO | 1,022 | 1,159 |
| Expected return on assets | (232) | (149) |
| Prior service amortization | (680) | (681) |
| Actuarial loss amortization | 379 | 264 |
| | ----- | ----- |
| | \$ 1,059 | \$ 1,146 |
| | ===== | ===== |

Benefit payments and expenses, net of participant contributions, for the three months ended March 31, 2006 amounted to \$1.0 million.

17

MARSHALL & ILSLEY CORPORATION
Notes to Financial Statements - Continued
March 31, 2006 & 2005 (Unaudited)

14. Segments

The following represents the Corporation's operating segments as of and for the three months ended March 31, 2006 and 2005. Effective January 1, 2006, the Corporation transferred a portion of its Item Processing business from the Banking segment to Metavante. Prior period segment information has been adjusted for the transfer. There have not been any other changes to the way the Corporation organizes its segments. Beginning with the third quarter of 2005, total other income for Metavante includes float income which represents interest income on balances invested in an affiliate bank which arises from Electronic Bill Payment activities. This income was formerly reported as a component of Net Interest Income for Metavante. Segment information for all periods has been adjusted for this reclassification. Fees - intercompany represent intercompany revenue charged to other segments for providing certain services. Expenses - intercompany represent fees charged by other segments for certain services received. For each segment, Expenses - intercompany are not the costs of that segment's reported intercompany revenues. Intra-segment revenues, expenses and assets have been eliminated (\$ in millions):

| | Three Months Ended March 31, 2006 | | | | | Reclass- ifications & Elimi- nations | |
|---------------------|-----------------------------------|-----------|--------|-----------------------|--------|---|----|
| | Banking | Metavante | Others | Corporate Overhead | | | |
| Net interest income | \$ 327.7 | \$ (8.3) | \$ 5.8 | \$ (3.8) | \$ 3.2 | | \$ |
| Other income | | | | | | | |
| Fees - external | 73.5 | 343.0 | 54.5 | 1.8 | -- | | |
| Fees - internal | | | | | | | |
| Fees - intercompany | 16.9 | 24.8 | 4.7 | 25.0 | (71.4) | | |

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| | | | | | |
|--|-------------|------------|----------|----------|--------------|
| Float income - intercompany | -- | 3.2 | -- | -- | (3.2) |
| Total other income | 90.4 | 371.0 | 59.2 | 26.8 | (74.6) |
| Other expense | | | | | |
| Expenses - other | 158.4 | 296.0 | 39.6 | 12.0 | (0.9) |
| Expenses - intercompany | 43.2 | 12.6 | 12.5 | 2.2 | (70.5) |
| Total other expense | 201.6 | 308.6 | 52.1 | 14.2 | (71.4) |
| Provision for loan and lease losses | 10.5 | -- | 0.5 | -- | -- |
| Income before taxes | 206.0 | 54.1 | 12.4 | 8.8 | -- |
| Income tax expense | 67.8 | 19.6 | 4.6 | 2.5 | -- |
| Segment income | \$ 138.2 | \$ 34.5 | \$ 7.8 | \$ 6.3 | \$ -- |
| Identifiable assets | \$ 44,584.0 | \$ 2,797.5 | \$ 761.8 | \$ 766.6 | \$ (1,575.3) |
| Return on average equity | 14.7% | 13.0% | 11.8% | | |

Three Months Ended March 31, 2005

| | Banking | Metavante | Others | Corporate Overhead | Reclass- ifications & Elimi- nations |
|--|-------------|------------|----------|-----------------------|---|
| Net interest income | \$ 303.2 | \$ (10.4) | \$ 5.5 | \$ (1.8) | \$ 2.3 |
| Other income | | | | | |
| Fees - external | 70.1 | 282.9 | 47.7 | 1.8 | -- |
| Fees - internal | | | | | |
| Fees - intercompany | 15.8 | 21.0 | 4.7 | 21.7 | (63.2) |
| Float income - intercompany | -- | 2.3 | -- | -- | (2.3) |
| Total other income | 85.9 | 306.2 | 52.4 | 23.5 | (65.5) |
| Other expense | | | | | |
| Expenses - other | 146.8 | 241.1 | 31.9 | 22.6 | 0.6 |
| Expenses - intercompany | 38.8 | 11.0 | 12.5 | 1.5 | (63.8) |
| Total other expense | 185.6 | 252.1 | 44.4 | 24.1 | (63.2) |
| Provision for loan and lease losses | 7.8 | -- | 0.3 | -- | -- |
| Income (loss) before taxes | 195.7 | 43.7 | 13.2 | (2.4) | -- |
| Income tax expense (benefit) | 63.9 | 17.4 | 5.1 | (1.5) | -- |
| Segment income (loss) | \$ 131.8 | \$ 26.3 | \$ 8.1 | \$ (0.9) | \$ -- |
| Identifiable assets | \$ 39,324.7 | \$ 2,419.6 | \$ 669.2 | \$ 824.7 | \$ (1,597.7) |
| Return on average equity | 16.1% | 17.6% | 13.0% | | |

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18

MARSHALL & ILSLEY CORPORATION
Notes to Financial Statements - Continued
March 31, 2006 & 2005 (Unaudited)

Total revenue, net interest income plus total other income, by type in Others consisted of the following (\$ in millions):

| | Three Months Ended March 31, | |
|------------------------------|---------------------------------|---------|
| | 2006 | 2005 |
| Trust Services | \$ 46.0 | \$ 39.6 |
| Residential Mortgage Banking | 5.1 | 5.0 |
| Capital Markets | 0.6 | 0.7 |
| Brokerage and Insurance | 7.2 | 7.1 |
| Commercial Leasing | 3.0 | 3.4 |
| Commercial Mortgage Banking | 1.7 | 1.2 |
| Others | 1.4 | 0.9 |
| Total revenue | \$ 65.0 | \$ 57.9 |

19

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS

MARSHALL & ILSLEY CORPORATION
CONSOLIDATED AVERAGE BALANCE SHEETS (Unaudited)
(\$000's)

| | Three Months Ended March 31, | |
|---|------------------------------|------------|
| | 2006 | 2005 |
| Assets | | |
| Cash and due from banks | \$ 980,078 | \$ 918,907 |
| Investment securities: | | |
| Trading securities | 34,177 | 23,113 |
| Short-term investments | 315,719 | 186,993 |
| Other investment securities: | | |
| Taxable | 4,979,354 | 4,822,827 |
| Tax-exempt | 1,340,598 | 1,278,156 |
| Total investment securities | 6,669,848 | 6,311,089 |
| Loans and leases: | | |
| Loans and leases, net of unearned income | 34,641,255 | 29,883,640 |
| Less: Allowance for loan and lease losses | 368,290 | 360,948 |
| Net loans and leases | 34,272,965 | 29,522,692 |
| Premises and equipment, net | 495,887 | 450,806 |

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| | | |
|---|---------------|---------------|
| Accrued interest and other assets | 4,335,066 | 3,837,773 |
| | ----- | ----- |
| Total Assets | \$ 46,753,844 | \$ 41,041,267 |
| | ===== | ===== |
| Liabilities and Shareholders' Equity | | |
| ----- | | |
| Deposits: | | |
| Noninterest bearing | \$ 4,942,011 | \$ 4,693,268 |
| Interest bearing | 22,531,254 | 20,540,811 |
| | ----- | ----- |
| Total deposits | 27,473,265 | 25,234,079 |
| Federal funds purchased and security repurchase agreements | 2,440,619 | 1,944,851 |
| Other short-term borrowings | 930,232 | 948,080 |
| Long-term borrowings | 9,404,002 | 7,205,154 |
| Accrued expenses and other liabilities | 1,672,495 | 1,667,452 |
| | ----- | ----- |
| Total liabilities | 41,920,613 | 36,999,616 |
| Shareholders' equity | 4,833,231 | 4,041,651 |
| | ----- | ----- |
| Total Liabilities and Shareholders' Equity | \$ 46,753,844 | \$ 41,041,267 |
| | ===== | ===== |

20

OVERVIEW

The Corporation's overall strategy is to drive earnings per share growth by: (1) expanding banking operations into faster growing regions beyond Wisconsin; (2) increasing the number of financial institutions to which the Corporation provides correspondent banking services and products; (3) expanding trust services and other wealth management product and service offerings; and (4) growing Metavante's business through organic growth, cross sales of technology products and acquisitions.

The Corporation continues to focus on its key metrics of growing revenues through balance sheet growth, fee-based income growth and strong credit quality. Management believes that the Corporation has demonstrated solid fundamental performance in each of these key areas and as a result, the first quarter of 2006 produced strong financial results.

Net income for the first quarter of 2006 amounted to \$186.8 million compared to \$165.3 million for the same period in the prior year, an increase of \$21.5 million, or 13.0%. Diluted earnings per share were \$0.78 for the three months ended March 31, 2006, compared with \$0.71 for the three months ended March 31, 2005, an increase of 9.9%. The return on average assets and average equity was 1.62% and 15.67%, respectively, for the quarter ended March 31, 2006, and 1.63% and 16.59%, respectively, for the quarter ended March 31, 2005.

