MARSHALL & ILSLEY CORP/WI/
Form 10-Q
November 09, 2006

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

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

For the quarterly period ended September 30, 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	39-0968604
(State or other jurisdiction of Incorporation or organization)	(I.R.S. Employer Identification No.)
770 North Water Street Milwaukee, Wisconsin	53202
(Address of principal executive offices)	(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 [X] 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 [X]
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 [X]

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 October 31, 2006
Common Stock, $1.00 Par Value	255,108,173

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	September 30, 2006	As Adjusted Note December 31, 2005	Septemb 20
Assets			
Cash and cash equivalents:			
Cash and due from banks	$ 1,250,479	$ 1,155,263	$ 1,07
Federal funds sold and security resale agreements	200,305	209,869	25
Money market funds	36,291	49,219	4
Total cash and cash equivalents	1,487,075	1,414,351	1,37
Investment securities:			
Trading securities, at market value	45,306	29,779	2
Interest bearing deposits at other banks	17,141	40,659	1
Available for sale, at market value	6,820,115	5,701,703	5,67
Held to maturity, market value $542,514 ($638,135 December 31, 2005 and $679,996 September 30, 2005)	528,383	618,554	65
Total investment securities	7,410,945	6,390,695	6,37
Loans held for sale	161,505	277,847	22
Loans and leases:			
Loans and leases, net of unearned income	41,103,547	33,889,066	32,88
Less: Allowance for loan and lease losses	417,375	363,769	36
Net loans and leases	40,686,172	33,525,297	32,51
Premises and equipment, net	567,622	490,687	46
Goodwill and other intangibles	3,221,054	2,461,461	2,38
Accrued interest and other assets	1,948,384	1,652,379	1,65
Total Assets	$ 55,482,757	$ 46,212,717	$ 44,99
Liabilities and Shareholders' Equity			
Deposits:			

Noninterest bearing	$ 5,565,420	$ 5,525,019	$ 5,22
Interest bearing	27,894,324	22,149,202	21,76
Total deposits	33,459,744	27,674,221	26,99
Federal funds purchased and security repurchase agreements	2,580,797	2,327,258	2,37
Other short-term borrowings	4,425,557	3,299,476	3,12
Accrued expenses and other liabilities	1,571,608	1,507,621	1,52
Long-term borrowings	7,488,993	6,668,670	6,37
Total liabilities	49,526,699	41,477,246	40,38
Shareholders' equity:			
Series A convertible preferred stock, $1.00 par value; 2,000,000 shares authorized	--	--	
Common stock, $1.00 par value; 261,972,424 shares issued (244,587,222 shares at December 31, 2005 and 244,432,222 shares at September 30, 2005)	261,972	244,587	24
Additional paid-in capital	1,752,275	970,739	94
Retained earnings	4,246,875	3,871,614	3,75
Accumulated other comprehensive (loss) income, net of related taxes	(43,102)	(37,291)	
Less: Treasury stock, at cost: 7,146,762 shares (9,148,493 December 31, 2005 and 9,985,846 September 30, 2005)	226,203	277,423	30
Deferred compensation	35,759	36,755	3
Total shareholders' equity	5,956,058	4,735,471	4,61
Total Liabilities and Shareholders' Equity	$ 55,482,757	$ 46,212,717	$ 44,99

See notes to financial statements.

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

		As Adjusted Note 12
	Three Months Ended September 30, 2006	Three Months Ended September 30, 2005
Interest and fee income		
Loans and leases	$ 766,679	$ 510,790
Investment securities:		
Taxable	73,512	53,836
Exempt from federal income taxes	15,220	16,388
Trading securities	174	58
Short-term investments	4,418	2,651
Total interest and fee income	860,003	583,723

Interest expense		
Deposits	290,648	145,473
Short-term borrowings	49,734	27,952
Long-term borrowings	126,445	88,504
Total interest expense	466,827	261,929
Net interest income	393,176	321,794
Provision for loan and lease losses	10,250	9,949
Net interest income after provision for loan and lease losses	382,926	311,845
Other income		
Data processing services	339,538	295,977
Wealth management	54,589	48,286
Service charges on deposits	25,727	23,599
Gains on sale of mortgage loans	11,668	13,925
Other mortgage banking revenue	1,731	1,840
Net investment securities gains	4,513	7,358
Life insurance revenue	7,280	6,433
Net derivative gains - discontinued hedges	43,805	--
Other	32,267	32,722
Total other income	521,118	430,140
Other expense		
Salaries and employee benefits	314,345	278,025
Net occupancy	26,657	22,290
Equipment	35,170	32,317
Software expenses	17,896	14,997
Processing charges	25,643	16,158
Supplies and printing	6,782	5,624
Professional services	16,242	14,320
Shipping and handling	21,432	16,882
Amortization of intangibles	12,145	6,106
Other	70,306	63,831
Total other expense	546,618	470,550
Income before income taxes	357,426	271,435
Provision for income taxes	118,559	91,761
Net income	$ 238,867	$ 179,674
Net income per common share		
Basic	$ 0.94	$ 0.77
Diluted	0.92	0.75
Dividends paid per common share	$ 0.270	$ 0.240
Weighted average common shares outstanding (000's):		
Basic	253,799	232,590
Diluted	259,667	238,162

See notes to financial statements.

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

	Nine Months Ended September 30, 2006	As Adjusted Note 12 Nine Months Ended September 30, 2005
Interest and fee income		
Loans and leases	$ 2,074,062	$ 1,404,485
Investment securities:		
Taxable	202,288	159,044
Exempt from federal income taxes	46,968	47,898
Trading securities	442	174
Short-term investments	12,994	6,289
Total interest and fee income	2,336,754	1,617,890
Interest expense		
Deposits	760,940	371,766
Short-term borrowings	132,193	78,305
Long-term borrowings	348,527	234,162
Total interest expense	1,241,660	684,233
Net interest income	1,095,094	933,657
Provision for loan and lease losses	32,298	31,800
Net interest income after provision for loan and lease losses	1,062,796	901,857
Other income		
Data processing services	1,027,494	861,274
Wealth management	163,697	143,483
Service charges on deposits	73,282	70,655
Gains on sale of mortgage loans	32,628	30,351
Other mortgage banking revenue	5,507	4,785
Net investment securities gains	6,603	42,634
Life insurance revenue	21,654	20,697
Net derivative gains - discontinued hedges	1,788	--
Other	100,311	93,042
Total other income	1,432,964	1,266,921
Other expense		
Salaries and employee benefits	898,808	792,076
Net occupancy	77,236	65,443
Equipment	106,222	93,403
Software expenses	52,682	42,492
Processing charges	82,242	44,600
Supplies and printing	19,377	17,911

Professional services	41,727	38,008
Shipping and handling	67,003	53,268
Amortization of intangibles	33,024	22,304
Other	217,686	203,889
Total other expense	1,596,007	1,373,394
Income before income taxes	899,753	795,384
Provision for income taxes	297,272	266,649
Net income	$ 602,481	$ 528,735
Net income per common share		
Basic	$ 2.44	$ 2.30
Diluted	2.38	2.25
Dividends paid per common share	$ 0.780	$ 0.690
Weighted average common shares outstanding (000's):		
Basic	247,361	229,611
Diluted	252,751	234,847

See notes to financial statements.

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MARSHALL & ILSLEY CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)
($000's)

	Nine Months Ended September 30, 2006	Nine Months Ended September 30, 2005
Net Cash Provided by Operating Activities	$ 745,155	$ 456,187
Cash Flows From Investing Activities:		
Proceeds from sales of securities available for sale	587,685	91,618
Proceeds from maturities of securities available for sale	908,524	929,455
Proceeds from maturities of securities held to maturity	91,171	72,658
Purchases of securities available for sale	(1,799,606)	(1,326,992)
Net increase in loans	(3,426,859)	(3,508,934)
Purchases of assets to be leased	(201,325)	(199,818)
Principal payments on lease receivables	172,444	161,294
Purchases of premises and equipment, net	(79,034)	(51,165)
Acquisitions, net of cash and cash equivalents acquired	(129,641)	(34,911)
Other	1,996	7,878
Net cash used in investing activities	(3,874,645)	(3,858,917)
Cash Flows From Financing Activities:		
Net increase in deposits	2,077,817	564,440
Proceeds from issuance of commercial paper	3,667,971	4,317,523

Principal payments on commercial paper	(3,533,509)	(4,283,274)
Net increase in other short-term borrowings	434,388	1,429,942
Proceeds from issuance of long-term borrowings	1,948,752	2,479,979
Payments of long-term borrowings	(1,219,679)	(602,244)
Dividends paid	(192,946)	(158,598)
Purchases of common stock	(41,791)	--
Proceeds from exercise of stock options	69,010	46,737
Other	(7,799)	(7,802)
Net cash provided by financing activities	3,202,214	3,786,703
Net increase in cash and cash equivalents	72,724	383,973
Cash and cash equivalents, beginning of year	1,414,351	988,138
Cash and cash equivalents, end of period	$ 1,487,075	$ 1,372,111
Supplemental cash flow information:		
Cash paid during the period for:		
Interest	$ 1,147,728	$ 628,729
Income taxes	269,234	275,879

See notes to financial statements.

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MARSHALL & ILSLEY CORPORATION
Notes to Financial Statements
September 30, 2006 & 2005 (Unaudited)

1. 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 12 which are necessary for a fair statement of the financial position and results of operations as of and for the three and nine months ended September 30, 2006 and 2005. The results of operations for the three and nine months ended September 30, 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 October 2006, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standard No. 158, Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106 and 132(R) ("SFAS 158"). SFAS 158 applies to all plan sponsors who offer defined benefit postretirement benefit plans and requires an entity to recognize in its statement of financial position an asset for a defined benefit postretirement plan's overfunded status or a liability for a plan's underfunded status; to measure a defined benefit postretirement plan's assets and obligations that determine its funded status as of the end of the Company's fiscal year; and to recognize changes in the funded status of a defined benefit postretirement plan as a component of other comprehensive income in the year in which the changes occur. SFAS 158 does not change the amount of net periodic benefit cost included in net income or change the various measurement conventions associated with postretirement benefit plan accounting.

The requirement to recognize the funded status of a defined benefit postretirement plan is effective for the Corporation on December 31, 2006. The requirement to measure plan assets and benefit obligations as of the date of the Corporation's fiscal year-end statement of financial position is effective on December 31, 2008. The impact of adopting SFAS 158 for the Corporation's defined benefit health plan, which provides health care benefits to eligible current and retired employees, is not expected to be material.

In October 2006, the FASB issued Staff Position (FSP)123R-5, Amendment of FASB Staff Position FAS 123(R)-1. This FSP provides that for instruments that were originally issued as employee compensation and then modified solely to reflect an equity restructuring that occurs when the holders are no longer employees, no change in the recognition or the measurement (due to a change in classification) of those instruments is required if: (1) there is no increase in fair value of the award or the antidilution provision is not added to the terms of the award in contemplation of an equity restructuring; and (2) all holders of the same class of equity instruments are treated in the same manner. This FSP did not impact the Corporation, as its accounting policy was already consistent with the FSPs provisions.

In September, 2006, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 108 ("SAB 108"), which provides guidance regarding the process of quantifying financial statement misstatements and addresses the diversity in practice in quantifying financial statement misstatements and the potential under current practice for the build up of improper amounts on the balance sheet.

The techniques most commonly used in practice to accumulate and quantify misstatements are generally referred to as the "rollover" and "iron curtain" approaches. The rollover approach quantifies a misstatement based on the amount of the error originating in the current year income statement. This approach ignores the effect of correcting the portion of the current year balance sheet misstatement that originated in prior years. The iron curtain approach quantifies a misstatement based on the effects of correcting the misstatement existing in the balance sheet at the end of the current year, irrespective of the misstatement's year(s) of origination. This approach ignores the effect on the current period income statement.

The SEC staff has indicated in SAB 108 that it does not believe that the exclusive reliance on either the rollover or iron curtain approach appropriately quantifies all misstatements that could be material to users of financial statements. The staff believes registrants must quantify the impact of correcting all misstatements, including both the carryover and reversing effects of prior year misstatements, on the current year financial statements. The staff believes that this can be accomplished by quantifying an error under both the rollover and iron curtain approaches as described above and by evaluating the error measured under each approach. Early application of this guidance is encouraged and application is required beginning with the first fiscal year ending after November 15, 2006. The Corporation elected early application of the guidance contained in SAB 108. See Note 3.

In September 2006, the FASB issued Statement of Financial Accounting Standard No. 157, Fair Value Measurements ("SFAS 157"). SFAS 157 provides enhanced guidance for using fair value to measure assets and liabilities. The standard applies whenever other standards require (or permit) assets or liabilities to be measured at fair value. The standard does not expand the use of fair value in any new circumstances. Under the standard, fair value refers to the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the market in which the reporting entity is engaged. SFAS 157 will be effective for the Company on January 1, 2008. The Corporation is currently evaluating the financial statement impact, if any, of adopting SFAS 157.

In July 2006, the FASB issued Staff Position FSP-FAS 13-2, Accounting for a Change in the Timing of Cash Flows Related to Income Taxes Generated by a Leveraged Lease Transaction. FSP-FAS 13-2 will require companies to treat a change or projected change in the timing of cash flows relating to income taxes in a leveraged lease transaction as a change of an important assumption, requiring a recalculation in accordance with FASB No. 13, Accounting for Leases. FSP-FAS 13-2 is effective January 1, 2007. The adoption of FSP-FAS 13-2 will have no impact, as the Corporation has not entered into any leveraged lease transactions.

In June 2006, the Financial Accounting Standards Board issued FASB Interpretation No. 48 ("FIN 48"), Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in financial statements in accordance with FASB Statement No. 109, Accounting for Income Taxes. FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition.

The provisions of FIN 48 will be effective beginning January 1, 2007, with the cumulative effect of the change in accounting principle recorded as an adjustment to opening retained earnings. The Corporation is currently evaluating the financial statement impact, if any, of adopting FIN 48.

On June 28, 2006, the FASB ratified EITF Issue No. 06-3, How Taxes Collected from Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement (That Is, Gross versus Net Presentation). Certain taxes such as sales taxes and other excise taxes are levied by various taxing authorities based on sales activity. Although generally levied on the purchaser of the goods or services, the selling party usually collects and remits the sales tax to the government. However, in certain jurisdictions, sales taxes are levied on sellers of the goods and services as opposed to the purchasers. Under this EITF consensus these taxes may be presented gross as revenue and an offsetting expense or may be presented net and excluded from revenue. The guidance in this EITF consensus will be effective January 1, 2007 with early application permitted. This EITF consensus will not impact the Corporation's results of operations or financial position and the Corporation will continue to report these taxes on a net basis. Taxes subject to this consensus primarily relate to the Corporation's data processing subsidiary, Metavante Corporation ("Metavante").

MARSHALL & ILSLEY CORPORATION
Notes to Financial Statements - Continued
September 30, 2006 & 2005 (Unaudited)

In March 2006, the FASB issued Statement of Financial Accounting Standard 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, which 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 will require the Corporation to evaluate interests in securitized financial assets acquired after the statement's effective date to identify interests that are freestanding derivatives or that are hybrid financial instruments that contain an embedded derivative requiring bifurcation. SFAS 155 permits fair value remeasurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require 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 also amends FASB 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.

