MARSHALL & ILSLEY CORP
Form 10-Q
November 10, 2008

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q
(Mark One)

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

For the quarterly period ended September 30, 2008

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 1-33488
MARSHALL & ILSLEY CORPORATION
(Exact name of registrant as specified in its charter)

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

Registrant's telephone number, including area code: (414) 765-7801
None
(Former name, former address and former fiscal year, if changed since last report)

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.
Large accelerated filer [X] Accelerated filer [ ]
Non-accelerated filer [ ] (Do not check if a smaller reporting company) Small reporting company [ ]

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

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

Outstanding at

Class	October 31, 2008
Common Stock, $1.00 Par Value	260,298,330

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	September 30, 2008	December 31, 2007	September 30, 2007
Assets			
Cash and cash equivalents:			
Cash and due from banks	$ 982,132	$ 1,368,919	$ 1,033,922
Federal funds sold and security resale agreements	68,623	379,012	214,211
Money market funds	59,938	74,581	121,954
Total cash and cash equivalents	1,110,693	1,822,512	1,370,087
Interest bearing deposits at other banks	8,727	8,309	380,647
Trading assets, at fair value	162,767	124,607	48,194
Investment securities:			
Available for sale, at fair value	7,131,346	7,442,889	6,784,174
Held to maturity, fair value $256,463 ($383,190 December 31, 2007 and $402,630 September 30, 2007)	251,902	374,861	394,434
Total investment securities	7,383,248	7,817,750	7,178,608
Loan to Metavante	-	-	982,000
Loans held for sale	152,740	131,873	134,829
Loans and leases:			
Loans and leases, net of unearned income	50,264,502	46,164,385	44,834,395
Allowance for loan and lease losses	(1,031,494)	(496,191)	(452,697)
Net loans and leases	49,233,008	45,668,194	44,381,698
Premises and equipment, net	541,799	469,879	469,599
Goodwill and other intangibles	2,236,599	1,807,961	1,824,057
Accrued interest and other assets	2,671,316	1,997,511	2,638,308
Assets of discontinued operations	-	-	1,360,299
Total Assets	$ 63,500,897	$ 59,848,596	$ 60,768,326
Liabilities and Shareholders' Equity			
Deposits:			
Noninterest bearing	$ 6,359,020	$ 6,174,281	$ 5,558,966
Interest bearing	33,680,582	29,017,073	28,848,796
Total deposits	40,039,602	35,191,354	34,407,762
Federal funds purchased and security repurchase agreements	2,230,421	2,262,355	4,078,163
Other short-term borrowings	5,589,998	6,214,027	5,757,178
Accrued expenses and other liabilities	987,468	940,725	1,409,580

Long-term borrowings	8,161,466	8,207,406	8,142,418
Liabilities of discontinued operations	-	-	(48,738)
Total liabilities	57,008,955	52,815,867	53,746,363
Shareholders' Equity:			
Preferred stock, $1.00 par value; 5,000,000 shares authorized	-	-	-
Common stock, $1.00 par value; 267,455,394 shares issued (267,455,394 shares at December 31, 2007 and 276,051,274 shares at September 30, 2007)	267,455	267,455	276,051
Additional paid-in capital	2,063,165	2,059,273	2,396,811
Retained earnings	4,513,574	4,923,008	4,809,143
Accumulated other comprehensive income, net of related taxes	(107,803)	(53,707)	(46,877)
Treasury stock, at cost: 7,434,382 shares (3,968,651 December 31, 2007 and 8,965,516 September 30, 2007)	(205,713)	(117,941)	(371,494)
Deferred compensation	(38,736)	(45,359)	(41,671)
Total shareholders' equity	6,491,942	7,032,729	7,021,963
Total Liabilities and Shareholders' Equity	$ 63,500,897	$ 59,848,596	$ 60,768,326

See notes to financial statements.

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

	Three Months Ended September 30, 2008	2007
Interest and fee income		
Loans and leases	$ 714,099	$ 830,106
Investment securities:		
Taxable	68,959	78,015
Exempt from federal income taxes	13,034	14,749
Trading securities	368	213
Short-term investments	2,191	5,260
Loan to Metavante	-	10,790
Total interest and fee income	798,651	939,133
Interest expense		
Deposits	213,858	324,711
Short-term borrowings	34,645	58,507
Long-term borrowings	109,499	152,743
Total interest expense	358,002	535,961
Net interest income	440,649	403,172
Provision for loan and lease losses	154,962	41,526
Net interest income after provision for loan and lease losses	285,687	361,646
Other income		
Wealth management	71,349	66,499
Service charges on deposits	36,676	30,874
Gains on sale of mortgage loans	4,537	5,103
Other mortgage banking revenue	961	1,391
Net investment securities gains	987	8,890
Life insurance revenue	12,763	10,475
Other real estate owned (OREO) income	3,965	317
Other	52,594	59,757
Total other income	183,832	183,306
Other expense		
Salaries and employee benefits	184,018	166,769
Net occupancy	21,359	18,297
Equipment	10,296	9,380
Software expenses	6,508	4,907
Processing charges	33,202	33,857
Supplies and printing	3,213	3,375
Professional services	16,493	9,081
Shipping and handling	6,076	7,134
Amortization of intangibles	5,999	5,426
OREO expenses	14,111	1,688
Other	58,728	33,561
Total other expense	360,003	293,475

Income before income taxes		109,516		251,477
Provision for income taxes		26,378		77,751
Income from continuing operations		83,138		173,726
Income from discontinued operations, net of tax		-		46,213
Net income	$	83,138	$	219,939
Net income per common share:				
Basic				
Continuing operations	$	0.32	$	0.66
Discontinued operations		-		0.18
Net income	$	0.32	$	0.84
Diluted				
Continuing operations	$	0.32	$	0.65
Discontinued operations		-		0.18
Net income	$	0.32	$	0.83
Dividends paid per common share	$	0.32	$	0.31
Weighted average common shares outstanding (000's) :				
Basic		258,877		261,491
Diluted		259,224		266,283

See notes to financial statements.