Earnings growth for the three months ended March 31, 2006 compared to the three months ended March 31, 2005 was attributable to a number of factors. The increase in net interest income was driven by loan and bank-issued deposit growth. Strong credit quality and recoveries above historical levels have resulted in net charge-offs that continue to be below the Corporation's five-year historical average. Metavante continued to exhibit growth in both revenue and earnings which was attributable to, in part, to the impact of its acquisition activities as well as success in retaining and cross-selling products and services to its core customer

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base. The acquisition activities included one acquisition completed in the first quarter of 2006, two acquisitions completed in the fourth quarter of 2005, three acquisition completed in the third quarter of 2005 and one acquisition completed in the first quarter of 2005. Net investment securities gains were not significant in the first quarter of 2006. During the first quarter of 2005 the Corporation realized a gain due to the change in control of PULSE EFT Associates. These factors along with continued expense management resulted in the reported earnings growth in the first quarter of 2006 compared to the first quarter of 2005.

Management continues to believe that the 2006 outlook provided in the Corporation's Annual Report on Form 10-K for the year ended December 31, 2005 is generally still representative of its expectations for the year ended December 31, 2006. Management expects Metavante revenue will be at the high end of the previously forecasted revenue projection of \$1.4 billion to \$1.5 billion including all acquisitions and the transfer of external item processing which is discussed in the next section. As discussed in Note 5 in Notes to Financial Statements, the previously announced banking acquisitions closed on April 1, 2006. Management continues to estimate that these acquisitions combined will be modestly dilutive in 2006. The Corporation's actual results for the year ended December 31, 2006 could differ materially from those expected by management. See "Forward-Looking Statements" in this Form 10-Q and "Risk Factors" in Item 1A of the Corporation's Annual Report on Form 10-K for the year ended December 31, 2005, for a discussion of the various risk factors that could cause actual results to be different than expected results.

NOTEWORTHY TRANSACTIONS AND EVENTS

Some of the more noteworthy transactions and events that occurred in the three months ended March 31, 2006 and 2005 consisted of the following:

21

First quarter 2006

On January 1, 2006 the Corporation adopted the accounting standard that requires share-based compensation to be expensed. The Corporation elected the Modified Retrospective Application to implement this new accounting standard. Under that method all prior period consolidated and segment financial information was adjusted to reflect the effect of expensing share-based compensation plans which were not previously expensed. Prior to the adoption of the new standard, the Corporation used the intrinsic method of accounting for stock options. Under that method generally, no compensation expense was recognized for stock option awards or the Corporation's employee stock purchase plan ("ESPP"). Shareholders' equity as of January 1, 2006 increased \$67.7 million due to the deferred income tax benefit recognized from applying the Modified Retrospective Application method of adoption. For the three months ended March 31, 2006, salaries and employee benefits expense includes \$7.5 million of expense for stock options and the ESPP, which reduced net income by \$4.9 million or \$0.02 per diluted share. Assuming the same number of awards granted in 2005 and the same fair values, the Corporation expects that the additional compensation expense associated with stock options and the ESPP will be dilutive to the Corporation's operating results for the year ended December 31, 2006 by approximately \$0.10 per diluted share compared to \$0.11 per diluted share for the year ended December 31, 2005 as adjusted. The Corporation's largest stock option awards have historically been granted during the fourth quarter and expense for stock options is larger in the fourth quarter compared to the other quarters in any given year. Under the existing plans, awards to individuals who meet certain age and years of service criteria at the date of grant immediately vest and

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therefore the full fair value of those awards are immediately expensed. See Note 11 in Notes to Financial Statements for further information.

Beginning with the first quarter of 2006, the Corporation included certain loan and lease fees, primarily prepayment fees, in reported interest income on loans and leases. Previously, these fees were reported in Other income. Such fees are in addition to loan origination fees that are capitalized and amortized over the life of a loan or lease on a basis that produces a level yield in accordance with existing accounting standards. Including these fees in interest income may result in more volatility in net interest income and the net interest margin. However, management believes this reclassification will improve comparability of the net interest margin between the Corporation and its peer banking group. All prior periods have been restated for this reclassification.

On January 1, 2006 the Banking segment transferred its external item processing business, including all check-processing client relationships, to Metavante. This transfer, together with recent investments in electronic check image technology, enables Metavante to provide its clients with an end-to-end image solution that includes check truncation at the point of first presentment, image exchange through the Endpoint Exchange Network and final settlement. As a result of the transfer, the previously reported Other income line, Item processing, was reclassified to Data processing services in the Consolidated Statements of Income and prior period segment financial information for both the Banking segment and Metavante has been adjusted for the transfer. The transfer did not materially affect the period to period comparability of Data processing services revenue or segment related information. See Note 14 in Notes to Financial Statements for segment information.

First quarter 2005

As a result of adopting the accounting standard that requires share-based compensation to be expensed, as previously discussed, adjusted Salaries and employee benefits expense for the three months ended March 31, 2005 includes \$6.5 million of expense for stock options and the ESPP which reduced previously reported net income by \$4.3 million or \$0.02 per diluted share. Shareholders' equity at March 31, 2005 increased \$63.2 million as a result of the adjustments. See Note 11 in Notes to Financial Statements for further information.

During the first quarter of 2005, the Corporation's Banking segment's investment in certain membership interests of PULSE EFT Associates ("PULSE") was liquidated by PULSE due to a change in control. The cash received resulted in a pre-tax gain of \$5.6 million which is reported in Net investment securities gains (losses) in the Consolidated Statements of Income.

NET INTEREST INCOME

Net interest income is the difference between interest earned on earning assets and interest owed on interest bearing liabilities. Net interest income represented approximately 40.7% of the Corporation's source of revenues for the three months ended March 31, 2006 compared to 42.6% for the three months ended March 31, 2005.

Net interest income for the first quarter of 2006 amounted to \$324.6 million compared to \$298.9 million reported for the first quarter of 2005, an increase of \$25.7 million or 8.6%. Loan growth and the growth in noninterest bearing and other bank-issued deposits were the primary contributors to the increase in net interest income. Factors negatively

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affecting net interest income compared to the prior year quarter included the impact of the financing costs associated with Metavante's 2005 acquisitions, common stock buybacks and the re-financing of longer-term funding sources that matured during the first quarter of 2006.

Average earning assets in the first quarter of 2006 amounted to \$41.3 billion compared to \$36.2 billion in the first quarter of 2005, an increase of \$5.1 billion or 14.1%. Average loans and leases accounted for \$4.8 billion of the growth in average earning assets in the first quarter of 2006 compared to the first quarter of 2005. Average investment securities increased \$0.2 billion over the prior year quarter.

Average interest bearing liabilities increased \$4.7 billion or 15.2% in the first quarter of 2006 compared to the first quarter of 2005. Average interest bearing deposits increased \$2.0 billion or 9.7% in the first quarter of 2006 compared to the first quarter of last year. Average total borrowings, primarily long-term borrowings, increased \$2.7 billion or 26.5% in the first quarter of 2006 compared to the same period in 2005.

22

Average noninterest bearing deposits increased \$0.2 billion or 5.3% in the three months ended March 31, 2006 compared to the same period last year.

The growth and composition of the Corporation's quarterly average loan and lease portfolio for the current quarter and previous four quarters are reflected in the following table (\$ in millions):

Consolidated Average Loans and Leases

| | 2006 | | 2005 | | | Growth Pct. | |
|--|------------------|-------------------|------------------|-------------------|------------------|-------------|------------------|
| | First Quarter | Fourth Quarter | Third Quarter | Second Quarter | First Quarter | Annual | Prior Quarter |
| Commercial Loans and Leases | | | | | | | |
| Commercial | \$ 9,839 | \$ 9,290 | \$ 9,126 | \$ 8,932 | \$ 8,460 | 16.3 % | 5.9 |
| Commercial real estate | | | | | | | |
| Commercial mortgages | 8,839 | 8,850 | 8,661 | 8,509 | 8,275 | 6.8 | (0.1) |
| Construction | 1,742 | 1,564 | 1,484 | 1,358 | 1,241 | 40.3 | 11.4 |
| Total commercial real estate | 10,581 | 10,414 | 10,145 | 9,867 | 9,516 | 11.2 | 1.6 |
| Commercial lease financing | 493 | 471 | 462 | 425 | 398 | 23.9 | 4.7 |
| Total Commercial Loans and Leases | 20,913 | 20,175 | 19,733 | 19,224 | 18,374 | 13.8 | 3.7 |
| Personal Loans and Leases | | | | | | | |
| Residential real estate | | | | | | | |
| Residential mortgages | 5,190 | 4,855 | 4,537 | 3,986 | 3,562 | 45.7 | 6.9 |
| Construction | 2,085 | 1,862 | 1,633 | 1,382 | 1,167 | 78.7 | 12.0 |
| Total residential real estate | 7,275 | 6,717 | 6,170 | 5,368 | 4,729 | 53.8 | 8.3 |
| Personal loans | | | | | | | |
| Student | 99 | 78 | 74 | 78 | 88 | 12.7 | 26.2 |