In October 2006, the FASB began deliberating an amendment of SFAS 155, which may provide a narrow scope exception for securitized interests (1) that only contain an embedded derivative that is tied to the prepayment risk of the underlying prepayable financial assets, and (2) where the investor does not control the right to accelerate the settlement. The Corporation will be required to adopt SFAS 155 for all financial instruments acquired or issued after January 1, 2007. The Corporation is currently evaluating the financial statement impact, if any, of adopting SFAS 155.

3.Net derivative gains - discontinued hedges

The Corporation utilizes interest rate swaps to hedge its risk in connection with certain financial instruments. The Corporation had applied hedge accounting under Statement of Financial Accounting Standards No. 133 ("SFAS 133"), Accounting for Derivative Instruments and Hedging Activities to these transactions from inception. Due to the recent expansion of certain highly technical interpretations of SFAS 133, specifically hedge designation under the "matched-term" method, interest rate swaps designated as fair value hedges with an aggregate notional amount of $1,864.5 million and negative fair value of $24.9 million and interest rate swaps designated as cash flow hedges with an aggregate notional amount of $1,300.0 million and negative fair value of $26.8 million at September 30, 2006 did not qualify for hedge accounting. As a result, any fluctuation in the fair value of the derivatives should have been recorded through the income statement with no corresponding offset to the hedged items, or accumulated other comprehensive income.

As previously discussed, the Corporation has elected early application of SAB 108. In accordance with SAB 108, the Corporation adjusted its opening retained earnings and its opening accumulated other comprehensive income for 2006 and financial results for the first two quarters of 2006 (included in the nine month period ended September 30, 2006 in the accompanying condensed consolidated financial statements) to reflect a change in its hedge accounting under SFAS 133.

The cumulative effect of adjusting the reported carrying amount of the assets, liabilities and accumulated other comprehensive income at January 1, 2006, resulted in a decrease to retained earnings of $34.2 million and reduced the net loss in accumulated other comprehensive income by $16.2 million. In aggregate total Shareholders' Equity was reduced by $18.0 million. For the three and nine months ended September 30, 2006, net derivative gains - discontinued hedges amounted to $43.8 million and $1.8 million, respectively.

The aggregate impact of the adjustments is summarized below (dollars in millions, except per share data):

As of and for the Three Months ended March 31, 2006

	Previously Reported	Adjustment	As Adjusted
Loans and leases, net of unearned income	$ 35,034	$ 43	$ 35,077
Accrued interest and other assets	1,683	(13)	1,670
Total deposits	28,093	6	28,099
Accrued expenses and other liabilities	1,616	48	1,664
Retained earnings	4,002	(48)	3,954
Accumulated other comprehensive (loss) income, net of related taxes	(44)	24	(20)
Net interest income	$ 324.6	$ 0.5	$ 325.1
Net derivative losses - discontinued hedges	--	(21.4)	(21.4)
Other income	33.9	(0.5)	33.4
Income before income taxes	281.3	(21.4)	259.9

Provision for income taxes	94.5	(7.7)	86.8
Net income	186.8	(13.7)	173.1
Net income per common share:			
Basic	$ 0.79	$ (0.05)	$ 0.74
Diluted	0.78	(0.06)	0.72

As of and for the Three Months ended June 30, 2006

	Previously Reported	Adjustment	As Adjusted
Loans and leases, net of unearned income	$ 40,230	$ 52	$ 40,282
Accrued interest and other assets	1,931	(17)	1,914
Total deposits	32,958	6	32,964
Accrued expenses and other liabilities	1,450	61	1,511
Retained earnings	4,138	(62)	4,076
Accumulated other comprehensive (loss) income, net of related taxes	(101)	30	(71)
Net interest income	$ 374.1	$ 2.7	$ 376.8
Net derivative losses - discontinued hedges	--	(20.7)	(20.7)
Other income	37.4	(2.7)	34.7
Income before income taxes	303.1	(20.7)	282.4
Provision for income taxes	99.4	(7.5)	91.9
Net income	203.7	(13.2)	190.5
Net income per common share:			
Basic	$ 0.81	$ (0.06)	$ 0.75
Diluted	0.79	(0.05)	0.74

For the Six Months ended June 30, 2006

	Previously Reported	Adjustment	As Adjusted
Net interest income	$ 698.6	$ 3.3	$ 701.9
Net derivative losses - discontinued hedges	--	(42.0)	(42.0)
Other income	71.3	(3.3)	68.0
Income before income taxes	584.3	(42.0)	542.3
Provision for income taxes	193.8	(15.1)	178.7
Net income	390.5	(26.9)	363.6
Net income per common share:			
Basic	$ 1.60	$ (0.11)	$ 1.49
Diluted	1.57	(0.11)	1.46

4.Comprehensive Income

The following tables present the Corporation's comprehensive income

($000's):

	Three Months Ended September 30, 2006		
	Before-Tax Amount	Tax (Expense) Benefit	Net-of-Tax Amount
Net income			$ 238,867
Other comprehensive income:			
Unrealized gains (losses) on securities:			
Arising during the period	$ 100,128	$ (35,054)	65,074
Reclassification for securities transactions included in net income	(2,255)	790	(1,465)
Unrealized gains (losses)	97,873	(34,264)	63,609
Net gains (losses) on derivatives hedging variability of cash flows:			
Arising during the period	(45,838)	16,043	(29,795)
Reclassification adjustments for hedging activities included in net income	(8,109)	2,838	(5,271)
Net gains (losses)	$ (53,947)	$ 18,881	(35,066)
Other comprehensive income (loss)			28,543
Total comprehensive income			$ 267,410

	Three Months Ended September 30, 2005 As Adjusted		
	Before-Tax Amount	Tax (Expense) Benefit	Net-of-Tax Amount
Net income			$ 179,674
Other comprehensive income:			
Unrealized gains (losses) on securities:			
Arising during the period	$ (14,376)	$ 5,079	(9,297)
Reclassification for securities transactions included in net income	(557)	195	(362)
Unrealized gains (losses)	(14,933)	5,274	(9,659)
Net gains (losses) on derivatives hedging variability of cash flows:			
Arising during the period	2,772	(970)	1,802
Reclassification adjustments for hedging activities included in net income	(2,520)	882	(1,638)
Net gains (losses)	$ 252	$ (88)	164
Other comprehensive income (loss)			(9,495)

Total comprehensive income			$ 170,179

MARSHALL & ILSLEY CORPORATION
Notes to Financial Statements - Continued
September 30, 2006 & 2005 (Unaudited)

	Nine Months Ended September 30, 2006		
	Before-Tax Amount	Tax (Expense) Benefit	Net-of-Tax Amount
Net income			$ 602,481
Other comprehensive income:			
Unrealized gains (losses) on securities:			
Arising during the period	$ (2,435)	$ 811	(1,624)
Reclassification for securities transactions included in net income	(4,196)	1,469	(2,727)
Unrealized gains (losses)	(6,631)	2,280	(4,351)
Net gains (losses) on derivatives hedging variability of cash flows:			
Arising during the period	14,043	(4,915)	9,128
Reclassification adjustments for hedging activities included in net income	(16,289)	5,701	(10,588)
Net gains (losses)	$ (2,246)	$ 786	(1,460)
Other comprehensive income (loss)			(5,811)
Total comprehensive income			$ 596,670

	Nine Months Ended September 30, 2005 As Adjusted		
	Before-Tax Amount	Tax (Expense) Benefit	Net-of-Tax Amount
Net income			$ 528,735
Other comprehensive income:			
Unrealized gains (losses) on securities:			
Arising during the period	$ (41,067)	$ 14,505	(26,562)
Reclassification for securities transactions included in net income	(675)	236	(439)
Unrealized gains (losses)	(41,742)	14,741	(27,001)
Net gains (losses) on derivatives hedging variability of cash flows:			
Arising during the period	14,366	(5,028)	9,338

Reclassification adjustments for hedging activities included in net income	520	(182)	338
Net gains (losses)	$ 14,886	$ (5,210)	9,676
Other comprehensive income (loss)			(17,325)
Total comprehensive income			$ 511,410

5.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 September 30, 2006		
	Income (Numerator)	Average Shares (Denominator)	Per Share Amount
Basic Earnings Per Share			
Income Available to Common Shareholders	$ 238,867	253,799	$ 0.94
Effect of Dilutive Securities			
Stock Options, Restricted Stock and Other Plans	--	5,868	
Diluted Earnings Per Share			
Income Available to Common Shareholders	$ 238,867	259,667	$ 0.92

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	Three Months Ended September 30, 2005 As Adjusted		
	Income (Numerator)	Average Shares (Denominator)	Per Share Amount
Basic Earnings Per Share			
Income Available to Common Shareholders	$ 179,674	232,590	$ 0.77
Effect of Dilutive Securities			
Stock Options, Restricted Stock and Other Plans	--	5,572	
Diluted Earnings Per Share			
Income Available to Common Shareholders	$ 179,674	238,162	$ 0.75

Nine Months Ended

	September 30, 2006		
	Income (Numerator)	Average Shares (Denominator)	Per Share Amount
Basic Earnings Per Share			
Income Available to Common Shareholders	$ 602,481	247,361	$ 2.44
Effect of Dilutive Securities			
Stock Options, Restricted Stock and Other Plans	--	5,390	
Diluted Earnings Per Share			
Income Available to Common Shareholders	$ 602,481	252,751	$ 2.38

	Nine Months Ended September 30, 2005 As Adjusted		
	Income (Numerator)	Average Shares (Denominator)	Per Share Amount
Basic Earnings Per Share			
Income Available to Common Shareholders	$ 528,735	229,611	$ 2.30
Effect of Dilutive Securities			
Stock Options, Restricted Stock and Other Plans	--	5,236	
Diluted Earnings Per Share			
Income Available to Common Shareholders	$ 528,735	234,847	$ 2.25

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 September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
Shares	27	21	109	41
Price Range	$46.970 - $48.540	$44.950 - $47.020	$45.070 - $48.540	$43.530 - $47.020

6.Business Combinations

The following acquisition, which is not considered to be a material business combination, was completed during the third quarter of 2006:

On September 1, 2006, Metavante completed the acquisition of VICOR, Inc. ("VICOR") of Richmond, California. Total consideration in this transaction amounted to $75.1 million. VICOR is a provider of corporate payment processing software and solutions that simplify and automate the processing of complex payments for businesses and financial institutions. Initial goodwill, subject to the completion of appraisals and valuation of the assets acquired and liabilities assumed, amounted to $55.3 million. The estimated identifiable intangible asset to be amortized (customer relationships) with an estimated weighted average life of 7.0 years amounted to $17.3 million. The goodwill and intangibles resulting from this transaction are not deductible for tax purposes.

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

	September 30, 2006	December 31, 2005	September 30, 2005
Investment securities available for sale:			
U.S. treasury and government agencies	$ 5,378,721	$ 4,379,148	$ 4,349,134
State and political subdivisions	773,446	703,892	701,290
Mortgage backed securities	121,493	116,464	125,562
Other	546,455	502,199	499,695
Total	$ 6,820,115	$ 5,701,703	$ 5,675,681
Investment securities held to maturity:			
State and political subdivisions	$ 526,883	$ 616,554	$ 651,914
Other	1,500	2,000	2,300
Total	$ 528,383	$ 618,554	$ 654,214

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 September 30, 2006 ($000's):

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrea Los
U.S. treasury and government agencies	$ 1,497,718	$ 17,961	$ 2,471,718	$ 76,673	$ 3,969,436	$ 9
State and political subdivision	32,045	247	70,034	1,176	102,079	
Mortgage backed securities	26,299	6	95,107	1,999	121,406	
Other	17,994	173	--	--	17,994	
Total	$ 1,574,056	$ 18,387	$ 2,636,859	$ 79,848	$ 4,210,915	$ 9

The investment securities in the above table were temporarily impaired at September 30, 2006. This temporary impairment represents the amount of loss that would have been realized if the investment securities had been sold on September 30, 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.

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

	September 30, 2006	December 31, 2005	September 30, 2005
Commercial, financial and agricultural	$ 11,794,846	$ 9,599,361	$ 9,281,803
Cash flow hedging instruments at fair value	(3,067)	(33,886)	(26,604)
Commercial, financial and agricultural	11,791,779	9,565,475	9,255,199
Real estate:			
Construction	5,813,466	3,641,942	3,265,174
Residential mortgage	6,078,175	5,050,803	4,752,479
Home equity loans and lines of credit	4,415,980	4,833,480	4,916,249
Commercial mortgage	11,002,939	8,825,104	8,733,067
Total real estate	27,310,560	22,351,329	21,666,969
Personal	1,469,106	1,617,761	1,587,552
Lease financing	693,607	632,348	596,588
Total loans and leases	$ 41,265,052	$ 34,166,913	$ 33,106,308

9.Financial Asset Sales

During the third quarter of 2006, the Corporation sold automobile loans with principal balances of $116.0 million in securitization transactions. The net gains and losses from the sale and securitization of auto loans for the three and nine months ended September 30, 2006, respectively were not significant. Other income associated with auto securitizations, primarily servicing income, amounted to $2.3 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)	15-42 %
Weighted average life (in months)	20.5
Expected credit losses	
(based on original balance	0.36-1.32 %

Residual cash flow discount rate	12.0 %
Variable returns to transferees	Forward one-month LIBOR yield curve

At September 30, 2006, securitized automobile loans and other automobile loans managed together with them, along with delinquency and credit loss information consisted of the following ($000's):

	Securitized	Portfolio	Total Managed
Loan balances	$ 991,819	$ 166,023	$ 1,157,842
Principal amounts of loans 60 days or more	2,852	621	3,473
Net credit losses year to date	3,246	1,001	4,247

10.Goodwill and Other Intangibles

The changes in the carrying amount of goodwill for the nine months ended September 30, 2006 were as follows ($000's):

	Banking	Metavante	Others	Tot
Goodwill balance as of January 1, 2006	$ 809,376	$ 1,272,039	$ 7,804	$ 2,08
Goodwill acquired during the period	614,801	77,033	21,251	71
Purchase accounting adjustments	1,001	(22,242)	--	(2
Goodwill balance as of September 30, 2006	$ 1,425,178	$ 1,326,830	$ 29,055	$ 2,78

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Goodwill acquired during the third quarter of 2006 for the Metavante segment included initial goodwill of $55.3 million for the acquisition of VICOR. Goodwill acquired during the second quarter of 2006 for the Banking segment included initial goodwill of $485.4 million for the acquisition of Gold Banc Corporation, Inc. ("Gold Banc") and $129.4 million in initial goodwill relating to the acquisition of Trustcorp Financial, Inc. ("Trustcorp"). Goodwill acquired for the Metavante segment includes initial goodwill of $21.7 million relating to the acquisition of AdminiSource Corp ("AdminiSource") in the first quarter of 2006. Goodwill for the Others segment includes initial goodwill relating to the acquisition of FirstTrust Indiana of $13.4 million in the first quarter of 2006, and initial goodwill allocated to the Trust reporting unit of $7.9 million from the acquisition of Gold Banc in the second quarter of 2006.

