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MARSHALL & ILSLEY CORP/WI/

Form 10-Q

May 10, 2007

1

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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2007

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 1-15403

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

Wisconsin  
(State or other jurisdiction of  
Incorporation or organization)

39-0968604  
(I.R.S. Employer  
Identification No.)

770 North Water Street  
Milwaukee, Wisconsin  
(Address of principal executive offices)

53202  
(Zip Code)

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

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

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

Yes  No

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

| Class<br>-----                 | Outstanding at<br>April 30, 2007<br>----- |
|--------------------------------|---|
| Common Stock, \$1.00 Par Value | 259,106,759                               |

2

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

|  | March 31,<br>2007 | December 31,<br>2006 | March<br>2006 |
|--|-------------------|----------------------|---------------|
|  | -----             | -----                | -----         |
| Assets   |                   |                      |               |
| -----  |                   |                      |               |
| Cash and cash equivalents:   |                   |                      |               |
| -----  |                   |                      |               |
| Cash and due from banks  | \$ 1,084,659      | \$ 1,248,007         | \$ 1,01       |
| Federal funds sold and security resale agreements  | 112,168           | 192,061              | 11            |
| Money market funds   | 52,065            | 45,190               | 3             |
|  | -----             | -----                | -----         |
| Total cash and cash equivalents  | 1,248,892         | 1,485,258            | 1,16          |
| Interest bearing deposits at other banks   | 17,703            | 19,042               | 1             |
| Investment securities:   |                   |                      |               |
| -----  |                   |                      |               |
| Trading securities, at market value  | 117,297           | 36,249               | 4             |
| Available for sale, at market value  | 7,079,653         | 6,977,853            | 6,03          |
| Held to maturity, market value \$460,310<br>(\$507,909 December 31, 2006 and \$603,665 March 31, 2006) | 449,868           | 495,520              | 58            |
|  | -----             | -----                | -----         |
| Total investment securities  | 7,646,818         | 7,509,622            | 6,66          |
| Loans held for sale  | 268,951           | 300,677              | 15            |
| Loans and leases:  |                   |                      |               |
| -----  |                   |                      |               |
| Loans and leases, net of unearned income   | 41,985,690        | 41,634,340           | 35,07         |
| Allowance for loan and lease losses  | (423,084)         | (420,610)            | (36           |
|  | -----             | -----                | -----         |
| Net loans and leases   | 41,562,606        | 41,213,730           | 34,70         |
| Premises and equipment, net  | 575,983           | 571,637              | 50            |
| Goodwill and other intangibles   | 3,245,471         | 3,212,102            | 2,48          |
| Accrued interest and other assets  | 1,964,944         | 1,918,189            | 1,66          |
|  | -----             | -----                | -----         |
| Total Assets   | \$ 56,531,368     | \$ 56,230,257        | \$ 47,36      |
|  | =====             | =====                | =====         |

Liabilities and Shareholders' Equity

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Deposits:

|  |              |              |         |
|--|--------------|--------------|---------|
| Noninterest bearing  | \$ 5,391,832 | \$ 6,112,362 | \$ 4,99 |
| Interest bearing   | 27,243,468   | 27,972,020   | 23,09   |
| Total deposits   | 32,635,300   | 34,084,382   | 28,09   |
| Federal funds purchased and security repurchase agreements | 3,372,744    | 2,838,756    | 2,67    |
| Other short-term borrowings                                | 5,288,630    | 3,586,374    | 2,87    |
| Accrued expenses and other liabilities                     | 1,567,010    | 1,543,219    | 1,66    |
| Long-term borrowings                                       | 7,313,758    | 8,026,155    | 7,18    |
| Total liabilities  | 50,177,442   | 50,078,886   | 42,50   |

Shareholders' equity:

|  |               |               |          |
|--|---------------|---------------|----------|
| Series A convertible preferred stock, \$1.00 par value;<br>2,000,000 shares authorized   | -             | -             |          |
| Common stock, \$1.00 par value; 261,972,424 shares issued<br>(261,972,424 shares at December 31, 2006 and 245,115,086<br>shares at March 31, 2006) | 261,972       | 261,972       | 24       |
| Additional paid-in capital   | 1,780,949     | 1,770,540     | 1,00     |
| Retained earnings  | 4,531,426     | 4,383,642     | 3,95     |
| Accumulated other comprehensive income, net of related taxes   | (14,778)      | (17,546)      | (1       |
| Treasury stock, at cost: 5,196,118 shares<br>(6,502,732 December 31, 2006 and 9,029,759 March 31, 2006)  | (165,263)     | (205,938)     | (28      |
| Deferred compensation  | (40,380)      | (41,299)      | (3       |
| Total shareholders' equity   | 6,353,926     | 6,151,371     | 4,86     |
| Total Liabilities and Shareholders' Equity   | \$ 56,531,368 | \$ 56,230,257 | \$ 47,36 |

See notes to financial statements.

05/09/2007

3

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

|                                  | Three Months Ended March 31, |            |
|----------------------------------|------------------------------|------------|
|                                  | 2007                         | 2006       |
| Interest and fee income          |                              |            |
| Loans and leases                 | \$ 783,153                   | \$ 590,400 |
| Investment securities:           |                              |            |
| Taxable                          | 77,054                       | 57,868     |
| Exempt from federal income taxes | 14,861                       | 15,999     |
| Trading securities               | 133                          | 70         |
| Short-term investments           | 3,808                        | 3,565      |
| Total interest and fee income    | 879,009                      | 667,902    |
| Interest expense                 |                              |            |

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|   |            |            |
|---|------------|------------|
| Deposits  | 290,025    | 198,779    |
| Short-term borrowings   | 54,916     | 39,335     |
| Long-term borrowings  | 143,758    | 104,655    |
|   | -----      | -----      |
| Total interest expense  | 488,699    | 342,769    |
|   | -----      | -----      |
| Net interest income   | 390,310    | 325,133    |
| Provision for loan and lease losses                           | 17,148     | 10,995     |
|   | -----      | -----      |
| Net interest income after provision for loan and lease losses | 373,162    | 314,138    |
| Other income  |            |            |
| -----   |            |            |
| Data processing services                                      | 356,373    | 342,980    |
| Wealth management   | 60,706     | 52,799     |
| Service charges on deposits                                   | 25,877     | 22,550     |
| Gains on sale of mortgage loans                               | 8,793      | 11,986     |
| Other mortgage banking revenue                                | 1,347      | 949        |
| Net investment securities gains                               | 1,584      | 1,130      |
| Gains related to Firstsource                                  | 8,028      | -          |
| Life insurance revenue  | 7,520      | 6,966      |
| Net derivative losses - discontinued hedges                   | -          | (21,345)   |
| Other   | 36,918     | 32,857     |
|   | -----      | -----      |
| Total other income  | 507,146    | 450,872    |
| Other expense   |            |            |
| -----   |            |            |
| Salaries and employee benefits                                | 297,123    | 277,403    |
| Net occupancy   | 26,981     | 24,881     |
| Equipment   | 32,344     | 32,939     |
| Software expenses   | 18,781     | 17,438     |
| Processing charges  | 30,837     | 27,013     |
| Supplies and printing   | 7,857      | 6,122      |
| Professional services   | 14,999     | 11,449     |
| Shipping and handling   | 25,425     | 23,902     |
| Amortization of intangibles                                   | 11,281     | 8,875      |
| Metavante transaction costs                                   | 1,465      | -          |
| Other   | 85,874     | 75,111     |
|   | -----      | -----      |
| Total other expense   | 552,967    | 505,133    |
|   | -----      | -----      |
| Income before income taxes                                    | 327,341    | 259,877    |
| Provision for income taxes                                    | 110,579    | 86,805     |
|   | -----      | -----      |
| Net income  | \$ 216,762 | \$ 173,072 |
|   | =====      | =====      |
| Net income per common share                                   |            |            |
| -----   |            |            |
| Basic   | \$ 0.85    | \$ 0.74    |
| Diluted   | 0.83       | 0.72       |
| Dividends paid per common share                               | \$ 0.270   | \$ 0.240   |
| Weighted average common shares outstanding (000's) :          |            |            |
| -----   |            |            |
| Basic   | 255,493    | 235,317    |
| Diluted   | 261,330    | 240,343    |

See notes to financial statements.

05/09/2007

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4

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

|   | Three Months Ended March 31, |              |
|---|------------------------------|--------------|
|   | 2007                         | 2006         |
| Net Cash Provided by Operating Activities                 | \$ 208,958                   | \$ 225,770   |
| Cash Flows From Investing Activities:                     |                              |              |
| Proceeds from sales of securities available for sale      | 8,449                        | 5,449        |
| Proceeds from maturities of securities available for sale | 287,953                      | 267,997      |
| Proceeds from maturities of securities held to maturity   | 45,910                       | 31,788       |
| Purchases of securities available for sale                | (363,136)                    | (382,317)    |
| Net increase in loans                                     | (388,796)                    | (1,196,779)  |
| Purchases of assets to be leased                          | (74,120)                     | (36,680)     |
| Principal payments on lease receivables                   | 103,760                      | 52,418       |
| Purchases of premises and equipment, net                  | (25,029)                     | (27,858)     |
| Acquisitions, net of cash and cash equivalents acquired   | (46,617)                     | (1,462)      |
| Other   | 4,542                        | (4,933)      |
| Net cash used in investing activities                     | (447,084)                    | (1,292,377)  |
| Cash Flows From Financing Activities:                     |                              |              |
| Net (decrease) increase in deposits                       | (1,457,129)                  | 437,890      |
| Proceeds from issuance of commercial paper                | 1,993,136                    | 901,035      |
| Principal payments on commercial paper                    | (2,015,742)                  | (968,228)    |
| Net increase in other short-term borrowings               | 301,429                      | 44,827       |
| Proceeds from issuance of long-term borrowings            | 1,598,615                    | 750,000      |
| Payments of long-term borrowings                          | (369,773)                    | (271,038)    |
| Dividends paid  | (68,978)                     | (56,374)     |
| Purchases of common stock                                 | -                            | (41,788)     |
| Proceeds from exercise of stock options                   | 22,802                       | 19,101       |
| Other   | (2,600)                      | (2,601)      |
| Net cash provided by financing activities                 | 1,760                        | 812,824      |
| Net decrease in cash and cash equivalents                 | (236,366)                    | (253,783)    |
| Cash and cash equivalents, beginning of year              | 1,485,258                    | 1,414,351    |
| Cash and cash equivalents, end of period                  | \$ 1,248,892                 | \$ 1,160,568 |
| Supplemental cash flow information:                       |                              |              |
| Cash paid during the period for:                          |                              |              |
| Interest  | \$ 511,495                   | \$ 344,307   |
| Income taxes  | 14,078                       | 9,408        |

See notes to financial statements.

05/09/2007

5

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March 31, 2007 & 2006 (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, 2006. The unaudited financial information included in this report reflects all adjustments consisting of normal recurring accruals which are necessary for a fair statement of the financial position and results of operations as of and for the three months ended March 31, 2007 and 2006. The results of operations for the three months ended March 31, 2007 and 2006 are not necessarily indicative of results to be expected for the entire year.

### 2. New Accounting Pronouncements

In February 2007, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standard No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities, Including an Amendment of FASB Statement No. 115 ("SFAS 159")*. SFAS 159 permits entities to choose to measure many financial instruments and certain other items generally on an instrument-by-instrument basis at fair value that are not currently required to be measured at fair value. SFAS 159 is intended to provide entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. SFAS 159 does not change requirements for recognizing and measuring dividend income, interest income, or interest expense. SFAS 159 is effective for the Corporation on January 1, 2008, although early adoption is permitted. The Corporation intends to adopt SFAS 159 on January 1, 2008 and continues to assess the impact, if any, SFAS 159 will have on the Corporation.

### 3. Equity Investment in Firstsource Solutions Limited ("Firstsource")

As of December 31, 2006, the Corporation's wholly-owned subsidiary, Metavante, owned a 24% interest in Firstsource. Firstsource is an India-based provider of business process outsourcing solutions. This investment is accounted for using the equity method of accounting. During February 2007, Firstsource offered 60,000,000 new shares of common stock at \$1.45 per share in a public offering that yielded \$86.9 million of cash proceeds to Firstsource. This issuance of new shares of common stock diluted Metavante's ownership percentage to approximately 21%. Under the provisions of Staff Accounting Bulletin No. 51, *Accounting for Sales of Stock by a Subsidiary ("SAB 51")*, when an investee issues shares of its common stock, the investor should recognize a gain or loss in the same manner as if the investor had sold a portion of its investment. The resulting gain or loss can be recognized in the consolidated financial statements or reflected as a capital transaction, at the option of the Corporation, and the accounting treatment selected is to be followed consistently for all future gains or losses. The Corporation has elected to recognize the resulting gain of \$8.0 million in the consolidated statement of income. All future SAB 51 gains or losses will be recognized in the consolidated statement of income. Deferred income taxes have been provided on the gain.

### 4. Adoption of SAB 108

The Corporation elected early application of Staff Accounting Bulletin No. 108 ("SAB 108") during the third quarter of 2006. In accordance with SAB 108, the Corporation adjusted its opening

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financial position for 2006 and the results of operations for the first and second quarter of 2006 to reflect a change in its hedge accounting under Statement of Financial Accounting Standards No. 133, Accounting for Derivative Instruments and Hedging Activities ("SFAS 133").

The Corporation utilizes interest rate swaps to hedge its risk in connection with certain financial instruments. The Corporation had applied hedge accounting under SFAS 133 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 \$1,387.6 million and negative fair value of \$37.5 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 \$37.3 million at March 31, 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.

05/09/2007

6

MARSHALL & ILSLEY CORPORATION  
Notes to Financial Statements - Continued  
March 31, 2007 & 2006 (Unaudited)

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 months ended March 31, 2006 net derivative losses - discontinued hedges amounted to \$21.3 million.