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| | | | | | | | |
|--|-----------|-----------|-----------|-----------|-----------|--------|-------|
| Credit card | 227 | 233 | 228 | 217 | 217 | 4.6 | (2.6) |
| Home equity loans and lines | 4,706 | 4,822 | 4,905 | 5,098 | 5,131 | (8.3) | (2.4) |
| Other | 1,289 | 1,245 | 1,241 | 1,186 | 1,217 | 5.9 | 3.5 |
| | ----- | ----- | ----- | ----- | ----- | ----- | ----- |
| Total personal loans | 6,321 | 6,378 | 6,448 | 6,579 | 6,653 | (5.0) | (0.9) |
| Personal lease financing | 132 | 132 | 128 | 123 | 128 | 3.2 | 0.1 |
| | ----- | ----- | ----- | ----- | ----- | ----- | ----- |
| Total Personal Loans and Leases | 13,728 | 13,227 | 12,746 | 12,070 | 11,510 | 19.3 | 3.8 |
| | ----- | ----- | ----- | ----- | ----- | ----- | ----- |
| Total Consolidated Average Loans and Leases | \$ 34,641 | \$ 33,402 | \$ 32,479 | \$ 31,294 | \$ 29,884 | 15.9 % | 3.7 |
| | ===== | ===== | ===== | ===== | ===== | ===== | ===== |

Total consolidated average loans and leases increased \$4.8 billion or 15.9% in the first quarter of 2006 compared to the first quarter of 2005. Total average commercial loan and lease growth was \$2.6 billion, a 13.8% increase in the current quarter compared to the first quarter of 2005. Approximately 54.3% of the growth in total average commercial loans and leases was attributable to commercial and industrial loans. Total average personal loans and leases increased \$2.2 billion or 19.3% in the first quarter of 2006 compared to the first quarter of 2005. This growth was driven primarily by growth in residential real estate loans, which increased \$2.5 billion or 53.8%. Average home equity loans and lines decreased \$425 million or 8.3% in the first quarter of 2006 compared to the first quarter of 2005. From a production standpoint, residential real estate loan closings in the first quarter of 2006 were \$1.2 billion or 2.9% greater than loan closings in the first quarter of 2005 and were \$0.2 billion or 14.3% lower than loan closings in the fourth quarter of 2005.

Total average commercial loan and lease growth continued to be strong in the first quarter of 2006. Management attributes the loan growth to the strength of the local economies in the markets the Corporation serves, new business and continued customer satisfaction. Management continues to expect that organic commercial loan growth (as a percentage) will reach low double digits in 2006. The basis for this expectation includes continued success in attracting new customers in all of the Corporation's markets and continued modest economic growth in the primary markets that the Corporation serves.

Home equity loans and lines, which includes M&I's wholesale activity, continue to be one of the primary consumer loan products. Average home equity loans and lines declined in the first quarter of 2006 compared to the first quarter of 2005. This is consistent with what is occurring in many parts of the country. The softer home equity market, combined with the Corporation's continued sales of loans sold at origination in response to the increased demand for home equity products with higher loan-to-value characteristics, will impact balance sheet organic loan growth. Management does not expect this trend to change in the near term.

23

The Corporation sells some of its residential real estate production (residential real estate and home equity loans) in the secondary market. Selected residential real estate loans with rate and term characteristics that are considered desirable are periodically retained in the portfolio. For the three months ended March 31, 2006 and 2005 real estate loans sold to investors amounted to \$0.6 billion and \$0.4 billion, respectively. At March 31, 2006 and 2005, the Corporation had approximately \$120.7 million and \$103.9 million of mortgage loans held for sale, respectively. Gains from the sale of mortgage loans amounted to \$10.7 million in the first

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quarter of 2006 compared to \$6.9 million in the first quarter of 2005.

Auto loans securitized and sold in the first quarters of 2006 and 2005 amounted to \$0.2 billion and \$0.1 billion, respectively. Net gains from the sale and securitization of auto loans were \$0.1 million for the first quarter of 2006 compared to net losses of \$0.4 million in the first quarter of 2005. The losses in the first quarter of 2005, were primarily due to lower loan interest spreads associated with new auto loan production in a rising interest rate environment. Auto loans held for sale amounted to \$38.4 million at March 31, 2006.

The Corporation anticipates that it will continue to divest itself of selected assets through sale or securitization in future periods.

The growth and composition of the Corporation's quarterly average deposits for the current and previous four quarters are as follows (\$ in millions):

Consolidated Average Deposits

| | 2006 | | 2005 | | | Growth Pct. | |
|---|---------------|----------------|---------------|----------------|---------------|--------------|--------------|
| | First Quarter | Fourth Quarter | Third Quarter | Second Quarter | First Quarter | Annual | Prior Quarte |
| Bank issued deposits | | | | | | | |
| Noninterest bearing deposits | | | | | | | |
| Commercial | \$ 3,473 | \$ 3,687 | \$ 3,589 | \$ 3,377 | \$ 3,263 | 6.4 % | (5.8) |
| Personal | 943 | 942 | 932 | 958 | 930 | 1.4 | (0.0) |
| Other | 526 | 566 | 528 | 491 | 500 | 5.2 | (7.1) |
| Total noninterest bearing deposits | 4,942 | 5,195 | 5,049 | 4,826 | 4,693 | 5.3 | (4.9) |
| Interest bearing deposits | | | | | | | |
| Savings and NOW | 2,831 | 2,911 | 3,049 | 3,149 | 3,281 | (13.7) | (2.7) |
| Money market | 6,599 | 6,354 | 6,047 | 5,819 | 5,692 | 15.9 | 3.9 |
| Foreign activity | 1,034 | 1,084 | 932 | 882 | 904 | 14.3 | (4.6) |
| Total interest bearing deposits | 10,464 | 10,349 | 10,028 | 9,850 | 9,877 | 5.9 | 1.1 |
| Time deposits | | | | | | | |
| Other CDs and time deposits | 3,509 | 3,354 | 3,095 | 2,951 | 2,787 | 25.9 | 4.7 |
| CDs greater than \$100,000 | 2,035 | 1,703 | 1,421 | 1,243 | 1,074 | 89.5 | 19.5 |
| Total time deposits | 5,544 | 5,057 | 4,516 | 4,194 | 3,861 | 43.6 | 9.6 |
| Total bank issued deposits | 20,950 | 20,601 | 19,593 | 18,870 | 18,431 | 13.7 | 1.7 |
| Wholesale deposits | | | | | | | |
| Money market | 887 | 1,074 | 1,068 | 1,077 | 1,073 | (17.4) | (17.3) |
| Brokered CDs | 3,874 | 4,752 | 4,615 | 4,437 | 4,761 | (18.6) | (18.5) |
| Foreign time | 1,762 | 897 | 1,076 | 1,086 | 969 | 81.8 | 96.4 |
| Total wholesale deposits | 6,523 | 6,723 | 6,759 | 6,600 | 6,803 | (4.1) | (3.0) |
| Total consolidated | | | | | | | |

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| | | | | | | | |
|------------------|-----------|-----------|-----------|-----------|-----------|-------|-------|
| average deposits | \$ 27,473 | \$ 27,324 | \$ 26,352 | \$ 25,470 | \$ 25,234 | 8.9 % | 0.5 |
| | ===== | ===== | ===== | ===== | ===== | ===== | ===== |

Average total bank issued deposits increased \$2.5 billion or 13.7% in the first quarter of 2006 compared to the first quarter of 2005. Average noninterest bearing deposits increased \$0.2 billion, average bank-issued interest bearing deposits increased \$0.6 billion and average bank issued time deposits increased \$1.7 billion in the current quarter compared to the first quarter of the prior year.

Noninterest bearing 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 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.

24

As interest rates have risen, the Corporation has increasingly been able to competitively price deposit products which has contributed to the growth in average bank-issued interest bearing deposits and average bank issued time deposits.

In commercial banking, the focus remains on developing deeper relationships by capitalizing on cross-sale opportunities. Incentive plans based on the sale of treasury management products and services are focused on growing deposits. The retail banking strategy continues to focus on aggressively selling the right products to meet the needs of customers and enhance the Corporation's profitability.

For the three months ended March 31, 2006, average wholesale deposits decreased \$0.3 billion, or 4.1% compared to the three months ended March 31, 2005. During the first quarter of 2006, a significant portion of longer-term institutional certificates of deposits matured and were refinanced at a higher cost. These deposits are funds in the form of deposits generated through distribution channels other than M&I's own banking branches. The Corporation continues to make use of wholesale funding alternatives, especially brokered and institutional certificates of deposit. 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.

During the first quarter of 2006, the Corporation issued \$250.0 million of fixed rate senior notes. The fixed rate senior notes mature in 2011 and have a coupon rate of 5.35%. Also during the first quarter of 2006, \$500.0 million of floating rate senior bank notes were issued. These floating rate senior bank notes mature in 2008 and have a coupon rate that is indexed to the three-month London Inter-Bank Offered Rate. During the first quarter of 2006, \$250.0 million of senior bank notes - Extendible Liquidity Securities matured.

During the first quarter of 2005 the Corporation obtained a new floating rate advance from the Federal Home Loan Bank ("FHLB") aggregating \$250.0 million. The FHLB advance matures in 2011 and was converted to a fixed rate through the use of an interest rate swap. During the first quarter of 2005, \$900.0 million of senior bank notes with an annual weighted average coupon interest rate of 4.13% were issued. The notes mature at various times beginning in 2008 through 2017.