During the third quarter of 2006, purchase accounting adjustments of $1.1 million for the Banking segment included adjustments to the initial estimates of fair value associated with the acquisitions of Gold Banc and Trustcorp, offset by a reduction of goodwill of $0.1 million attributable to a branch divestiture in the first quarter of 2006. Purchase accounting adjustments for the Metavante segment represent adjustments made to the initial estimates of fair value associated with the acquisitions of GHR Systems, Inc., Brasfield Corporation, AdminiSource, Med-i-Bank, Inc., LINK2GOV Corp., TREEV LLC 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.

At September 30, 2006, the Corporation's other intangible assets consisted of the following ($000's):

	September 30, 2006		
	Gross Carrying Amount	Accumulated Amortization	Ne Carr Val
Other intangible assets			
Core deposit intangible	$ 207,805	$ 91,259	$ 11
Data processing contract rights/customer lists	360,438	52,031	30
Trust customers	6,750	1,755	
Tradename	8,275	1,119	
Other Intangibles	1,250	621	
	$ 584,518	$ 146,785	$ 43
Mortgage loan servicing rights			$

Amortization expense of other intangible assets for the three and nine months ended September 30, 2006 amounted to $12.1 million and $33.0 million, respectively. Amortization expense of other intangible assets for the three and nine months ended September 30, 2005 was $6.1 million and $22.3 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):

2007	$ 45,743
2008	42,193
2009	39,347
2010	37,152
2011	35,511

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

September 30,	December 31,	September 30,

	2006	2005	2005
Noninterest bearing demand	$ 5,565,420	$ 5,525,019	$ 5,224,241
Savings and NOW	11,754,890	10,462,831	10,194,871
Cash flow hedge-Brokered MMDA	--	(5,326)	(4,966)
Total Savings and NOW	11,754,890	10,457,505	10,189,905
CD's $100,000 and over	9,013,765	5,652,359	6,116,679
Cash flow hedge-Institutional CDs	(679)	(13,767)	(17,911)
Total CD's $100,000 and over	9,013,086	5,638,592	6,098,768
Other time deposits	4,827,972	3,434,476	3,228,265
Foreign deposits	2,298,376	2,618,629	2,250,182
Total deposits	$ 33,459,744	$ 27,674,221	$ 26,991,361

12. 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 ("look-back feature") which has historically been from July 1 to June 30. Effective July 1, 2006, the ESPP plan was amended to eliminate the look-back feature and to provide 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 fair market value of the Corporation's common stock on the last day of each three month period within the one-year offering period. Employee contributions under the ESPP are made ratably during the period.

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 of SFAS 123(R) 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.

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 options because the exercise price was equal to the quoted market price of the Corporation's common stock at the date of grant and therefore, those options had no intrinsic value on the date of grant. Under APBO 25, no compensation cost was recognized for the Corporation's ESPP because the discount (15%) and the plan met the definition of a qualified plan under the Internal Revenue Code and 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 of SFAS 123(R), 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	September 30, 2005
Decrease to Retained Earnings	$ (149,544)	$ (141,745)
Increase to Additional Paid-in Capital	217,205	209,788
Net Increase to Shareholders' equity	$ 67,661	$ 68,043

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 September 30, 2005, respectively, from recognizing share-based compensation previously not reported.

The Corporation's net income and earnings per share as adjusted for the ESPP and stock options is as follows for the three and nine months ended September 30, 2005 ($000's except per share data):

	Three Months Ended September 30, 2005	Nine Months Ended September 30, 2005
Net Income, as originally reported	$ 184,147	$ 542,214
Less: Stock-based employee compensation expense previously not included in net income under the intrinsic method of accounting, net of tax	(4,473)	(13,479)
Adjusted net income	$ 179,674	$ 528,735
Basic earnings per share:		
As originally reported	$ 0.79	$ 2.36
Adjusted	0.77	2.30
Diluted earnings per share:		
As originally reported	$ 0.78	$ 2.32
Adjusted	0.75	2.25

The Consolidated Statements of Cash Flows was not materially impacted.

Activity relating to nonqualified and incentive stock options for the three months ended September 30, 2006 and 2005 was:

	Number of Shares	Option Price Per Share	Weighted-Average Exercise Price
Shares under option at June 30, 2005	21,810,577	$ 13.09 - 44.96	$ 31.07
Options granted	29,500	43.17 - 47.02	44.92
Options lapsed or surrendered	(33,072)	28.55 - 41.95	39.85
Options exercised	(437,254)	13.09 - 41.95	23.68
Shares under option at September 30, 2005	21,369,751	$ 13.09 - 47.02	$ 31.23
Shares under option at June 30, 2006	23,892,507	$ 5.71 - 47.02	$ 33.32
Options granted	65,150	45.07 - 48.54	46.49
Options lapsed or surrendered	(65,552)	26.14 - 47.02	42.40
Options exercised	(767,297)	5.71 - 44.33	25.45
Shares under option at September 30, 2006	23,124,808	$ 5.71 - 48.54	$ 33.60

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Activity relating to nonqualified and incentive stock options for the nine months ended September 30, 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	182,750	40.49 - 47.02	42.64
Options lapsed or surrendered	(186,436)	22.80 - 41.95	36.54
Options exercised	(1,504,660)	10.13 - 41.95	23.89
Shares under option at September 30, 2005	21,369,751	$ 13.09 - 47.02	$ 31.23
Shares under option at December 31, 2005	24,655,317	$ 15.94 - 47.02	$ 33.09
Options granted	535,550	41.30 - 48.54	44.23
Vested options exchanged in acquisitions	532,133	5.71 - 43.67	12.99
Options lapsed or surrendered	(302,391)	26.14 - 47.02	41.96
Options exercised	(2,295,801)	5.71 - 44.33	24.79
Shares under option at September 30, 2006	23,124,808	$ 5.71 - 48.54	$ 33.60

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 September 30, 2006 were:

	Number of Shares		Weighted-Average Exercise Price		Weighted-Average Aggregate Intrinsic Value		Weighted-Average Remaining Contractual Life (In Years)	
Price Range	Out-standing	Exer-cisable	Out-standing	Exer-cisable	Out-standing	Exer-cisable	Out-standing	Exer-cisable
$ 5.50 - 24.99	2,332,558	2,332,55	$ 20.75	$ 20.75	$ 27.43	$ 27.43	4.0	4.0
25.00 - 27.99	1,565,864	1,565,864	25.83	25.83	22.35	22.35	2.8	2.8
28.00 - 30.49	3,826,232	3,823,832	28.59	28.58	19.59	19.60	5.0	5.0
30.50 - 32.49	4,621,234	4,619,234	31.43	31.43	16.75	16.75	4.5	4.5
32.50 - 38.49	3,249,727	2,403,247	34.92	34.93	13.26	13.25	7.0	7.0
38.50 - 42.49	3,388,303	1,535,571	41.87	41.84	6.31	6.34	8.1	8.1
Over $42.50	4,140,890	625,657	43.02	42.99	5.16	5.19	9.1	9.1
	23,124,808	16,905,963	$ 33.60	$ 30.66	$ 14.58	$ 17.52	6.1	5.2

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 September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
Weighted-average grant date date fair value	$8.59	$7.40	$8.47	$7.92
Assumptions:				
Risk-free interest rates	4.63 - 5.45 %	3.33 - 4.45 %	4.22 - 5.66 %	3.33 - 4.45
Expected volatility	18.50 %	18.00 %	18.20 -18.50 %	13.12 -18.50
Expected term (in years)	6.3 - 6.5	5.0 - 6.2	6.3 - 6.9	5.0 - 7.8
Expected dividend yield	2.28 %	2.19 %	2.20 - 2.28 %	1.92 - 2.19

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The total intrinsic value of nonqualified and incentive stock options exercised during the three months ended September 30, 2006 and 2005 was $16.6 million and $9.7 million, respectively. For the nine months ended

September 30, 2006 and 2005, the total intrinsic value of nonqualified and incentive stock options exercised was $47.2 million and $29.6 million, respectively. The total fair value of shares vested during the three months ended September 30, 2006 and 2005 amounted to $0.4 million and $0.5 million, respectively. For the nine months ended September 30, 2006 and 2005, the total fair value of shares vested amounted to $1.1 million and $1.5 million, respectively.

There was approximately $18.2 million of total unrecognized compensation expense related to unvested nonqualified and incentive stock options at September 30, 2006. The total unrecognized compensation expense will be recognized over a weighted average period of 2.3 years. For awards with graded vesting, compensation expense was recognized using an accelerated method prior to the adoption of SFAS 123(R) and is recognized on a straight line basis for awards granted after the effective date.

For the three months ended September 30, 2006 and 2005, the expense for nonqualified and incentive stock options that was included in Salaries and employee benefits expense in the Consolidated Statements of Income amounted to $6.6 million and $5.9 million, respectively. For the nine months ended September 30, 2006 and 2005, the expense for nonqualified and incentive stock options that was included in Salaries and employee benefits expense in the Consolidated Statements of Income amounted to $19.9 million and $17.6 million, respectively. These amounts are considered non-cash expenses for the Statements of Cash Flow purposes.

Stock option awards for directors of the Corporation generally occur during the second quarter. For the second quarter ended June 30, 2006 and 2005 and for the nine months ended September 30, 2006 and 2005, the expense for Director's nonqualified and incentive stock options that was included in Other expense in the Consolidated Statements of Income amounted to $0.6 million and $0.7 million, respectively.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
Restricted stock purchase rights outstanding - Beginning of Year	--	--	--	-
Restricted stock purchase rights granted	6,000	11,500	57,000	26,00
Restricted stock purchase rights exercised	(6,000)	(11,500)	(57,000)	(26,00
Restricted stock purchase rights outstanding - End of Period	--	--	--	-
Weighted-average grant date market value	$ 47.26	$ 44.55	$ 44.82	$ 43.1
Aggregate compensation expense ($000's)	$ 1,481	$ 1,057	$ 4,128	$ 3,08
Unamortized compensation expense ($000's)	$ 10,860	$ 8,483	$ 10,860	$ 8,48

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 is amortized over the vesting period. At September 30, 2006, the unamortized compensation expense will be recognized over a weighted average period of 1.4 years. Aggregate compensation expense for the three and nine months ended September 30, 2006 amounted to $1.5 million and $4.1 million, respectively. For the three and nine months ended September 30, 2005, the aggregate compensation expense amounted to $1.1 million and $3.1 million, respectively. These amounts are considered non-cash expenses for the Statements of Cash Flow purposes.

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 September 30, 2006 and 2005 the expense for the Long-Term Incentive Plan that is included in Salaries and employee benefits expense in the Consolidated Statements of Income amounted to $5.2 million and $2.9 million, respectively. For the nine months ended September 30, 2006 and 2005, the expense for the Long-Term Incentive Plan that was included in Salaries and employee benefits expense in the Consolidated Statements of Income amounted to $8.7 million and $9.5 million, respectively.

Under SFAS 123(R), compensation expense is recognized for the ESPP. The compensation cost per share was 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 plan year ended June 30, 2006 and 2005, respectively. The total estimated shares to be purchased were 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 estimated that 346,342 shares would be purchased on July 1, 2006 for the purpose of determining compensation expense.

Effective July 1, 2006 the ESPP plan was amended to eliminate the look-back feature and to provide employees, who elect to participate in the ESPP, the right to acquire shares of the Corporation's common stock at the purchase price, which is 85 percent of the fair market value of the Corporation's common stock on the last day of each three month period within the one-year offering period. ESPP participants purchased 89,388 shares on October 2, 2006. Employee contributions under the ESPP are made ratably during the plan period. Employees may withdraw from the ESPP prior to the end of the one year offering period.

For the three months ended September 30, 2006 and 2005, the total expense for the ESPP that was included in Salaries and employee benefits expense in the Consolidated Statements of Income amounted to $0.6 million and $0.9 million, respectively. For the nine months ended September 30, 2006 and 2005, the total expense for the ESPP that was included in Salaries and employee benefits expense in the Consolidated Statements of Income amounted to $2.5 million and $2.3 million, respectively. These amounts are considered non-cash expenses for the Statements of Cash Flow purposes.

13.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.

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 September 30, 2006, free standing interest rate swaps consisted of $5.1 billion in notional amount of receive fixed / pay floating with an aggregate negative fair value of $70.2 million and $1.7 billion in notional amount of pay fixed / receive floating with an aggregate positive fair value of $19.6 million.

At September 30, 2006, interest rate caps purchased amounted to $22.5 million in notional amount with an immaterial fair value and interest rate caps sold amounted to $22.5 million in notional amount with an immaterial fair value.

At September 30, 2006, the notional value of interest rate futures designated as trading was $4.4 billion with a positive fair value of $0.1 million.

Fair Value Hedges

The Corporation has fixed rate long-term debt and fixed rate institutional CDs which expose the Corporation to variability in fair values due to changes in market interest rates.

To limit the Corporation's exposure to changes in interest rates, the Corporation has entered into receive fixed / pay floating interest rate swaps.

The Corporation structures the interest rate swaps so that all of the critical terms of the fixed rate borrowings and fixed rate institutional CDs match the receive fixed leg of the interest rate swaps at inception of the hedging relationship. As a result, the Corporation expects the hedging relationship to be highly effective in achieving offsetting changes in fair value due to changes in benchmark interest rates both at inception and on an on-going basis.

At September 30, 2006, certain interest rate swaps designated as fair value hedges met the criteria required to qualify for the shortcut method of accounting. Based on the shortcut method of accounting treatment, no ineffectiveness is assumed.

At September 30, 2006, no component of the derivative instruments' gain or loss was excluded from the assessment of hedge effectiveness for derivative financial instruments designated as fair value hedges.

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

Fair Value Hedges
September 30, 2006

Hedged Item	Hedging Instrument	Notional Amount ($ in mil)	Fair Value ($ in mil)	Weighted Average Remaining Term (Yrs)
Fair Value Hedges that Qualify for Shortcut Accounting				
Fixed Rate Bank Notes	Receive Fixed Swap	$ 409.1	$ (13.1)	8.3
Other Fair Value Hedges				
Medium Term Notes	Receive Fixed Swap	$ 80.0	$ (4.2)	13.8
Fixed Rate Bank Notes	Receive Fixed Swap	625.0	(13.3)	4.1
Institutional CDs	Receive Fixed Swap	65.0	(0.1)	24.6

The impact from fair value hedges to total net interest income for the three and nine months ended September 30, 2006 was a negative $1.1 million and a positive $0.3 million, respectively. The impact to net interest income due to ineffectiveness was not material.

Cash Flow Hedges

The Corporation has variable rate loans, deposits and borrowings that expose the Corporation to variability in interest rate payments due to changes in interest rates. The Corporation believes it is prudent to limit the variability of a portion of its interest receipts and payments. To meet this objective, the Corporation enters into various types of derivative financial instruments to manage fluctuations in cash flows resulting from interest rate risk. At September 30, 2006, these instruments consisted of interest rate swaps.

The Corporation regularly originates and holds floating rate commercial loans that reprice monthly on the first business day to one-month LIBOR. As a result, the Corporation's interest receipts are exposed to variability in cash flows due to changes in one-month LIBOR.

In order to hedge the interest rate risk associated with the floating rate commercial loans indexed to one-month LIBOR, the Corporation has entered into receive fixed / pay LIBOR-based floating interest rate swaps designated as cash flow hedges against the first LIBOR-based interest payments received that, in the aggregate for each period, are interest payments on such principal amount of its then existing LIBOR-indexed floating-rate commercial loans equal to the notional amount of the interest rate swaps outstanding.