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

| As of and for the Three Months ended March 31, 2006                    | Previously<br>Reported | Adjustment | As<br>Adjusted |
|--|------------------------|------------|----------------|
| Loans and leases, net of unearned income                               | \$ 35,033,614          | \$ 43,079  | \$ 35,076,693  |
| Accrued interest and other assets                                      | 1,683,034              | (13,041)   | 1,669,993      |
| Total deposits   | 28,093,163             | 5,821      | 28,098,984     |
| Accrued expenses and other liabilities                                 | 1,616,073              | 47,971     | 1,664,044      |
| Retained earnings  | 4,002,008              | (47,971)   | 3,954,037      |
| Accumulated other comprehensive (loss)<br>income, net of related taxes | (43,742)               | 24,217     | (19,525)       |
| Net interest income  | \$ 324,580             | \$ 553     | \$ 325,133     |
| Net derivative losses - discontinued hedges                            | -                      | (21,345)   | (21,345)       |
| Other income   | 33,410                 | (553)      | 32,857         |
| Income before income taxes   | 281,222                | (21,345)   | 259,877        |
| Provision for income taxes   | 94,454                 | (7,649)    | 86,805         |
| Net income   | 186,768                | (13,696)   | 173,072        |

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Net income per common share:

|         |    |      |    |        |    |      |
|---------|----|------|----|--------|----|------|
| Basic   | \$ | 0.79 | \$ | (0.05) | \$ | 0.74 |
| Diluted |    | 0.78 |    | (0.06) |    | 0.72 |

5. Comprehensive Income

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

|  | Three Months Ended March 31, 2007 |                          |                      |
|--|-----------------------------------|--------------------------|----------------------|
|  | Before-Tax<br>Amount              | Tax (Expense)<br>Benefit | Net-of-Tax<br>Amount |
| Net income   |                                   |                          | \$ 216,762           |
| Other comprehensive income:  |                                   |                          |                      |
| Unrealized gains (losses) on available<br>for sale investment securities:  |                                   |                          |                      |
| Arising during the period  | \$ 17,652                         | \$ (6,247)               | 11,405               |
| Reclassification for securities<br>transactions included in net income   | (615)                             | 215                      | (400)                |
| Total unrealized gains (losses) on available<br>for sale investment securities   | 17,037                            | (6,032)                  | 11,005               |
| Net gains (losses) on derivatives<br>hedging variability of cash flows:  |                                   |                          |                      |
| Arising during the period  | (6,182)                           | 2,163                    | (4,019)              |
| Reclassification adjustments for<br>hedging activities included in net income  | (5,948)                           | 2,082                    | (3,866)              |
| Total net gains (losses) on derivatives<br>hedging variability of cash flows   | (12,130)                          | 4,245                    | (7,885)              |
| Unrealized gains (losses) on funded status of<br>defined benefit postretirement plan:                                  |                                   |                          |                      |
| Arising during the period  | -                                 | -                        | -                    |
| Reclassification for amortization of<br>actuarial loss and prior service<br>credit amortization included in net income | (559)                             | 207                      | (352)                |
| Total unrealized gains (losses) on funded status<br>of defined benefit postretirement plan                             | (559)                             | 207                      | (352)                |
| Other comprehensive income   |                                   |                          | 2,768                |
| Total comprehensive income   |                                   |                          | \$ 219,530           |

05/09/2007

7

MARSHALL & ILSLEY CORPORATION  
Notes to Financial Statements - Continued  
March 31, 2007 & 2006 (Unaudited)



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| Three Months Ended March 31, 2006  |                      |                          |                      |
|--|----------------------|--------------------------|----------------------|
|  | Before-Tax<br>Amount | Tax (Expense)<br>Benefit | Net-of-Tax<br>Amount |
| Net income   |                      |                          | \$ 173,072           |
| Other comprehensive income:  |                      |                          |                      |
| Unrealized gains (losses) on available<br>for sale investment securities:      |                      |                          |                      |
| Arising during the period  | \$ (15,924)          | \$ 5,596                 | (10,328)             |
| Reclassification for securities<br>transactions included in net income         | (448)                | 157                      | (291)                |
| Total unrealized gains (losses) on available<br>for sale investment securities | (16,372)             | 5,753                    | (10,619)             |
| Net gains (losses) on derivatives<br>hedging variability of cash flows:        |                      |                          |                      |
| Arising during the period  | 46,372               | (16,230)                 | 30,142               |
| Reclassification adjustments for<br>hedging activities included in net income  | (2,702)              | 945                      | (1,757)              |
| Total net gains (losses) on derivatives hedging<br>variability of cash flows   | 43,670               | (15,285)                 | 28,385               |
| Other comprehensive income   |                      |                          | 17,766               |
| Total comprehensive income   |                      |                          | \$ 190,838           |

6. Earnings Per Share

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

| Three Months Ended March 31, 2007                  |                       |                                 |                     |
|--|-----------------------|---------------------------------|---------------------|
|  | Income<br>(Numerator) | Average Shares<br>(Denominator) | Per Share<br>Amount |
| Basic Earnings Per Share:                          |                       |                                 |                     |
| Income Available to Common Shareholders            | \$ 216,762            | 255,493                         | \$ 0.85             |
| Effect of Dilutive Securities:                     |                       |                                 |                     |
| Stock Options, Restricted Stock<br>and Other Plans | -                     | 5,837                           |                     |
| Diluted Earnings Per Share:                        |                       |                                 |                     |
| Income Available to Common Shareholders            | \$ 216,762            | 261,330                         | \$ 0.83             |

Three Months Ended March 31, 2006

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|  | Income<br>(Numerator) | Average Shares<br>(Denominator) | Per Share<br>Amount |
|--|-----------------------|---------------------------------|---------------------|
| Basic Earnings Per Share:                          |                       |                                 |                     |
| Income Available to Common Shareholders            | \$ 173,072            | 235,317                         | \$ 0.74<br>=====    |
| Effect of Dilutive Securities:                     |                       |                                 |                     |
| Stock Options, Restricted Stock<br>and Other Plans | -                     | 5,026                           |                     |
| Diluted Earnings Per Share:                        |                       |                                 |                     |
| Income Available to Common Shareholders            | \$ 173,072            | 240,343                         | \$ 0.72<br>=====    |

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

|             | Three Months Ended March 31, |                     |
|-------------|------------------------------|---------------------|
|             | 2007                         | 2006                |
| Shares      | 3,637                        | 118                 |
| Price Range | \$ 47.58 - \$ 48.90          | \$ 43.31 - \$ 47.02 |

05/09/2007

8

MARSHALL & ILSLEY CORPORATION  
Notes to Financial Statements - Continued  
March 31, 2007 & 2006 (Unaudited)

7. Business Combinations

The following acquisition, which is not considered to be a material business combination, was completed during the first quarter of 2007:

On January 17, 2007, Metavante acquired all of the outstanding stock of Valutec Card Solutions, Inc. ("Valutec") for \$41.0 million in cash. Valutec provides closed-loop, in-store gift and loyalty card solutions for small and medium-sized businesses, including hosted account management, reporting capabilities, plastic card design and production, along with card program merchandising products. Initial goodwill, subject to the completion of appraisals and valuation of the assets acquired and liabilities assumed, amounted to \$34.1 million. The estimated identifiable intangible asset to be amortized (customer relationships) with an estimated useful life of 7.0 years amounted to \$8.2 million. The goodwill and intangibles resulting from this acquisition are not deductible for tax purposes.

Recently completed acquisitions

-----  
On April 20, 2007, the Corporation completed the acquisition of North Star Financial Corporation ("North Star") of Chicago,

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Illinois. Total consideration in this transaction amounted to \$21.0 million, consisting of 441,580 shares of M&I common stock valued at \$47.55 per common share. North Star and its subsidiaries provide a variety of wealth management services through personal and other trusts. In addition, North Star offers a variety of other products and services including land trusts, 1031 exchanges for both real and personal property and ESOP services, including consultative services relating to the transfer of small-business stock ownership. North Star's businesses will be integrated with the Corporation's Wealth Management unit.

On April 1, 2007, the Corporation completed its acquisition of United Heritage Bankshares of Florida, Inc. ("United Heritage"). United Heritage Bank, with \$791.3 million in assets as of March 31, 2007, has 13 branches in the metropolitan Orlando area. Total consideration in this transaction amounted to approximately \$219.6 million, consisting of 4,410,647 shares of M&I common stock valued at \$204.3 million and the exchange of vested stock options valued at approximately \$15.3 million. The current United Heritage Bank branches will become M&I Marshall & Ilsley Bank ("M&I Bank") branches.

### Recent acquisition activity

On April 30, 2007, the Corporation and Excel Bank Corporation ("Excel") amended and restated its merger agreement dated February 9, 2007 to provide that Excel shareholders will receive \$13.97 in cash for each share of Excel common stock. Outstanding options to acquire Excel common stock will be converted into options to acquire shares of the Corporation's common stock. Excel, with \$615 million in consolidated assets as of December 31, 2006, has four branches in the greater Minneapolis/St. Paul, Minnesota metropolitan area. The transaction is expected to close in the third quarter of 2007.

05/09/2007

9

MARSHALL & ILSLEY CORPORATION  
Notes to Financial Statements - Continued  
March 31, 2007 & 2006 (Unaudited)

8.

### Investment Securities

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

|   | March 31,<br>2007 | December 31,<br>2006 | March 31,<br>2006 |
|---|-------------------|----------------------|-------------------|
|   | -----             | -----                | -----             |
| Investment securities available for sale: |                   |                      |                   |
| U.S. treasury and government agencies     | \$ 5,558,054      | \$ 5,466,369         | \$ 4,708,218      |
| States and political subdivisions         | 838,393           | 824,015              | 719,194           |
| Mortgage backed securities                | 107,362           | 114,467              | 110,252           |
| Other                                     | 575,844           | 573,002              | 501,981           |
|   | -----             | -----                | -----             |
| Total                                     | \$ 7,079,653      | \$ 6,977,853         | \$ 6,039,645      |
|   | =====             | =====                | =====             |

Investment securities held to maturity:

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|                                   |    |         |    |         |    |         |
|-----------------------------------|----|---------|----|---------|----|---------|
| States and political subdivisions | \$ | 448,368 | \$ | 494,020 | \$ | 585,090 |
| Other                             |    | 1,500   |    | 1,500   |    | 2,000   |
|                                   |    | -----   |    | -----   |    | -----   |
| Total                             | \$ | 449,868 | \$ | 495,520 | \$ | 587,090 |
|                                   |    | =====   |    | =====   |    | =====   |

The following table provides the gross unrealized losses and fair value, aggregated by investment category and the length of time the individual securities have been in a continuous unrealized loss position, at March 31, 2007 (\$000's):

|                                       | Less than 12 Months |                   | 12 Months or More |                   | Total        |                   |
|---------------------------------------|---------------------|-------------------|-------------------|-------------------|--------------|-------------------|
|                                       | Fair Value          | Unrealized Losses | Fair Value        | Unrealized Losses | Fair Value   | Unrealized Losses |
| U.S. treasury and government agencies | \$ 255,555          | \$ 500            | \$ 3,073,457      | \$ 54,711         | \$ 3,329,012 | \$ 54,211         |
| States and political subdivisions     | 142,622             | 1,138             | 68,335            | 1,021             | 210,957      | 2,159             |
| Mortgage backed securities            | 375                 | 3                 | 76,049            | 1,405             | 76,424       | 1,408             |
| Other                                 | 1,592               | 8                 | 400               | 64                | 1,992        | 64                |
|                                       | -----               | -----             | -----             | -----             | -----        | -----             |
| Total                                 | \$ 400,144          | \$ 1,649          | \$ 3,218,241      | \$ 57,201         | \$ 3,618,385 | \$ 57,201         |
|                                       | =====               | =====             | =====             | =====             | =====        | =====             |

The investment securities in the above table were temporarily impaired at March 31, 2007. This temporary impairment represents the amount of loss that would have been realized if the investment securities had been sold on March 31, 2007. 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. At December 31, 2006, total unrealized losses on investment securities that had been in a continuous loss position for less than twelve months amounted to \$2,079 and total unrealized losses on investment securities that had been in a continuous loss position for more than twelve months amounted to \$72,284. At March 31, 2007, the Corporation had the ability and intent to hold these temporarily impaired investment securities until a recovery of fair value, which may be maturity.

05/09/2007

10

MARSHALL & ILSLEY CORPORATION  
Notes to Financial Statements - Continued  
March 31, 2007 & 2006 (Unaudited)

9.

Loans and Leases

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

|                   |                      |                   |
|-------------------|----------------------|-------------------|
| March 31,<br>2007 | December 31,<br>2006 | March 31,<br>2006 |
|-------------------|----------------------|-------------------|

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|   |               |               |               |
|---|---------------|---------------|---------------|
| Commercial, financial and agricultural      | \$ 12,305,995 | \$ 12,050,963 | \$ 10,244,761 |
| Cash flow hedging instruments at fair value | (2,228)       | (2,773)       | (4,141)       |
| Commercial, financial and agricultural      | 12,303,767    | 12,048,190    | 10,240,620    |
| Real estate:                                |               |               |               |
| Construction                                | 6,293,881     | 6,088,206     | 4,054,364     |
| Residential mortgage                        | 6,501,063     | 6,328,478     | 5,370,353     |
| Home equity loans and lines of credit       | 4,213,109     | 4,342,362     | 4,606,136     |
| Commercial mortgage                         | 10,904,417    | 10,965,607    | 8,819,281     |
| Total real estate                           | 27,912,470    | 27,724,653    | 22,850,134    |
| Personal                                    | 1,352,334     | 1,458,594     | 1,518,828     |
| Lease financing                             | 686,070       | 703,580       | 626,228       |
| Total loans and leases                      | \$ 42,254,641 | \$ 41,935,017 | \$ 35,235,810 |

10. Financial Asset Sales

During the first quarter of 2007, the Corporation sold automobile loans with principal balances of \$116.6 million in securitization transactions. The Corporation recognized net losses of \$0.2 million from the sale and securitization of auto loans for the three months ended March 31, 2007. Other income associated with auto securitizations, primarily servicing income, amounted to \$1.8 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)                             | 15-41 %                             |
| Weighted average life (in months)                  | 22.6                                |
| Expected credit losses (based on original balance) | 0.50-1.53 %                         |
| Residual cash flow discount rate                   | 12.0 %                              |
| Variable returns to transferees                    | Forward one-month LIBOR yield curve |

At March 31, 2007, 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                  | \$ 936,260  | \$ 122,912 | \$ 1,059,172  |
| Principal amounts of loans     |             |            |               |
| 60 days or more past due       | 2,672       | 368        | 3,040         |
| Net credit losses year to date | 2,088       | 130        | 2,218         |

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11. Goodwill and Other Intangibles

The changes in the carrying amount of goodwill for the three months ended March 31, 2007 were as follows (\$000's):

|  | Banking      | Metavante    | Others    | Tot          |
|--|--------------|--------------|-----------|--------------|
| Goodwill balance as of January 1, 2007 | \$ 1,425,197 | \$ 1,330,276 | \$ 29,056 | \$ 2,784,529 |
| Goodwill acquired during the period    | -            | 34,125       | -         | 34,125       |
| Purchase accounting adjustments        | (2,971)      | 10,030       | 231       | 7,289        |
| Goodwill balance as of March 31, 2007  | \$ 1,422,226 | \$ 1,374,431 | \$ 29,287 | \$ 2,825,944 |

05/09/2007

11

MARSHALL & ILSLEY CORPORATION  
Notes to Financial Statements - Continued  
March 31, 2007 & 2006 (Unaudited)

Goodwill acquired during the first quarter of 2007 for the Metavante segment included initial goodwill of \$34.1 million for the acquisition of Valutec. Purchase accounting adjustments for the Metavante segment represent adjustments made to the initial estimates of fair value associated with the acquisition of VICOR, Inc. In addition, purchase accounting adjustments for the Metavante segment included total earnout payments of \$8.0 million related to the acquisitions of Advanced Financial Solutions, Inc., Printing for Systems, Inc. and AdminiSource Corporation. Purchase accounting adjustments for the Banking segment and Others segment included adjustments primarily related to the 2006 acquisition of Gold Banc Corporation, Inc.