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

	Nine Months Ended September 30, 2008	2007
Interest and fee income		
Loans and leases	$ 2,224,248	$ 2,417,016
Investment securities:		
Taxable	218,212	233,749
Exempt from federal income taxes	41,170	44,569
Trading securities	1,361	682
Short-term investments	7,278	12,222
Loan to Metavante	-	32,372
Total interest and fee income	2,492,269	2,740,610
Interest expense		
Deposits	705,837	927,049
Short-term borrowings	126,207	169,408
Long-term borrowings	341,554	446,762
Total interest expense	1,173,598	1,543,219
Net interest income	1,318,671	1,197,391
Provision for loan and lease losses	1,187,264	84,700
Net interest income after provision for loan and lease losses	131,407	1,112,691
Other income		
Wealth management	217,988	192,785
Service charges on deposits	110,255	88,641
Gains on sale of mortgage loans	18,603	24,263
Other mortgage banking revenue	2,883	4,348
Net investment securities gains	27,155	29,929
Life insurance revenue	37,126	25,992
Other real estate owned (OREO) income	6,788	1,327
Other	161,264	158,136
Total other income	582,062	525,421
Other expense		
Salaries and employee benefits	545,254	485,870
Net occupancy	64,165	54,053
Equipment	29,945	29,139
Software expenses	19,090	14,607
Processing charges	98,992	98,935
Supplies and printing	10,925	10,467
Professional services	48,140	26,555
Shipping and handling	21,684	21,463
Amortization of intangibles	17,921	15,110
Loss on termination of debt	-	9,478
OREO expenses	49,323	4,788
Other	150,746	98,384
Total other expense	1,056,185	868,849

(Loss) income before income taxes		(342,716)		769,263
(Benefit) provision for income taxes		(178,272)		247,879
(Loss) income from continuing operations		(164,444)		521,384
Income from discontinued operations, net of tax		-		135,606
Net (loss) income	$	(164,444)	$	656,990
Net (loss) income per common share:				
Basic				
Continuing operations	$	(0.63)	$	2.02
Discontinued operations		-		0.52
Net (loss) income	$	(0.63)	$	2.54
Diluted				
Continuing operations	$	(0.63)	$	1.97
Discontinued operations		-		0.52
Net (loss) income	$	(0.63)	$	2.49
Dividends paid per common share	$	0.95	$	0.89
Weighted average common shares outstanding (000's) :				
Basic		259,146		258,607
Diluted		259,146		264,162
See notes to financial statements.				

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

	Nine Months Ended September 30, 2008	Nine Months Ended September 30, 2007
Net Cash Provided by Operating Activities	$ 561,840	$ 686,808
Cash Flows From Investing Activities:		
Net increase in other short-term investments	-	(365,439)
Proceeds from sales of securities available for sale	122,524	149,756
Proceeds from sales of securities held to maturity	1,633	-
Proceeds from maturities of securities available for sale	979,122	1,071,031
Proceeds from maturities of securities held to maturity	122,735	101,945
Purchases of securities available for sale	(632,765)	(1,018,845)
Net increase in loans	(3,472,779)	(2,246,145)
Purchases of assets to be leased	(159,284)	(236,409)
Principal payments on lease receivables	188,476	264,724
Purchases of premises and equipment, net	(71,106)	(70,746)
Acquisitions, net of cash and cash equivalents paid	(476,625)	(27,042)
Purchase of bank-owned life insurance	-	(243,329)
Proceeds from divestitures	2,460	-
Proceeds from sale of OREO	67,204	17,291
Net cash used in investing activities	(3,328,405)	(2,603,208)
Cash Flows From Financing Activities:		
Net increase (decrease) in deposits	3,255,764	(1,497,225)
Proceeds from issuance of commercial paper	33,580,132	6,506,403
Principal payments on commercial paper	(34,282,022)	(6,579,785)
Net increase in other short-term borrowings	53,116	2,334,240
Proceeds from issuance of long-term borrowings	1,282,056	3,570,378
Payments of long-term borrowings	(1,484,046)	(2,436,442)
Dividends paid	(244,990)	(231,489)
Purchases of common stock	(130,870)	(301,095)
Common stock issued to settle stock purchase contract	-	399,989
Proceeds from issuance of common stock	25,606	90,744
Other	-	(7,799)
Net cash provided by financing activities	2,054,746	1,847,919
Net decrease in cash and cash equivalents	(711,819)	(68,481)
Cash and cash equivalents, beginning of year	1,822,512	1,485,258
Cash and cash equivalents, end of period	1,110,693	1,416,777
Cash and cash equivalents of discontinued operations	-	(46,690)
Cash and cash equivalents from continuing operations, end of period	$ 1,110,693	$ 1,370,087
Supplemental cash flow information:		
Cash paid during the period for:		
Interest	$ 1,240,144	$ 1,528,980
Income taxes	76,742	227,994

See notes to financial statements.