MARSHALL & ILSLEY CORPORATION
Notes to Financial Statements - Continued
September 30, 2006 & 2005 (Unaudited)

Hedge effectiveness is assessed at inception and each quarter on an on-going basis using regression analysis that takes into account reset date differences for certain designated interest rate swaps that reset quarterly. Each month the Corporation makes a determination that it is probable that the Corporation will continue to receive interest payments on at least that amount of principal of its existing LIBOR-indexed floating-rate commercial loans that reprice monthly on the first business day to one-month LIBOR equal to the notional amount of the interest rate swaps outstanding. Ineffectiveness is measured using the hypothetical derivative method and is recorded as a component of interest income on loans.

The Corporation regularly issues floating rate institutional CDs indexed to three-month LIBOR. As a result, the Corporation's interest payments are exposed to variability in cash flows due to changes in three-month LIBOR.

In order to hedge the interest rate risk associated with floating rate institutional CDs, the Corporation has entered into pay fixed / receive LIBOR-based floating interest rate swaps designated as cash flow hedges against the interest payments on the forecasted issuance of floating rate institutional CDs.

For certain institutional CDs, hedge effectiveness is assessed at inception and each quarter on an on-going basis using regression analysis that regresses daily observations of three-month LIBOR to itself with a five day mismatch on either side for potential reset date differences between the interest rate swaps and the floating rate institutional CDs. The regression analysis is based on a rolling five years of daily observations. Ineffectiveness is measured using the hypothetical derivative method and is recorded as a component of interest expense on deposits.

The Corporation regularly purchases overnight borrowings indexed to the Federal funds rate. As a result, the Corporation's interest payments are exposed to variability in cash flows due to changes in the Federal funds effective rate.

In order to hedge the interest rate risk associated with overnight borrowings, the Corporation has entered into pay fixed / receive floating interest rate swaps designated as cash flow hedges against interest payments on the forecasted issuance of floating rate overnight borrowings. The floating leg of the interest rate swap resets monthly to the H15 Federal Effective index. The H15 Federal Effective index is not a benchmark rate, therefore hedge effectiveness is assessed at inception and each quarter on an on-going basis using regression analysis. Each month the Corporation makes a determination that it is probable that the Corporation will continue to make interest payments on at least that amount of outstanding overnight floating-rate borrowings equal to the notional amount of the interest rate swaps outstanding. Ineffectiveness is measured using the hypothetical derivative method and is recorded as a component of interest expense on short-term borrowings.

The Corporation structures the remaining interest rate swaps so that all of the critical terms of the LIBOR-based floating rate deposits and borrowings match the floating leg of the interest rate swaps at inception of the hedging relationship. As a result, the Corporation expects those hedging relationships to be highly effective in achieving offsetting changes in cash flows due to changes in benchmark interest rates both at inception and on an on-going basis.

At September 30, 2006, one interest rate swap designated as a cash flow hedge met the criteria required to qualify for the shortcut method of accounting. Based on the shortcut method of accounting treatment, no ineffectiveness is assumed.

At September 30, 2006, no component of the derivative instruments' gain or loss was excluded from the assessment of hedge effectiveness for derivative financial instruments designated as cash flow hedges.

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MARSHALL & ILSLEY CORPORATION
Notes to Financial Statements - Continued
September 30, 2006 & 2005 (Unaudited)

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

Cash Flow Hedges
September 30, 2006

Hedged Item	Hedging Instrument	Notional Amount ($ in mil)	Fair Value ($ in mil)	Weighted Average Remaining Term (Yrs)
Cash Flow Hedges that Qualify for Shortcut Accounting				
Floating Rate Bank Notes	Pay Fixed Swap	$ 125.0	$ 0.9	0.5
Other Cash Flow Hedges				
Variable Rate Loans	Receive Fixed Swap	$ 100.0	$ (3.1)	1.8
Institutional CDs	Pay Fixed Swap	1,980.0	0.7	1.7
Federal Funds Purchased	Pay Fixed Swap	250.0	(0.4)	0.9
FHLB Advances	Pay Fixed Swap	1,410.0	7.4	4.4
Floating Rate Bank Notes	Pay Fixed Swap	550.0	(5.8)	3.2

The impact to total net interest income from cash flow hedges, including amortization of terminated cash flow hedges for the three and nine months ended September 30, 2006 was a positive $8.1 million and a positive $16.3 million, respectively. For each of the three and nine months ended September 30, 2006, the impact due to ineffectiveness was not material.

For the three and nine months ended September 30, 2005, the total effect on net interest income resulting from derivative financial instruments was a positive $9.3 million and a positive $25.4 million, respectively, including the amortization of terminated derivative financial instruments.

14.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 and nine month periods ended September 30, 2006 and 2005 included the following components ($000's):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	200
Service cost	$ 570	$ 553	$ 1,710	$ 1,
Interest on APBO	1,022	1,158	3,066	3,
Expected return on assets	(232)	(149)	(696)	(
Prior service amortization	(681)	(680)	(2,041)	(2,
Actuarial loss amortization	379	264	1,136	
Total postretirement benefit costs	$ 1,058	$ 1,146	$ 3,175	$ 3,

Benefit payments and expenses, net of participant contributions, for the three and nine months ended September 30, 2006 amounted to $1.0 million and $3.1 million, respectively.

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MARSHALL & ILSLEY CORPORATION
Notes to Financial Statements - Continued
September 30, 2006 & 2005 (Unaudited)

15. Segments

The following represents the Corporation's operating segments as of and for the three and nine months ended September 30, 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. 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. Intrasegment revenues, expenses and assets have been eliminated ($ in millions):

Three Months Ended September 30, 2006
Reclass-ifications

	Banking	Metavante	Others	Corporate Overhead	& Elimi- nations
Net interest income	$ 399.4	$ (6.7)	$ 6.7	$ (8.7)	$ 2.5
Other income					
Fees - external	120.2	339.5	55.3	6.1	--
Fees - internal					
Fees - intercompany	16.1	31.7	5.4	25.0	(78.2)
Float income - intercompany	--	2.5	--	--	(2.5)
Total other income	136.3	373.7	60.7	31.1	(80.7)
Other expense					
Expenses - other	187.0	289.8	40.3	29.1	0.4
Expenses - intercompany	47.8	12.2	12.7	5.9	(78.6)
Total other expense	234.8	302.0	53.0	35.0	(78.2)
Provision for loan and lease losses	9.9	--	0.4	--	--
Income (loss) before taxes	291.0	65.0	14.0	(12.6)	--
Income tax expense (benefit)	97.8	23.8	4.9	(8.0)	--
Segment income (loss)	$ 193.2	$ 41.2	$ 9.1	$ (4.6)	$ --
Identifiable assets	$ 52,611.5	$ 2,924.7	$ 879.4	$ 694.4	$ (1,627.2)
Return on average equity	15.5%	14.1%	12.0%		

Three Months Ended September 30, 2005

	Banking	Metavante	Others	Corporate Overhead	Reclass- ifications & Elimi- nations
Net interest income	$ 323.3	$ (9.0)	$ 6.5	$ (2.6)	$ 3.6
Other income					
Fees - external	76.4	296.0	49.3	8.4	--
Fees - internal					
Fees - intercompany	15.4	21.8	7.1	21.6	(65.9)
Float income - intercompany	--	3.6	--	--	(3.6)
Total other income	91.8	321.4	56.4	30.0	(69.5)
Other expense					
Expenses - other	156.8	251.7	35.0	27.0	--
Expenses - intercompany	43.0	11.3	11.5	0.1	(65.9)

Total other expense	199.8	263.0	46.5	27.1	(65.9)
Provision for loan and lease losses	9.7	--	0.2	--	--
Income (loss) before taxes	205.6	49.4	16.2	0.3	--
Income tax expense (benefit)	67.2	18.3	6.1	0.2	--
Segment income (loss) As Adjusted	$ 138.4	$ 31.1	$ 10.1	$ 0.1	$ --
Identifiable assets	$ 42,392.1	$ 2,727.3	$ 743.9	$ 649.5	$ (1,517.5)
Return on average equity	15.3%	14.6%	14.4%		

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MARSHALL & ILSLEY CORPORATION
Notes to Financial Statements - Continued
September 30, 2006 & 2005 (Unaudited)

	Nine Months Ended September 30, 2006				
	Banking	Metavante	Others	Corporate Overhead	Reclass- ifications & Elimi- nations
Net interest income	$ 1,112.1	$ (22.5)	$ 18.3	$ (21.2)	$ 8.4
Other income					
Fees - external	232.4	1,027.5	165.7	7.4	--
Fees - internal					
Fees - intercompany	49.8	82.3	15.9	75.0	(223.0)
Float income - intercompany	--	8.4	--	--	(8.4)
Total other income	282.2	1,118.2	181.6	82.4	(231.4)
Other expense					
Expenses - other	524.8	880.4	121.3	69.7	(0.2)
Expenses - intercompany	137.9	37.8	37.9	9.2	(222.8)
Total other expense	662.7	918.2	159.2	78.9	(223.0)
Provision for loan and lease losses	30.9	--	1.4	--	--
Income (loss) before taxes	700.7	177.5	39.3	(17.7)	--
Income tax expense (benefit)	232.1	61.4	14.2	(10.4)	--
Segment income (loss)	$ 468.6	$ 116.1	$ 25.1	$ (7.3)	$ --
Identifiable assets	$ 52,611.5	$ 2,924.7	$ 879.4	$ 694.4	$ (1,627.2)

Return on average equity	13.8%	13.9%	11.7%		

Nine Months Ended September 30, 2006

	Banking	Metavante	Others	Corporate Overhead	Reclass- ifications & Elimi- nations
Net interest income	$ 941.4	$ (29.0)	$ 18.9	$ (6.5)	$ 8.9
Other income					
Fees - external	220.1	861.2	167.0	18.6	--
Fees - internal					
Fees - intercompany	46.7	64.7	17.5	64.8	(193.7)
Float income - intercompany	--	8.9	--	--	(8.9)
Total other income	266.8	934.8	184.5	83.4	(202.6)
Other expense					
Expenses - other	457.3	730.1	100.5	85.9	(0.4)
Expenses - intercompany	122.5	32.7	36.1	2.0	(193.3)
Total other expense	579.8	762.8	136.6	87.9	(193.7)
Provision for loan and lease losses	30.9	--	0.9	--	--
Income (loss) before taxes	597.5	143.0	65.9	(11.0)	--
Income tax expense (benefit)	190.2	55.6	25.4	(4.5)	--
Segment income (loss) As Adjusted	$ 407.3	$ 87.4	$ 40.5	$ (6.5)	$ --
Identifiable assets	$ 42,392.1	$ 2,727.3	$ 743.9	$ 649.5	$ (1,517.5)
Return on average equity	15.8%	16.7%	20.2%		

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

	Three Months Ended September 30, 2006	Three Months Ended September 30, 2005	Nine Months Ended September 30, 2006	Nine Months Ended September 30, 2005
Trust Services	$ 48.0	$ 42.8	$ 143.2	$ 123.0
Residential Mortgage Banking	5.5	6.8	16.4	17.9
Capital Markets	0.7	0.5	1.0	22.8

Brokerage and Insurance	7.1	6.6	21.7	20.9
Commercial Leasing	2.8	3.8	8.6	11.4
Commercial Mortgage Banking	2.3	1.5	5.6	4.3
Others	1.0	0.9	3.4	3.1
Total revenue	$ 67.4	$ 62.9	$ 199.9	$ 203.4

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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 September 30, 2006	2005
Assets		
Cash and due from banks	$ 1,038,594	$ 993,351
Investment securities:		
Trading securities	53,516	26,350
Short-term investments	302,893	272,662
Other investment securities:		
Taxable	5,880,439	4,839,664
Tax-exempt	1,286,137	1,369,506
Total investment securities	7,522,985	6,508,182
Loans and leases:		
Loans and leases, net of unearned income	40,608,373	32,479,305
Less: Allowance for loan and lease losses	420,233	363,913
Net loans and leases	40,188,140	32,115,392
Premises and equipment, net	569,935	458,778
Accrued interest and other assets	5,264,373	4,059,705
Total Assets	$ 54,584,027	$ 44,135,408
Liabilities and Shareholders' Equity		
Deposits:		
Noninterest bearing	$ 5,462,260	$ 5,049,451
Interest bearing	27,458,681	21,302,690
Total deposits	32,920,941	26,352,141
Federal funds purchased and security repurchase agreements	2,759,105	2,055,778

Other short-term borrowings	904,766	803,193
Long-term borrowings	10,366,447	8,685,936
Accrued expenses and other liabilities	1,773,140	1,740,788
Total liabilities	48,724,399	39,637,836
Shareholders' equity	5,859,628	4,497,572
Total Liabilities and Shareholders' Equity	$ 54,584,027	$ 44,135,408

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

	Nine Months Ended September 30,	
	2006	2005
Assets		
Cash and due from banks	$ 1,016,658	$ 950,509
Investment securities:		
Trading securities	46,058	25,027
Short-term investments	330,894	244,109
Other investment securities:		
Taxable	5,562,657	4,830,427
Tax-exempt	1,314,087	1,327,456
Total investment securities	7,253,696	6,427,019
Loans and leases:		
Loans and leases, net of unearned income	38,350,036	31,228,509
Less: Allowance for loan and lease losses	401,807	362,127
Net loans and leases	37,948,229	30,866,382
Premises and equipment, net	544,002	451,684
Accrued interest and other assets	4,927,715	3,925,729
Total Assets	$ 51,690,300	$ 42,621,323
Liabilities and Shareholders' Equity		
Deposits:		
Noninterest bearing	$ 5,271,374	$ 4,857,646
Interest bearing	25,795,580	20,831,716
Total deposits	31,066,954	25,689,362
Federal funds purchased and security repurchase agreements	2,511,986	2,131,946

Other short-term borrowings	973,525	916,014
Long-term borrowings	9,943,731	7,942,493
Accrued expenses and other liabilities	1,744,446	1,691,305
Total liabilities	46,240,642	38,371,120
Shareholders' equity	5,449,658	4,250,203
Total Liabilities and Shareholders' Equity	$ 51,690,300	$ 42,621,323

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OVERVIEW

The Corporation's overall strategy is to drive earnings per share growth by: (1) expanding banking operations not only in Wisconsin but also 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 third quarter and first nine months of 2006 produced strong financial results.

Net income for the third quarter of 2006 amounted to $238.9 million compared to $179.7 million for the same period in the prior year, an increase of $59.2 million, or 32.9%. Diluted earnings per share were $0.92 for the three months ended September 30, 2006 compared to $0.75 for the three months ended September 30, 2005. The return on average assets and average equity was 1.74% and 16.17%, respectively, for the quarter ended September 30, 2006, and 1.62% and 15.85%, respectively, for the quarter ended September 30, 2005.

Net income for the first nine months of 2006 amounted to $602.5 million compared to $528.7 million for the same period in the prior year, an increase of $73.8 million, or 13.9%. Diluted earnings per share were $2.38 for the nine months ended September 30, 2006, compared with $2.25 for the nine months ended September 30, 2005, an increase of 5.8%. The return on average assets and average equity was 1.56% and 14.78%, respectively, for the nine months ended September 30, 2006, and 1.66% and 16.63%, respectively, for the nine months ended September 30, 2005.