At March 31, 2007, the Corporation's other intangible assets consisted of the following (\$000's):

|  | March 31, 2007        |                          |                    |
|--|-----------------------|--------------------------|--------------------|
|  | Gross Carrying Amount | Accumulated Amortization | Net Carrying Value |
| Other intangible assets                        |                       |                          |                    |
| Core deposit intangible                        | \$ 207,805            | \$ 100,043               | \$ 107,762         |
| Data processing contract rights/customer lists | 362,692               | 65,087                   | 297,605            |
| Trust customers                                | 6,750                 | 2,102                    | 4,648              |
| Tradename                                      | 8,000                 | 1,067                    | 6,933              |
| Other Intangibles                              | 1,250                 | 759                      | 491                |
|  | \$ 586,497            | \$ 169,058               | \$ 417,439         |

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Mortgage loan servicing rights \$ 2,088  
=====

Amortization expense of other acquired intangible assets for the three months ended March 31, 2007 and 2006 amounted to \$11.0 million and \$8.5 million, respectively. Amortization of mortgage servicing rights amounted to \$0.3 million and \$0.4 million for the three months ended March 31, 2007 and 2006, respectively.

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

|      |           |
|------|-----------|
| 2008 | \$ 45,256 |
| 2009 | 41,932    |
| 2010 | 39,390    |
| 2011 | 37,488    |
| 2012 | 35,894    |

12. Deposits

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

|                                   | March 31,<br>2007 | December 31,<br>2006 | March 31,<br>2006 |
|-----------------------------------|-------------------|----------------------|-------------------|
|                                   | -----             | -----                | -----             |
| Noninterest bearing demand        | \$ 5,391,832      | \$ 6,112,362         | \$ 4,999,788      |
| Savings and NOW                   | 12,527,061        | 12,081,260           | 10,265,749        |
| CD's \$100,000 and over           | 7,259,797         | 7,841,499            | 7,018,466         |
| Cash flow hedge-Institutional CDs | 3,638             | (970)                | (17,653)          |
|                                   | -----             | -----                | -----             |
| Total CD's \$100,000 and over     | 7,263,435         | 7,840,529            | 7,000,813         |
| Other time deposits               | 4,807,479         | 4,821,233            | 3,602,642         |
| Foreign deposits                  | 2,645,493         | 3,228,998            | 2,229,992         |
|                                   | -----             | -----                | -----             |
| Total deposits                    | \$ 32,635,300     | \$ 34,084,382        | \$ 28,098,984     |
|                                   | =====             | =====                | =====             |

05/09/2007

12

MARSHALL & ILSLEY CORPORATION  
Notes to Financial Statements - Continued  
March 31, 2007 & 2006 (Unaudited)

13. Income Taxes

Effective January 1, 2007, the Corporation adopted the provisions of FASB Interpretation No. 48 ("FIN 48"), Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109, and

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there was no effect on the consolidated financial statements. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in financial statements in accordance with FASB Statement No. 109, Accounting for Income Taxes. FIN 48 prescribes a recognition threshold and measurement 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.

As of the date of adoption the total amount of unrecognized tax benefits was \$92.1 million, of which \$71.8 million related to benefits that, if recognized, would impact the annual effective tax rate. Upon adoption of FIN 48, the Corporation changed its policy to include interest and penalties related to income tax liabilities in income tax expense. Prior to adoption of FIN 48, the Corporation recorded interest and penalties related to income tax liabilities to other expense, a component of Income Before Income Taxes. Included in the total liability for unrecognized tax benefits as of the date of adoption is \$6.8 million of interest and no penalties.

The Corporation, along with its subsidiaries, files income tax returns in the U.S. and various state jurisdictions. With limited exceptions, the Corporation is no longer subject to examinations by federal and state taxing authorities for taxable years before 2003.

The Corporation anticipates it is reasonably possible within 12 months of the adoption date that unrecognized tax benefits could be reduced up to approximately \$22 million. The reduction would principally result from settlements with taxing authorities as it relates to the tax benefits associated with a 2002 stock issuance.

### 14. 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, 2006. There were no significant new hedging strategies employed during the three months ended March 31, 2007.

#### Trading Instruments and Other Free Standing Derivatives

-----

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

Trading and free-standing derivative contracts are not linked to specific assets and liabilities on the balance sheet or to forecasted transactions in an accounting hedge relationship and, therefore, do not qualify for hedge accounting under SFAS 133. They are carried at fair value with changes in fair value recorded as a component of other noninterest income.

At March 31, 2007, free standing interest rate swaps consisted of \$2.6 billion in notional amount of receive fixed / pay floating with an aggregate negative fair value of \$3.5 million and \$1.7 billion in notional amount of pay fixed / receive floating with an aggregate positive fair value of \$5.8 million.

At March 31, 2007, interest rate caps purchased amounted to \$17.5 million in notional amount with an immaterial fair value and interest rate caps sold amounted to \$17.5 million in notional amount



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with an immaterial fair value.

At March 31, 2007, the notional value of interest rate futures designated as trading was \$3.3 billion with a positive fair value of \$0.1 million.

05/09/2007

13

MARSHALL & ILSLEY CORPORATION  
Notes to Financial Statements - Continued  
March 31, 2007 & 2006 (Unaudited)

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

| Fair Value Hedges<br>March 31, 2007                    |                       | Notional<br>Amount<br>(\$ in mil) | Fair<br>Value<br>(\$ in mil) | Weighted<br>Average<br>Remaining<br>Term (Yrs) |
|--|-----------------------|-----------------------------------|------------------------------|--|
| Hedged<br>Item   | Hedging<br>Instrument |                                   |                              |  |
| -----  |                       |                                   |                              |  |
| Fair Value Hedges that Qualify for Shortcut Accounting |                       |                                   |                              |  |
| -----  |                       |                                   |                              |  |
| Fixed Rate<br>Bank Notes                               | Receive Fixed Swap    | \$ 390.9                          | \$ (11.6)                    | 8.1  |
| Other Fair Value Hedges                                |                       |                                   |                              |  |
| -----  |                       |                                   |                              |  |
| Fixed Rate<br>Bank Notes                               | Receive Fixed Swap    | \$ 125.0                          | \$ (3.9)                     | 9.3  |
| Institutional CDs                                      | Receive Fixed Swap    | 50.0                              | 0.2                          | 29.2   |
| Callable CDs   | Receive Fixed Swap    | 9.9                               | (0.0)                        | 7.7  |

The impact from fair value hedges to total net interest income for the three months ended March 31, 2007 was a negative \$0.9 million. The impact to net interest income due to ineffectiveness was not material.

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

| Cash Flow Hedges<br>March 31, 2007                    |                       | Notional<br>Amount<br>(\$ in mil) | Fair<br>Value<br>(\$ in mil) | Weighted<br>Average<br>Remaining<br>Term (Yrs) |
|---|-----------------------|-----------------------------------|------------------------------|--|
| Hedged<br>Item  | Hedging<br>Instrument |                                   |                              |  |
| -----   |                       |                                   |                              |  |
| Cash Flow Hedges that Qualify for Shortcut Accounting |                       |                                   |                              |  |
| -----   |                       |                                   |                              |  |
| Floating Rate<br>Bank Notes                           | Pay Fixed Swap        | \$ 125.0                          | \$ 0.1                       | 0.1  |
| Other Cash Flow Hedges                                |                       |                                   |                              |  |
| -----   |                       |                                   |                              |  |
| Variable Rate Loans                                   | Receive Fixed Swap    | \$ 100.0                          | \$ (2.2)                     | 1.3  |
| Institutional CDs                                     | Pay Fixed Swap        | 1,725.0                           | (3.6)                        | 1.5  |
| Federal Funds   |                       |                                   |                              |  |

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|               |                |         |       |     |
|---------------|----------------|---------|-------|-----|
| Purchased     | Pay Fixed Swap | 150.0   | (0.0) | 0.7 |
| FHLB Advances | Pay Fixed Swap | 1,410.0 | 0.1   | 3.9 |
| Floating Rate |                |         |       |     |
| Bank Notes    | Pay Fixed Swap | 550.0   | (4.4) | 2.7 |

The impact to total net interest income from cash flow hedges, including amortization of terminated cash flow hedges for the three months ended March 31, 2007 was a positive \$5.9 million. For the three months ended March 31, 2006, the impact due to ineffectiveness was not material.

For the three months ended March 31, 2006, the total effect on net interest income resulting from derivative financial instruments was a positive \$4.1 million, including the amortization of terminated derivative financial instruments.

05/09/2007

14

MARSHALL & ILSLEY CORPORATION  
Notes to Financial Statements - Continued  
March 31, 2007 & 2006 (Unaudited)

15. 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 cost for the three months ended March 31, 2007 and 2006 included the following components (\$000's):

|  | Three Months Ended March 31, |          |
|--|------------------------------|----------|
|  | 2007                         | 2006     |
| Service cost                             | \$ 434                       | \$ 570   |
| Interest cost on APBO                    | 1,061                        | 1,022    |
| Expected return on plan assets           | (355)                        | (232)    |
| Prior service amortization               | (680)                        | (680)    |
| Actuarial loss amortization              | 121                          | 379      |
| Net periodic postretirement benefit cost | \$ 581                       | \$ 1,059 |

Benefit payments and expenses, net of participant contributions, for the three months ended March 31, 2007 amounted to \$1.1 million.

The funded status, which is the accumulated postretirement benefit obligation net of fair value of plan assets, as of March 31, 2007 is

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as follows (\$000's):

|  |    |          |
|--|----|----------|
| Total funded status, December 31, 2006 | \$ | (50,309) |
| Service cost                           |    | (434)    |
| Interest cost on APBO                  |    | (1,061)  |
| Expected return on plan assets         |    | 355      |
| Employer contributions/payments        |    | 8,115    |
| Expected subsidy (Medicare Part D)     |    | (192)    |
|  |    | -----    |
| Total funded status, March 31, 2007    | \$ | (43,526) |
|  |    | =====    |

16. Segments

Generally, the Corporation organizes its segments based on legal entities. Each entity offers a variety of products and services to meet the needs of its customers and the particular market served. Each entity has its own president and is separately managed subject to adherence to corporate policies. Discrete financial information is reviewed by senior management to assess performance on a monthly basis. Certain segments are combined and consolidated for purposes of assessing financial performance.

The following represents the Corporation's operating segments as of and for the three months ended March 31, 2007 and 2006. During 2006, the Corporation transferred the residential and commercial mortgage banking reporting units, which were previously included in other business operations, to the Banking segment. Segment information for all periods presented has been adjusted for these transfers. There have not been any other changes to the way the Corporation organizes its segments.

For the three months ended March 31, 2007, Metavante transaction costs of \$1.5 million and for the three months ended March 31, 2006, Net derivative losses of \$21.3 million are not included in segment income, but are reported in Reclassifications and Eliminations in the following tables. Management does not include these items when assessing the financial results of the segment operations.

05/09/2007

15

MARSHALL & ILSLEY CORPORATION  
Notes to Financial Statements - Continued  
March 31, 2007 & 2006 (Unaudited)

Fees - intercompany represent intercompany revenue charged to other segments for providing certain services. Expenses - intercompany represent fees charged by other segments for certain services received. For each segment, Expenses - intercompany are not the costs of that segment's reported intercompany revenues. Intra-segment revenues, expenses and assets have been eliminated (\$ in millions):

Three Months Ended March 31, 2007

-----  
Reclass-

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|                                     | Banking     | Metavante  | Others   | Corporate Overhead | Reclassifications & Eliminations |    |
|-------------------------------------|-------------|------------|----------|--------------------|----------------------------------|----|
| Net interest income                 | \$ 397.4    | \$ (7.3)   | \$ 5.4   | \$ (8.3)           | \$ 3.1                           | \$ |
| Other income                        |             |            |          |                    |                                  |    |
| Fees - external                     | 80.5        | 356.9      | 61.7     | -                  | -                                |    |
| Fees - internal                     |             |            |          |                    |                                  |    |
| Fees - intercompany                 | 18.1        | 27.3       | 1.7      | 28.5               | (75.6)                           |    |
| Float income - intercompany         | -           | 3.1        | -        | -                  | (3.1)                            |    |
| Total other income                  | 98.6        | 387.3      | 63.4     | 28.5               | (78.7)                           |    |
| Gains related to Firstsource        | -           | 8.0        | -        | -                  | -                                |    |
| Other expense                       |             |            |          |                    |                                  |    |
| Expenses - other                    | 191.0       | 297.5      | 37.2     | 26.1               | 1.2                              |    |
| Expenses - intercompany             | 46.3        | 13.5       | 13.9     | 1.6                | (75.3)                           |    |
| Total other expense                 | 237.3       | 311.0      | 51.1     | 27.7               | (74.1)                           |    |
| Provision for loan and lease losses | 16.8        | -          | 0.3      | -                  | -                                |    |
| Income (loss) before taxes          | 241.9       | 77.0       | 17.4     | (7.5)              | (1.5)                            |    |
| Income tax expense (benefit)        | 79.4        | 27.7       | 6.4      | (2.8)              | (0.2)                            |    |
| Segment income (loss)               | \$ 162.5    | \$ 49.3    | \$ 11.0  | \$ (4.7)           | \$ (1.3)                         | \$ |
| Identifiable assets                 | \$ 53,617.1 | \$ 3,059.8 | \$ 822.8 | \$ 1,008.7         | \$ (1,977.0)                     | \$ |
| Return on average equity            | 12.5%       | 15.5%      | 18.0%    |                    |                                  |    |

Three Months Ended March 31, 2006

|                             | Banking  | Metavante | Others | Corporate Overhead | Reclassifications & Eliminations |    |
|-----------------------------|----------|-----------|--------|--------------------|----------------------------------|----|
| Net interest income         | \$ 330.7 | \$ (8.3)  | \$ 3.6 | \$ (4.1)           | \$ 3.2                           | \$ |
| Other income                |          |           |        |                    |                                  |    |
| Fees - external             | 73.7     | 343.0     | 53.4   | 2.1                | (21.3)                           |    |
| Fees - internal             |          |           |        |                    |                                  |    |
| Fees - intercompany         | 16.1     | 24.8      | 1.5    | 25.0               | (67.4)                           |    |
| Float income - intercompany | -        | 3.2       | -      | -                  | (3.2)                            |    |
| Total other income          | 89.8     | 371.0     | 54.9   | 27.1               | (91.9)                           |    |
| Other expense               |          |           |        |                    |                                  |    |

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|  |             |            |          |          |              |
|--|-------------|------------|----------|----------|--------------|
| Expenses - other                       | 163.7       | 296.0      | 34.3     | 12.2     | (1.1)        |
| Expenses - intercompany                | 40.4        | 12.6       | 11.1     | 2.2      | (66.3)       |
| Total other expense                    | 204.1       | 308.6      | 45.4     | 14.4     | (67.4)       |
| Provision for loan<br>and lease losses | 10.5        | -          | 0.5      | -        | -            |
| Income (loss) before taxes             | 205.9       | 54.1       | 12.6     | 8.6      | (21.3)       |
| Income tax expense (benefit)           | 67.8        | 19.6       | 4.6      | 2.4      | (7.6)        |
| Segment income (loss)                  | \$ 138.1    | \$ 34.5    | \$ 8.0   | \$ 6.2   | \$ (13.7)    |
| Identifiable assets                    | \$ 44,666.9 | \$ 2,797.5 | \$ 687.7 | \$ 766.6 | \$ (1,554.1) |
| Return on average equity               | 14.5%       | 13.0%      | 16.0%    |          |              |

05/09/2007

16

MARSHALL & ILSLEY CORPORATION  
Notes to Financial Statements - Continued  
March 31, 2007 & 2006 (Unaudited)

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 March 31, |         |
|-------------------------|------------------------------|---------|
|                         | 2007                         | 2006    |
| Trust Services          | \$ 52.2                      | \$ 46.0 |
| Capital Markets         | 1.8                          | 0.6     |
| Brokerage and Insurance | 9.2                          | 7.3     |
| Commercial Leasing      | 4.6                          | 3.1     |
| Others                  | 1.0                          | 1.5     |
| Total                   | \$ 68.8                      | \$ 58.5 |

17. Subsequent Events

On April 3, 2007, the Corporation announced its plan to separate Marshall & Ilsley Corporation and Metavante Corporation into two separate publicly held companies.