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MARSHALL & ILSLEY CORPORATION
Notes to Financial Statements
September 30, 2008 & 2007 (Unaudited)

1. Basis of Presentation

The accompanying unaudited consolidated financial statements should be read in conjunction with Marshall & Ilsley Corporation's Annual Report on Form 10-K for the year ended December 31, 2007. In management's opinion, 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 and nine months ended September 30, 2008 and 2007. The results of operations for the three and nine months ended September 30, 2008 and 2007 are not necessarily indicative of results to be expected for the entire year.

2. Discontinued Operations

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

As a result of the Separation, the assets, liabilities and net income of Metavante have been de-consolidated from the Corporation's historical consolidated financial statements and are now reported as discontinued operations. For the three and nine months ended September 30, 2007, discontinued operations in the Consolidated Statements of Income also includes the expenses attributable to the Separation transaction. The assets and liabilities reported as discontinued operations as of September 30, 2007 do not directly reconcile to historical consolidated assets and liabilities reported by Metavante. The amounts reported as assets or liabilities of discontinued operations include adjustments for intercompany cash and deposits, receivables and payables, intercompany debt and reclassifications that were required to de-consolidate the financial information of the two companies.

MARSHALL & ILSLEY CORPORATION
Notes to Financial Statements - Continued
September 30, 2008 & 2007 (Unaudited)

The components of the assets and liabilities of discontinued operations as of September 30, 2007 were as follows ($000's):

	September 30, 2007
Assets	
Cash and cash equivalents	$ 46,690
Interest bearing deposits at other banks	1,064
Trading assets, at fair value	4,800
Investment securities	
Available for sale, at fair value	78,861
Loan to Metavante	(982,000)
Loans and leases	2,239
Premises and equipment, net	131,083
Goodwill and other intangibles	1,665,850
Accrued interest and other assets	411,712
Total assets	$ 1,360,299
Liabilities	
Deposits:	
Noninterest bearing	$ (25,126)
Interest bearing	(590,650)
Total deposits	(615,776)
Short-term borrowings	132
Accrued expenses and other liabilities	566,884
Long-term borrowings	22
Total liabilities	$ (48,738)

Prior to November 1, 2007, intercompany transactions between Metavante and old Marshall & Ilsley Corporation (which was re-named M&I LLC in connection with the Separation) and its affiliates were eliminated in the Corporation's consolidated financial statements. The above table reflects the reclassification of Metavante's intercompany borrowing from M&I LLC to "Loan to Metavante". On November 1, 2007, the Corporation received $982 million of cash from Metavante to retire this indebtedness. The "Noninterest bearing" and "Interest bearing deposits" in the above table reflects the reclassification of Metavante's cash and investments held as deposits at the Corporation's affiliate banks.

The results of discontinued operations for the three and nine months ended September 30, 2007 consisted of the following ($000's):

	Three Months Ended September 30, 2007	Nine Months Ended September 30, 2007
Metavante income before provision for income taxes	$ 79,957	$ 222,963
Separation transaction expenses and other related costs	(3,948)	(7,073)
Income before income taxes	76,009	215,890
Provision for income taxes	29,796	80,284
Income from discontinued operations, net of tax	$ 46,213	$ 135,606

As permitted under U.S. generally accepted accounting principles, the Corporation has elected not to adjust the Consolidated Statements of Cash Flows for the nine months ended September 30, 2007 to exclude cash flows attributable to discontinued operations.

Included in Acquisitions, net of cash and cash equivalents acquired in the Corporation's Consolidated Statements of Cash Flows for the nine months ended September 30, 2007 is Metavante's 2007 acquisition, which is now part of discontinued operations. For the nine months ended September 30, 2007, total cash consideration associated with Metavante's acquisition amounted to $41.0 million.

MARSHALL & ILSLEY CORPORATION
Notes to Financial Statements - Continued
September 30, 2008 & 2007 (Unaudited)

3. New Accounting Pronouncements

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

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

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

In May 2008, the FASB issued Statement of Financial Accounting Standards No. 162, The Hierarchy of Generally Accepted Accounting Principles ("SFAS 162"). SFAS 162 identifies the sources of accounting principles and the framework for selecting the principles used in the preparation of financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles (GAAP) in the United States. SFAS 162 will be effective 60 days following the SEC's approval of the Public Company Accounting Oversight Board's amendments to AU Section 411, The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles. The Corporation does not expect that SFAS 162 will result in a change in current practice.

In April 2008, the FASB issued FSP No. FAS 142-3, Determination of the Useful Life of Intangible Assets ("FSP FAS 142-3"). FSP FAS 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset and provides for enhanced disclosures regarding intangible assets. The intent of this FSP is to improve the consistency between the useful life of a recognized intangible asset and the period of expected cash flows used to measure the fair value of the asset. The disclosure provisions are effective as of the adoption date and the guidance for determining the useful life applies prospectively to all intangible assets acquired after the effective date. Early adoption is prohibited. The Corporation is evaluating this guidance but does not expect it will have a significant impact on its financial statements and related disclosures.

In March 2008, FASB issued Statement of Financial Accounting Standard No. 161, Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133 ("SFAS 161"). SFAS 161 applies to all derivative instruments and related hedged items accounted for under FASB Statement No. 133, Accounting for Derivative Instruments and Hedging Activities ("SFAS 133"). SFAS 161 amends and expands the disclosures provided under SFAS 133 regarding how and why an entity uses derivative instruments, how derivative instruments and related hedged items are accounted for under SFAS 133 and its related interpretations, and how derivative instruments and related hedged items affect an entity's financial position, results of operations, and cash flows. SFAS 161 is effective for the Corporation on January 1, 2009.