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25

The Corporation's consolidated average interest earning assets and interest bearing liabilities, interest earned and interest paid for the three months ended March 31, 2006 and 2005, are presented in the following tables (\$ in millions):

Consolidated Yield and Cost Analysis

| | Three Months Ended March 31, 2006 | | | Three Months Ended March 31, 2005 | | |
|--|--------------------------------------|----------|---------------------------------|--------------------------------------|----------|---------------------------------|
| | Average Balance | Interest | Average Yield or Cost (b) | Average Balance | Interest | Average Yield or Cost (b) |
| Loans and leases: (a) | | | | | | |
| Commercial loans and leases | \$ 10,332.6 | \$ 175.3 | 6.88 % | \$ 8,857.6 | \$ 120.8 | 5.53 % |
| Commercial real estate loans | 10,580.4 | 181.1 | 6.94 | 9,516.4 | 138.6 | 5.91 |
| Residential real estate loans | 7,275.3 | 122.8 | 6.85 | 4,729.0 | 67.2 | 5.77 |
| Home equity loans and lines | 4,705.9 | 81.0 | 6.98 | 5,130.8 | 75.1 | 5.94 |
| Personal loans and leases | 1,747.0 | 29.2 | 6.77 | 1,649.8 | 22.8 | 5.60 |
| Total loans and leases | 34,641.2 | 589.4 | 6.90 | 29,883.6 | 424.5 | 5.76 |
| Investment securities (b): | | | | | | |
| Taxable | 4,979.4 | 57.9 | 4.64 | 4,822.8 | 51.9 | 4.37 |
| Tax Exempt (a) | 1,340.6 | 23.4 | 7.20 | 1,278.2 | 23.0 | 7.48 |
| Total investment securities | 6,320.0 | 81.3 | 5.17 | 6,101.0 | 74.9 | 5.01 |
| Trading securities (a) | 34.2 | 0.1 | 0.87 | 23.1 | 0.1 | 1.23 |
| Other short-term investments | 315.7 | 3.5 | 4.58 | 187.0 | 1.3 | 2.91 |
| Total interest earning assets | \$ 41,311.1 | \$ 674.3 | 6.61 % | \$ 36,194.7 | \$ 500.8 | 5.62 % |
| Interest bearing deposits: | | | | | | |
| Bank issued deposits: | | | | | | |
| Bank issued interest bearing activity deposits | \$ 10,464.3 | \$ 74.7 | 2.89 % | \$ 9,877.1 | \$ 33.6 | 1.38 % |
| Bank issued time deposits | 5,544.3 | 53.3 | 3.90 | 3,861.0 | 26.1 | 2.74 |
| Total bank issued deposits | 16,008.6 | 128.0 | 3.24 | 13,738.1 | 59.7 | 1.76 |
| Wholesale deposits | 6,522.6 | 70.1 | 4.36 | 6,802.7 | 43.8 | 2.61 |
| Total interest bearing deposits | 22,531.2 | 198.1 | 3.57 | 20,540.8 | 103.5 | 2.04 |
| Short-term borrowings | 3,370.9 | 39.3 | 4.73 | 2,892.9 | 21.9 | 3.08 |
| Long-term borrowings | 9,404.0 | 104.4 | 4.50 | 7,205.2 | 68.4 | 3.85 |
| Total interest bearing liabilities | \$ 35,306.1 | \$ 341.8 | 3.93 % | \$ 30,638.9 | \$ 193.8 | 2.57 % |
| Net interest margin (FTE) | | \$ 332.5 | 3.26 % | | \$ 307.0 | 3.44 % |
| Net interest spread (FTE) | | | 2.68 % | | | 3.05 % |

(a) Fully taxable equivalent ("FTE") basis, assuming a Federal income tax rate of 35%, and excluding disallowed interest expense.

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- (b) Based on average balances excluding fair value adjustments for available for sale securities.

The net interest margin FTE decreased 18 basis points from 3.44% in the first quarter of 2005 to 3.26% in the first quarter of 2006. Compared to the fourth quarter of 2005 the net interest margin FTE decreased 12 basis points from 3.38% in the fourth quarter of 2005 to 3.26% in the first quarter of 2006. During the fourth quarter of 2005, interest recoveries, which vary from period to period, contributed approximately 3 basis points to the net interest margin FTE. Approximately 6 basis points of the decline from the fourth quarter of 2005 was due to scheduled re-financings previously discussed. Also as previously discussed, the normal seasonality of the Corporation's noninterest bearing bank issued deposits had a negative impact of approximately 2 basis points in the first quarter of 2006 compared to the fourth quarter of 2005. Beginning with the first quarter of 2006, the Corporation included certain loan and lease fees in interest income on loans and leases. All prior periods have been restated for this reclassification. The Corporation estimates that the net interest margin FTE increased by approximately 9 basis points in the first quarter of 2006, 9 basis points in the fourth quarter of 2005 and 8 basis points in the first quarter of 2005 due to this reclassification.

26

Compared to the fourth quarter of 2005, management expects a more modest downward pressure on the net interest margin FTE for the remainder of 2006. Management anticipates that loan spreads will most likely continue to narrow, particularly in a rising interest rate environment, and as the economy improves, the Corporation's capacity to generate loans may exceed its ability to generate appropriately priced deposits. 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 and various other factors.

PROVISION FOR LOAN AND LEASE LOSSES AND CREDIT QUALITY

The following tables present comparative consolidated credit quality information as of March 31, 2006, and the prior four quarters:

| | Nonperforming Assets | | | | |
|--------------------------------------|----------------------|----------------|---------------|----------------|---------------|
| | 2006 | | 2005 | | |
| | First Quarter | Fourth Quarter | Third Quarter | Second Quarter | First Quarter |
| Nonaccrual | \$ 144,484 | \$ 134,718 | \$ 141,408 | \$ 126,920 | \$ 126,920 |
| Renegotiated | 138 | 143 | 148 | 176 | |
| Past due 90 days or more | 4,523 | 5,725 | 5,743 | 4,514 | |
| Total nonperforming loans and leases | 149,145 | 140,586 | 147,299 | 131,610 | 126,920 |
| Other real estate owned | 8,207 | 8,869 | 8,774 | 9,124 | |
| Total nonperforming assets | \$ 157,352 | \$ 149,455 | \$ 156,073 | \$ 140,734 | \$ 126,920 |

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| | | | | | |
|-------------------------------------|------------|------------|------------|------------|-------|
| Allowance for loan and lease losses | \$ 368,760 | \$ 363,769 | \$ 362,257 | \$ 360,138 | \$ 35 |
|-------------------------------------|------------|------------|------------|------------|-------|

Consolidated Statistics

| | 2006 | | 2005 | | |
|--|---------------|----------------|---------------|----------------|-----------|
| | First Quarter | Fourth Quarter | Third Quarter | Second Quarter | Fi Qua |
| Net charge-offs to average loans and leases annualized | 0.07% | 0.14% | 0.10% | 0.15% | |
| Total nonperforming loans and leases to total loans and leases | 0.42 | 0.41 | 0.44 | 0.41 | |
| Total nonperforming assets to total loans and leases and other real estate owned | 0.45 | 0.44 | 0.47 | 0.44 | |
| Allowance for loan and lease losses to total loans and leases | 1.05 | 1.06 | 1.09 | 1.12 | |
| Allowance for loan and lease losses to total nonperforming loans and leases | 247 | 259 | 246 | 274 | |

27

Nonaccrual Loans and Leases By Type

(\$000's)

| | 2006 | | 2005 | | |
|--|---------------|----------------|---------------|----------------|-----------|
| | First Quarter | Fourth Quarter | Third Quarter | Second Quarter | Fi Qua |
| Commercial | | | | | |
| Commercial, financial and agricultural | \$ 50,103 | \$ 43,730 | \$ 47,644 | \$ 35,777 | \$ 3 |
| Lease financing receivables | 1,399 | 1,539 | 3,012 | 3,990 | |
| Total commercial | 51,502 | 45,269 | 50,656 | 39,767 | 4 |
| Real estate | | | | | |
| Construction and land development | 3,276 | 913 | 3,057 | 1,500 | |
| Commercial mortgage | 30,633 | 28,644 | 30,351 | 37,107 | 2 |
| Residential mortgage | 57,425 | 57,982 | 56,488 | 47,797 | 5 |
| Total real estate | 91,334 | 87,539 | 89,896 | 86,404 | 8 |
| Personal | 1,648 | 1,910 | 856 | 749 | |
| Total nonaccrual loans and leases | \$ 144,484 | \$ 134,718 | \$ 141,408 | \$ 126,920 | \$ 12 |

Reconciliation of Allowance for Loan and Lease Losses

(\$000's)

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| | 2006 | | 2005 | | |
|-------------------------------------|------------------|-------------------|------------------|-------------------|-----------|
| | First Quarter | Fourth Quarter | Third Quarter | Second Quarter | Fi Qua |
| Beginning balance | \$ 363,769 | \$ 362,257 | \$ 360,138 | \$ 358,280 | \$ 35 |
| Provision for loan and lease losses | 10,995 | 12,995 | 9,949 | 13,725 | |
| Loans and leases charged-off | | | | | |
| Commercial | 3,869 | 9,481 | 2,256 | 3,767 | |
| Real estate | 2,901 | 3,110 | 6,576 | 8,190 | |
| Personal | 3,727 | 5,213 | 3,186 | 3,765 | |
| Leases | 189 | 226 | 337 | 380 | |
| Total charge-offs | 10,686 | 18,030 | 12,355 | 16,102 | 1 |
| Recoveries on loans and leases | | | | | |
| Commercial | 2,715 | 4,256 | 2,634 | 2,264 | |
| Real estate | 263 | 374 | 575 | 413 | |
| Personal | 971 | 781 | 787 | 782 | |
| Leases | 733 | 1,136 | 529 | 776 | |
| Total recoveries | 4,682 | 6,547 | 4,525 | 4,235 | |
| Net loans and leases charge-offs | 6,004 | 11,483 | 7,830 | 11,867 | |
| Ending balance | \$ 368,760 | \$ 363,769 | \$ 362,257 | \$ 360,138 | \$ 35 |

Nonperforming assets consist of nonperforming loans and leases and other real estate owned ("OREO").