Under an investment agreement with Warburg Pincus, a global private equity investor, Warburg Pincus has agreed to invest \$625 million to acquire an equity stake of 25 percent in Metavante Corporation. Marshall & Ilsley Corporation shareholders will own 75 percent of the shares of Metavante Corporation. This plan will be implemented through the spin-off of Marshall & Ilsley Corporation and is intended to be tax-free to Marshall & Ilsley Corporation and its shareholders. In connection with the plan, approximately \$1.75

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billion of new Metavante Corporation debt will be arranged.

Upon completion of the transaction, shareholders will receive one share of the new Marshall & Ilsley Corporation stock for each one share of Marshall & Ilsley Corporation stock held and one share of Metavante Corporation stock for every three shares of Marshall & Ilsley Corporation stock held.

Marshall & Ilsley Corporation's board of directors has unanimously approved the investment agreement and related transactions and has recommended its approval by Marshall & Ilsley Corporation's shareholders. Under the investment agreement with Warburg Pincus, the closing of the transaction, which is currently expected to occur in the fourth quarter of 2007, is contingent upon satisfaction of various closing conditions. The conditions include approval of Marshall & Ilsley Corporation's shareholders, who will be asked to vote on the proposed transactions at a special meeting that will be held on a date to be announced, obtaining a favorable ruling from the Internal Revenue Service, and other regulatory approvals.

On April 24, 2007, the Corporation announced that its Board of Directors increased the quarterly cash dividend on the Corporation's common stock 14.8 percent to \$0.31 per common share from \$0.27 per common share.

On April 26, 2007, the Corporation announced that it had repurchased 3.25 million shares of its common stock or approximately 1.2 percent of its outstanding common stock. The shares of common stock were purchased through an accelerated share repurchase program at \$48.03 per share for a total cost of approximately \$156.1 million. Under the accelerated share repurchase program agreement, after a period not expected to exceed sixty days, the Corporation may receive or be required to pay a price adjustment based on an adjusted weighted average price as defined in the accelerated share repurchase program agreement. Any price adjustment may be settled in cash or shares of common stock at the Corporation's option. After the repurchase approximately 8.75 million shares remain available under prior repurchase authorizations by the Corporation's Board of Directors.

05/09/2007

17

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

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

|                         | Three Months Ended March 31, |            |
|-------------------------|------------------------------|------------|
|                         | 2007                         | 2006       |
| Assets                  |                              |            |
| -----                   |                              |            |
| Cash and due from banks | \$ 1,041,797                 | \$ 980,078 |
| Investment securities:  |                              |            |
| -----                   |                              |            |
| Trading securities      | 41,301                       | 34,177     |

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|  |               |               |
|--|---------------|---------------|
| Short-term investments                                     | 277,218       | 315,719       |
| Other investment securities:                               |               |               |
| Taxable  | 6,153,473     | 4,979,354     |
| Tax-exempt   | 1,287,860     | 1,340,598     |
| Total investment securities                                | 7,759,852     | 6,669,848     |
| Loans and leases:  |               |               |
| -----  |               |               |
| Loans and leases, net of unearned income                   | 42,106,894    | 34,678,578    |
| Allowance for loan and lease losses                        | (423,702)     | (368,290)     |
| Net loans and leases                                       | 41,683,192    | 34,310,288    |
| Premises and equipment, net                                | 574,409       | 495,887       |
| Accrued interest and other assets                          | 5,452,287     | 4,323,961     |
| Total Assets   | \$ 56,511,537 | \$ 46,780,062 |
|  | =====         | =====         |
| Liabilities and Shareholders' Equity                       |               |               |
| -----  |               |               |
| Deposits:  |               |               |
| -----  |               |               |
| Noninterest bearing  | \$ 5,319,325  | \$ 4,942,011  |
| Interest bearing   | 27,238,286    | 22,536,849    |
| Total deposits   | 32,557,611    | 27,478,860    |
| Federal funds purchased and security repurchase agreements | 3,396,166     | 2,440,619     |
| Other short-term borrowings                                | 852,518       | 930,232       |
| Long-term borrowings                                       | 11,623,710    | 9,404,002     |
| Accrued expenses and other liabilities                     | 1,823,058     | 1,712,169     |
| Total liabilities  | 50,253,063    | 41,965,882    |
| Shareholders' equity                                       | 6,258,474     | 4,814,180     |
| Total Liabilities and Shareholders' Equity                 | \$ 56,511,537 | \$ 46,780,062 |
|  | =====         | =====         |

05/09/2007

18

OVERVIEW

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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) separating Marshall & Ilsley Corporation and Metavante into two separate publicly traded companies, as discussed below.

In early April 2007, the Corporation announced its plan to separate Marshall & Ilsley Corporation and Metavante into two separate publicly traded companies. The Corporation believes this transaction will create two well-positioned companies and will provide substantial benefits to

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the shareholders of both companies by creating additional opportunities to focus on core businesses. Metavante expects to be able to drive earnings per share growth by having access to financial resources to continue to build new products, invest in new technologies, attract and retain employees and acquire additional companies. Marshall & Ilsley Corporation's enhanced capital position is expected to drive earnings per share growth by enabling it to provide resources for continued organic growth, fund strategic initiatives within wealth management and its other business lines and pursue opportunities in new geographic markets. This transaction, which is contingent upon satisfaction of various closing conditions, is expected to close in the fourth quarter of 2007. The closing conditions include approval of Marshall & Ilsley Corporation shareholders, who will be asked to vote on the proposed transactions at a special meeting that will be held on a date to be announced, obtaining a favorable ruling from the Internal Revenue Service and other regulatory approvals.

The Corporation continues to focus on its key metrics of growing revenues through balance sheet growth, fee-based income growth and strong credit quality. Management believes that the Corporation has demonstrated solid fundamental performance in each of these key areas and as a result, the first quarter of 2007 produced strong financial results.

Net income for the first quarter of 2007 amounted to \$216.8 million compared to \$173.1 million for the same period in the prior year, an increase of \$43.7 million, or 25.2%. Diluted earnings per share were \$0.83 for the three months ended March 31, 2007 compared to \$0.72 for the three months ended March 31, 2006. The return on average assets and average equity was 1.56% and 14.05%, respectively, for the quarter ended March 31, 2007, and 1.50% and 14.58%, respectively, for the quarter ended March 31, 2006.

For the three months ended March 31, 2007, costs associated with the previously discussed Metavante transaction amounted to \$1.5 million and are included in a separate line within Other expense in the Consolidated Statements of Income. Net income and diluted earnings per share for the three months ended March 31, 2007, excluding the transaction costs, would have been \$218.1 million and \$0.83 per share, respectively, and the return on average assets and return on average equity would have been 1.56% and 14.13%, respectively. The Corporation expects that transaction related costs will significantly increase in future quarters until the transaction is completed.

For the three months ended March 31, 2006, the impact of the mark-to-market adjustments associated with certain interest rate swaps and reported as Net derivative losses-discontinued hedges within Other income in the Consolidated Statements of Income, resulted in a decrease to net income of \$13.7 million and a decrease to diluted earnings per share of \$0.06 per share. 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 March 31, 2006, net income and diluted earnings per share would have been \$186.8 million and \$0.78 per share respectively, and the return on average assets and return on average equity would have been 1.62% and 15.67%, respectively.

A reconciliation of these non-GAAP (Generally Accepted Accounting Principles) operating results to GAAP results is provided later in this section.



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Earnings growth for the three months ended March 31, 2007 compared to the three months ended March 31, 2006 was attributable to a number of factors. The increase in net interest income was due to organic loan and bank issued deposit growth and the contribution from the two banking acquisitions that were completed on April 1, 2006. Net charge-offs as a percent of average consolidated loans and leases were slightly below the Corporation's five-year historical average despite the increase in nonperforming loans and leases. 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 first quarter of 2007 and one acquisition completed in the third quarter of 2006. Continued growth in assets under management and assets under administration resulted in solid growth in fee income for Wealth Management. These factors along with continued organic expense management resulted in the reported earnings growth in the three months ended March 31, 2007 compared to the three months ended March 31, 2006.

05/09/2007

19

The transaction to separate Marshall & Ilsley Corporation and Metavante into two separate publicly traded companies will significantly affect the financial condition, results of operations and cash flows for both the Corporation and Metavante. In connection with the proposed transactions, a Registration Statement on Form S-4 will be filed with the Securities and Exchange Commission which will provide, among other things, financial information including pro forma financial information for both Metavante and the Corporation.

### RECENTLY COMPLETED ACQUISITIONS

On January 17, 2007, Metavante acquired all of the outstanding stock of Valutec Card Solutions, Inc. ("Valutec") for \$41.0 million in cash. Valutec provides closed-loop, in-store gift and loyalty card solutions for small and medium-sized businesses, including hosted account management, reporting capabilities, plastic card design and production and card program merchandising products.

On April 1, 2007, the Corporation completed its acquisition of United Heritage Bankshares of Florida, Inc. United Heritage Bank, with \$791.3 million in assets as of March 31, 2007, has 13 branches in the metropolitan Orlando area. The current United Heritage Bank branches will become M&I Bank branches.

On April 20, 2007, the Corporation completed its acquisition of North Star Financial Corporation ("North Star") of Chicago, Illinois. North Star and its subsidiaries provide a variety of wealth management services through personal and other trusts. North Star's businesses will be integrated with M&I's Wealth Management unit.

See Note 7 - Business Combinations in Notes to Financial Statements for further discussion of the Corporation's acquisition activities.

### NOTEWORTHY TRANSACTIONS AND EVENTS

Some of the more noteworthy transactions and events that occurred in the three months ended March 31, 2007 and 2006 consisted of the following:

First quarter 2007

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As previously discussed, costs associated with the transaction to separate Marshall & Ilsley Corporation and Metavante Corporation into two separate publicly traded companies amounted to a pre-tax expense of \$1.5 million (\$1.3 million after-tax) for the three months ended March 31, 2007.

During the first quarter of 2007, the Corporation realized \$8.0 million in pre-tax gains related to Metavante's investment in Firstsource. See Note 3 - Equity Investment in Firstsource Solutions Limited in Notes to Financial Statements for further discussion of this transaction. The Corporation expects that additional gains from Firstsource equity activities could be recognized in future periods.

The impact of the previously discussed gains were in part offset by the loss associated with the call of the Corporation's 7.65% junior subordinated deferrable interest debentures and the related M&I Capital Trust A 7.65% trust preferred securities. The loss amounted to \$9.5 million and is included in Other expense in the Consolidated Statements of Income.

First quarter 2006  
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As previously discussed, the Corporation determined during 2006 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 as Net derivative losses-discontinued hedges in the Consolidated Statements of Income, resulted in a decrease to net income of \$13.7 million and a decrease to diluted earnings per share of \$0.06 per share for the three months ended March 31, 2006.

05/09/2007

20

### 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 43.5% of the Corporation's source of revenues for the three months ended March 31, 2007 compared to 41.9% for the three months ended March 31, 2006.

Net interest income for the first quarter of 2007 amounted to \$390.3 million compared to \$325.1 million reported for the first quarter of 2006, an increase of \$65.2 million or 20.0%. Both acquisition-related and organic loan growth, as well as the growth in 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, tightening loan spreads and a general shift in the bank issued deposit mix from lower cost to higher cost deposit products.

Average earning assets in the first quarter of 2007 amounted to \$49.9 billion compared to \$41.3 billion in the first quarter of 2006, an increase of \$8.6 billion or 20.6%. Average loans and leases accounted for \$7.4 billion of the growth in average earning assets in the first quarter of 2007 compared to the first quarter of 2006. Average investment securities increased \$1.1 billion in the first quarter of 2007 over the prior year first quarter. The growth in average investment securities was primarily due to the banking acquisitions.

Average interest bearing liabilities amounted to \$43.1 billion in the

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first quarter of 2007 compared to \$35.3 billion in the first quarter of 2006, an increase of \$7.8 billion or 22.1%. Average interest bearing deposits increased \$4.7 billion or 20.9% in the first quarter of 2007 compared to the first quarter of 2006. Average total borrowings, primarily long-term borrowings, increased \$3.1 billion or 24.2% in the first quarter of 2007 compared to the same period in 2006.

Average noninterest bearing deposits increased \$0.4 billion or 7.6% in the three months ended March 31, 2007 compared to the three months ended March 31, 2006.