Net income for three and nine months ended September 30, 2006, includes the impact of the mark-to-market adjustments associated with certain interest rate swaps. Based on expanded interpretations of SFAS 133, specifically hedge designation under the "matched-terms" method, it was recently determined that certain transactions do not qualify for hedge accounting. The impact, which is reported in Net derivative gains-discontinued hedges in the Consolidated Statements of Income, was immaterial to the results of operations for the nine months ended September 30, 2006, increasing net income by $1.1 million and having no effect on diluted earnings per share. For the three months ended September 30, 2006, the impact resulted in an increase to net income of $28.0 million and an increase to diluted earnings per share of $0.11 per share. The interest rate swaps were designed to hedge the change in fair values or cash flows of the underlying assets or liabilities and have performed effectively as economic hedges. Applying fair value accounting (versus hedge accounting) results in greater earnings volatility from period to period, in particular on a linked-quarter basis. Management believes the non-cash changes in earnings based on market volatility are not reflective of the core performance trends of the Corporation.

Excluding the non-cash changes in earnings based on market volatility, for the three months ended September 30, 2006 net income and diluted earnings per share would have been $210.9 million and $0.81 per share respectively, and the return on average assets and return on average equity would have been 1.53% and 14.22%, respectively.

The Corporation is terminating the affected interest rate swaps early in the fourth quarter of 2006 and expects the results of operations for the fourth quarter to reflect losses aggregating approximately $0.05 per diluted share from terminating the affected interest rate swaps. The Corporation strives to manage its interest rate risk position to be relatively neutral.

Earnings growth for the three and nine months ended September 30, 2006 compared to the three and nine months ended September 30, 2005 was attributable to a number of factors. The increase in net interest income was due to strong organic loan and bank issued deposit growth and the contribution from the two banking acquisitions that were completed on April 1, 2006. Strong credit quality has 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, 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 base. Metavante's acquisition activities included one acquisition completed in the third quarter of 2006, one acquisition completed in the first quarter of 2006, two acquisitions completed in the fourth quarter of 2005, three acquisitions completed in the third quarter of 2005 and one acquisition completed in the first quarter of 2005. Net investment securities gains for the three and nine months ended September 30, 2006 amounted to $4.5 million and $6.6 million, respectively compared to $7.4 million and $42.6 million for the three and nine months ended September 30, 2005, respectively. During the second quarter of 2005, the Corporation realized a gain due to the sale of an entity associated with the Corporation's investment in an independent private equity and venture capital partnership. The gross gain amounted to $29.0 million and is reported in Net investment securities gains in the Consolidated Statements of Income. On an after-tax basis, and net of related compensation expense, the gain amounted to $16.2 million or $0.07 per diluted share. The increase in expenses for the three and nine months ended September 30, 2006 compared to the three and nine months ended September 30, 2005 were primarily due to the banking and Metavante acquisitions. These factors along with continued organic expense management resulted in the reported earnings growth in the three and nine months ended 2006 compared to the three and nine months ended September 30, 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 closed acquisitions and the transfer of external item processing which is discussed in the next section. 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 differ materially from expected results.

NOTEWORTHY TRANSACTIONS AND EVENTS

Some of the more noteworthy transactions and events that occurred in the three and nine months ended September 30, 2006 and 2005 consisted of the following:

Third quarter 2006

As previously discussed, the Corporation recently determined that certain transactions did not qualify for hedge accounting. The impact of the mark-to-market adjustments associated with certain interest rate swaps and reported in Net derivative gains-discontinued hedges in the Consolidated Statements of Income, resulted in an increase to net income of $28.0 million and an increase to diluted earnings per share of $0.11 per share for the three months ended September 30, 2006. The impact to the nine months ended September 30, 2006 was not material. Management believes the non-cash changes in earnings based on market volatility are not reflective of the core performance trends of the Corporation. See Note 3 in Notes to Financial Statements for further discussion.

For the three months ended September 30, 2006, Salaries and employee benefits expense included $7.2 million of expense for stock options and the Corporation's employee stock purchase plan ("ESPP"), which reduced net income by $4.7 million or $0.02 per diluted share. The Corporation expects that the additional compensation expense associated with stock options and the ESPP will be dilutive to the Corporation's operating results by $0.04 per diluted share in the fourth quarter of 2006. 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 therefore the full fair value of those awards are immediately expensed. For the year ended December 31, 2006, the Corporation expects that the additional compensation expense associated with stock options and the ESPP will be dilutive to the Corporation's operating results by approximately $0.10 per diluted share compared to $0.11 per diluted share for the year ended December 31, 2005 as adjusted. See Note 12 in Notes to Financial Statements for further information.

Second quarter 2006

The results of operations and financial position as of and for the three and six months ended June 30, 2006 include the effect of the previously announced acquisitions of Gold Banc Corporation, Inc. ("Gold Banc") and Trustcorp Financial, Inc. ("Trustcorp") which were both completed on April 1, 2006. As of April 1, 2006, the combined assets of Gold Banc and Trustcorp amounted to approximately $4.9 billion. The acquired companies had combined loans of $3.9 billion and combined bank issued deposits of $3.1 billion. The combined purchase price for these companies, which included approximately $146.0 million of cash, amounted to $898.2 million. In the aggregate, 16.74 million shares of the Corporation's common stock were issued, and fully vested stock options to purchase 0.5 million of its common stock were exchanged in these transactions.

For the three months ended June 30, 2006, Salaries and employee benefits expense included $7.6 million and Other expense included $0.6 million of expense for stock options and the Corporation's ESPP which reduced net income by $5.3 million or $0.02 per diluted share.

Beginning with the second quarter of 2006, trust services revenue, brokerage and investment advisor revenue and noninterest revenue from the private banking business have been combined and reported in the line item Wealth management in the Consolidated Statements of Income in response to requests by users of the Corporation's financial information. All prior periods have been adjusted for this reclassification.

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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 method 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 awards issued under 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 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.

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 adjusted 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. See Note 15 in Notes to Financial Statements for segment information.

Third 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 included $6.8 million of expense for stock options and the ESPP, which reduced previously reported net income by $4.5 million or $0.02 per diluted share for the three months ended September

30, 2005.

Net investment securities gains as reported in the Consolidated Statements of Income for the third quarter were primarily due to an equity investment that the Corporation liquidated in a cash tender offer. That transaction resulted in a pre-tax gain of $6.6 million or $0.02 per diluted share for the three and nine months ended September 30, 2005.

Second 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 included $6.6 million and adjusted Other expense included $0.7 million of expense for stock options and the ESPP, which reduced previously reported net income by $4.7 million or $0.02 per diluted share for the three months ended June 30, 2005.

During the second quarter of 2005, the Corporation realized a gain due to the sale of an entity associated with the Corporation's investment in an independent private equity and venture capital partnership. The gross gain amounted to $29.0 million and was reported in Net investment securities gains in the Consolidated Statements of Income. On an after-tax basis, and net of related compensation expense, the gain amounted to $16.2 million or $0.07 per diluted share.

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 included $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.

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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 43.0% of the Corporation's source of revenues for the three months ended September 30, 2006 compared to 42.8% for the three months ended September 30, 2005. For the nine months ended September 30, 2006, net interest income represented approximately 43.3% of the Corporation's source of revenues compared to 42.4% for the nine months ended September 30, 2005.

Net interest income for the third quarter of 2006 amounted to $393.2 million compared to $321.8 million reported for the third quarter of 2005, an increase of $71.4 million or 22.2%. For the nine months ended September 30, 2006, net interest income amounted to $1,095.1 million compared to $933.7 million for the nine months ended September 30, 2005, an increase of $161.4 million or 17.3%. Both acquisition-related and organic loan growth, as well as the growth in noninterest bearing and other bank issued deposits, were the primary contributors to the increase in net interest income. Factors negatively affecting net interest income compared to the prior year included the impact of the financing costs associated with the 2006 banking acquisitions and Metavante's acquisitions, common stock buybacks and a general shift in the bank issued deposit mix from lower cost to higher cost deposit products in response to increasing interest rates.

Average earning assets in the third quarter of 2006 amounted to $48.1

billion compared to $39.0 billion in the third quarter of 2005, an increase of $9.1 billion or 23.5%. Average loans and leases accounted for $8.1 billion of the growth in average earning assets in the third quarter of 2006 compared to the third quarter of 2005. Average investment securities increased $1.0 billion over the prior year quarter. The growth in average investment securities was primarily due to the banking acquisitions.

Average interest bearing liabilities increased $8.6 billion or 26.3% in the third quarter of 2006 compared to the third quarter of 2005. Average interest bearing deposits increased $6.1 billion or 28.9% in the third quarter of 2006 compared to the third quarter of 2005. Average total borrowings, primarily long-term borrowings, increased $2.5 billion or 21.5% in the third quarter of 2006 compared to the same period in 2005.

For the nine months ended September 30, 2006, average earning assets amounted to $45.6 billion compared to $37.7 billion in the nine months ended September 30, 2005, an increase of $7.9 billion or 21.1%. Average loans and leases accounted for $7.1 billion of the growth in average earning assets in the nine months ended September 30, 2006 compared to the nine months ended September 30, 2005. Average investment securities increased $0.8 billion over the comparative nine month periods. The growth in average investment securities was primarily due to the banking acquisitions.

Average interest bearing liabilities increased $7.4 billion or 23.3% in the nine months ended September 30, 2006 compared to the nine months ended September 30, 2005. Average interest bearing deposits increased $5.0 billion or 23.8% in the nine months ended September 30, 2006 compared to the nine months ended September 30, 2005. Average total borrowings, primarily long-term borrowings, increased $2.4 billion or 22.2% over the comparative nine month periods.

Average noninterest bearing deposits increased $0.4 billion or 8.2% in the three months ended September 30, 2006 compared to the three months ended September 30, 2005. For the nine months ended September 30, 2006 compared to the nine months ended September 30, 2005, average noninterest bearing deposits increased $0.4 billion or 8.5%.

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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.	
	Third Quarter	Second Quarter	First Quarter	Fourth Quarter	Third Quarter	Annual	Prior Quarte
Commercial Loans and Leases							
Commercial	$ 11,559	$ 11,441	$ 9,877	$ 9,290	$ 9,126	26.7 %	1.0
Commercial real estate							
Commercial mortgages	10,838	10,746	8,839	8,850	8,661	25.1	0.8
Construction	3,227	2,834	1,742	1,564	1,484	117.4	13.9

Total commercial real estate	14,065	13,580	10,581	10,414	10,145	38.6	3.6
Commercial lease financing	529	504	493	471	462	14.4	5.0
Total Commercial Loans and Leases	26,153	25,525	20,951	20,175	19,733	32.5	2.5
Personal Loans and Leases							
Residential real estate							
Residential mortgages	5,924	5,621	5,190	4,855	4,537	30.6	5.4
Construction	2,471	2,365	2,085	1,862	1,633	51.3	4.5
Total residential real estate	8,395	7,986	7,275	6,717	6,170	36.1	5.1
Personal loans							
Student	47	51	99	78	74	(36.7)	(8.5)
Credit card	246	237	227	233	228	7.8	3.6
Home equity loans and lines	4,474	4,596	4,706	4,822	4,905	(8.8)	(2.7)
Other	1,143	1,167	1,289	1,245	1,241	(7.9)	(2.0)
Total personal loans	5,910	6,051	6,321	6,378	6,448	(8.4)	(2.3)
Personal lease financing	150	136	132	132	128	17.5	10.4
Total Personal Loans and Leases	14,455	14,173	13,728	13,227	12,746	13.4	2.0
Total Consolidated Average Loans and Leases	$ 40,608	$ 39,698	$ 34,679	$ 33,402	$ 32,479	25.0 %	2.3

Total consolidated average loans and leases increased $8.1 billion or 25.0% in the third quarter of 2006 compared to the third quarter of 2005. Excluding the effect of the banking acquisitions, total consolidated average loan and lease organic growth was 11.6% in the third quarter of 2006 compared to the third quarter of 2005. Approximately $3.9 billion of the growth in total consolidated average loans and leases was attributable to the banking acquisitions and $4.2 billion of the growth was organic. Of the $3.9 billion of average growth attributable to the banking acquisitions, $2.8 billion was attributable to average commercial real estate loans, $0.8 billion was attributable to average commercial loans and leases and $0.3 billion was attributable to average residential real estate loans. Of the $4.2 billion of average loan and lease organic growth, $1.7 billion was attributable to average commercial loans and leases, $1.1 billion was attributable to average commercial real estate loans, and $2.0 billion was attributable to residential real estate loans. From a production standpoint, residential real estate loan closings in the third quarter of 2006 were $1.2 billion compared to $1.4 billion in the second quarter of 2006 and $1.7 billion in the third quarter of 2005. Average home equity loans and lines declined $0.4 billion in the third quarter of 2006 compared to the third quarter of 2005.

For the nine months ended September 30, 2006, total consolidated average loans and leases increased $7.1 billion or 22.8% compared to the nine months ended September 30, 2005. Excluding the effect of the banking acquisitions, total consolidated average loan and lease organic growth was 13.3% for the nine months ended September 30, 2006 compared to the nine months ended September 30, 2005. Approximately $2.6 billion of the growth in total consolidated average loans and leases was attributable to the banking acquisitions and $4.5 billion of the growth was organic. Of the

$2.6 billion of average growth attributable to the banking acquisitions, $1.9 billion was attributable to average commercial real estate loans, $0.5 billion was attributable to average commercial loans and leases and the remainder was primarily attributable to average residential real estate loans. Of the $4.5 billion of average loan and lease organic growth, $1.7 billion was attributable to average commercial loans and leases, $1.0 billion was attributable to average commercial real estate loans, and $2.3 billion was attributable to residential real estate loans. From a production standpoint, residential real estate loan closings in the nine months ended September 30, 2006 and 2005 amounted to $3.8 billion and $4.4 billion, respectively. Average home equity loans and lines declined $0.5 billion in the nine months ended September 30, 2006 compared to the nine months ended September 30, 2005.

Total average commercial loan and lease organic growth continued to be strong in the third quarter and first nine months 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 year over year 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. Recently the Corporation has experienced some slowing in the construction market for both commercial and residential developers, and to some extent throughout the commercial real estate business.

Home equity loans and lines, which includes M&I's wholesale activity, continue to be one of the Corporation's primary consumer loan products. Average home equity loans and lines declined in the third quarter of 2006 compared to the third 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 certain loans at origination, which is partly in response to the Corporation's 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.

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 September 30, 2006 and 2005, real estate loans sold to investors amounted to $0.6 billion and $0.8 billion, respectively. For the nine months ended September 30, 2006, real estate loans sold to investors amounted to $1.8 billion compared to $1.7 billion for the nine months ended September 30, 2005. At September 30, 2006 and 2005, the Corporation had approximately $101.0 million and $191.6 million of mortgage loans held for sale, respectively. Gains from the sale of mortgage loans amounted to $11.7 million in the third quarter of 2006 compared to $13.9 million in the third quarter of 2005. For the nine months ended September 30, 2006, gains from the sale of mortgage loans amounted to $32.6 million compared to $30.4 million in the nine months ended September 30, 2005.

Auto loans securitized and sold in the third quarters of 2006 and 2005 amounted to $0.1 billion and $0.2 billion, respectively. For the nine months ended September 30, 2006 and September 30, 2005, auto loans securitized and sold amounted to $0.4 billion, respectively. The net gains and losses from the sale and securitization of auto loans for the three and nine months ended September 30, 2006 and 2005, respectively, were not significant.