MARSHALL & ILSLEY CORPORATION
Notes to Financial Statements - Continued
September 30, 2008 & 2007 (Unaudited)

4. Fair Value Measurement

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

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

Fair-Value Hierarchy

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

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

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

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

Determination of Fair Value

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

Trading Assets and Investment Securities

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

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

MARSHALL & ILSLEY CORPORATION
Notes to Financial Statements - Continued
September 30, 2008 & 2007 (Unaudited)

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

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

Derivative Financial Instruments

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

Certain derivative transactions are executed with counterparties who are large financial institutions ("dealers"). These derivative transactions primarily consist of interest rate swaps that were used for fair value hedges, cash flow hedges and economic hedges of interest rate swaps executed with the Corporation's customers at September 30, 2008. The Corporation and its subsidiaries maintain risk management policies and procedures to monitor and limit exposure to credit risk to derivative transactions with dealers. Approved dealers for these transactions must have and maintain an investment grade rating on long-term senior debt from at least two nationally recognized statistical rating organizations or have a guarantor with an acceptable rating from such organizations. International Swaps and Derivative Association Master Agreements ("ISDA") and Credit Support Annexes ("CSA") are employed for all contracts with dealers. These agreements contain bilateral collateral arrangements. Notwithstanding its policies and procedures, the Corporation recognizes that unprecedented events could result in counterparty failure. The Corporation also recognizes that there could be additional credit exposure due to certain industry conventions established for operational efficiencies.

On a quarterly basis, the Corporation performs an analysis using historical and market implied default and recovery rates that also considers certain industry conventions established for operational efficiencies to estimate the potential impact on the reported fair values of these derivative financial assets and liabilities due to counterparty credit risk and the Corporation's own credit risk. Based on this analysis, the Corporation determined that the impact of these factors was insignificant and did not make any additional credit risk adjustments for purposes of determining the reported fair values of these derivative assets and liabilities with dealers at September 30, 2008.

Certain derivative transactions are executed with customers whose counterparty credit risk is similar in nature to the credit risk associated with the Corporation's lending activities. As is the case with a loan, the Corporation evaluates the credit risk of each of these customers on an individual basis and, where deemed appropriate collateral is obtained. The type of collateral varies and is often the same collateral as the collateral obtained to secure a customer's loan. For purposes of assessing the potential impact of counterparty credit risk on the fair values of derivative assets with customers, the Corporation used a probability analysis to estimate the amount of expected loss exposure due to customer default at some point in the remaining term of the entire portfolio of customer derivative contracts outstanding at September 30, 2008. While not significant, the Corporation did factor in the estimated amount of expected loss due to customer default into the reported fair value of its customer derivative assets at September 30, 2008.

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Assets and liabilities measured at fair value on a recurring basis are categorized in the tables below based upon the lowest level of significant input to the valuations as of September 30, 2008 ($000's):

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets (1)			
Trading assets:			
Trading securities	$ -	$ 69,532	$ -
Derivative assets	214	93,021	-
Total trading assets	$ 214	$ 162,553	$ -
Investment securities available for sale (2):			
Investment securities	$ 244	$ 6,510,832	$ 172,966
Private equity investments	-	-	72,434
Other	-	-	5,756
Total investment securities available for sale	$ 244	$ 6,510,832	$ 251,156
Liabilities (1)			
Other short-term borrowings	$ -	$ 6,634	$ -
Accrued expenses and other liabilities:			
Derivative liabilities	$ (1,215)	$ 69,852	$ -

(1) The amounts presented exclude certain over-the-counter interest rate swaps that are the designated hedging instruments in fair value and cash flow hedges that are used by the Corporation to manage its interest rate risk. These interest rate swaps are measured at fair value on a recurring basis based on significant other observable inputs and are categorized as Level 2. See Note 14 in Notes to Financial Statements.

(2) The amounts presented are exclusive of $327.3 million of investments in Federal Reserve Bank and FHLB stock, which are bought and sold at par and are carried at cost and $41.8 million in affordable housing partnerships, which are generally carried on the equity method.

Level 3 Gains and Losses

The table presented below summarizes the change in balance sheet carrying values associated with financial instruments measured using significant unobservable inputs (Level 3) during the nine months ended September 30, 2008 ($000's):

	Investment securities (1)	Private equity investments (2)	Other	Total
Balance at January 1, 2008	$ 2,066	$ 54,121	$ 9,030	$ 65,217
Net payments, purchases and sales	14,324	2,682	(768)	16,238
Net transfers in and/or out of Level 3	-	-	-	-

Total gains or losses (realized or unrealized):								
Included in earnings		-		1,051		(2,020)		(969)
Included in other comprehensive income		-		-		(29)		(29)
Balance at March 31, 2008	$	16,390	$	57,854	$	6,213	$	80,457
Net payments, purchases and sales		(6)		3,092		(782)		2,304
Net transfers in and/or out of Level 3		56,007		-		-		56,007
Total gains or losses (realized or unrealized):								
Included in earnings		-		613		-		613
Included in other comprehensive income		-		-		765		765
Balance at June 30, 2008	$	72,391	$	61,559	$	6,196	$	140,146
Net payments, purchases and sales		10,778		9,834		(453)		20,159
Net transfers in and/or out of Level 3		129,691		-		-		129,691
Total gains or losses (realized or unrealized):								
Included in earnings		-		1,041		-		1,041
Included in other comprehensive income		(39,894)		-		13		(39,881)
Balance at September 30, 2008	$	172,966	$	72,434	$	5,756	$	251,156
Unrealized gains or losses for the period included in earnings attributable to unrealized gains or losses for assets still held at September 30, 2008	$	-	$	165	$	(2,020)	$	(1,855)

(1) Unrealized changes in fair value for available-for-sale investments (debt securities) are recorded in other comprehensive income, while gains and losses from sales are recorded in Net investment securities gains in the Consolidated Statements of Income.