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

|   | 2007          |                | 2006          |                |               | Growth Pct. |              |
|---|---------------|----------------|---------------|----------------|---------------|-------------|--------------|
|   | First Quarter | Fourth Quarter | Third Quarter | Second Quarter | First Quarter | Annual      | Prior Quarte |
| <b>Commercial Loans and Leases</b>          |               |                |               |                |               |             |              |
| Commercial                                  | \$ 12,164     | \$ 11,800      | \$ 11,559     | \$ 11,441      | \$ 9,877      | 23.2 %      | 3.1          |
| Commercial real estate                      |               |                |               |                |               |             |              |
| Commercial mortgages                        | 10,936        | 10,932         | 10,838        | 10,746         | 8,839         | 23.7        | 0.0          |
| Construction                                | 3,480         | 3,346          | 3,227         | 2,834          | 1,742         | 99.8        | 4.0          |
| Total commercial real estate                | 14,416        | 14,278         | 14,065        | 13,580         | 10,581        | 36.3        | 1.0          |
| Commercial lease financing                  | 513           | 538            | 529           | 504            | 493           | 4.0         | (4.6)        |
| Total commercial loans and leases           | 27,093        | 26,616         | 26,153        | 25,525         | 20,951        | 29.3        | 1.8          |
| <b>Personal loans and leases</b>            |               |                |               |                |               |             |              |
| Residential real estate                     |               |                |               |                |               |             |              |
| Residential mortgages                       | 6,382         | 6,195          | 5,924         | 5,621          | 5,190         | 23.0        | 3.0          |
| Construction                                | 2,780         | 2,649          | 2,471         | 2,365          | 2,085         | 33.3        | 4.9          |
| Total residential real estate               | 9,162         | 8,844          | 8,395         | 7,986          | 7,275         | 25.9        | 3.6          |
| Personal loans                              |               |                |               |                |               |             |              |
| Student                                     | 113           | 78             | 47            | 51             | 99            | 14.2        | 45.3         |
| Credit card                                 | 245           | 250            | 246           | 237            | 227           | 7.9         | (1.8)        |
| Home equity loans and lines                 | 4,295         | 4,387          | 4,474         | 4,596          | 4,706         | (8.7)       | (2.1)        |
| Other                                       | 1,031         | 1,101          | 1,143         | 1,167          | 1,289         | (20.0)      | (6.4)        |
| Total personal loans                        | 5,684         | 5,816          | 5,910         | 6,051          | 6,321         | (10.1)      | (2.3)        |
| Personal lease financing                    | 168           | 162            | 150           | 136            | 132           | 26.8        | 3.5          |
| Total personal loans and leases             | 15,014        | 14,822         | 14,455        | 14,173         | 13,728        | 9.4         | 1.3          |
| Total consolidated average loans and leases | \$ 42,107     | \$ 41,438      | \$ 40,608     | \$ 39,698      | \$ 34,679     | 21.4 %      | 1.6          |

05/09/2007

21

Total consolidated average loans and leases increased \$7.4 billion or 21.4% in the first quarter of 2007 compared to the first quarter of 2006. Excluding the effect of the banking acquisitions, total consolidated average loan and lease organic growth was 9.1% in the first quarter of 2007 compared to the first quarter of 2006. Approximately \$3.9 billion of the growth in total consolidated average loans and leases was attributable to the banking acquisitions and \$3.5 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 \$3.5 billion of average loan and lease organic growth, \$1.5 billion was attributable to average commercial loans and leases, \$1.0 billion was attributable to average commercial real estate loans, and \$1.6 billion was attributable to residential real estate loans. From a production standpoint, residential real estate loan closings in the first quarter of 2007 were \$1.1 billion compared to \$1.2 billion in the fourth quarter of 2006 and \$1.2 billion in the first quarter of 2006. Average home equity loans and lines declined \$0.4 billion in the first quarter of 2007 compared to the first quarter of 2006. Average personal loans and leases decreased \$0.2 billion in the first quarter of 2007 compared to the same period in 2006.

Total average commercial loan and lease organic growth continued to be relatively strong in the first quarter of 2007 although the Corporation has seen some slowing in certain businesses due to tightening inventory management. Management believes that year over year organic commercial loan growth (as a percentage) will continue its slight moderation and expects organic commercial loan growth will be around 10% in 2007. The Corporation continues to experience some slowing in the construction market for both commercial and residential developers, and to some extent throughout the commercial real estate business. The Corporation expects organic commercial real estate loan growth in 2007 will be in the mid single digit percentage range.

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 first quarter of 2007 compared to the first quarter of 2006. This is consistent with what is occurring in many parts of the country. It is expected that the softer home equity market, combined with the Corporation's continued sales of certain loans at origination will continue to 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 each of the three months ended March 31, 2007 and 2006, real estate loans sold to investors amounted to \$0.6 billion. At March 31, 2007 and 2006, the Corporation had approximately \$126.6 million and \$120.7 million of mortgage loans held for sale, respectively. Gains from the sale of mortgage loans amounted to \$8.8 million in the first quarter of 2007 compared to \$12.0 million in the

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first quarter of 2006.

Auto loans securitized and sold in the first quarters of 2007 and 2006 amounted to \$0.1 billion and \$0.2 billion, respectively. Net gains and losses from the sale and securitization of auto loans were not significant in either the first quarter of 2007 or the first quarter of 2006. Auto loans held for sale amounted to \$45.5 million and \$38.4 million at March 31, 2007 and March 31, 2006, respectively.

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

05/09/2007

22

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      |               |                |               |                |               |             |              |
|------------------------------------|---------------|----------------|---------------|----------------|---------------|-------------|--------------|
|                                    | 2007          |                | 2006          |                |               | Growth Pct. |              |
|                                    | First Quarter | Fourth Quarter | Third Quarter | Second Quarter | First Quarter | Annual      | Prior Quarte |
| Bank issued deposits               |               |                |               |                |               |             |              |
| -----                              |               |                |               |                |               |             |              |
| Noninterest bearing deposits       |               |                |               |                |               |             |              |
| -----                              |               |                |               |                |               |             |              |
| Commercial                         | \$ 3,769      | \$ 4,000       | \$ 3,948      | \$ 3,873       | \$ 3,473      | 8.5 %       | (5.8)        |
| Personal                           | 964           | 951            | 953           | 998            | 943           | 2.3         | 1.4          |
| Other                              | 586           | 575            | 561           | 533            | 526           | 11.4        | 2.0          |
| -----                              |               |                |               |                |               |             |              |
| Total noninterest bearing deposits | 5,319         | 5,526          | 5,462         | 5,404          | 4,942         | 7.6         | (3.7)        |
| Interest bearing deposits          |               |                |               |                |               |             |              |
| Savings and NOW                    | 2,951         | 2,961          | 3,081         | 3,251          | 2,831         | 4.2         | (0.4)        |
| Money market                       | 8,260         | 8,128          | 7,795         | 7,389          | 6,599         | 25.2        | 1.6          |
| Foreign activity                   | 1,424         | 1,427          | 1,151         | 1,000          | 1,034         | 37.7        | (0.3)        |
| -----                              |               |                |               |                |               |             |              |
| Total interest bearing deposits    | 12,635        | 12,516         | 12,027        | 11,640         | 10,464        | 20.7        | 0.9          |
| Time deposits                      |               |                |               |                |               |             |              |
| -----                              |               |                |               |                |               |             |              |
| Other CDs and time deposits        | 4,832         | 4,847          | 4,843         | 4,769          | 3,509         | 37.7        | (0.3)        |
| CDs greater than \$100,000         | 3,401         | 3,264          | 3,137         | 2,878          | 2,035         | 67.1        | 4.2          |
| -----                              |               |                |               |                |               |             |              |
| Total time deposits                | 8,233         | 8,111          | 7,980         | 7,647          | 5,544         | 48.5        | 1.5          |
| -----                              |               |                |               |                |               |             |              |
| Total bank issued deposits         | 26,187        | 26,153         | 25,469        | 24,691         | 20,950        | 25.0        | 0.1          |
| Wholesale deposits                 |               |                |               |                |               |             |              |
| -----                              |               |                |               |                |               |             |              |
| Money market                       | 938           | 835            | 795           | 737            | 893           | 5.1         | 12.3         |
| Brokered CDs                       | 4,332         | 5,257          | 5,510         | 5,382          | 3,874         | 11.8        | (17.6)       |
| Foreign time                       | 1,101         | 892            | 1,147         | 1,931          | 1,762         | (37.5)      | 23.4         |

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|                                     |           |           |           |           |           |        |       |
|-------------------------------------|-----------|-----------|-----------|-----------|-----------|--------|-------|
| Total wholesale deposits            | 6,371     | 6,984     | 7,452     | 8,050     | 6,529     | (2.4)  | (8.8) |
| Total consolidated average deposits | \$ 32,558 | \$ 33,137 | \$ 32,921 | \$ 32,741 | \$ 27,479 | 18.5 % | (1.7) |

Average total bank issued deposits increased \$5.2 billion or 25.0% in the first quarter of 2007 compared to the first quarter of 2006. Excluding the effect of the banking acquisitions, average total bank issued deposit organic growth was 9.1% in the first quarter of 2007 compared to the first quarter of 2006. Approximately \$3.1 billion of the growth in average total bank issued deposits was attributable to the banking acquisitions and \$2.1 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 \$2.1 billion of average bank issued deposit organic growth, \$1.1 billion was attributable to average interest bearing deposits and \$1.0 billion was attributable to average time deposits. Average noninterest bearing deposits were relatively unchanged in the first quarter of 2007 compared to the first quarter of 2006.

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.

In the current interest environment, 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, the recent interest rate environment has 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. Management expects this behavior to continue although at a somewhat slower rate based on current interest rate levels.

05/09/2007

23

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 March 31, 2007, average wholesale deposits decreased \$0.2 billion, or 2.4% compared to the three months ended March 31, 2006. Average wholesale deposits for the three months ended March 31, 2007 include \$0.6 billion of wholesale deposits that were assumed in the 2006 banking acquisitions.

Total borrowings increased \$1.5 billion to \$16.0 billion at March 31,

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2007, compared to \$14.5 billion at December 31, 2006. During the first quarter of 2007, the Corporation issued floating rate long term borrowings in the amount of \$1.2 billion which are indexed to the one month London Inter-Bank Offered Rate ("LIBOR") and mature at various times from 2008 through 2013. In addition, a \$0.3 billion fixed rate borrowing with an interest rate of 5.15% and a maturity date of 2012 was issued in the first quarter of 2007.

The Corporation's consolidated average interest earning assets and interest bearing liabilities, interest earned and interest paid for the three months ended March 31, 2007 and 2006, are presented in the following tables (\$ in millions):

### Consolidated Yield and Cost Analysis

|  | Three Months Ended<br>March 31, 2007 |                     |                                 | Three Months Ended<br>March 31, 2006 |                     |                                 |
|--|--------------------------------------|---------------------|---------------------------------|--------------------------------------|---------------------|---------------------------------|
|  | Average<br>Balance                   | Average<br>Interest | Average<br>Yield or<br>Cost (b) | Average<br>Balance                   | Average<br>Interest | Average<br>Yield or<br>Cost (b) |
| <b>Loans and leases: (a)</b>                   |                                      |                     |                                 |                                      |                     |                                 |
| Commercial loans and leases                    | \$ 12,677.0                          | \$ 238.1            | 7.62 %                          | \$ 10,369.9                          | \$ 176.8            | 6.91 %                          |
| Commercial real estate loans                   | 14,416.4                             | 270.1               | 7.60                            | 10,580.4                             | 181.1               | 6.94                            |
| Residential real estate loans                  | 9,161.7                              | 165.4               | 7.32                            | 7,275.3                              | 122.8               | 6.85                            |
| Home equity loans and lines                    | 4,295.0                              | 79.9                | 7.55                            | 4,705.9                              | 81.0                | 6.98                            |
| Personal loans and leases                      | 1,556.8                              | 30.0                | 7.83                            | 1,747.0                              | 29.2                | 6.77                            |
| <b>Total loans and leases</b>                  | <b>42,106.9</b>                      | <b>783.5</b>        | <b>7.55</b>                     | <b>34,678.5</b>                      | <b>590.9</b>        | <b>6.91</b>                     |
| <b>Investment securities (b):</b>              |                                      |                     |                                 |                                      |                     |                                 |
| Taxable  | 6,153.5                              | 77.1                | 5.03                            | 4,979.4                              | 57.9                | 4.64                            |
| Tax Exempt (a)                                 | 1,287.8                              | 21.5                | 6.86                            | 1,340.6                              | 23.4                | 7.20                            |
| <b>Total investment securities</b>             | <b>7,441.3</b>                       | <b>98.6</b>         | <b>5.34</b>                     | <b>6,320.0</b>                       | <b>81.3</b>         | <b>5.17</b>                     |
| Trading securities (a)                         | 41.3                                 | 0.2                 | 1.38                            | 34.2                                 | 0.1                 | 0.87                            |
| Other short-term investments                   | 277.2                                | 3.8                 | 5.57                            | 315.7                                | 3.5                 | 4.58                            |
| <b>Total interest earning assets</b>           | <b>\$ 49,866.7</b>                   | <b>\$ 886.1</b>     | <b>7.20 %</b>                   | <b>\$ 41,348.4</b>                   | <b>\$ 675.8</b>     | <b>6.62 %</b>                   |
| <b>Interest bearing deposits:</b>              |                                      |                     |                                 |                                      |                     |                                 |
| <b>Bank issued deposits:</b>                   |                                      |                     |                                 |                                      |                     |                                 |
| Bank issued interest bearing activity deposits | \$ 12,634.4                          | \$ 111.6            | 3.58 %                          | \$ 10,464.3                          | \$ 74.7             | 2.89 %                          |
| Bank issued time deposits                      | 8,232.9                              | 98.3                | 4.84                            | 5,544.3                              | 53.3                | 3.90                            |
| <b>Total bank issued deposits</b>              | <b>20,867.3</b>                      | <b>209.9</b>        | <b>4.08</b>                     | <b>16,008.6</b>                      | <b>128.0</b>        | <b>3.24</b>                     |
| Wholesale deposits                             | 6,371.0                              | 80.1                | 5.10                            | 6,528.2                              | 70.8                | 4.40                            |
| <b>Total interest bearing deposits</b>         | <b>27,238.3</b>                      | <b>290.0</b>        | <b>4.32</b>                     | <b>22,536.8</b>                      | <b>198.8</b>        | <b>3.58</b>                     |

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|                                    |             |          |        |             |          |        |
|------------------------------------|-------------|----------|--------|-------------|----------|--------|
| Short-term borrowings              | 4,248.7     | 54.9     | 5.24   | 3,370.9     | 39.3     | 4.73   |
| Long-term borrowings               | 11,623.7    | 143.8    | 5.02   | 9,404.0     | 104.7    | 4.51   |
| Total interest bearing liabilities | \$ 43,110.7 | \$ 488.7 | 4.60 % | \$ 35,311.7 | \$ 342.8 | 3.94 % |
| Net interest margin (FTE)          | \$ 397.4    |          | 3.23 % | \$ 333.0    |          | 3.26 % |
| Net interest spread (FTE)          |             |          | 2.60 % |             |          | 2.68 % |

- (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 3 basis points from 3.26% in the first quarter of 2006 to 3.23% in the first quarter of 2007. Compared to the fourth quarter of 2006, the net interest margin FTE decreased 2 basis points from 3.25% in the fourth quarter of 2006 to 3.23% in the first quarter of 2007.