OREO is principally comprised of commercial and residential properties acquired in partial or total satisfaction of problem loans and amounted to \$8.2 million at March 31, 2006, compared to \$8.9 million at December 31, 2005 and \$6.8 million at March 31, 2005.

Nonperforming loans and leases consist of nonaccrual, renegotiated or restructured loans, and loans and leases that are delinquent 90 days or more and still accruing interest. The balance of nonperforming loans and leases can fluctuate widely based on the timing of cash collections, renegotiations and renewals.

Maintaining nonperforming assets at an acceptable level is important to the ongoing success of a financial services institution. The Corporation's comprehensive credit review and approval process are critical to ensuring that the amount of nonperforming assets on a long-term basis is minimized 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.

28

At March 31, 2006, nonperforming loans and leases amounted to \$149.1 million or 0.42% of consolidated loans and leases compared to \$140.6 million or 0.41% of consolidated loans and leases at December 31, 2005,

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and \$130.0 million or 0.42% of consolidated loans and leases at March 31, 2005. At March 31, 2006 nonperforming loans and leases increased \$8.5 million or 6.1% compared to nonperforming loans and leases at December 31, 2005. Despite the increase, the ratio of nonperforming loans and leases to consolidated loans and leases at March 31, 2006 and at each quarter end throughout 2005 has remained in a fairly narrow range and continues to be below management's expectations. Nonaccrual loans and leases continue to be the primary source of nonperforming loans and leases. Since December 31, 2005, nonaccrual commercial and industrial loans and nonaccrual commercial real estate loans have been the largest contributors to the increase in nonaccrual loans and leases.

Net charge-offs amounted to \$6.0 million or 0.07% of average loans and leases in the first quarter of 2006 compared to \$11.5 million or 0.14% of average loans and leases in the fourth quarter of 2005 and \$8.0 million or 0.11% of average loans and leases in the first quarter of 2005. The lower level of net charge-offs experienced throughout 2005 and the first three months of 2006 has to some extent been the result of higher than normal recoveries. Based on the status of some of the larger charge-offs recognized in recent quarters, management expects recoveries will likely return to lower levels in future periods. Recoveries in the first quarter of 2006 were \$4.7 million compared to \$6.5 million in the fourth quarter of 2005 and \$5.1 million in the first quarter of 2005. The ratio of recoveries to charge-offs was 43.8% in the first quarter of 2006 which was above the Corporation's five year historical average ratio of recoveries to charge-offs of 27.9%.

Management continues to expect the longer term level of nonperforming loans and leases to be in the range of 50-60 basis points of total loans and leases and expects net charge-offs to trend to historical levels. Management does not believe that current net charge-off levels are sustainable indefinitely.

The provisions for loan and lease losses amounted to \$11.0 million for the three months ended March 31, 2006 compared to \$13.0 million for the three months ended December 31, 2005 and \$8.1 million for the three months ended March 31, 2005. The allowance for loan and lease losses as a percent of consolidated loans and leases outstanding was 1.05% at March 31, 2006, 1.06% at December 31, 2005 and 1.17% at March 31, 2005.

OTHER INCOME

Other income or noninterest sources of revenue represented approximately 59.3% and 57.4% of the Corporation's total sources of revenues for the three months ended March 31, 2006 and 2005, respectively. Total other income in the first quarter of 2006 amounted to \$472.8 million compared to \$402.5 million in the same period last year, an increase of \$70.3 million or 17.5%. The increase in other income was primarily due to growth in data processing services, trust services revenue and mortgage banking revenue.

Data processing services revenue amounted to \$343.0 million in the first quarter of 2006 compared to \$282.9 million in the first quarter of 2005, an increase of \$60.1 million or 21.2%. Revenue growth continued throughout the segment due to revenue associated with acquisitions, higher transaction volumes in core processing activity, payment processing and electronic banking and an increase in healthcare eligibility and payment card production. Revenue associated with Metavante's acquisitions completed in 2006 and 2005 contributed a significant portion of the revenue growth in the three months ended March 31, 2006, compared to the three months ended March 31, 2005. The acquisition related revenue growth includes cross sales of acquired products to clients across the entire

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segment. Due to the focus of some of the acquired companies on software sales and the retail marketplace, Data processing services revenue will tend to be somewhat more cyclical and seasonal in nature. Total buyout revenue, which varies from period to period, decreased \$1.1 million in the current quarter compared to the first quarter of last year.

On January 1, 2006 the Banking segment transferred its external item processing business, including all check-processing client relationships, to Metavante. This transfer, together with recent investments in electronic check image technology, enables Metavante to provide its clients with an end-to-end image solution that includes check truncation at the point of first presentment, image exchange through the Endpoint Exchange Network and final settlement. As a result of the transfer, the previously reported Other income line, Item processing, was reclassified to Data processing services in the Consolidated Statements of Income and prior period segment financial information for both the Banking segment and Metavante has been adjusted for the transfer. The transfer did not materially affect the period to period comparability of Data processing services revenue or segment related information.

29

Management expects that Metavante revenue (internal and external) for the year ended December 31, 2006 will be at the high end of the previously forecasted revenue projection of \$1.4 billion to \$1.5 billion. Organic revenue growth rates are expected to exceed prior year levels and segment income will continue to improve. These expectations include the impact of all acquisitions and the transfer of external item processing.

Trust services revenue amounted to \$45.9 million in the first quarter of 2006 compared to \$40.3 million in the first quarter of 2005, an increase of \$5.6 million or 13.9%. A portion of the revenue growth was attributable to the 2006 acquisition of certain assets of First Trust Indiana. The remainder of the increase in revenue was due to sales efforts that continue to emphasize cross-selling and integrated delivery. Assets under management were approximately \$19.8 billion at March 31, 2006, compared to \$18.9 billion at December 31, 2005, and \$18.1 billion at March 31, 2005.

Service charges on deposits amounted to \$22.8 million in the first quarter of 2006 compared to \$23.6 million in the first quarter of 2005, a decrease of \$0.8 million. A portion of this source of fee income is sensitive to changes in interest rates. In a rising interest rate environment, customers that pay for services by maintaining eligible deposit balances receive a higher earnings credit which results in lower fee income. Service charges on deposits associated with commercial demand deposits accounted for the majority of the decline in this revenue in the three months ended March 31, 2006 compared to the three months ended March 31, 2005.

Total mortgage banking revenue was \$12.5 million in the first quarter of 2006 compared with \$8.2 million in the first quarter of 2005, an increase of \$4.3 million. For the three months ended March 31, 2006 and 2005, the Corporation sold \$0.6 billion and \$0.4 billion of residential mortgage and home equity loans to the secondary market, respectively. As previously discussed, the Corporation continues to sell home equity loans at origination partly in response to the increased demand for home equity products with higher loan-to-value characteristics. Retained interests in the form of mortgage servicing rights on residential mortgage loans sold amounted to \$0.3 million for the three months ended March 31, 2006 and \$0.2 million for the three months ended March 31, 2005.

Net investment securities gains amounted to \$1.1 million and \$5.8 million

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for the three months ended March 31, 2006 and March 31, 2005, respectively. As previously discussed, during the first quarter of 2005, the Corporation's banking segment's investment in certain membership interests of PULSE was liquidated by PULSE. The cash received resulted in a pre-tax gain of \$5.6 million.

Other income in the first quarter of 2006 amounted to \$40.6 million compared to \$35.4 million in the first quarter of 2005, an increase of \$5.2 million or 14.8%. The increase in other income in the first quarter of 2006 compared to the first quarter of 2005 was primarily due to increases in card related fees, auto securitization related income and trading and investment fees. Other income for the three months ended March 31, 2006 includes a gain of \$1.2 million from a branch divestiture. Other income for the three months ended March 31, 2005 includes a gain of \$0.8 million from a required sale of a facility.