(2) Private equity investments are generally recorded at fair value. Accordingly, both unrealized changes in fair value and gains or losses from sales are included in Net investment securities gains in the Consolidated Statements of Income.

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The increase in Level 3 investment securities at September 30, 2008 was primarily due to the transfer of certain highly-rated asset backed securities. During the third quarter of 2008, the Corporation determined that it could not obtain a sufficient number of observable inputs in the form of market or broker quotes to substantiate a Level 2 classification.

For purposes of impairment testing, nonaccrual loans greater than an established threshold are individually evaluated for impairment. Substantially all of these loans are collateral dependent. A valuation allowance is recorded for the excess of the loan's recorded investment over the fair value of the collateral less estimated selling costs. This valuation allowance is a component of the Allowance for loan and lease losses. The Corporation generally obtains appraisals to support the fair value of collateral underlying loans subject to this impairment review. Appraisals incorporate measures such as recent sales prices for comparable properties and costs of construction. The Corporation considers these fair values Level 3. For those loans individually evaluated for impairment, a valuation allowance of $67.7 million was recorded for loans with a recorded investment of $507.5 million at September 30, 2008. See discussion of Allowance for Loan and Lease Losses in Critical Accounting Policies.

5. Fair Value Option

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

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6. Comprehensive Income

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

	Three Months Ended September 30, 2008		
	Before-Tax Amount	Tax (Expense) Benefit	Net-of-Tax Amount
Net income			$ 83,138
Other comprehensive income (loss):			
Unrealized gains (losses) on available for sale investment securities:			
Arising during the period	$ (56,128)	$ 19,630	$ (36,498)
Reclassification for securities transactions included in net income	(207)	72	(135)
Total unrealized gains (losses) on available for sale investment securities	$ (56,335)	$ 19,702	$ (36,633)
Net gains (losses) on derivatives hedging variability of cash flows:			
Arising during the period	$ (15,034)	$ 5,262	$ (9,772)
Reclassification adjustments for hedging activities included in net income	11,552	(4,043)	7,509
Total net gains (losses) on derivatives hedging variability of cash flows	$ (3,482)	$ 1,219	$ (2,263)
Unrealized gains (losses) on funded status of defined benefit postretirement plan:			
Arising during the period	$ -	$ -	$ -
Reclassification for amortization of actuarial loss and prior service credit amortization included in net income	(497)	184	(313)
Total unrealized gains (losses) on funded status of defined benefit postretirement plan	$ (497)	$ 184	$ (313)
Other comprehensive income (loss)			(39,209)
Total comprehensive income			$ 43,929

	Three Months Ended September 30, 2007		
	Before-Tax Amount	Tax (Expense) Benefit	Net-of-Tax Amount
Net income			$ 219,939
Other comprehensive income (loss):			

Unrealized gains (losses) on available for sale investment securities:						
Arising during the period	$	87,780	$	(33,049)	$	54,731
Reclassification for securities transactions included in net income		(6,530)		2,285		(4,245)
Total unrealized gains (losses) on available for sale investment securities	$	81,250	$	(30,764)	$	50,486
Net gains (losses) on derivatives hedging variability of cash flows:						
Arising during the period	$	(47,259)	$	16,541	$	(30,718)
Reclassification adjustments for hedging activities included in net income		(3,855)		1,349		(2,506)
Total net gains (losses) on derivatives hedging variability of cash flows	$	(51,114)	$	17,890	$	(33,224)
Unrealized gains (losses) on funded status of defined benefit postretirement plan:						
Arising during the period	$	-	$	-	$	-
Reclassification for amortization of actuarial loss and prior service credit amortization included in net income		(560)		208		(352)
Total unrealized gains (losses) on funded status of defined benefit postretirement plan	$	(560)	$	208	$	(352)
Other comprehensive income (loss)						16,910
Total comprehensive income					$	236,849

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	Nine Months Ended September 30, 2008		
	Before-Tax Amount	Tax (Expense) Benefit	Net-of-Tax Amount
Net loss			$ (164,444)
Other comprehensive income (loss):			
Unrealized gains (losses) on available for sale investment securities:			
Arising during the period	$ (87,660)	$ 30,646	$ (57,014)
Reclassification for securities transactions included in net income	(340)	119	(221)
Total unrealized gains (losses) on available for sale investment securities	$ (88,000)	$ 30,765	$ (57,235)
Net gains (losses) on derivatives hedging variability of cash flows:			
Arising during the period	$ (23,197)	$ 8,119	$ (15,078)
Reclassification adjustments for hedging activities included in net income	29,529	(10,335)	19,194
Total net gains (losses) on derivatives hedging variability of cash flows	$ 6,332	$ (2,216)	$ 4,116
Unrealized gains (losses) on funded status of defined benefit postretirement plan:			
Arising during the period	$ -	$ -	$ -
Reclassification for amortization of actuarial loss and prior service credit amortization included in net income	(1,553)	576	(977)
Total unrealized gains (losses) on funded status of defined benefit postretirement plan	$ (1,553)	$ 576	$ (977)
Other comprehensive income (loss)			(54,096)
Total comprehensive income (loss)			$ (218,540)