05/09/2007

24

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. Similar to the general trends being experienced throughout the industry, the Corporation continues to be challenged by narrowing loan spreads, 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 downward pressure, particularly during periods of increasing nonperforming loans and leases, on the net interest margin FTE for the remainder of 2007.

PROVISION FOR LOAN AND LEASE LOSSES AND CREDIT QUALITY

The following tables present comparative consolidated credit quality information as of March 31, 2007 and the prior four quarters:

|                          | Nonperforming Assets |                |               |                |               |
|--------------------------|----------------------|----------------|---------------|----------------|---------------|
|                          | 2007                 |                | 2006          |                |               |
|                          | First Quarter        | Fourth Quarter | Third Quarter | Second Quarter | First Quarter |
| Nonaccrual               | \$ 340,684           | \$ 264,890     | \$ 213,920    | \$ 193,028     | \$ 144,000    |
| Renegotiated             | 117                  | 125            | 130           | 133            |               |
| Past due 90 days or more | 10,858               | 2,991          | 5,132         | 4,855          | 4,000         |



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|                                      |            |            |            |            |            |
|--------------------------------------|------------|------------|------------|------------|------------|
| Total nonperforming loans and leases | 351,659    | 268,006    | 219,182    | 198,016    | 149,000    |
| Other real estate owned              | 26,580     | 25,452     | 15,152     | 11,701     | 8,000      |
|                                      | -----      | -----      | -----      | -----      | -----      |
| Total nonperforming assets           | \$ 378,239 | \$ 293,458 | \$ 234,334 | \$ 209,717 | \$ 157,000 |
|                                      | =====      | =====      | =====      | =====      | =====      |
| Allowance for loan and lease losses  | \$ 423,084 | \$ 420,610 | \$ 417,375 | \$ 415,201 | \$ 368,000 |
|                                      | =====      | =====      | =====      | =====      | =====      |

Consolidated Statistics

|   | 2007             |                   | 2006             |                   |                  |
|---|------------------|-------------------|------------------|-------------------|------------------|
|   | First<br>Quarter | Fourth<br>Quarter | Third<br>Quarter | Second<br>Quarter | First<br>Quarter |
|   | -----            | -----             | -----            | -----             | -----            |
| Net charge-offs to average<br>loans and leases annualized                           | 0.14 %           | 0.14 %            | 0.08 %           | 0.10 %            | 0.08 %           |
| Total nonperforming loans and leases<br>to total loans and leases                   | 0.83             | 0.64              | 0.53             | 0.49              | 0.49             |
| Total nonperforming assets to total loans<br>and leases and other real estate owned | 0.89             | 0.70              | 0.57             | 0.52              | 0.52             |
| Allowance for loan and lease losses<br>to total loans and leases                    | 1.00             | 1.00              | 1.01             | 1.03              | 1.03             |
| Allowance for loan and lease losses<br>to total nonperforming loans and leases      | 120              | 157               | 190              | 210               | 210              |

05/09/2007

25

Nonaccrual Loans and Leases By Type

(\$000's)

|   | 2007               |                    | 2006             |                   |                    |
|---|--------------------|--------------------|------------------|-------------------|--------------------|
|   | First<br>Quarter   | Fourth<br>Quarter  | Third<br>Quarter | Second<br>Quarter | First<br>Quarter   |
|   | -----              | -----              | -----            | -----             | -----              |
| <b>Commercial</b>   |                    |                    |                  |                   |                    |
| Commercial, financial and agricultural<br>Lease financing receivables | \$ 60,331<br>1,510 | \$ 50,855<br>1,119 | \$ 56,541<br>539 | \$ 59,558<br>454  | \$ 50,000<br>1,000 |
| Total commercial  | 61,841             | 51,974             | 57,080           | 60,012            | 51,000             |
| <b>Real estate</b>  |                    |                    |                  |                   |                    |
| Construction and land development                                     | 129,061            | 71,298             | 47,265           | 32,602            | 3,000              |
| Commercial mortgage   | 66,596             | 57,705             | 40,234           | 40,669            | 32,000             |
| Residential mortgage  | 78,578             | 82,675             | 67,799           | 58,255            | 55,000             |
| Total real estate   | 274,235            | 211,678            | 155,298          | 131,526           | 91,000             |

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|                                   |            |            |            |            |         |
|-----------------------------------|------------|------------|------------|------------|---------|
| Personal                          | 4,608      | 1,238      | 1,542      | 1,490      | 1,      |
| Total nonaccrual loans and leases | \$ 340,684 | \$ 264,890 | \$ 213,920 | \$ 193,028 | \$ 144, |

Reconciliation of Allowance for Loan and Lease Losses

(\$000's)

|                                       | 2007          |                | 2006          |                |               |
|---------------------------------------|---------------|----------------|---------------|----------------|---------------|
|                                       | First Quarter | Fourth Quarter | Third Quarter | Second Quarter | First Quarter |
| Beginning balance                     | \$ 420,610    | \$ 417,375     | \$ 415,201    | \$ 368,760     | \$ 363,       |
| Provision for loan and lease losses   | 17,148        | 18,253         | 10,250        | 11,053         | 10,           |
| Allowance of banks and loans acquired | -             | -              | -             | 45,258         |               |
| Loans and leases charged-off          |               |                |               |                |               |
| Commercial                            | 7,222         | 2,213          | 4,073         | 6,125          | 3,            |
| Real estate                           | 6,616         | 11,483         | 4,971         | 3,385          | 2,            |
| Personal                              | 4,290         | 4,216          | 3,516         | 3,088          | 3,            |
| Leases                                | 173           | 256            | 165           | 1,253          |               |
| Total charge-offs                     | 18,301        | 18,168         | 12,725        | 13,851         | 10,           |
| Recoveries on loans and leases        |               |                |               |                |               |
| Commercial                            | 1,712         | 1,097          | 2,251         | 847            | 2,            |
| Real estate                           | 488           | 415            | 783           | 1,224          |               |
| Personal                              | 935           | 1,096          | 1,031         | 1,149          |               |
| Leases                                | 492           | 542            | 584           | 761            |               |
| Total recoveries                      | 3,627         | 3,150          | 4,649         | 3,981          | 4,            |
| Net loans and leases charged-off      | 14,674        | 15,018         | 8,076         | 9,870          | 6,            |
| Ending balance                        | \$ 423,084    | \$ 420,610     | \$ 417,375    | \$ 415,201     | \$ 368,       |

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 \$26.6 million at March 31, 2007, compared to \$25.5 million at December 31, 2006 and \$8.2 million at March 31, 2006. Construction and land development and residential real estate properties acquired in partial or total satisfaction of problem loans accounted for 25.0% and 56.7% of OREO at March 31, 2007, respectively.

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.

05/09/2007

26

At March 31, 2007, nonperforming loans and leases amounted to \$351.7 million or 0.83% of consolidated loans and leases compared to \$268.0 million or 0.64% of consolidated loans and leases at December 31, 2006, and \$149.1 million or 0.42% of consolidated loans and leases at March 31, 2006. Nonaccrual loans and leases continue to be the primary source of nonperforming loans and leases.

At March 31, 2007, nonperforming loans and leases continue to be concentrated in housing-related loans. 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.

Nonperforming loans and leases associated with banking acquisitions amounted to \$78.6 million or 1.96% of the acquired loans and leases and 22.3% of total consolidated nonperforming loans and leases at March 31, 2007.

Throughout this credit cycle the Corporation has maintained its underwriting standards including its typical loan to value standards in real estate lending. As stated in the Corporation's Annual Report on Form 10-K, the Corporation does not hold loans with below market or so-called teaser interest rates and does not hold option adjustable rate mortgages that may expose the borrowers to future increase in repayments in excess of changes resulting solely from increases in the market rate of interest (loans subject to negative amortization). The Corporation's comprehensive approval process is critical to ensuring that the risk of loss from nonperforming loans and leases on a long-term basis is minimized within the overall framework of acceptable levels of credit risk.

Managing nonperforming loans and leases is important to the ongoing success of a financial services institution. 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. The Corporation's comprehensive credit review process is critical to ensuring that potential nonperforming loans and leases as well as nonperforming loans and leases are aggressively identified and isolated in a timely manner so that strategies can be developed to minimize the risk of loss to the Corporation. At March 31, 2007 approximately \$80.5 million or 22.9% of the Corporation's nonperforming loans and leases were 60 days or less past due.

Net charge-offs amounted to \$14.7 million or 0.14% of average loans and leases in the first quarter of 2007 compared to \$15.0 million or 0.14% of average loans and leases in the fourth quarter of 2006 and \$6.0 million or 0.07% of average loans and leases in the first quarter of 2006. The ratio of recoveries to charge-offs was 19.8% for the three months ended March 31, 2007, compared to 17.3% in the fourth quarter of 2006, and 43.8% in the first quarter of 2006. The most recent five year average ratio of recoveries to charge-offs was 30.4%.

The provisions for loan and lease losses amounted to \$17.1 million for the three months ended March 31, 2007, compared to \$18.3 million for the

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three months ended December 31, 2006 and \$11.0 million for the three months ended March 31, 2006. The allowance for loan and lease losses as a percent of consolidated loans and leases outstanding was 1.00% at March 31, 2007, 1.00% at December 31, 2006 and 1.05% at March 31, 2006.

As a result of these portfolio trends, management believes that in the near term the expected level of nonperforming loans and leases will increase from current levels. In addition to identifying new problem or potential problem loans and leases, this expectation is based in part on the fact that real estate related loans such as construction and land development loans tend to be more complex and may take additional time to satisfactorily resolve. At the present time, the Corporation's nonperforming loans and leases continue to be generally well-collateralized, geographically dispersed and the risk of loss on a per loan basis remains relatively modest. Management continues to expect that its annual historical net charge off range of 15 to 20 basis points of average loans and leases is representative of the net charge-offs anticipated for the year ended December 31, 2007.

### OTHER INCOME

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Other income or noninterest sources of revenue represented 56.5% and 58.1% of the Corporation's total sources of revenues for the three months ended March 31, 2007 and 2006, respectively. Total other income in the first quarter of 2007 amounted to \$507.1 million compared to \$450.9 million in the same period last year, an increase of \$56.2 million or 12.5%. As previously discussed, other income for the three months ended March 31, 2007 included \$8.0 million in gains related to Firstsource and other income for the three months ended March 31, 2006 included \$21.3 million of mark-to-market losses for derivative financial instruments that did not qualify for hedge accounting. The remaining increase in other income was primarily due to growth in data processing services and wealth management services revenue.

05/09/2007

27

Data processing services external revenue (Metavante) amounted to \$356.4 million in the first quarter of 2007 compared to \$343.0 million in the first quarter of 2006, an increase of \$13.4 million or 3.9%. Revenue growth continued throughout the segment due to revenue associated with acquisitions and higher transaction volumes in core processing and payment processing activities. Revenue associated with Metavante's acquisition completed in the first quarter of 2007 and the acquisition completed in the third quarter of 2006 contributed a significant portion of the revenue growth in the three months ended March 31, 2007, compared to the three months ended March 31, 2006. Metavante estimates that total revenue growth (internal and external) for the three months ended March 31, 2007 compared to the three months ended March 31, 2006 excluding the acquisitions ("organic revenue growth"), was approximately 2.0%. 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, amounted to \$0.7 million for the three months ended March 31, 2007 compared to \$3.9 million for the three months ended March 31, 2006, a decrease of \$3.2 million.

Management continues to expect that Metavante revenue (internal and external) for the year ended December 31, 2007 will be within a range of \$1.60 billion to \$1.64 billion. Despite the lower organic growth rate in the first quarter of 2007, management believes the growth rate will

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increase in the third and fourth quarters of 2007 and expects annual organic revenue growth in 2007 will be in the mid-single digits.

Wealth management revenue amounted to \$60.7 million in the first quarter of 2007 compared to \$52.8 million in the first quarter of 2006, an increase of \$7.9 million or 15.0%. For the three months ended March 31, 2007, wealth management revenue attributable to the previously reported April 1, 2006 acquisition of Gold Banc Corporation, Inc. amounted to \$1.0 million. Continued success in 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 \$22.9 billion at March 31, 2007, compared to \$22.5 billion at December 31, 2006 and \$19.8 billion at March 31, 2006.

Service charges on deposits amounted to \$25.9 million in the first quarter of 2007, an increase of \$3.3 million or 14.8% from the first quarter of 2006. The banking acquisitions contributed \$2.0 million of service charges on deposits for the three months ended March 31, 2007. A portion of this source of fee income is sensitive to changes in interest rates. Excluding the effect of the banking acquisitions, increased service charges on deposits associated with commercial demand deposits accounted for the majority of the increase in this revenue in the three months ended March 31, 2007 compared to the three months ended March 31, 2006, respectively.

Total mortgage banking revenue was \$10.1 million in the first quarter of 2007 compared with \$12.9 million in the first quarter of 2006, a decrease of \$2.8 million or 21.6%. For each of the three months ended March 31, 2007 and 2006, the Corporation sold \$0.6 billion of residential mortgage and home equity loans to the secondary market. 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.

Net investment securities gains amounted to \$1.6 million (primarily Capital Markets related) in the first quarter of 2007 compared to \$1.1 million in the first quarter of 2006, an increase of \$0.5 million or 40.2%. As previously discussed, gains related to Firstsource for the three months ended March 31, 2007, amounted to \$8.0 million.

As previously discussed, Net derivative losses-discontinued hedges that amounted to \$21.3 million for the three months ended March 31, 2006 represent the mark-to-market adjustments associated with certain interest rate swaps. Based on expanded interpretations of the accounting standard for derivatives and hedge accounting, it was determined that certain transactions did not qualify for hedge accounting. As a result, any fluctuation in the fair value of the interest rate swaps was recorded in earnings with no corresponding offset to the hedged items or accumulated other comprehensive income. Management believes the changes in earnings based on market volatility are not reflective of the core performance trends of the Corporation.

Other income in the first quarter of 2007 amounted to \$36.9 million compared to \$32.9 million in the first quarter of 2006, an increase of \$4.0 million or 12.4%. Other income for the three months ended March 31, 2007 included \$1.2 million of income attributable to the banking acquisitions.

05/09/2007

## OTHER EXPENSE

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Total other expense for the three months ended March 31, 2007 amounted to \$553.0 million compared to \$505.1 million for the three months ended March 31, 2006, an increase of \$47.9 million or 9.5%.