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

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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.	
	Third Quarter	Second Quarter	First Quarter	Fourth Quarter	Third Quarter	Annual	Prior Quarte
Bank issued deposits							
Noninterest bearing deposits							
Commercial	$ 3,948	$ 3,873	$ 3,473	$ 3,687	$ 3,589	10.0 %	1.9
Personal	953	998	943	942	932	2.2	(4.6)
Other	561	533	526	566	528	6.2	5.4
Total noninterest bearing deposits	5,462	5,404	4,942	5,195	5,049	8.2	1.1
Interest bearing deposits							
Savings and NOW	3,081	3,251	2,831	2,911	3,049	1.0	(5.2)
Money market	7,795	7,389	6,599	6,354	6,047	28.9	5.5
Foreign activity	1,151	1,000	1,034	1,084	932	23.5	15.1
Total interest bearing deposits	12,027	11,640	10,464	10,349	10,028	19.9	3.3
Time deposits							
Other CDs and time deposits	4,843	4,769	3,509	3,354	3,095	56.5	1.5
CDs greater than $100,000	3,137	2,878	2,035	1,703	1,421	120.6	9.0
Total time deposits	7,980	7,647	5,544	5,057	4,516	76.7	4.4
Total bank issued deposits	25,469	24,691	20,950	20,601	19,593	30.0	3.1
Wholesale deposits							
Money market	795	737	893	1,074	1,068	(25.5)	7.9
Brokered CDs	5,510	5,382	3,874	4,752	4,615	19.4	2.4
Foreign time	1,147	1,931	1,762	897	1,076	6.6	(40.6)
Total wholesale deposits	7,452	8,050	6,529	6,723	6,759	10.3	(7.4)
Total consolidated average deposits	$ 32,921	$ 32,741	$ 27,479	$ 27,324	$ 26,352	24.9 %	0.5

Average total bank issued deposits increased $5.9 billion or 30.0% in the third quarter of 2006 compared to the third quarter of 2005. Excluding the effect of the banking acquisitions, average total bank issued deposit organic growth was 12.4% in the third quarter of 2006 compared to the third quarter of 2005. Approximately $3.1 billion of the growth in average total bank issued deposits was attributable to the banking acquisitions and $2.8 billion of the growth was organic. Of the $3.1 billion of average growth attributable to the banking acquisitions, $0.4 billion was attributable to average noninterest bearing deposits, $1.0 billion was attributable to average interest bearing deposits and $1.7 billion was attributable to average time deposits. Of the $2.8 billion of average bank issued deposit organic growth, $1.0 billion was attributable to average interest bearing deposits and $1.8 billion was attributable to average time deposits.

For the nine months ended September 30, 2006, average total bank issued deposits increased $4.8 billion or 25.0% compared to the nine months ended September 30, 2005. Excluding the effect of the banking acquisitions, average total bank issued deposit organic growth was 12.8% in the nine months ended September 30, 2006 compared to the nine months ended September 30, 2005. Approximately $2.1 billion of the growth in average total bank issued deposits was attributable to the banking acquisitions and $2.7 billion of the growth was organic. Of the $2.1 billion of average growth attributable to the banking acquisitions, $0.3 billion was attributable to average noninterest bearing deposits, $0.6 billion was attributable to average interest bearing deposits and $1.2 billion was attributable to average time deposits. Of the $2.7 billion of average bank issued deposit organic growth, $0.2 billion was attributable to average noninterest bearing deposits, $0.8 billion was attributable to average interest bearing deposits and $1.7 billion was attributable to average time deposits.

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.

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 addition, rising interest rates have resulted in a shift in the bank issued deposit mix. In their search for higher yields, both new and existing customers have been migrating their deposit balances to higher cost money market and time deposit products.

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.

Wholesale 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. For the three months ended September 30, 2006, average wholesale deposits increased $0.7 billion, or 10.3% compared to the three months ended September 30, 2005. For the nine months ended September 30, 2006 average wholesale deposits increased $0.6 billion, or 9.3% compared to the nine months ended September 30, 2005. Average wholesale deposits for the three and nine months ended September 30, 2006 include $0.6 billion and $0.4 billion, respectively, of wholesale deposits that were assumed in the 2006 banking acquisitions.

At September 30, 2006, long-term borrowings from the 2006 banking acquisitions amounted to $209.0 million. Approximately $30.0 million was subordinated, $80.0 million was advances from the Federal Home Loan Bank ("FHLB") and $99.0 million was subordinated debt associated with four separate issuances of trust preferred securities. During the third quarter of 2006, $20.0 million of the acquired FHLB advances were paid. During the third quarter of 2006, the Corporation obtained $500.0 million in new FHLB floating rate advances maturing in 2013 and issued $250.0 million of fixed rate global bank notes maturing in 2011. FHLB floating rate advances in the aggregate amount of $310.0 million and $198.4 million of Series E medium term notes matured during the third quarter of 2006.

During the second quarter of 2006, $400.0 million of floating rate global senior bank notes were issued. These floating rate senior bank notes mature in 2011 and have a coupon rate that is indexed to the three-month London Inter-Bank Offered Rate ("LIBOR").

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 LIBOR. During the first quarter of 2006, $250.0 million of senior bank notes - Extendible Liquidity Securities matured.

During the third quarter of 2005, $350.0 million of subordinated bank notes were issued. The subordinated bank notes mature in 2015 and have a coupon rate of 4.85%. Senior bank notes in an aggregate amount of $525.0 million were also issued during the third quarter of 2005. The senior bank notes are floating rate and mature at various times in 2007 and 2010.

During the first quarter of 2005 the Corporation obtained a new floating rate advance from the FHLB aggregating $250.0 million. The FHLB advance matures in 2011. 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.

The Corporation's consolidated average interest earning assets and interest bearing liabilities, interest earned and interest paid for the three and nine months ended September 30, 2006 and 2005, are presented in the following tables ($ in millions):

Consolidated Yield and Cost Analysis

	Three Months Ended September 30, 2006			Three Months Ended September 30, 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	$ 12,088.3	$ 232.2	7.62 %	$ 9,588.0	$ 149.2	6.17 %
Commercial real estate loans	14,064.5	270.3	7.63	10,145.5	161.8	6.33
Residential real estate loans	8,395.4	150.6	7.12	6,169.5	96.1	6.18
Home equity loans and lines	4,473.7	84.4	7.49	4,905.1	78.1	6.32
Personal loans and leases	1,586.5	29.6	7.40	1,671.2	26.2	6.21
Total loans and leases	40,608.4	767.1	7.49	32,479.3	511.4	6.25
Investment securities (b):						
Taxable	5,880.5	73.5	4.85	4,839.7	53.8	4.40
Tax Exempt (a)	1,286.1	22.1	6.86	1,369.5	24.2	7.16
Total investment securities	7,166.6	95.6	5.20	6,209.2	78.0	4.99
Trading securities (a)	53.5	0.2	1.38	26.3	0.1	0.90
Other short-term investments	302.9	4.4	5.79	272.7	2.7	3.86
Total interest earning assets	$ 48,131.4	$ 867.3	7.13 %	$ 38,987.5	$ 592.2	6.03 %
Interest bearing deposits:						
Bank issued deposits:						
Bank issued interest bearing activity deposits	$ 12,026.4	$ 105.2	3.47 %	$ 10,027.5	$ 52.0	2.06 %
Bank issued time deposits	7,979.7	91.5	4.55	4,516.3	37.4	3.29
Total bank issued deposits	20,006.1	196.7	3.90	14,543.8	89.4	2.44
Wholesale deposits	7,452.6	94.0	5.00	6,758.9	56.1	3.29
Total interest bearing deposits	27,458.7	290.7	4.20	21,302.7	145.5	2.71
Short-term borrowings	3,663.9	49.7	5.39	2,859.0	27.9	3.88
Long-term borrowings	10,366.4	126.4	4.84	8,685.9	88.5	4.04
Total interest bearing liabilities	$ 41,489.0	$ 466.8	4.46 %	$ 32,847.6	$ 261.9	3.16 %
Net interest margin (FTE)		$ 400.5	3.29 %		$ 330.3	3.36 %
Net interest spread (FTE)			2.67 %			2.87 %

(a) Fully taxable equivalent ("FTE") basis, assuming a Federal income tax rate of 35%, and excluding disallowed interest expense.
(b) Based on average balances excluding fair value adjustments for available for sale securities.

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Consolidated Yield and Cost Analysis

	Nine Months Ended September 30, 2006			Nine Months Ended September 30, 2005		
			Average			Average

	Average Balance	Interest	Yield or Cost (b)	Average Balance	Interest	Yield or Cost (b)
Loans and leases: (a)						
Commercial loans and leases	$ 11,473.9	$ 627.1	7.31 %	$ 9,270.2	$ 406.3	5.86 %
Commercial real estate loans	12,754.5	700.0	7.34	9,845.4	451.8	6.14
Residential real estate loans	7,889.6	413.1	7.00	5,427.3	243.3	5.99
Home equity loans and lines	4,590.9	248.0	7.22	5,043.9	232.5	6.16
Personal loans and leases	1,641.1	87.3	7.11	1,641.7	72.5	5.91
Total loans and leases	38,350.0	2,075.5	7.24	31,228.5	1,406.4	6.02
Investment securities (b):						
Taxable	5,562.7	202.3	4.77	4,830.4	159.0	4.39
Tax Exempt (a)	1,314.1	68.4	7.03	1,327.5	71.1	7.32
Total investment securities	6,876.8	270.7	5.19	6,157.9	230.1	5.01
Trading securities (a)	46.0	0.5	1.37	25.0	0.2	0.96
Other short-term investments	330.9	13.0	5.25	244.1	6.3	3.44
Total interest earning assets	$ 45,603.7	$2,359.7	6.90 %	$ 37,655.5	$1,643.0	5.84 %
Interest bearing deposits:						
Bank issued deposits:						
Bank issued interest bearing activity deposits	$ 11,382.5	$ 274.4	3.22 %	$ 9,918.7	$ 127.5	1.72 %
Bank issued time deposits	7,065.9	225.8	4.27	4,192.6	95.1	3.03
Total bank issued deposits	18,448.4	500.2	3.62	14,111.3	222.6	2.11
Wholesale deposits	7,347.2	260.8	4.75	6,720.4	149.2	2.97
Total interest bearing deposits	25,795.6	761.0	3.94	20,831.7	371.8	2.39
Short-term borrowings	3,485.5	132.2	5.07	3,048.0	78.3	3.43
Long-term borrowings	9,943.7	348.5	4.69	7,942.5	234.2	3.94
Total interest bearing liabilities	$ 39,224.8	$1,241.7	4.23 %	$ 31,822.2	$ 684.3	2.87 %
Net interest margin (FTE)		$1,118.0	3.27 %		$ 958.7	3.41 %
Net interest spread (FTE)			2.67 %			2.97 %

(a) Fully taxable equivalent ("FTE") basis, assuming a Federal income tax rate of 35%, and excluding disallowed interest expense.
(b) Based on average balances excluding fair value adjustments for available for sale securities.

The net interest margin FTE decreased 7 basis points from 3.36% in the third quarter of 2005 to 3.29% in the third quarter of 2006. For the nine months ended September 30, 2006, the net interest margin FTE was 3.27% compared to 3.41% for the nine months ended September 30, 2005, a decrease of 14 basis points. 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 adjusted for this reclassification. The net interest margin FTE increased by approximately 9 basis points for both of the three and nine month periods ended September 30, 2005, respectively from the previously reported amounts due to this reclassification.

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. Net interest income and the net interest margin percentage for the three months ended September 30, 2006 was positively impacted by prepayment activity and the receipt of interest payments on nonaccrual loans. Similar to the general trends being experienced throughout the industry, the Corporation continues to be challenged by narrowing loan spreads in a solid economy with a flat yield curve, loan growth that may exceed the Corporation's ability to generate appropriately priced deposits and the shift in the bank issued deposit mix by new and existing depositors into higher yielding products. Management expects these trends to continue and expects that there will be modest downward pressure on the net interest margin FTE for the remainder of 2006.

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PROVISION FOR LOAN AND LEASE LOSSES AND CREDIT QUALITY

The following tables present comparative consolidated credit quality information as of September 30, 2006, and the prior four quarters:

Nonperforming Assets

($000's)

	2006			2005	
	Third Quarter	Second Quarter	First Quarter	Fourth Quarter	Thir Quart
Nonaccrual	$ 213,920	$ 193,028	$ 144,484	$ 134,718	$ 141,
Renegotiated	130	133	138	143	
Past due 90 days or more	5,132	4,855	4,523	5,725	5,
Total nonperforming loans and leases	219,182	198,016	149,145	140,586	147,
Other real estate owned	15,152	11,701	8,207	8,869	8,
Total nonperforming assets	$ 234,334	$ 209,717	$ 157,352	$ 149,455	$ 156,
Allowance for loan and lease losses	$ 417,375	$ 415,201	$ 368,760	$ 363,769	$ 362,

Consolidated Statistics

	2006			2005	
	Third	Second	First	Fourth	Thir

	Quarter	Quarter	Quarter	Quarter	Quart
Net charge-offs to average loans and leases annualized	0.08 %	0.10 %	0.07 %	0.14 %	0
Total nonperforming loans and leases to total loans and leases	0.53	0.49	0.42	0.41	0
Total nonperforming assets to total loans and leases and other real estate owned	0.57	0.52	0.45	0.44	0
Allowance for loan and lease losses to total loans and leases	1.01	1.03	1.05	1.06	1
Allowance for loan and lease losses to total nonperforming loans and lease	190	210	247	259	

Nonaccrual Loans and Leases By Type

($000's)

	2006			2005	
	Third Quarter	Second Quarter	First Quarter	Fourth Quarter	Thir Quart
Commercial					
Commercial, financial and agricultural	$ 56,541	$ 59,558	$ 50,103	$ 43,730	$ 47,
Lease financing receivables	539	454	1,399	1,539	3,
Total commercial	57,080	60,012	51,502	45,269	50,
Real estate					
Construction and land development	47,265	33,115	3,276	913	3,
Commercial mortgage	34,191	34,260	30,633	28,644	30,
Residential mortgage	73,842	64,151	57,425	57,982	56,
Total real estate	155,298	131,526	91,334	87,539	89,
Personal	1,542	1,490	1,648	1,910	
Total nonaccrual loans and leases	$ 213,920	$ 193,028	$ 144,484	$ 134,718	$ 141,

Reconciliation of Allowance for Loan and Lease Losses

($000's)

	2006			2005	
	Third Quarter	Second Quarter	First Quarter	Fourth Quarter	Thir Quart
Beginning balance	$ 415,201	$ 368,760	$ 363,769	$ 362,257	$ 360,
Provision for loan and lease losses	10,250	11,053	10,995	12,995	9,

Allowance of banks and loans acquired	--	45,258	--	--	
Loans and leases charged-off					
Commercial	4,073	6,125	3,869	9,481	2,
Real estate	4,971	3,385	2,901	3,110	6,
Personal	3,516	3,088	3,727	5,213	3,
Leases	165	1,253	189	226	
Total charge-offs	12,725	13,851	10,686	18,030	12,
Recoveries on loans and leases					
Commercial	2,251	847	2,715	4,256	2,
Real estate	783	1,224	263	374	
Personal	1,031	1,149	971	781	
Leases	584	761	733	1,136	
Total recoveries	4,649	3,981	4,682	6,547	4,
Net loans and leases charged-off	8,076	9,870	6,004	11,483	7,
Ending balance	$ 417,375	$ 415,201	$ 368,760	$ 363,769	$ 362,

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 $15.2 million at September 30, 2006, compared to $11.7 million at June 30, 2006 and $8.8 million at September 30, 2005. Approximately $2.2 million of the OREO outstanding at September 30, 2006 is attributable to the OREO acquired from the two banking acquisitions that were completed on April 1, 2006. The increase in OREO from June 30, 2006 to September 30, 2006 was primarily due to the OREO acquired in satisfaction of commercial real estate and construction and land development problem loans.