	Nine Months Ended September 30, 2007		
	Before-Tax Amount	Tax (Expense) Benefit	Net-of-Tax Amount
Net income			$ 656,990
Other comprehensive income (loss):			
Unrealized gains (losses) on available for sale investment securities:			
Arising during the period	$ (314)	$ (2,241)	$ (2,555)
Reclassification for securities transactions included in net income	(7,535)	2,637	(4,898)

Total unrealized gains (losses) on available for sale investment securities	$	(7,849)	$	396	$	(7,453)
Net gains (losses) on derivatives hedging variability of cash flows:						
Arising during the period	$	(16,943)	$	5,930	$	(11,013)
Reclassification adjustments for hedging activities included in net income		(15,091)		5,282		(9,809)
Total net gains (losses) on derivatives hedging variability of cash flows	$	(32,034)	$	11,212	$	(20,822)
Unrealized gains (losses) on funded status of defined benefit postretirement plan:						
Arising during the period	$	-	$	-	$	-
Reclassification for amortization of actuarial loss and prior service credit amortization included in net income		(1,678)		622		(1,056)
Total unrealized gains (losses) on funded status of defined benefit postretirement plan	$	(1,678)	$	622	$	(1,056)
Other comprehensive income (loss)						(29,331)
Total comprehensive income					$	627,659

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7. 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 September 30, 2008		
	Income (Numerator)	Average Shares (Denominator)	Per Share Amount
Basic earnings per share:			
Income from continuing operations available to common shareholders	$ 83,138		$ 0.32
Income from discontinued operations	-		-
Net income available to common shareholders	$ 83,138	258,877	$ 0.32
Effect of dilutive securities:			
Stock option, restricted stock and other plans		347	
Diluted earnings per share:			
Income from continuing operations available to common shareholders	$ 83,138		$ 0.32
Income from discontinued operations	-		-
Net income available to common shareholders	$ 83,138	259,224	$ 0.32

	Three Months Ended September 30, 2007		
	Income (Numerator)	Average Shares (Denominator)	Per Share Amount
Basic earnings per share:			
Income from continuing operations available to common shareholders	$ 173,726		$ 0.66
Income from discontinued operations	46,213		0.18
Net income available to common shareholders	$ 219,939	261,491	$ 0.84
Effect of dilutive securities:			
Stock option, restricted stock and other plans		4,792	
Diluted earnings per share:			
Income from continuing operations available to common shareholders	$ 173,726		$ 0.65
Income from discontinued operations	46,213		0.18
Net income available to common shareholders	$ 219,939	266,283	$ 0.83

	Nine Months Ended September 30, 2008		
	Income (Numerator)	Average Shares (Denominator)	Per Share Amount

Basic earnings per share:					
Loss from continuing operations	$	(164,444)		$	(0.63)
Income from discontinued operations		-			-
Net loss	$	(164,444)	259,146	$	(0.63)
Effect of dilutive securities:					
Stock option, restricted stock and other plans			-		
Diluted earnings per share:					
Loss from continuing operations	$	(164,444)		$	(0.63)
Income from discontinued operations		-			-
Net loss	$	(164,444)	259,146	$	(0.63)

	Nine Months Ended September 30, 2007				
	Income (Numerator)		Average Shares (Denominator)	Per Share Amount	
Basic earnings per share:					
Income from continuing operations available to common shareholders	$	521,384		$	2.02
Income from discontinued operations		135,606			0.52
Net income available to common shareholders	$	656,990	258,607	$	2.54
Effect of dilutive securities:					
Stock option, restricted stock and other plans			5,555		
Diluted earnings per share:					
Income from continuing operations available to common shareholders	$	521,384		$	1.97
Income from discontinued operations		135,606			0.52
Net income available to common shareholders	$	656,990	264,162	$	2.49

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The table below presents the options to purchase shares of common stock not included in the computation of diluted net income per share because the stock options were antidilutive. The calculation of diluted net income per share for the nine months ended September 30, 2008 excludes all stock options outstanding as a result of the reported net loss. (shares in thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Shares	24,165	5,299	29,272	4,954
Price Range	$15.36 - $36.82	$33.13 - $36.82	$8.55 - $36.82	$34.98 - $36.82

8. Business Combinations

The following acquisition, which was not considered to be a material business combination, was completed during 2008:

On January 2, 2008, the Corporation completed its acquisition of First Indiana Corporation ("First Indiana") based in Indianapolis, Indiana. First Indiana, with $2.1 billion in consolidated assets as of December 31, 2007, had 32 branches in central Indiana which became branches of M&I Marshall & Ilsley Bank on February 2, 2008. Stockholders of First Indiana received $32.00 in cash for each share of First Indiana common stock outstanding, or approximately $530.2 million. Initial goodwill, subject to the completion of appraisals and valuation of the assets acquired and liabilities assumed, amounted to $408.7 million. The estimated identifiable intangible asset to be amortized (core deposits) with a weighted average life of 5.7 years amounted to $33.6 million. The goodwill and intangibles resulting from this acquisition are not deductible for tax purposes.