Total other expense for the three months ended March 31, 2007 includes the operating expenses associated with Metavante's 2007 and 2006 acquisitions, and the 2006 banking acquisitions. The operating expenses of the acquired entities have been included in the Corporation's consolidated operating expenses from the dates the transactions were completed, which had an impact on the period to period comparability of operating expenses in 2007 compared to 2006. Approximately \$26.8 million of the operating expense growth in the first quarter of 2007 compared to the first quarter of 2006 was attributable to the acquisitions. Total other expense for the three months ended March 31, 2007 included transaction expenses of \$1.5 million associated with the plan to separate Marshall & Ilsley Corporation and Metavante into two separate publicly traded companies and the loss of \$9.5 million related to the call of the Corporation's 7.65% junior subordinated deferrable interest debentures and the related M&I Capital Trust A 7.65% trust preferred securities.

The Corporation estimates that its expense growth in the three months ended March 31, 2007 compared to the three months ended March 31, 2006, excluding the effects of the acquisitions, the Metavante transaction costs and the loss due to the call of the 7.65% junior subordinated deferrable interest debentures and the related M&I Capital Trust A 7.65% trust preferred securities was approximately \$10.1 million or 2.0%.

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 (excluding Metavante transaction costs) divided by the sum of total other income (including Capital Markets revenue but excluding investment securities gains or losses and net derivative losses-discontinued hedges) and net interest income on a fully taxable equivalent basis. The Corporation's efficiency ratios for the three months ended March 31, 2007 and prior four quarters were:

## Efficiency Ratios

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|   | Three Months Ended |                      |                       |                  |                   |
|---|--------------------|----------------------|-----------------------|------------------|-------------------|
|   | March 31,<br>2007  | December 31,<br>2006 | September 30,<br>2006 | June 30,<br>2006 | March 31,<br>2006 |
| Consolidated Corporation                        | 61.0 %             | 62.2 %               | 62.6 %                | 62.9 %           | 62.8 %            |
| Consolidated Corporation<br>Excluding Metavante | 50.5 %             | 50.6 %               | 52.4 %                | 51.2 %           | 48.8 %            |

Salaries and employee benefits expense amounted to \$297.1 million in the first quarter of 2007 compared to \$277.4 million in the first quarter of 2006, an increase of \$19.7 million or 7.1% . Salaries and benefits associated with the acquisitions previously discussed accounted for approximately \$14.0 million of the increase in Salaries and employee

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benefits expense in the three months ended March 31, 2007 compared to the three months ended March 31, 2006.

For the first quarter of 2007, occupancy and equipment expense amounted to \$59.3 million compared to \$57.8 million in the first quarter of 2006, an increase of \$1.5 million or 2.6% . The acquisitions accounted for approximately all of the increase in occupancy and equipment expense in the three months ended March 31, 2007 compared to the three months ended March 31, 2006.

Software expenses, processing charges, supplies and printing, professional services and shipping and handling expenses totaled \$97.9 million in the first quarter of 2007 compared to \$85.9 million in the first quarter of 2006, an increase of \$12.0 million or 13.9% . The acquisitions accounted for \$1.9 million of the expense growth for the three months ended March 31, 2007 compared to the three months ended March 31, 2006. Metavante's expense growth accounted for the majority of the remaining increase in expense for these items in the three months ended March 31, 2007 compared to the three months ended March 31, 2006.

Amortization of intangibles amounted to \$11.3 million in the first quarter of 2007 compared to \$8.9 million in the first quarter of 2006, an increase of \$2.4 million. The increase in amortization associated with the acquisitions amounted to \$2.6 million for the three months ended March 31, 2007 compared to the three months ended March 31, 2006. Those increases were offset by lower amortization of core deposit intangibles, which is based on a declining balance method from previous acquisitions.

05/09/2007

29

As previously discussed, the Corporation incurred certain transaction costs associated with the recently announced plan to separate Marshall & Ilsley Corporation and Metavante into two separate publicly held companies. For the three months ended March 31, 2007, these costs amounted to \$1.5 million and consisted of consulting and legal fees.

Other expense amounted to \$85.9 million in the first quarter of 2007 compared to \$75.1 million in the first quarter of 2006, an increase of \$10.8 million or 14.3%. The acquisitions accounted for \$5.2 million of the growth in other expense for the three months ended March 31, 2007 compared to the three months ended March 31, 2006. As previously discussed, other expense for the three months ended March 31, 2007 includes the loss of \$9.5 million related to the call of the Corporation's 7.65% junior subordinated deferrable interest debentures and the related M&I Capital Trust A 7.65% trust preferred securities.

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 activities was a net credit of \$0.2 million in the first quarter of 2007. Net software and conversion activities resulted in \$2.7 million of expense in the first quarter of 2006. Net software and conversion activities resulted in a decrease of \$2.9 million in other expense in the first quarter of 2007 compared the first quarter of 2006.

### INCOME TAXES

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The provision for income taxes for the three months ended March 31, 2007 amounted to \$110.6 million or 33.8% of pre-tax income compared to \$86.8

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million or 33.4% of pre-tax income for the three months ended March 31, 2006.

### RECONCILIATION OF NON-GAAP TO GAAP RESULTS

The Corporation has provided non-GAAP (Generally Accepted Accounting Principles) operating results for the three months ended March 31, 2007 and 2006 as a supplement to its GAAP financial results. The Corporation believes that these non-GAAP financial measures are useful because they allow investors to assess, on a consistent basis, the Corporation's core operating performance, exclusive of items management believes are not reflective of the operations of the Corporation. 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         |                         |                            |                         |
|---|----------------------------|-------------------------|----------------------------|-------------------------|
|   | March 31, 2007             |                         | March 31, 2006             |                         |
|   | Amount<br>(\$ in millions) | Per<br>Diluted<br>Share | Amount<br>(\$ in millions) | Per<br>Diluted<br>Share |
| Net Income  | \$ 216.8                   | \$ 0.83                 | \$ 173.1                   | \$ 0.72                 |
| Metavante Transaction Costs, net of tax                               | 1.3                        | -                       | -                          | -                       |
| Net Derivative Losses -<br>Discontinued Hedges, net of tax            | -                          | -                       | 13.7                       | 0.06                    |
| <b>Net Income as Adjusted</b>   | <b>\$ 218.1</b>            | <b>\$ 0.83</b>          | <b>\$ 186.8</b>            | <b>\$ 0.78</b>          |
| Average Shareholders' Equity  |                            |                         | \$ 4,814                   |                         |
| Cumulative Net Derivative Losses -<br>Discontinued Hedges, net of tax |                            |                         | 19                         |                         |
| <b>Adjusted Average Shareholders' Equity</b>                          |                            |                         | <b>\$ 4,833</b>            |                         |
| Based on Net Income as Adjusted:                                      |                            |                         |                            |                         |
| Return on Assets  | 1.56 %                     |                         | 1.62 %                     |                         |
| Return on Equity  | 14.13                      |                         | 15.67                      |                         |

### LIQUIDITY AND CAPITAL RESOURCES

Shareholders' equity was \$6.35 billion or 11.2% of total consolidated assets at March 31, 2007, compared to \$6.15 billion or 10.9% of total consolidated assets at December 31, 2006, and \$4.86 billion or 10.3% of total consolidated assets at March 31, 2006.

During the first quarter of 2007, the Corporation issued 403,508 shares of its common stock valued at \$19.2 million to fund its 2006 obligations under its retirement and employee stock ownership plans. Also during the first quarter of 2007 the Corporation issued 85,777 shares of its common stock for \$3.4 million to fund its first quarter 2007 obligation under its employee stock purchase plan.

05/09/2007



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30

At March 31, 2007, the net loss in accumulated other comprehensive income amounted to \$14.8 million, which represented a positive change in accumulated other comprehensive income of \$2.8 million since December 31, 2006. Net accumulated other comprehensive income associated with available for sale investment securities was a net loss of \$11.0 million at March 31, 2007, compared to a net loss of \$22.0 million at December 31, 2006, resulting in a net gain of \$11.0 million over the three month period. The net unrealized loss associated with the change in fair value of the Corporation's derivative financial instruments designated as cash flow hedges was \$7.8 million for the three months ended March 31, 2007. The change in the postretirement benefit obligation plan funded status at March 31, 2007 compared to December 31, 2006, resulted in a net unrealized loss of \$0.4 million.

On April 24, 2007, the Corporation announced that its Board of Directors increased the quarterly cash dividend on its common stock 14.8%, to \$0.31 per common share from \$0.27 per common share.

The Corporation has a Stock Repurchase Program under which it may repurchase up to 12 million shares of its common stock annually. There were no purchases under the program during the first quarter of 2007. 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.

On April 26, 2007, the Corporation announced that it had repurchased 3,250,000 shares of its common stock or approximately 1.2 percent of its outstanding common stock. The shares of common stock were purchased through an accelerated share repurchase program at \$48.03 per common share for a total cost of approximately \$156.1 million. Under the accelerated share repurchase program agreement, after a period not expected to exceed sixty days, the Corporation may receive or be required to pay a price adjustment based on an adjusted weighted average price as defined in the accelerated share repurchase program agreement. Any price adjustment may be settled in cash or shares of common stock at the Corporation's option. After the repurchase approximately 8,750,000 shares remain available under prior repurchase authorizations by the Corporation's Board of Directors.

On April 1 and April 20, 2007, the Corporation completed the acquisitions of United Heritage Bankshares of Florida, Inc. and North Star Financial Corporation, respectively. In conjunction with these transactions the Corporation issued 4,852,227 shares of its common stock valued at approximately \$225.3 million and exchanged vested stock options valued at approximately \$15.3 million.

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.

RISK-BASED CAPITAL RATIOS

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(\$ in millions)

|                | March 31, 2007 |        | December 31, 2006 |        |
|----------------|----------------|--------|-------------------|--------|
|                | Amount         | Ratio  | Amount            | Ratio  |
| Tier 1 Capital | \$ 3,842       | 7.77 % | \$ 3,873          | 7.88 % |

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|                      |    |        |         |           |
|----------------------|----|--------|---------|-----------|
| Tier 1 Capital       |    |        |         |           |
| Minimum Requirement  |    | 1,979  | 4.00    | 1,965     |
|                      |    | -----  | -----   | -----     |
| Excess               | \$ | 1,863  | 3.77 %  | \$ 1,908  |
|                      |    | =====  | =====   | =====     |
| Total Capital        | \$ | 5,440  | 11.00 % | \$ 5,489  |
| Total Capital        |    |        |         |           |
| Minimum Requirement  |    | 3,957  | 8.00    | 3,930     |
|                      |    | -----  | -----   | -----     |
| Excess               | \$ | 1,483  | 3.00 %  | \$ 1,559  |
|                      |    | =====  | =====   | =====     |
| Risk-Adjusted Assets | \$ | 49,464 |         | \$ 49,128 |
|                      |    | =====  |         | =====     |

LEVERAGE RATIOS

(\$ in millions)

|                  | March 31, 2007   |               | December 31, 2006 |               |
|------------------|------------------|---------------|-------------------|---------------|
|                  | Amount           | Ratio         | Amount            | Ratio         |
|                  | -----            | -----         | -----             | -----         |
| Tier 1 Capital   | \$ 3,842         | 7.18 %        | \$ 3,873          | 7.38 %        |
| Minimum Leverage |                  |               |                   |               |
| Requirement      | 1,605 - 2,674    | 3.00 - 5.00   | 1,575 - 2,625     | 3.00 - 5.00   |
|                  | -----            | -----         | -----             | -----         |
| Excess           | \$ 2,237 - 1,168 | 4.18 - 2.18 % | \$ 2,298 - 1,248  | 4.38 - 2.38 % |
|                  | =====            | =====         | =====             | =====         |
| Adjusted Average |                  |               |                   |               |
| Total Assets     | \$ 53,480        |               | \$ 52,508         |               |
|                  | =====            |               | =====             |               |

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.

05/09/2007

31

The Corporation's most readily available source of liquidity is its investment portfolio. Investment securities available for sale, which totaled \$7.1 billion at March 31, 2007, represent a highly accessible source of liquidity. The Corporation's portfolio of held-to-maturity investment securities, which totaled \$0.4 billion at March 31, 2007, 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 \$21.4 billion in the first quarter of 2007. The Corporation's banking affiliates may also access the federal funds markets or utilize

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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 \$6.4 billion in the first quarter of 2007.

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 10 to the Consolidated Financial Statements for an update of the Corporation's securitization activities in the first quarter of 2007.

The Corporation's lead bank, M&I Marshall & Ilesley 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 March 31, 2007 amounted to \$7.9 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. At March 31, 2007, approximately \$1.3 billion was available for future securities issuances.

During the fourth quarter of 2004, the Corporation filed a shelf registration statement with the Securities and Exchange Commission

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enabling the Corporation to issue up to 6.0 million shares of its common stock, which may be offered and issued from time to time in connection with acquisitions by M&I, Metavante and/or other consolidated subsidiaries of the Corporation. At March 31, 2007, there were 3.1 million shares of common stock available for future issuances.

Under another shelf registration statement, the Corporation may issue up to \$0.6 billion of medium-term Series F notes with maturities ranging from 9 months to 30 years and at fixed or floating rates. At March 31, 2007, 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 March 31, 2007, MiNotes issued amounted to \$0.2 billion in aggregate principal amount. Additionally, the Corporation has a commercial paper program. At March 31, 2007, commercial paper outstanding amounted to \$0.5 billion in aggregate principal amount.

05/09/2007

32

Short-term borrowings represent contractual debt obligations with maturities of one year or less and amounted to \$3.9 billion at March 31, 2007. Long-term borrowings amounted to \$12.1 billion at March 31, 2007. The scheduled maturities of long-term borrowings including estimated interest payments at March 31, 2007 were as follows: \$5.3 billion is due in less than one year; \$3.3 billion is due in one to three years; \$3.0 billion is due in three to five years; and \$3.3 billion is due in more than five years. During the first quarter of 2007, the Corporation issued shares of its common stock valued at \$19.2 million to fund a portion of its 2006 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, 2006.

### OFF-BALANCE SHEET ARRANGEMENTS

As previously discussed, the Corporation holds all of the common interest in M&I Capital Trust A, which issued cumulative preferred capital securities which are supported by junior subordinated deferrable interest debentures and a full guarantee issued by the Corporation. During the first quarter of 2007, the Corporation exercised its call option on \$200.0 million of 7.65% junior subordinated deferrable interest debentures and the related cumulative preferred capital securities.

In conjunction with the 2006 banking acquisitions, 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 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 March 31, 2007, 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, 2006. See Note 10 to the Consolidated Financial Statements for an update of the Corporation's securitization activities in the first quarter of 2007. The Corporation continues to believe that based on the

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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

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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, 2006, 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

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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.

05/09/2007

33

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

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

The following factors were taken into consideration in determining the adequacy of the allowance for loan and lease losses at March 31, 2007:

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.