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.

At September 30, 2006, nonperforming loans and leases amounted to $219.2 million or 0.53% of consolidated loans and leases compared to $198.0 million or 0.49% of consolidated loans and leases at June 30, 2006, and $147.3 million or 0.44% of consolidated loans and leases at September 30, 2005. Approximately $51.9 million of total nonperforming loans at September 30, 2006 was attributable to the banking acquisitions. Excluding the effect of the acquisitions, nonperforming loans and leases would have amounted to $167.3 million or 0.45% of consolidated loans and leases at September 30, 2006 and $155.3 million or 0.43% of consolidated loans and leases at June 30, 2006. Excluding the acquisitions, the pro forma ratio of nonperforming loans and leases to consolidated loans and leases at September 30 and June 30, 2006 and the actual ratio at each quarter end throughout 2005 and the first quarter of 2006 has remained in a fairly narrow range. Nonaccrual loans and leases continue to be the primary source of nonperforming loans and leases.

Net charge-offs amounted to $8.1 million or 0.08% of average loans and leases in the third quarter of 2006 compared to $9.9 million or 0.10% of average loans and leases in the second quarter of 2006 and $7.8 million or 0.10% of average loans and leases in the third quarter of 2005. The lower level of net charge-offs experienced throughout 2005 and the first nine 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. The ratio of recoveries to charge-offs was 36.5% and 35.7% for the three and nine months ended September 30, 2006, respectively and continues to be above the Corporation's five year historical average ratio of recoveries to charge-offs of 27.9%.

The housing slowdown is impacting the performance of some of the Corporation's construction and land development loans. A re-balancing of supply and demand within the national housing market has reduced both absorption rates and valuations causing stress for some borrowers within this loan segment. These loans are geographically dispersed and are in both the Corporation's core and acquired loan portfolios. The Corporation has taken these exposures into consideration in determining the adequacy of its allowance for loan and lease losses.

As a result of these portfolio trends, management is revising the expected level of nonperforming loans and leases to be in the range of 65 to 75 basis points of total loans and leases and continues to expect net charge-offs to trend to historical levels (five year average net charge-offs ratio was 0.17%).

The provisions for loan and lease losses amounted to $10.3 million for the three months ended September 30, 2006 compared to $11.1 million for the three months ended June 30, 2006 and $9.9 million for the three months ended September 30, 2005. For the nine months ended September 30, 2006, the provisions for loan and lease losses amounted to $32.3 million compared to $31.8 million for the nine months ended September 30, 2005. The allowance for loan and lease losses as a percent of consolidated loans and leases outstanding was 1.01% at September 30, 2006, 1.03% at June 30, 2006 and 1.09% at September 30, 2005.

OTHER INCOME

Other income or noninterest sources of revenue represented approximately 57.0% and 57.2% of the Corporation's total sources of revenues for the three months ended September 30, 2006 and 2005, respectively. Total other income in the third quarter of 2006 amounted to $521.1 million compared to $430.1 million in the same period last year, an increase of $91.0 million or 21.2%. For the nine months ended September 30, 2006 and 2005, noninterest sources of revenue represented approximately 56.7% and 57.6%, respectively of the Corporation's total sources of revenues. Total other income for the nine months ended September 30, 2006 amounted to $1,433.0 million compared to $1,266.9 million for the nine months ended September 30, 2005, an increase of $166.1 million or 13.1%. The increase in other income was primarily due to growth in data processing services and wealth management services revenue. As previously discussed, other income for the three months ended September 30, 2006 included significant mark-to-market adjustments for derivative financial instruments that did not qualify for hedge accounting and other income for the nine months ended September 30, 2005 includes significant investment securities gains.

Data processing services revenue (Metavante) amounted to $339.5 million in the third quarter of 2006 compared to $296.0 million in the third quarter of 2005, an increase of $43.5 million or 14.7%. For the nine months ended September 30, 2006, Data processing services revenue amounted to $1,027.5 million compared to $861.3 million for the nine months ended September 30, 2005, an increase of $166.2 million or 19.3%. 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 and nine months ended September 30, 2006, compared to the three and nine months ended September 30, 2005. The acquisition related revenue growth includes cross sales of acquired products to clients across the entire segment. Metavante estimates that total revenue growth (internal and external) for the nine months ended September 30, 2006 compared to the nine months ended September 30, 2005 excluding the acquisitions ("organic revenue growth"), was approximately 8.0%. To determine the estimated organic revenue growth rate, Metavante adjusts its prior year revenue for the acquisitions as if they had been consummated on January 1 of the prior year. Total external buyout revenue, which varies from period to period, increased $7.2 million and $9.1 million in the three and nine months ended September 30, 2006 compared to the three and nine months ended September 30, 2005, respectively.

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As previously reported, on January 1, 2006 the Banking segment transferred its external item processing business, including all check-processing client relationships, to Metavante. 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.

Management continues to expect 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 and segment income are expected to exceed prior year levels. These expectations include the impact of all closed acquisitions and the transfer of external item processing.

As previously discussed, beginning with the second quarter of 2006, trust services revenue, brokerage and investment advisor revenue and noninterest revenue from the private banking business have been combined and reported in the line item Wealth management in the Consolidated Statements of Income in response to requests by users of the Corporation's financial information. All prior periods have been adjusted for this reclassification.

Wealth management revenue amounted to $54.6 million in the third quarter of 2006 compared to $48.3 million in the third quarter of 2005, an increase of $6.3 million or 13.1%. For the nine months ended September 30, 2006, wealth management revenue amounted to $163.7 million compared to $143.5 million for the nine months ended September 30, 2005, an increase of $20.2 million or 14.1%. For the three and nine months ended September 30, 2006, wealth management revenue attributable to the previously reported January 3, 2006 acquisition of certain assets of First Trust

Indiana and the acquisition of Gold Banc amounted to $2.0 million and $5.4 million, respectively. Continued success in the cross-selling and integrated delivery initiatives, improved investment performance and improving results in institutional sales efforts and outsourcing activities were the primary contributors to the remaining revenue growth over the respective periods. Assets under management were approximately $21.0 billion at September 30, 2006 compared to $20.4 billion at June 30, 2006, and $18.7 billion at September 30, 2005.

Service charges on deposits amounted to $25.7 million in the third quarter of 2006 compared to $23.6 million in the third quarter of 2005. For the nine months ended September 30, 2006, service charges on deposits amounted to $73.3 million compared to $70.7 million for the nine months ended September 30, 2005. The banking acquisitions contributed $2.2 million and $4.3 million of service charges on deposits for the three and nine months ended September 30, 2006, respectively. 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. Excluding the effect of the banking acquisitions, lower service charges on deposits associated with commercial demand deposits accounted for the majority of the decline in this revenue in the three and nine months ended September 30, 2006 compared to the three and nine months ended September 30, 2005, respectively.

Total mortgage banking revenue was $13.4 million in the third quarter of 2006 compared with $15.8 million in the third quarter of 2005, a decrease of $2.4 million or 15.0%. For the nine months ended September 30, 2006, total mortgage banking revenue amounted to $38.1 million compared to $35.1 million for the nine months ended September 30, 2005, an increase of $3.0 million or 8.5%. For the three months ended September 30, 2006 and 2005, the Corporation sold $0.6 billion and $0.8 billion of residential mortgage and home equity loans to the secondary market, respectively. For the nine months ended September 30, 2006 and 2005, the Corporation sold $1.8 billion and $1.7 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 which is partly in response to the 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 $0.6 million for the nine months ended September 30, 2006 and $0.8 million for the nine months ended September 30, 2005. At September 30, 2006, mortgage servicing rights amounted to $2.3 million.

Net investment securities gains amounted to $4.5 million in the third quarter of 2006 compared to $7.4 million in the third quarter of 2005. For the nine months ended September 30, 2006, net investment securities gains amounted to $6.6 million compared to $42.6 million for the nine months ended September 30, 2005. During the third quarter of 2005, an equity investment the Corporation had in a company was liquidated in a cash tender offer resulting in a gain of $6.6 million. As previously discussed, during the second quarter of 2005, the Corporation realized a gain due to the sale of an entity associated with its investment in an independent private equity and venture partnership. The gross gain amounted to $29.0 million. 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 $5.3 million. An additional $0.3 million was received in the third quarter of 2005.

Net derivative gains-discontinued hedges for the three and nine months ended September 30, 2006 amounted to $43.8 million and $1.8 million, respectively. The mark-to-market adjustments represent the non-cash changes in earnings based on market volatility associated with certain interest rate swaps that do not qualify for hedge accounting. The interest rate swaps were designed to hedge the change in fair values or cash flows of the underlying assets or liabilities and have performed effectively as economic hedges. Applying fair value accounting (versus hedge accounting) results in greater earnings volatility from period to period, in particular on a linked-quarter basis. Management believes these non-cash changes in earnings based on market volatility are not reflective of the core performance trends of the Corporation.

Other income in the third quarter of 2006 amounted to $32.3 million compared to $32.7 million in the third quarter of 2005, a decrease of $0.4 million or 1.4%. For the nine months ended September 30, 2006, other income amounted to $100.3 million compared to $93.0 million for the nine months ended September 30, 2005, an increase of $7.3 million or 7.8%. Other income for the three and nine months ended September 30, 2006 included $1.3 million and $3.0 million, respectively, of income attributable to the banking acquisitions.

OTHER EXPENSE

Total other expense for the three months ended September 30, 2006 amounted to $546.6 million compared to $470.6 million for the three months ended September 30, 2005, an increase of $76.0 million or 16.2%. For the nine months ended September 30, 2006, total other expense amounted to $1,596.0 million compared to $1,373.4 million for the nine months ended September 30, 2005, an increase of $222.6 million or 16.2%.

Total other expense for the three and nine months ended September 30, 2006 included the operating expenses associated with Metavante's 2005 and 2006 acquisitions, the 2006 banking acquisitions and the 2006 acquisition of certain assets of First Trust Indiana. The operating expenses of the acquired entities have been included in the Corporation's consolidated operating expenses from the dates the transactions were completed, which had a significant impact on the period to period comparability of operating expenses in 2006 compared to 2005. Approximately $51.1 million of the operating expense growth in the third quarter of 2006 compared to the third quarter of 2005 and $160.1 million of the operating expense growth in the nine months ended September 30, 2006 compared to the nine months ended September 30, 2005 was attributable to the acquisitions including conversion and integration expenses related to the banking acquisitions.

The Corporation estimates that its expense growth in the three months ended September 30, 2006 compared to the three months ended September 30, 2005, excluding the effects of the acquisitions, was approximately $25.0 million or 5.4%. For the nine months ended September 30, 2006 compared to the nine months ended September 30, 2005, the Corporation estimates that its expense growth, excluding the effects of the acquisitions, was approximately $62.5 million or 4.6%.

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 derivative gains-discontinued hedges) and net interest income on a fully taxable equivalent basis. The Corporation's efficiency ratios for the three months ended September 30, 2006, and prior four quarters were:

Efficiency Ratios

	Three Months Ended				
	September 30, 2006	June 30, 2006	March 31, 2006	December 31, 2005	September 2005
Consolidated Corporation	62.6 %	62.9 %	62.8 %	64.1 %	62.
Consolidated Corporation Excluding Metavante	52.4 %	51.2 %	48.8 %	51.5 %	50.

Salaries and employee benefits expense amounted to $314.3 million in the third quarter of 2006 compared to $278.0 million in the third quarter of 2005, an increase of $36.3 million or 13.1%. For the nine months ended September 30, 2006, Salaries and employee benefits expense amounted to $898.8 million compared to $792.1 million for the nine months ended September 30, 2005, an increase of $106.7 million or 13.5%. Salaries and benefits associated with the acquisitions previously discussed accounted for approximately $18.5 million and $63.1 million of the increase in Salaries and employee benefits expense in the three and nine months ended September 30, 2006 compared to the three and nine months ended September 30, 2005, respectively.

For the third quarter of 2006, occupancy and equipment expense amounted to $61.8 million compared to $54.6 million in the third quarter of 2005, an increase of $7.2 million or 13.2%. The acquisitions accounted for approximately $6.6 million of the increase in occupancy and equipment expense in the three months ended September 30, 2006 compared to the three months ended September 30, 2005. For the nine months ended September 30, 2006, occupancy and equipment expense amounted to $183.5 million compared to $158.8 million for the nine months ended September 30, 2005, an increase of $24.6 million or 15.5%. The acquisitions accounted for approximately $19.4 million of the increase in occupancy and equipment expense in the nine months ended September 30, 2006 compared to the nine months ended September 30, 2005. The remaining increase in occupancy and equipment expense for the three and nine months ended September 30, 2006 compared to the three and nine months ended September 30, 2005 was primarily attributable to the banking segment and wealth management.

Software expenses, processing charges, supplies and printing, professional services and shipping and handling expenses totaled $88.0 million in the third quarter of 2006 compared to $68.0 million in the third quarter of 2005, an increase of $20.0 million or 29.4%. For the nine months ended September 30, 2006, software expenses, processing charges, supplies and printing, professional services and shipping and handling expenses totaled $263.0 million compared to $196.3 million for the nine months ended September 30, 2005, an increase of $66.7 million or 34.0%. The acquisitions accounted for $14.4 million and $49.5 million of the expense growth for the three and nine months ended September 30, 2006 compared to the three and nine months ended September 30, 2005, respectively. Metavante's expense growth accounted for the majority of the remaining increase in expense for these items in the three and nine months ended September 30, 2006 compared to the three and nine months ended September 30, 2005, respectively.

Amortization of intangibles amounted to $12.1 million in the third quarter of 2006 compared to $6.1 million in the third quarter of 2005, an increase of $6.0 million. For the nine months ended September 30, 2006, amortization of intangibles amounted to $33.0 million compared to $22.3 million for the nine months ended September 30, 2005, an increase of $10.7 million. The increase in amortization associated with the acquisitions amounted to $4.6 million and $11.6 million for the three and nine months ended September 30, 2006 compared to the three and nine months ended September 30, 2005, respectively. Those increases were offset by lower amortization of core deposit intangibles, which is based on a declining balance method and lower amortization of Metavante's contract intangibles from previous acquisitions.

Other expense amounted to $70.3 million in the third quarter of 2006 compared to $63.8 million in the third quarter of 2005, an increase of $6.5 million or 10.1%. For the nine months ended September 30, 2006, other expense amounted to $217.7 million compared to $203.9 million for the nine months ended September 30, 2005, an increase of $13.8 million or 6.8%.