Recently announced acquisition

On October 13, 2008, the Corporation and Taplin, Canida & Habacht, Inc. ("TCH") announced the signing of a definitive agreement for the Corporation to acquire a majority equity interest in TCH. TCH, based in Miami, Florida, is an institutional fixed income money manager with approximately $7.5 billion of assets under management as of September 30, 2008. The transaction is not expected to have a material impact on the Corporation's financial results. Substantially all of the initial payment by the Corporation will be comprised of M&I common stock. The transaction is expected to close in the fourth quarter of 2008, subject to regulatory approvals and other customary closing conditions.

9. Investment Securities

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

	September 30, 2008	December 31, 2007	September 30, 2007
Investment securities available for sale:			
U.S. treasury and government agencies	$ 5,567,319	$ 5,824,303	$ 5,268,513
States and political subdivisions	855,642	904,230	902,278
Mortgage backed securities	99,536	118,477	121,754
Other	608,849	595,879	491,629
Total	$ 7,131,346	$ 7,442,889	$ 6,784,174

Investment securities held to maturity:				
States and political subdivisions	$ 250,902		$ 373,861	$ 393,434
Other	1,000		1,000	1,000
Total	$ 251,902		$ 374,861	$ 394,434

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

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The following table provides the gross unrealized losses and fair value, aggregated by investment category and the length of time the individual securities have been in a continuous unrealized loss position, at September 30, 2008 ($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	$ 1,852,361	$ 47,465	$ 428,847	$ 6,938	$ 2,281,208	$ 54,403
States and political subdivisions	394,040	17,162	137,247	14,471	531,287	31,633
Mortgage backed securities	35,411	2,390	53,142	1,655	88,553	4,045
Other	146,176	66,504	400	64	146,576	66,568
Total	$ 2,427,988	$ 133,521	$ 619,636	$ 23,128	$ 3,047,624	$ 156,649

The investment securities in the above table were temporarily impaired at September 30, 2008. This temporary impairment represents the amount of loss that would have been realized if the investment securities had been sold on September 30, 2008. The temporary impairment in the investment securities portfolio is the result of increases in market interest rates since the investment securities were acquired and not from deterioration in the creditworthiness of the issuer. At September 30, 2008, the Corporation had the ability and intent to hold these temporarily impaired investment securities until a recovery of fair value, which may be maturity. For further information, see the "Liquidity and Capital Resources" section in Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

10. Loans and Leases

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

	September 30, 2008	December 31, 2007	September 30, 2007
Commercial, financial and agricultural	$ 15,185,457	$ 13,793,951	$ 13,053,313
Cash flow hedge	-	(694)	(1,301)
Commercial, financial and agricultural	15,185,457	13,793,257	13,052,012
Real estate:			
Construction	6,612,526	6,691,716	6,735,879
Residential mortgage	7,864,073	7,105,201	6,893,611
Home equity loans and lines of credit	5,053,088	4,413,205	4,304,031
Commercial mortgage	13,071,632	12,002,162	11,760,309
Total real estate	32,601,319	30,212,284	29,693,830
Personal	1,902,123	1,560,573	1,515,177
Lease financing	728,343	730,144	708,205

Total loans and leases	$ 50,417,242	$ 46,296,258	$ 44,969,224

11. Financial Asset Sales

During 2007 the Corporation opted to discontinue, on a recurring basis, the sale and securitization of automobile loans into the secondary market.

The Corporation reviews the carrying values of the remaining 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.

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Retained interests and other assets consisted of the following ($000's):

	September 30, 2008
Interest-only strips	$ 5,757
Cash collateral accounts	32,419
Servicing advances	100
Total retained interests	$ 38,276

Impairment losses associated with the remaining retained interests, held in the form of interest-only strips and cash collateral accounts, amounted to $2.0 million for the nine months ended September 30, 2008. There were no impairment losses in the third quarter of 2008. The impairment in the nine months ended September 30, 2008 was primarily the result of the differences between the actual credit losses experienced compared to the expected credit losses used in measuring the retained interests.

Net trading gains associated with the auto securitization-related interest rate swap were immaterial for the three months ended September 30, 2008. For the nine months ended September 30, 2008, net trading gains associated with the auto securitization-related interest rate swap amounted to $0.8 million.

At September 30, 2008, 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	$ 393,912	$ 476,902	$ 870,814
Principal amounts of loans 60 days or more past due	2,947	1,049	3,996
Net credit losses year to date	5,389	1,268	6,657

12. Goodwill and Other Intangibles

The changes in the carrying amount of goodwill for the nine months ended September 30, 2008 were as follows ($000's):

	Commercial Banking	Community Banking	Wealth Management	Others	Total
Goodwill balance as of December 31, 2007	$ 922,264	$ 560,332	$ 114,572	$ 87,777	$ 1,684,945
Goodwill acquired during the period	327,375	81,365	-	-	408,740
Purchase accounting adjustments	-	-	3,340	-	3,340
Reallocation of goodwill	-	(33,000)	-	33,000	-
Goodwill balance as of September 30, 2008	$ 1,249,639	$ 608,697	$ 117,912	$ 120,777	$ 2,097,025

Goodwill acquired during 2008 included initial goodwill of $408.7 million for the acquisition of First Indiana. Purchase accounting adjustments for Wealth Management represent adjustments made to the initial estimates of fair value associated with the acquisition of North Star Financial Corporation and a reduction due to the divestiture of a component of North Star Financial Corporation. During the second quarter of 2008, management consolidated certain lending activities and transferred the assets and the related goodwill from the Community Banking segment to the National Consumer Lending Division reporting unit, which is a component of Others.