At March 31, 2007, allowances for loan and lease losses continue to be carried for exposures to construction and land development loans, manufacturing, healthcare, production agriculture (including dairy and cropping operations), truck transportation, accommodation, general contracting and motor vehicle and parts dealers. 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 first quarter of 2007, 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. At March 31, 2007, Shared National Credit nonperforming loans amounted to \$2.0 million. The Corporation's exposure to Shared National Credits is monitored closely given this lending group's loss experience.

The Corporation's primary lending areas are Wisconsin, Arizona, Minnesota and Missouri. The vast majority of the assets acquired on April 1, 2006 from Gold Banc Corporation, Inc 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

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Bradenton, Florida. Each of these regions and markets has cultural and environmental factors that are unique to them. At March 31, 2007, the level of nonperforming loans for this portfolio segment was higher than the Corporation's average level of nonperforming loans.

At March 31, 2007, nonperforming loans and leases amounted to \$351.7 million or 0.83% of consolidated loans and leases compared to \$268.0 million or 0.64% of consolidated loans and leases at December 31, 2006, and \$149.1 million or 0.42% of consolidated loans and leases at March 31, 2006. Nonaccrual loans and leases continue to be the primary source of nonperforming loans and leases.

Net charge-offs amounted to \$14.7 million or 0.14% of average loans and leases in the first quarter of 2007 compared to \$15.0 million or 0.14% of average loans and leases in the fourth quarter of 2006 and \$6.0 million or 0.07% of average loans and leases in the first quarter of 2006. The ratio of recoveries to charge-offs was 19.8% for the three months ended March 31, 2007 as compared with the five year average ratio of recoveries to charge-offs of 30.4%.

05/09/2007

34

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 \$423.1 million or 1.00% of loans and leases outstanding at March 31, 2007. The allowance for loan and lease losses was \$420.6 million or 1.00% of loans and leases outstanding at December 31, 2006 and \$368.8 million or 1.05% of loans and leases outstanding at March 31, 2006. Consistent with the credit quality trends noted above, the provision for loan and lease losses amounted to \$17.1 million for the three months ended March 31, 2007. By comparison, the provision for loan and lease losses amounted to \$11.0 million for the three months ended March 31, 2006. 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

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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

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involves, in some cases, multi-year projections. Technology changes and changes in customer requirements can have a significant impact on the recoverability of these assets and can be difficult to predict. Should significant adverse changes occur, estimates of useful life may have to be revised or write-offs would be required to recognize impairment. For the three months ended March 31, 2007 and 2006, the amount of software costs capitalized amounted to \$14.0 million and \$11.3 million, respectively. Amortization expense of software costs amounted to \$14.3 million for the three months ended March 31, 2007 compared to \$14.1 million for the three months ended March 31, 2006.

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

Capitalization only occurs when management is satisfied that such costs are recoverable through future operations or penalties (buyout fees) in case of early termination. For the three months ended March 31, 2007 and 2006, the amount of conversion costs capitalized amounted to \$2.7 million and \$2.4 million, respectively. Amortization expense of conversion costs amounted to \$2.2 million and \$2.3 million for the three months ended March 31, 2007 and the three months ended March 31, 2006, respectively.

Net unamortized costs were (\$ in millions):

|             | March 31, |          |
|-------------|-----------|----------|
|             | 2007      | 2006     |
| Software    | \$ 159.3  | \$ 152.6 |
| Conversions | 29.4      | 26.9     |
| Total       | \$ 188.7  | \$ 179.5 |

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



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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.

05/09/2007

35

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. Transferees 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 months ended March 31, 2007, net gains with the retained interests, held in the form of interest-only strips amounted to \$0.1 million and are included in Net investment securities gains in the Consolidated Statements of Income. During the first quarter of 2007, 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 realized gains of \$0.6 million were offset by impairment losses of \$0.5 million for the three months ended March 31, 2007.

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 \$936.3 million at March 31, 2007. At March 31, 2007, the carrying amount of retained interests amounted to \$38.5 million.

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

At March 31, 2007, highly rated investment securities in the amount of \$345.8 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.

05/09/2007

36

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.

Effective January 1, 2007, the Corporation adopted the provisions of FASB Interpretation No. 48 ("FIN 48"), Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109, and there was no effect on the consolidated financial statements. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in financial statements in accordance with FASB Statement No. 109, Accounting for Income Taxes. FIN 48 prescribes a recognition threshold and measurement 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.

As of the date of adoption the total amount of unrecognized tax benefits was \$92.1 million, of which \$71.8 million related to benefits that, if recognized, would impact the annual effective tax rate. Upon adoption of FIN 48, the Corporation changed its policy to include interest and

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penalties related to income tax liabilities in income tax expense. Prior to adoption of FIN 48, the Corporation recorded interest and penalties related to income tax liabilities to other expense, a component of Income Before Income Taxes. Included in the total liability for unrecognized tax benefits as of the date of adoption is \$6.8 million of interest and no penalties.

The Corporation, along with its subsidiaries, files income tax returns in the U.S. and various state jurisdictions. With limited exceptions, the Corporation is no longer subject to examinations by federal and state taxing authorities for taxable years before 2003.

The Corporation anticipates it is reasonably possible within 12 months of the adoption date that unrecognized tax benefits could be reduced up to approximately \$22 million. The reduction would principally result from settlements with taxing authorities as it relates to the tax benefits associated with a 2002 stock issuance.

### FORWARD-LOOKING STATEMENTS

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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, 2006 and under the heading "Forward-Looking Statements," and as may be described from time to time in the Corporation's subsequent SEC filings, and such factors are incorporated herein by reference.

### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The following updated information should be read in conjunction with the Corporation's Annual Report on Form 10-K for the year ended December 31, 2006. Updated information regarding the Corporation's use of derivative financial instruments is contained in Note 14, 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

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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

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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.

05/09/2007

37

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 |                      |                                    |                       |  |               |
|--------------------------------------|--------------------------------------|----------------------|------------------------------------|-----------------------|--|---------------|
|                                      | March 31,<br>2007                    | December 31,<br>2006 | Pro Forma<br>September 30,<br>2006 | September 30,<br>2006 | As Historically Repo<br>June 30,<br>2006 | March<br>2006 |
| Hypothetical Change in Interest Rate |                                      |                      |                                    |                       |  |               |
| -----                                |                                      |                      |                                    |                       |  |               |
| 100 basis point gradual:             |                                      |                      |                                    |                       |  |               |
| Rise in rates                        | 0.0 %                                | 0.5 %                | 0.7 %                              | (3.2) %               | (0.3) %                                  | (0.3) %       |
| Decline in rates                     | (0.2) %                              | (0.6) %              | (0.8) %                            | 2.2 %                 | 0.3 %                                    | 0.3 %         |

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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. The Corporation terminated 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 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 March 31, 2007, the fair value of equity at risk for a gradual 100bp shift in rates changed less than 2.0%.

05/09/2007

38

### Equity Risk

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In addition to interest rate risk, the Corporation incurs market risk in the form of equity risk. The Corporation invests directly and indirectly through investment funds, in private medium-sized companies to help establish new businesses or recapitalize existing ones. These investments expose the Corporation to the change in equity values for the portfolio companies. However, fair values are difficult to determine until an actual sale or liquidation transaction actually occurs. At March 31, 2007, the carrying value of total active capital markets investments amounted to approximately \$49.4 million.

As of March 31, 2007, M&I Wealth Management administered \$97.4 billion in assets and directly managed a portfolio of \$22.9 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.

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ITEM 4. CONTROLS AND PROCEDURES

Marshall & Ilsley Corporation maintains a set of disclosure controls and procedures that are designed to ensure that information required to be disclosed by it in the reports filed by it under the Securities Exchange Act of 1934, as amended, are recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and to ensure that information required to be disclosed by the Corporation in such reports is accumulated and communicated to the Corporation's Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. The Corporation carried out an evaluation, under the supervision and with the participation of its management, including its President and Chief Executive Officer and its Senior Vice President and Chief Financial Officer, of the effectiveness of the design and operation of its disclosure controls and procedures pursuant to Rule 13a-15 of the Exchange Act. Based on that evaluation, the President and Chief Executive Officer and the Senior Vice President and Chief Financial Officer conclude that the Corporation's disclosure controls and procedures are effective as of the end of the period covered by this report for the purposes for which they are designed.

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

05/09/2007

39

PART II - OTHER INFORMATION

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

The following table reflects the purchases of Marshall & Ilsley Corporation stock for the specified period:

| Period                             | Total Number of Shares Purchased(1) | Average Price Paid per Share | Total Number of Shares Purchased as Part of of Publicly Announced Plans or Programs | Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs |
|------------------------------------|-------------------------------------|------------------------------|---|--|
| January 1 to<br>January 31, 2007   | 5,163                               | \$ 46.28                     | --  | 12,000,000   |
| February 1 to<br>February 28, 2007 | 47,255                              | 48.98                        | --  | 12,000,000   |
| March 1 to<br>March 31, 2007       | 2,546                               | 47.29                        | --  | 12,000,000   |
| Total                              | 54,964                              | \$ 48.65                     | --  |  |

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

The Corporation's Share Repurchase Program was publicly reconfirmed in April 2006 and again in April 2007. 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.

On February 1, 2007, the Corporation issued 1,246,105 shares of its common stock to HPT, Inc. ("HPT") in exchange for the same number of shares of its common stock owned by HPT (the "Exchange") pursuant to an Exchange Agreement by and among the Corporation, HPT and the Henry Predolin Revocable Trust (the "Stockholder"), the sole stockholder of HPT. As a condition precedent to the Exchange, the Stockholder and Marshall & Ilsley Trust Company N.A. ("M&I Trust") entered into an investment agreement relating to the terms and conditions of an engagement of M&I Trust to provide the Stockholder and the Henry J. Predolin Foundation, Inc. with investment advisory services. With respect to the issuance of its common stock pursuant to the Exchange, the Corporation relied on the exemption provided by Section 4(2) of the Securities Act of 1933, as amended, relating to transactions by an issuer not involving any public offering.

### ITEM 5. OTHER INFORMATION

The Compensation and Human Resources Committee (the "Committee") of the Corporation's Board of Directors approved, subject to approval by the Corporation's shareholders, the amended and restated Marshall & Ilsley Corporation Annual Incentive Compensation Plan (the "Plan") as of February 15, 2007 and for subsequent years until terminated by the Committee. At the Corporation's Annual Meeting of Shareholders held on April 24, 2007, the Corporation's shareholders approved the Plan. The description of the material terms of the Plan and the complete text of the Plan, which were set forth in the Proxy Statement on Schedule 14A for the Corporation's 2007 Annual Meeting, are incorporated herein by reference.

05/09/2007

40

### ITEM 6. EXHIBITS

- Exhibit 2(a) - Investment Agreement, dated as of April 3, 2007, among Marshall & Ilsley Corporation, Metavante Holding Company, Metavante Corporation, Montana Merger Sub Inc. and WPM, L.P., incorporated by reference to the Corporation's Current Report on Form 8-K filed April 9, 2007.
- Exhibit 2(b) - Separation Agreement, dated as of April 3, 2007, among Marshall & Ilsley Corporation, Metavante Holding Company, Metavante Corporation and New Marshall & Ilsley Corporation, incorporated by reference to the Corporation's Current Report on Form 8-K filed April 9, 2007.
- Exhibit 10(a) - Tax Allocation Agreement, dated as of April 3, 2007, among Marshall & Ilsley Corporation,

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Metavante Holding Company, Metavante Corporation and New Marshall & Ilsley Corporation, incorporated by reference to the Corporation's Current Report on Form 8-K filed April 9, 2007.

- Exhibit 10(b) - Employee Matters Agreement, dated as of April 3, 2007, among Marshall & Ilsley Corporation, Metavante Holding Company, Metavante Corporation and New Marshall & Ilsley Corporation, incorporated by reference to the Corporation's Current Report on Form 8-K filed April 9, 2007.
- Exhibit 10(c) - Form of Shareholders Agreement, incorporated by reference to the Corporation's Current Report on Form 8-K filed April 9, 2007.
- Exhibit 10(d) - Form of Stock Purchase Right Agreement, incorporated by reference to the Corporation's Current Report on Form 8-K filed April 9, 2007.
- Exhibit 11 - Statement Regarding Computation of Earnings Per Share, Incorporated by Reference to NOTE 6 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.

05/09/2007

41

SIGNATURES

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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

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Patricia R. Justiliano



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Senior Vice President and  
Corporate Controller  
(Chief Accounting Officer)

/s/ James E. Sandy

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James E. Sandy  
Vice President

May 10, 2007

42

EXHIBIT INDEX

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| <u>Exhibit Number</u> | <u>Description of Exhibit</u>  |
|-----------------------|--|
| (2) (a)               | Investment Agreement, dated as of April 3, 2007, among Marshall & Ilsley Corporation, Metavante Holding Company, Metavante Corporation, Montana Merger Sub Inc. and WPM, L.P., incorporated by reference to the Corporation's Current Report on Form 8-K filed April 9, 2007.      |
| (2) (b)               | Separation Agreement, dated as of April 3, 2007, among Marshall & Ilsley Corporation, Metavante Holding Company, Metavante Corporation and New Marshall & Ilsley Corporation, incorporated by reference to the Corporation's Current Report on Form 8-K filed April 9, 2007.       |
| (10) (a)              | Tax Allocation Agreement, dated as of April 3, 2007, among Marshall & Ilsley Corporation, Metavante Holding Company, Metavante Corporation and New Marshall & Ilsley Corporation, incorporated by reference to the Corporation's Current Report on Form 8-K filed April 9, 2007.   |
| (10) (b)              | Employee Matters Agreement, dated as of April 3, 2007, among Marshall & Ilsley Corporation, Metavante Holding Company, Metavante Corporation and New Marshall & Ilsley Corporation, incorporated by reference to the Corporation's Current Report on Form 8-K filed April 9, 2007. |
| (10) (c)              | Form of Shareholders Agreement, incorporated by reference to the Corporation's Current Report on Form 8-K filed April 9, 2007.   |
| (10) (d)              | Form of Stock Purchase Right Agreement, incorporated by reference to the Corporation's Current Report on Form 8-K filed April 9, 2007.   |
| (11)                  | Statement Regarding Computation of Earnings Per Share, Incorporated by Reference to  |

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NOTE 6 of Notes to Financial Statements  
contained in Item 1 - Financial Statements  
(unaudited) of Part I - Financial Information  
herein.

- (12) Statement Regarding Computation of Ratio  
of Earnings to Fixed Charges.
- (31) (a) Certification of Chief Executive Officer  
pursuant to Rule 13a-14(a) under the  
Securities Exchange Act of 1934, as amended.
- (31) (b) Certification of Chief Financial Officer  
pursuant to Rule 13a-14(a) under the  
Securities Exchange Act of 1934, as amended.
- (32) (a) Certification of Chief Executive Officer  
pursuant to 18 U.S.C. Section 1350.
- (32) (b) Certification of Chief Financial Officer  
pursuant to 18 U.S.C. Section 1350.

05/09/2007