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 $0.5 million in the third quarter of 2006 compared to $2.1 million in the third quarter of 2005, a decrease of $1.6 million. For the nine months ended September 30, 2006, net software and conversion amortization was $2.6 million compared to $13.6 million for the nine months ended September 30, 2005, a decrease of $11.0 million.

The acquisitions accounted for $6.9 million and $15.4 million of the growth in other expense for the three and nine months ended September 30, 2006 compared to the three and nine months ended September 30, 2005, respectively. Excluding the impact of the acquisitions and costs associated with software development and customer data processing conversions, other expense increased $1.0 million or 1.7% in the third quarter of 2006 compared to the third quarter of 2005 and increased $9.3 million or 4.9% for the nine months ended September 30, 2006 compared to the nine months ended September 30, 2005.

INCOME TAXES

The provision for income taxes for the three months ended September 30, 2006 amounted to $118.6 million or 33.2% of pre-tax income compared to $91.8 million or 33.8% of pre-tax income for the three months ended September 30, 2005. For the nine months ended September 30, 2006, the provision for income taxes amounted to $297.3 million or 33.0% of pre-tax income compared to $266.6 million or 33.5% of pre-tax income for the nine months ended September 30, 2005.

RECONCILIATION OF NON-GAAP TO GAAP RESULTS

The Company has provided non-GAAP (Generally Accepted Accounting Principles) operating results for the three months ended September 30, 2006, as a supplement to its GAAP financial results. The Company believes that these non-GAAP financial measures are useful because they allow investors to assess, on a consistent basis, the Company's core operating performance, exclusive of items management believes are not reflective of day-to-day operations of the Company. Management uses such non-GAAP financial measures to evaluate financial results and to establish operational goals. These non-GAAP financial measures should be considered a supplement to, and not as a substitute for, financial measures prepared in accordance with GAAP.

	Three Months Ended September 30, 2006	
	Amount ($ in millions)	Per Diluted Share
Net Income	$ 238.9	$ 0.92
Net Derivative Gains - Discontinued Hedges (after-tax)	(28.0)	(0.11)
Net Income as Adjusted	$ 210.9	$ 0.81
Average Shareholders' Equity	$ 5,860	
Cumulative Net Derivative Gains - Discontinued Hedges (after-tax)	23	
Adjusted Average Shareholders' Equity	$ 5,883	
Based on Net Income as Adjusted:		
Return on Assets	1.53 %	
Return on Equity	14.22	

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LIQUIDITY AND CAPITAL RESOURCES

Shareholders' equity was $6.0 billion or 10.7% of total consolidated assets at September 30, 2006, compared to $4.7 billion or 10.2% of total consolidated assets at December 31, 2005, and $4.6 billion or 10.2% of total consolidated assets at September 30, 2005.

As described in Note 3 to the Consolidated Financial Statements, in conjunction with the adoption of SAB 108 and the determination that certain interest rate swaps do not qualify for hedge accounting, the cumulative effect of adjusting the reported carrying amount of the affected assets, liabilities and accumulated other comprehensive income as of January 1, 2006 resulted in a net reduction to Shareholders' equity of $18.0 million.

During the second quarter of 2006, the Corporation issued 13,672,665 shares of its common stock and exchanged fully vested stock options to purchase 119,816 of its common stock with a total value of $603.9 million in conjunction with the Corporation's acquisition of Gold Banc Corporation, Inc. Also during the second quarter of 2006, the Corporation issued 3,069,328 shares of its common stock and exchanged fully vested stock options to purchase 412,317 of its common stock with a total value of $148.3 million in conjunction with the Corporation's acquisition of Trustcorp Financial, Inc. 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.

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. There were no purchases under the program during the second or third quarters of 2006.

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 in the three or nine months ended September 30, 2006. The aggregate gross proceeds available for future sales was approximately $143.3 million at September 30, 2006.

At September 30, 2006, the net loss in accumulated other comprehensive income amounted to $43.1 million, which represented a negative change in accumulated other comprehensive income of $5.8 million since December 31, 2005. Net accumulated other comprehensive income associated with available for sale investment securities was a net loss of $40.6 million at September 30, 2006, compared to a net loss of $36.3 million at December 31, 2005, resulting in a net loss of $4.3 million over the nine 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)

	September 30, 2006		December 31, 2005	
	Amount	Ratio	Amount	Ratio
Tier 1 Capital	$ 3,700	7.69 %	$ 3,046	7.67 %
Tier 1 Capital Minimum Requirement	1,925	4.00	1,588	4.00
Excess	$ 1,775	3.69 %	$ 1,458	3.67 %
Total Capital	$ 5,319	11.05 %	$ 4,659	11.74 %
Total Capital Minimum Requirement	3,850	8.00	3,176	8.00
Excess	$ 1,469	3.05 %	$ 1,483	3.74 %
Risk-Adjusted Assets	$ 48,133		$ 39,698	

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LEVERAGE RATIOS

($ in millions)

	September 30, 2006		December 31, 2005	
	Amount	Ratio	Amount	Ratio
Tier 1 Capital	$ 3,700	7.16 %	$ 3,046	7.08 %
Minimum Leverage Requirement	1,550 - 2,584	3.00 - 5.00	1,291 - 2,152	3.00 - 5.00
Excess	$ 2,150 - 1,116	4.16 - 2.16 %	$ 1,755 - 894	4.08 - 2.08 %
Adjusted Average Total Assets	$ 51,680		$ 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 $6.8 billion at September 30, 2006, represent a highly accessible source of liquidity. The Corporation's portfolio of held-to-maturity investment securities, which totaled $0.5 billion at September 30, 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 are generally sold 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 $21.2 billion in the third 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 (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 $7.5 billion in the third 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 9 to the Consolidated Financial Statements for an update of the Corporation's securitization activities in the third quarter of 2006.

The Corporation's lead bank, M&I Marshall & Ilsley Bank (the "Bank"), has implemented a bank note program. During the second quarter of 2006, the Bank amended the bank note program into a global bank note program which permits it to issue and sell up to a maximum of US$13.0 billion aggregate principal amount (or the equivalent thereof in other currencies) at any one time outstanding of its senior global bank notes with maturities of seven days or more from their respective date of issue and subordinated global bank notes with maturities more than five years from their respective date of issue. The notes may be fixed rate or floating rate and the exact terms will be specified in the applicable Pricing Supplement or the applicable Program Supplement. This program is intended to enhance liquidity by enabling the Bank to sell its debt instruments in global markets in the future without the delays which would otherwise be incurred. Bank notes outstanding at September 30, 2006 amounted to $6.65 billion of which $1.3 billion is subordinated and qualifies as supplementary capital for regulatory capital purposes.

The national capital markets represent a further source of liquidity to the Corporation. The Corporation has filed a number of shelf registration statements that are intended to permit the Corporation 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 third 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.

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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 September 30, 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 September 30, 2006, Series F notes issued amounted to $250.0 million in aggregate principal amount. The Corporation may 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 September 30, 2006, MiNotes issued amounted to $0.2 billion in aggregate principal amount. Additionally, the Corporation has a commercial paper program. At September 30, 2006, commercial paper outstanding amounted to $0.5 billion in aggregate principal amount.

Short-term borrowings represent contractual debt obligations with maturities of one year or less and amounted to $4.1 billion at September 30, 2006. Long-term borrowings amounted to $10.4 billion at September 30, 2006. The scheduled maturities of long-term borrowings including estimated interest payments at September 30, 2006 are as follows: $3.3

billion is due in less than one year; $3.0 billion is due in one to three years; $2.8 billion is due in three to five years; and $4.3 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

In conjunction with the acquisitions of Gold Banc and Trustcorp, the Corporation acquired all of the common interests in four Trusts that issued cumulative preferred capital securities which are supported by junior subordinated deferrable interest debentures in the aggregate principal amounts of $16.0 million, $30.0 million, $38.0 million and $15.0 million, respectively and full guarantees assumed by the Corporation. The Corporation does not consolidate these Trusts in accordance with United States generally accepted accounting principles. At September 30, 2006, there have been no other 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 9 to the Consolidated Financial Statements for an update of the Corporation's securitization activities in the third 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 a methodology that identifies estimated losses based on assessments of individual problem loans and historical loss patterns of homogeneous loan pools. In addition, environmental factors, including economic conditions and regulatory guidance, unique to each measurement date are also considered. This reserving methodology has the following components:

Specific Reserve. The Corporation's 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 September 30, 2006:

The housing slowdown is impacting the performance of some of the Corporation's construction and land development loans. A re-balancing of supply and demand within the national housing market has reduced both absorption rates and valuations causing stress for some borrowers within this loan segment. These loans are geographically dispersed and are in both the Corporation's core and acquired loan portfolios. The Corporation has taken these exposures into consideration in determining the adequacy of its allowance for loan and lease losses.

At September 30, 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 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 sale or liquidation.

During the third quarter of 2006, the Corporation's commitments to Shared National Credits were approximately $3.7 billion with usage averaging around 49%. Over time, 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 September 30, 2006, there were no Shared National Credit nonperforming loans. 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. The vast majority of the assets acquired from Gold Banc are in entirely new markets for the Corporation. Included in these new markets are the Kansas City metropolitan area, Tulsa, Oklahoma, and Tampa, Sarasota and Bradenton, Florida. Each of these regions and markets has cultural and environmental factors that are unique to them.

At September 30, 2006, nonperforming loans and leases amounted to $219.2 million or 0.53% of consolidated loans and leases compared to $198.0 million or 0.49% of consolidated loans and leases at June 30, 2006, and $147.3 million or 0.44% of consolidated loans and leases at September 30, 2005. Approximately $51.9 million of total nonperforming loans at September 30, 2006 was attributable to the banking acquisitions. Excluding the effect of the acquisitions, nonperforming loans and leases would have amounted to $167.3 million or 0.45% of consolidated loans and leases at September 30, 2006 and $155.3 million or 0.43% of consolidated loans and leases at June 30, 2006. Excluding the acquisitions, the pro forma ratio of nonperforming loans and leases to consolidated loans and leases at September 30 and June 30, 2006 and the actual ratio at each quarter end throughout 2005 and the first quarter of 2006 has remained in a fairly narrow range. Nonaccrual loans and leases continue to be the primary source of nonperforming loans and leases.

Net charge-offs amounted to $8.1 million or 0.08% of average loans and leases in the third quarter of 2006 compared to $9.9 million or 0.10% of average loans and leases in the second quarter of 2006 and $7.8 million or 0.10% of average loans and leases in the third quarter of 2005. The lower level of net charge-offs experienced throughout 2005 and the first nine 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. The ratio of recoveries to charge-offs was 36.5% and 35.7% for the three and nine months ended September 30, 2006, respectively and continues to be 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 $417.4 million or 1.01% of loans and leases outstanding at September 30, 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 $362.3 million or 1.09% of loans and leases outstanding at September 30, 2005. Consistent with the credit quality trends noted above, the provision for loan and lease losses amounted to $10.3 million for the three months ended September 30, 2006 and $32.3 million for the nine months ended September 30, 2006. By comparison, the provision for loan and lease losses amounted to $9.9 million for the three months ended September 30, 2005 and $31.8 million for the nine months ended September 30, 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 September 30, 2006 and 2005, the amount of software costs capitalized amounted to $11.5 million and $10.7 million, respectively. Amortization expense of software costs amounted to $12.8 million for the three months ended September 30, 2006 compared to $13.1 million for the three months ended September 30, 2005. For the nine months ended September 30, 2006 and 2005, the amount of software costs capitalized amounted to $36.5 million and $29.6 million, respectively. Amortization expense of software costs amounted to $40.4 million for the nine months ended September 30, 2006 compared to $43.4 million for the nine months ended September 30, 2005.

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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 September 30, 2006 and 2005, the amount of conversion costs capitalized amounted to $3.4 million and $2.7 million, respectively. Amortization expense of conversion costs amounted to $2.6 million and $2.4 million for the three months ended September 30, 2006 and 2005, respectively. For the nine months ended September 30, 2006 and 2005, the amount of conversion costs capitalized amounted to $8.9 million and $8.3 million, respectively. Amortization expense of conversion costs amounted to $7.6 million and $8.1 million for the nine months ended September 30, 2006 and 2005, respectively.

Net unamortized costs were ($ in millions):

	September 30, 2006	September 30, 2005
Software	$ 152.8	$ 153.2
Conversions	28.5	28.0
Total	$ 181.3	$ 181.2

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 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.

For the three and nine months ended September 30, 2006, the Corporation determined that there was a decline in the value of the retained interests that was other than temporary because actual credit losses exceeded expected credit losses. The amount of the impairment was $0.4 million and is reported in Net investment securities gains in the Consolidated Statements of Income.

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 $991.8 million at September 30, 2006. At September 30, 2006 the carrying amount of retained interests amounted to $34.6 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 September 30, 2006, highly rated investment securities in the amount of $304.7 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.

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.

In June 2006, the Financial Accounting Standards Board issued FASB Interpretation No. 48, ("FIN 48"), Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in financial statements in accordance with FASB Statement No. 109, Accounting for Income Taxes. FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition.

The provisions of FIN 48 are effective beginning January 1, 2007, with the cumulative effect of the change in accounting principle recorded as an adjustment to opening retained earnings. The Corporation is currently evaluating the financial statement impact, if any, of adopting FIN 48.

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.

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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 13, 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 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.

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

	Pro Forma September 30, 2006	As Historically Reported September 30, 2006	June 30, 2006	March 31, 2006	December 2005
Hypothetical Change in Interest Rate					
100 basis point gradual:					
Rise in rates	0.7 %	(3.2)%	(0.3)%	(0.2)%	(0.
Decline in rates	(0.8)%	2.2 %	0.3 %	0.1 %	0.

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The results as of September 30, 2006 reflect the effect of mark-to-market accounting (versus hedge accounting) for certain interest rate swaps that the Corporation determined did not qualify for hedge accounting as previously discussed. The interest rate swaps were designed to hedge the change in fair value or cash flows of the underlying assets or liabilities and have performed effectively as economic hedges. Prior period results as shown and previously reported, were based on the assumption that the affected interest rate swaps qualified for hedge accounting. As previously stated, the Corporation is terminating the affected interest rate swaps early in the fourth quarter of 2006 in order to eliminate the earnings volatility associated with fluctuations in valuations under mark-to-market accounting. The Corporation expects the results of operations for the fourth quarter to reflect losses aggregating approximately $0.05 per diluted share from terminating the affected interest rate swaps. The pro forma results as of September 30, 2006, assumes that the affected interest rate swaps were terminated on September 30, 2006.

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 September 30, 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 September 30, 2006, the carrying value of total active capital markets investments amounted to approximately $38.1 million.

As of September 30, 2006, M&I Trust Services administered $91.0 billion in assets and directly managed a portfolio of $21.0 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 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 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.

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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
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
April 1 to April 30, 2006	123,064	44.22	--	11,000,000
May 1 to May 31, 2006	3,129	45.08	--	11,000,000
June 1 to June 30, 2006	2,635	45.04	--	11,000,000
July 1 to July 31, 2006	4,458	46.31	--	11,000,000
August 1 to August 31, 2006	3,566	20.27	--	11,000,000
September 1 to September 30, 2006	3,799	46.91	--	11,000,000
Total	1,152,976	$ 42.04	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.

ITEM 6. EXHIBITS

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.

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

November 9, 2006

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EXHIBIT INDEX

Exhibit Number	Description of Exhibit
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(32)(b)	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350.