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At September 30, 2008, the Corporation's other intangible assets consisted of the following ($000's):

	Gross Carrying Amount	Accumulated Amortization	Net Carrying Value
Other intangible assets:			
Core deposit intangible	$ 254,228	$ (128,911)	$ 125,317
Trust customers	11,384	(3,766)	7,618
Tradename	1,335	(386)	949
Other intangibles	4,147	(1,027)	3,120
	$ 271,094	$ (134,090)	$ 137,004
Mortgage loan servicing rights			$ 2,570

Amortization expense of other intangible assets for the three and nine months ended September 30, 2008 amounted to $5.7 million and $17.0 million, respectively. For the three and nine months ended September 30, 2007, amortization expense of other intangible assets amounted to $5.1 million and $14.2 million, respectively.

Amortization of mortgage loan servicing rights amounted to $0.3 million and $0.9 million in each of the three and nine months ended September 30, 2008 and 2007, respectively.

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

2009	$ 21,330
2010	18,054
2011	15,258
2012	13,014
2013	11,074

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

SFAS 142 provides guidance for impairment testing of goodwill and intangible assets that are not amortized. Goodwill is tested for impairment using a two-step process that begins with an estimation of the fair value of a Reporting Unit. The first step is a screen for potential impairment and the second step measures the amount of impairment, if any.

Consistent with prior years, the Corporation elected to perform its annual test for goodwill impairment as of June 30, 2008. Other than goodwill, the Corporation does not have any other intangible assets that are not amortized. The stock prices of many financial services companies, including the Corporation, declined during the first half of 2008 as a result of the stress and deterioration in the national residential real estate markets. While the Corporation's other reporting units did not have indicators of potential goodwill impairment based on the first step, the Commercial and Community Banking segments were subjected to the second step of impairment testing of goodwill.

The second step of the goodwill impairment test compares the implied fair value of the reporting unit goodwill with the carrying amount of that goodwill. The implied fair value of goodwill is determined in the same manner as the amount of goodwill recognized in a business combination is determined. The fair value of a reporting unit is allocated to all of the assets and liabilities of that unit (including any unrecognized intangible assets) as if the reporting unit had been acquired in a business combination and the fair value of the reporting unit was the price paid to acquire the reporting unit. The excess of the fair value of the reporting unit over the amounts assigned to its assets and liabilities is the implied fair value of goodwill. The allocation process is performed solely for purposes of testing goodwill for impairment. Recognized assets and liabilities and previously unrecognized intangible assets are not adjusted or recognized as a result of that allocation process.

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During the third quarter of 2008, the Corporation completed the second step of the process for the Commercial and Community Banking segments and determined that there was no goodwill impairment.

13. Deposits

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

	September 30, 2008	December 31, 2007	September 30, 2007
Noninterest bearing demand	$ 6,359,020	$ 6,174,281	$ 5,558,966
Savings and NOW	13,790,628	13,903,479	14,346,845
CD's $100,000 and over	12,661,354	8,075,691	6,939,786
Cash flow hedge-Institutional CDs	13,766	18,027	8,462
Total CD's $100,000 and over	12,675,120	8,093,718	6,948,248
Other time deposits	5,283,277	4,412,933	4,543,836
Foreign deposits	1,931,557	2,606,943	3,009,867
Total deposits	$ 40,039,602	$ 35,191,354	$ 34,407,762

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, 2007. There were no significant new hedging strategies employed during the nine months ended September 30, 2008.

Trading Instruments and Other Free Standing Derivatives

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

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

At September 30, 2008, free standing interest rate swaps consisted of $3.8 billion in notional amount of receive fixed / pay floating with an aggregate positive fair value of $57.0 million and $3.5 billion in notional amount of pay fixed / receive floating with an aggregate negative fair value of $33.9 million.

At September 30, 2008, interest rate caps purchased amounted to $166.5 million in notional amount with a negative fair value of $0.4 million and interest rate caps sold amounted to $166.5 million in notional amount with a positive fair value of $0.4 million.

At September 30, 2008, the notional value of interest rate futures designated as trading was $1.9 billion with a positive fair value of $1.2 million.

At September 30, 2008, the notional value of equity derivatives bifurcated from deposit liabilities and designated as trading amounted to $98.1 million in notional value with a negative fair value of $3.7 million. At September 30, 2008, the notional value of equity derivative contracts designated as trading and used as economic hedges was $98.2 million with a positive fair value of $3.9 million.

The Corporation employs certain over-the-counter interest rate swaps that are the designated hedging instruments in fair value and cash flow hedges that are used by the Corporation to manage its interest rate risk. These interest rate swaps are measured at fair value on a recurring basis based on significant other observable inputs and are categorized as Level 2. See Note 4 in Notes to Financial Statements for a discussion of fair value measurements.

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Notes to Financial Statements - Continued
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The following table presents additional information with respect to fair value hedges.

Fair Value Hedges
September 30, 2008

Hedged Item	Hedging Instrument	Notional Amount ($ in mil)	Fair Value ($ in mil)	Weighted Average Remaining Term (Yrs)
Fair Value Hedges that Qualify for Shortcut Accounting				
Fixed Rate Bank Notes	Receive Fixed Swap	$ 336.4	$ 7.7	7.5