OTHER EXPENSE

Total other expense for the three months ended March 31, 2006 amounted to \$505.1 million compared to \$443.0 million for the three months ended March 31, 2005, an increase of \$62.1 million or 14.0%.

Total other expense for the three months ended March 31, 2006 included the operating expenses associated with Metavante's 2005 and 2006 acquisitions which had a significant impact on the period to period comparability of operating expenses in 2006 compared to 2005. Approximately \$38.3 million of the operating expense growth in the first quarter of 2006 compared to the first quarter of 2005 was attributable to 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.

The Corporation estimates that its expense growth in the three months ended March 31, 2006 compared to the three months ended March 31, 2005, excluding the effects of Metavante's acquisitions, was approximately \$23.8 million or 5.4%.

30

Expense control is sometimes measured in the financial services industry by the efficiency ratio statistic. The efficiency ratio is calculated by taking total other expense divided by the sum of total other income (including Capital Markets revenue but excluding investment securities gains or losses) and net interest income on a fully taxable equivalent basis. The Corporation's efficiency ratios for the three months ended March 31, 2006, and prior four quarters were:

Efficiency Ratios

| | Three Months Ended | | | | |
|---|--------------------|----------------------|-----------------------|------------------|-------------------|
| | March 31, 2006 | December 31, 2005 | September 30, 2005 | June 30, 2005 | March 31, 2005 |
| Consolidated Corporation | 62.8 % | 64.1 % | 62.5 % | 60.9 % | 62.9 % |
| Consolidated Corporation Excluding Metavante | 48.8 % | 51.5 % | 50.8 % | 49.9 % | 50.6 % |

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Salaries and employee benefits expense amounted to \$277.4 million in the first quarter of 2006 compared to \$245.1 million in the first quarter of 2005, an increase of \$32.3 million or 13.2%. Salaries and benefits associated with Metavante acquisitions previously discussed accounted for approximately \$15.3 million of the increase in salaries and employee benefits expense in the first quarter of 2006 compared to the first quarter of 2005. Other contributors included increased expense for product development and increased expense associated with professional services revenue at Metavante, increased incentive compensation associated with loan and deposit growth, increased personnel to build out product lines in markets outside Wisconsin and for de novo branch expansion by the banking segment and increased expense associated with the Trust acquisition.

For the first quarter of 2006, occupancy and equipment expense amounted to \$57.8 million compared to \$53.4 million in the first quarter of 2005, an increase of \$4.4 million or 8.3%. Metavante's acquisitions accounted for approximately \$2.9 million of the increase in occupancy and equipment expense in the three months ended March 31, 2006 compared to the three months ended March 31, 2005.

Software expenses, processing charges, supplies and printing, professional services and shipping and handling expenses totaled \$85.9 million in the first quarter of 2006 compared to \$65.3 million in the first quarter of 2005, an increase of \$20.6 million or 31.6%. Metavante's expense growth accounted for \$20.4 million of the increase in expense for these items in the first quarter of 2006 compared to the first quarter of 2005. Metavante's acquisitions accounted for approximately \$13.9 million of its increase in these expense items.

Amortization of intangibles amounted to \$8.9 million in the first quarter of 2006 compared to \$8.1 million in the first quarter of 2005, an increase of \$0.8 million. Amortization of core deposit intangibles, which is based on a declining balance method, decreased \$0.5 million in the first quarter of 2006 compared to the first quarter of the prior year. For the three months ended March 31, 2006 compared to the three months ended March 31, 2005, intangibles amortization expense in connection with Metavante's acquisitions increased \$1.8 million.

Other expense amounted to \$75.1 million in the first quarter of 2006 compared to \$71.2 million in the first quarter of 2005, an increase of \$3.9 million or 5.6%. Metavante's acquisitions accounted for approximately \$3.7 million of the increase in other expense in the first three months of 2006 compared to the first three months of 2005.

Other expense is affected by the capitalization of costs, net of amortization associated with software development and customer data processing conversions. Net software and conversion amortization was \$2.7 million in the first quarter of 2006 compared to \$5.8 million in the first quarter of 2005, resulting in a decrease to other expense over the comparative quarters of \$3.1 million.

INCOME TAXES

The provision for income taxes for the three months ended March 31, 2006 amounted to \$94.5 million or 33.6% of pre-tax income compared to \$84.9 million or 33.9% of pre-tax income for the three months ended March 31, 2005.

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Shareholders' equity was \$4.9 billion or 10.3% of total consolidated assets at March 31, 2006, compared to \$4.7 billion or 10.2% of total consolidated assets at December 31, 2005, and \$4.1 billion or 9.8% of total consolidated assets at March 31, 2005. The increase in shareholders' equity at March 31, 2006 was primarily due to earnings net of dividends paid.

During the first quarter of 2006, the Corporation issued 527,864 shares of its common stock valued at \$23.2 million in conjunction with Metavante's acquisition of AdminiSource Inc. Also during the first quarter of 2006, the Corporation issued 385,192 shares of its common stock valued at \$16.9 million to fund its 2005 obligations under its retirement and employee stock ownership plans.

On April 25, 2006, the Corporation announced that its Board of Directors increased the quarterly cash dividend on its common stock 12.5%, from \$0.24 per share to \$0.27 per share.

The Corporation has a Stock Repurchase Program under which it may repurchase up to 12 million shares of its common stock annually. During the first quarter of 2006, the Corporation repurchased 1.0 million shares at an aggregate cost of \$41.8 million or an average price of \$41.79 per common share.

In 2005 the Corporation entered into an equity distribution agreement whereby the Corporation may offer and sell up to 3.5 million shares of its common stock from time to time through certain designated sales agents. However, the Corporation will not sell more than the number of shares of its common stock necessary for the aggregate gross proceeds from such sales to reach \$150.0 million. No sales occurred during the first quarter of 2006.

At March 31, 2006, the net loss in accumulated other comprehensive income amounted to \$43.7 million, which represented a negative change in accumulated other comprehensive income of \$6.5 million since December 31, 2005. Net accumulated other comprehensive income associated with available for sale investment securities was a net loss of \$46.9 million at March 31, 2006, compared to a net loss of \$36.3 million at December 31, 2005, resulting in a net loss of \$10.6 million over the three month period. Net accumulated other comprehensive income associated with the change in fair value of the Corporation's derivative financial instruments designated as cash flow hedges was a net gain of \$4.1 million over the three month period.

The Corporation continues to have a strong capital base and its regulatory capital ratios are significantly above the minimum requirements as shown in the following tables. The risk-based capital and leverage ratios at December 31, 2005 have not been adjusted for the adoption of SFAS 123(R).

RISK-BASED CAPITAL RATIOS

(\$ in millions)

| | March 31, 2006 | | December 31, 2005 | |
|----------------|----------------|--------|-------------------|--------|
| | Amount | Ratio | Amount | Ratio |
| Tier 1 Capital | \$ 3,251 | 7.92 % | \$ 3,046 | 7.67 % |

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| | | | | |
|----------------------|-----------|---------|-----------|---------|
| Tier 1 Capital | | | | |
| Minimum Requirement | 1,641 | 4.00 | 1,588 | 4.00 |
| Excess | \$ 1,610 | 3.92 % | \$ 1,458 | 3.67 % |
| Total Capital | \$ 4,837 | 11.79 % | \$ 4,659 | 11.74 % |
| Total Capital | | | | |
| Minimum Requirement | 3,281 | 8.00 | 3,176 | 8.00 |
| Excess | \$ 1,556 | 3.79 % | \$ 1,483 | 3.74 % |
| Risk-Adjusted Assets | \$ 41,020 | | \$ 39,698 | |

32

LEVERAGE RATIOS

(\$ in millions)

| | March 31, 2006 | | December 31, 2005 | |
|-------------------------------|------------------|---------------|-------------------|---------------|
| | Amount | Ratio | Amount | Ratio |
| Tier 1 Capital | \$ 3,251 | 7.30 % | \$ 3,046 | 7.08 % |
| Minimum Leverage Requirement | 1,337 - 2,228 | 3.00 - 5.00 | 1,291 - 2,152 | 3.00 - 5.00 |
| Excess | \$ 1,914 - 1,023 | 4.30 - 2.30 % | \$ 1,755 - 894 | 4.08 - 2.08 % |
| Adjusted Average Total Assets | \$ 44,549 | | \$ 43,039 | |

M&I 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. M&I 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 \$6.0 billion at March 31, 2006, represent a highly accessible source of liquidity. The Corporation's portfolio of held-to-maturity investment securities, which totaled \$0.6 billion at March 31, 2006, provides liquidity from maturities and amortization payments. The Corporation's loans held for sale provide additional liquidity. These loans represent recently funded loans that are prepared for delivery to investors, which generally occurs within thirty to ninety days after the loan has been funded.

Depositors within M&I's defined markets are another source of liquidity. Core deposits (demand, savings, money market and consumer time deposits) averaged \$17.9 billion in the first quarter of 2006. The Corporation's banking affiliates may also access the federal funds markets or utilize collateralized borrowings such as treasury demand notes or FHLB advances.

The banking affiliates may use wholesale deposits, which include foreign

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(Eurodollar) deposits. Wholesale deposits are funds in the form of deposits generated through distribution channels other than the Corporation's own banking branches. 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 to not pursue single service time deposit relationships in markets that have experienced some unprofitable pricing levels. Wholesale deposits averaged \$6.5 billion in the first quarter of 2006.

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 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 vehicles provide access to funding sources substantially separate from the general credit risk of the Corporation and its subsidiaries. See Note 8 to the Consolidated Financial Statements for an update of the Corporation's securitization activities in the first quarter of 2006.

The Corporation's lead bank, M&I Marshall & Ilsley Bank (the "Bank"), has implemented a bank note program which permits it to issue up to \$7.0 billion of short-term and medium-term notes which are offered and sold only to institutional investors. This program is intended to enhance liquidity by enabling the Bank to sell its debt instruments in private markets in the future without the delays which would otherwise be incurred. Bank notes outstanding at March 31, 2006 amounted to \$6.0 billion of which \$1.3 billion is subordinated and qualifies as supplementary capital for regulatory capital purposes. Bank notes issued during the first quarter of 2006 amounted to \$500.0 million.

The national capital markets represent a further source of liquidity to M&I. M&I has filed a number of shelf registration statements that are intended to permit M&I to raise funds through sales of corporate debt and/or equity securities with a relatively short lead time.

During the third quarter of 2005, the Corporation amended the shelf registration statement originally filed with the Securities and Exchange Commission during the second quarter of 2004 to include the equity distribution agreement. The amended shelf registration statement enables the Corporation to issue various securities, including debt securities, common stock, preferred stock, depositary shares, purchase contracts, units, warrants, and trust preferred securities, up to an aggregate amount of \$3.0 billion. Approximately \$1.3 billion is available for future securities issuances.

33

During the fourth quarter of 2004, 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 M&I, Metavante and/or other consolidated subsidiaries of the Corporation. At March 31, 2006, there were 3.1 million shares of common stock available for future issuances.

Under another shelf registration statement, the Corporation may issue up to \$0.6 billion of medium-term Series F notes with maturities ranging from 9 months to 30 years and at fixed or floating rates. At March 31, 2006, Series F notes issued amounted to \$250.0 million. The Corporation may

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issue up to \$0.5 billion of medium-term MiNotes with maturities ranging from 9 months to 30 years and at fixed or floating rates. The MiNotes are issued in smaller denominations to attract retail investors. At March 31, 2006, MiNotes issued amounted to \$0.2 billion. Additionally, the Corporation has a commercial paper program. At March 31, 2006, commercial paper outstanding amounted to \$0.3 billion.

Short-term borrowings represent contractual debt obligations with maturities of one year or less and amounted to \$3.0 billion at March 31, 2006. Long-term borrowings amounted to \$9.7 billion at March 31, 2006. The scheduled maturities of long-term borrowings including estimated interest payments at March 31, 2006 are as follows: \$2.9 billion is due in less than one year; \$3.1 billion is due in one to three years; \$2.2 billion is due in three to five years; and \$4.1 billion is due in more than five years. During the first quarter of 2006, the Corporation issued shares of its common stock valued at \$16.9 million to fund a portion of its 2005 obligations under its retirement and employee stock ownership plans. There have been no other substantive changes to the Corporation's contractual obligations as reported in the Corporation's Annual Report on Form 10-K for the year ended December 31, 2005.

OFF-BALANCE SHEET ARRANGEMENTS

At March 31, 2006, there have been no substantive changes with respect to the Corporation's off-balance sheet activities as disclosed in the Corporation's Annual Report on Form 10-K for the year ended December 31, 2005. See Note 8 to the Consolidated Financial Statements for an update of the Corporation's securitization activities in the first quarter of 2006. The Corporation continues to believe that based on the off-balance sheet arrangements with which it is presently involved, such off-balance sheet arrangements neither have, nor are reasonably likely to have, a material impact to its current or future financial condition, results of operations, liquidity or capital.

CRITICAL ACCOUNTING POLICIES

The Corporation has established various accounting policies which 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 in the Corporation's Annual Report on Form 10-K for the year ended December 31, 2005, 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

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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:

34

Specific Reserve. The Corporation's internal risk rating system is used 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. Subject to a minimum size, a quarterly review of these 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 internal risk rating system is used to identify those 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 following factors were taken into consideration in determining the adequacy of the allowance for loan and lease losses at March 31, 2006:

In general, the economy is improving and the Corporation's customer base is showing signs of increased business activity as evidenced by the continued loan growth in this quarter.

At March 31, 2006, allowances for loan and lease losses continue to be carried for exposures to manufacturing, healthcare, production agriculture (including dairy and cropping operations), truck transportation, accommodation, general contracting, motor vehicle and parts dealers and the airline industries. The majority of the

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commercial charge-offs incurred during the past three years were in these industry segments. 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. Reduced revenues causing a declining utilization of the industry's capacity levels can affect collateral values and the amounts realized through the sale or liquidation.

During the first quarter of 2006, the Corporation's commitments to Shared National Credits were approximately \$3.3 billion with usage averaging around 44%. Many of the Corporation's largest charge-offs have come from the Shared National Credit portfolio. Although these factors result in an increased risk profile, as of March 31, 2006, Shared National Credit nonperforming loans amounted to \$3.0 million. The Corporation's exposure to Shared National Credits is monitored closely given this lending group's loss experience.

The Corporation's primary lending areas are Wisconsin, Arizona, Minnesota and Missouri. Each of these regions has cultural and environmental factors that are unique to them. At March 31, 2006, total nonperforming loans and leases as a percent of total loans and leases for the Missouri region was higher than the consolidated total of nonperforming loans and leases as a percent of total consolidated loans and leases.

At March 31, 2006, nonperforming loans and leases amounted to \$149.1 million or 0.42% of consolidated loans and leases compared to \$140.6 million or 0.41% of consolidated loans and leases at December 31, 2005, and \$130.0 million or 0.42% of consolidated loans and leases at March 31, 2005. At March 31, 2006 nonperforming loans and leases increased \$8.5 million or 6.1% compared to nonperforming loans and leases at December 31, 2005. Despite the increase, the ratio of nonperforming loans and leases to consolidated loans and leases at March 31, 2006 and at each quarter end throughout 2005 has remained in a fairly narrow range and continues to be below management's expectations. Nonaccrual loans and leases continue to be the primary source of nonperforming loans and leases. Since December 31, 2005, nonaccrual commercial and industrial loans and nonaccrual commercial real estate loans have been the largest contributors to the increase in nonaccrual loans and leases.

35

Net charge-offs amounted to \$6.0 million or 0.07% of average loans and leases in the first quarter of 2006 compared to \$11.5 million or 0.14% of average loans and leases in the fourth quarter of 2005 and \$8.0 million or 0.11% of average loans and leases in the first quarter of 2005. The lower level of net charge-offs experienced throughout 2005 and the first three months of 2006 has to some extent been the result of higher than normal recoveries. Based on the status of some of the larger charge-offs recognized in recent quarters, management expects recoveries will likely return to lower levels in future periods. Recoveries in the first quarter of 2006 were \$4.7 million compared to \$6.5 million in the fourth quarter of 2005 and \$5.1 million in the first quarter of 2005. The ratio of recoveries to charge-offs was 43.8% in the first quarter of 2006 which was above the Corporation's five year historical average ratio of recoveries to charge-offs of 27.9%.

Based on the above loss estimates, management determined its best estimate of the required allowance for loans and leases. Management's evaluation of the factors described above resulted in an allowance for loan and lease losses of \$368.8 million or 1.05% of loans and leases outstanding at March

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31, 2006. The allowance for loan and lease losses was \$363.8 million or 1.06% of loans and leases outstanding at December 31, 2005 and \$358.3 million or 1.17% of loans and leases outstanding at March 31, 2005. Consistent with the credit quality trends noted above, the provision for loan and lease losses amounted to \$11.0 million for the three months ended March 31, 2006 compared to \$8.1 million for the three months ended March 31, 2005. 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.

The Corporation has not materially changed any aspect of its overall approach in the determination of the allowance for loan and lease losses. There have been no material changes in assumptions or estimation techniques as compared to prior periods that impacted the determination of the current period allowance. 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.

Capitalized Software and Conversion Costs

Direct costs associated with the production of computer software that will be licensed externally or used in a service bureau environment are capitalized. Capitalization of such costs is subject to strict accounting policy criteria, although the appropriate time to initiate capitalization requires management judgment. Once the specific capitalized project is put into production, the software cost is amortized over its estimated useful life, generally four years. Each quarter, the Corporation performs net realizable value tests to ensure the assets are recoverable. Such tests require management judgment as to the future sales and profitability of a particular product which involves, in some cases, multi-year projections. Technology changes and changes in customer requirements can have a significant impact on the recoverability of these assets and can be difficult to predict. Should significant adverse changes occur, estimates of useful life may have to be revised or write-offs would be required to recognize impairment. For the three months ended March 31, 2006 and 2005, the amount of software costs capitalized amounted to \$11.3 million and \$9.0 million, respectively. Amortization expense of software costs amounted to \$14.1 million for the three months ended March 31, 2006 compared to \$14.9 million for the three months ended March 31, 2005.

Direct costs associated with customer system conversions to the data processing operations are capitalized and amortized on a straight-line basis over the terms, generally five to seven years, of the related servicing contracts.

Capitalization only occurs when management is satisfied that such costs are recoverable through future operations or penalties (buyout fees) in case of early termination. For the three months ended March 31, 2006 and 2005, the amount of conversion costs capitalized amounted to \$2.4 million and \$2.9 million, respectively. Amortization expense of conversion costs amounted to \$2.3 million and \$2.8 million for the three months ended March 31, 2006 and 2005, respectively.

Net unamortized costs were (\$ in millions):

| March 31, | |
|-----------|------|
| ----- | |
| 2006 | 2005 |

| | | | | |
|-------------|----|-------|----|-------|
| Software | \$ | 152.6 | \$ | 157.2 |
| Conversions | | 26.9 | | 26.7 |
| Total | \$ | 179.5 | \$ | 183.9 |

36

The Corporation has not substantively changed any aspect of its overall approach in the determination of the amount of costs that are capitalized for software development or conversion activities. There have been no material changes in assumptions or estimation techniques as compared to prior periods that impacted the determination of the periodic amortization of such costs.

Financial Asset Sales and Securitizations

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 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 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 ("SFAS") No. 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 can sell or dispose of non-cash financial assets only in response to specified conditions.

In December 2003, the Corporation adopted Financial Accounting Standards Board Interpretation No. 46 ("FIN 46R"), Consolidation of Variable Interest Entities (revised December 2003). This interpretation addresses consolidation by business enterprises of variable interest entities. Transferors to QSPEs and "grandfathered" QSPEs subject to the reporting requirements of SFAS 140 are outside the scope of FIN 46R and do not consolidate those entities. With respect to the Corporation's securitization activities, the adoption of FIN 46R did not have an impact on its consolidated financial statements because its transfers are generally to QSPEs.

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 a cash reserve account. 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

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commensurate with the risks involved. Actual results can differ from expected results.

The Corporation reviews the carrying values of the retained interests monthly to determine if there is a decline in value that is other than temporary and periodically reviews the propriety of the assumptions used based on current historical experience as well as the sensitivities of the carrying value of the retained interests to adverse changes in the key assumptions. The Corporation believes that its estimates result in a reasonable carrying value of the retained interests.

The Corporation regularly sells automobile loans to an unconsolidated multi-seller special purpose entity commercial paper conduit in securitization transactions in which servicing responsibilities and subordinated interests are retained. The outstanding balances of automobile loans sold in these securitization transactions were \$985.0 million at March 31, 2006. At March 31, 2006 the carrying amount of retained interests amounted to \$30.2 million.

The Corporation also sells, from time to time, debt securities classified as available for sale that are highly rated to an unconsolidated bankruptcy remote QSPE whose activities are limited to issuing highly rated asset-backed commercial paper with maturities up to 180 days which is used to finance the purchase of the investment securities. The Corporation provides liquidity back-up in the form of Liquidity Purchase Agreements. In addition, the Corporation acts as counterparty to interest rate swaps that enable the QSPE to hedge its interest rate risk. Such swaps are designated as free-standing derivative financial instruments in the Corporation's Consolidated Balance Sheet.

At March 31, 2006, highly rated investment securities in the amount of \$282.7 million were outstanding in the QSPE to support the outstanding commercial paper.

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.

37

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.

FORWARD-LOOKING STATEMENTS

Items 2 and 3 of this Form 10-Q, "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Quantitative and Qualitative Disclosures about Market Risk," respectively, contain forward-looking statements within the meaning of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements include, without limitation, statements regarding expected financial and operating activities and results which are preceded by words such as "expects", "anticipates" or "believes". Such statements are subject to important factors that could cause the Corporation's actual results to differ materially from those anticipated by the forward-looking statements. These factors include those referenced in Item 1A, Risk Factors, of the Corporation's Annual Report on Form 10-K for the year ended December 31, 2005 and under the heading "Forward-Looking Statements," and as may be described from time to time in the Corporation's subsequent SEC filings, and such factors are incorporated herein by reference.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The following updated information should be read in conjunction with the Corporation's Annual Report on Form 10-K for the year ended December 31, 2005. Updated information regarding the Corporation's use of derivative financial instruments is contained in Note 12, Notes to Financial Statements contained in Item 1 herein.

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 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. Policies are in place to assure that neither earnings nor fair 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

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that are likely to materially change their payment structures 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.

38

This information is incorporated into a model that allows the projection of future income levels in several different interest rate environments. Earnings at risk are calculated by modeling income in an environment where rates remain constant, and comparing this result to income in a different rate environment, and then dividing this difference by the Corporation's budgeted operating income before taxes for the calendar year. 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 the indicated dates:

| | Impact to Annual Pretax Income as of | | | | |
|--------------------------------------|--------------------------------------|----------------------|-----------------------|------------------|-------------------|
| | March 31, 2006 | December 31, 2005 | September 30, 2005 | June 30, 2005 | March 31, 2005 |
| Hypothetical Change in Interest Rate | | | | | |
| ----- | | | | | |
| 100 basis point gradual: | | | | | |
| Rise in rates | (0.2)% | (0.2)% | (0.1)% | 0.3 % | (0.2)% |
| Decline in rates | 0.1 % | 0.0 % | 0.0 % | (0.6)% | 0.3 % |

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.

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.

Another component of interest rate risk is measuring the fair value at risk for a given change in market interest rates. The Corporation also uses computer modeling techniques to determine the present value of all asset and liability cash flows (both on- and off-balance sheet), adjusted for prepayment expectations, using a market discount rate. The net change in the present value of the asset and liability cash flows in different market rate environments is the amount of fair value at risk from those rate movements. As of March 31, 2006, the fair value of equity at risk for a gradual 100bp shift in rates was no more than 2.0% of the market value of the Corporation.

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 for the portfolio companies. However, fair values are difficult to determine until an actual sale or liquidation transaction actually occurs. At March 31, 2006, the carrying value of total active capital markets investments amounted to approximately \$44.0 million.

As of March 31, 2006, M&I Trust Services administered \$86.2 billion in assets and directly managed a portfolio of \$19.8 billion. The Corporation is exposed 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.

ITEM 4. CONTROLS AND PROCEDURES

We maintain a set of disclosure controls and procedures that are designed to ensure that information required to be disclosed by us in the reports filed by us 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. We carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and our President and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Rule 13a-15 of the Exchange Act. Based on that evaluation, our Chief Executive Officer and our President and Chief Financial Officer concluded that our disclosure controls and procedures are effective as of the end of the period covered by this report.

There have been no changes in our internal control over financial reporting identified in connection with the evaluation discussed above that occurred during our last fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

39

PART II - OTHER INFORMATION

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

The following table reflects the purchases of Marshall & Ilsley Corporation 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 of Publicly Announced Plans or Programs | Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs |
|-------------------------------|-------------------------------------|------------------------------|---|--|
| January 1 to January 31, 2006 | 443,919 | \$ 41.92 | 437,700 | 11,562,300 |

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| | | | | |
|------------------------------------|-----------|----------|-----------|------------|
| February 1 to February 28, 2006 | 565,972 | 41.70 | 562,300 | 11,000,000 |
| March 1 to March 31, 2006 | 2,434 | 41.84 | -- | 11,000,000 |
| | ----- | ----- | ----- | |
| Total | 1,012,325 | \$ 41.80 | 1,000,000 | |
| | ===== | ===== | ===== | |

(1) Includes shares purchased by rabbi trusts pursuant to nonqualified deferred compensation plans.

The Corporation's Share Repurchase Program was publicly reconfirmed in April 2005 and again in April 2006. 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.

40

ITEM 6. EXHIBITS

- Exhibit 10 - Change of Control Agreement dated March 13, 2006 between the Corporation and Michael C. Smith.
- Exhibit 11 - Statement Regarding Computation of Earnings Per Share, Incorporated by Reference to NOTE 4 of Notes to Financial Statements contained in Item 1 - Financial Statements (unaudited) of Part I - Financial Information herein.
- Exhibit 12 - Statement Regarding Computation of Ratio of Earnings to Fixed Charges
- Exhibit 31(a) - Certification of Chief Executive Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as amended.
- Exhibit 31(b) - Certification of Chief Financial Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as amended.
- Exhibit 32(a) - Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350.
- Exhibit 32(b) - Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350.

41

SIGNATURES

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

MARSHALL & ILSLEY CORPORATION
(Registrant)

/s/ Patricia R. Justiliano

Patricia R. Justiliano
Senior Vice President and
Corporate Controller
(Chief Accounting Officer)

/s/ James E. Sandy

James E. Sandy
Vice President

May 10, 2006

42

EXHIBIT INDEX

| Exhibit Number | Description of Exhibit |
|----------------|--|
| (10) | Change of Control Agreement dated March 13, 2006 between the Corporation and Michael C. Smith. |
| (11) | Statement Regarding Computation of Earnings Per Share, Incorporated by Reference to NOTE 4 of Notes to Financial Statements contained in Item 1 - Financial Statements (unaudited) of Part I - Financial Information herein. |
| (12) | Statement Regarding Computation of Ratio of Earnings to Fixed Charges. |
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| (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. |