

MARSHALL & ILSLEY CORP  
Form 10-Q  
May 10, 2010

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, 2010

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  
(State or other jurisdiction of  
incorporation or organization)

20-8995389  
(I.R.S. Employer  
Identification No.)

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

53202  
(Zip Code)

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

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 has submitted electronically and posted on its Corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or such shorter period that the registrant was required to submit and post such files).

Yes  No

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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  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

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

| Class                          | Outstanding at April 30, 2010 |
|--------------------------------|-------------------------------|
| Common Stock, \$1.00 Par Value | 527,244,964                   |

MARSHALL & ILSLEY CORPORATION  
QUARTERLY REPORT ON FORM 10-Q  
FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2010

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## PART I - FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

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

|   | March 31,<br>2010    | December 31,<br>2009 | March 31,<br>2009    |
|---|----------------------|----------------------|----------------------|
| <b>Assets:</b>  |                      |                      |                      |
| Cash and cash equivalents:  |                      |                      |                      |
| Cash and due from banks   | \$ 588,687           | \$ 769,034           | \$ 744,861           |
| Federal funds sold and security resale agreements   | 27,057               | 26,839               | 49,698               |
| Money market funds  | 55,434               | 36,610               | 285,307              |
| Total cash and cash equivalents   | 671,178              | 832,483              | 1,079,866            |
| Interest bearing deposits at other banks  | 1,939,006            | 1,128,794            | 116,353              |
| Trading assets, at fair value   | 254,549              | 255,646              | 686,723              |
| Investment securities:  |                      |                      |                      |
| Available for sale, at fair value   | 7,520,465            | 7,073,592            | 7,540,076            |
| Held to maturity, fair value \$107,319 (\$106,962 at December 31, 2009 and \$192,324 at March 31, 2009) | 104,245              | 103,566              | 187,551              |
| Loans held for sale   | 174,103              | 214,159              | 305,082              |
| Loans and leases  | 42,474,704           | 44,003,467           | 48,939,572           |
| Allowance for loan and lease losses   | (1,515,154)          | (1,480,470)          | (1,352,117)          |
| Net loans and leases  | 40,959,550           | 42,522,997           | 47,587,455           |
| Premises and equipment, net   | 557,650              | 565,806              | 570,303              |
| Goodwill  | 609,517              | 609,517              | 607,954              |
| Other intangible assets   | 129,064              | 134,067              | 150,154              |
| Bank-owned life insurance   | 1,200,130            | 1,189,360            | 1,165,887            |
| Other real estate owned (OREO)  | 454,317              | 430,821              | 344,271              |
| Accrued interest and other assets   | 1,995,595            | 2,149,170            | 1,448,357            |
| <b>Total Assets</b>   | <b>\$ 56,569,369</b> | <b>\$ 57,209,978</b> | <b>\$ 61,790,032</b> |
| <b>Liabilities and Equity:</b>  |                      |                      |                      |
| Deposits:   |                      |                      |                      |
| Noninterest bearing   | \$ 7,787,831         | \$ 7,832,752         | \$ 6,988,312         |
| Interest bearing  | 34,194,419           | 33,804,773           | 32,576,052           |
| Total deposits  | 41,982,250           | 41,637,525           | 39,564,364           |
| Federal funds purchased and security repurchase agreements  | 829,665              | 520,905              | 2,513,039            |
| Other short-term borrowings   | 64,348               | 599,242              | 2,823,244            |
| Accrued expenses and other liabilities  | 957,329              | 1,040,860            | 1,100,063            |
| Long-term borrowings  | 5,865,381            | 6,425,855            | 9,538,664            |
| <b>Total Liabilities</b>  | <b>49,698,973</b>    | <b>50,224,387</b>    | <b>55,539,374</b>    |
| <b>Equity:</b>  |                      |                      |                      |

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|   |               |               |               |
|---|---------------|---------------|---------------|
| Preferred stock, \$1.00 par value;<br>5,000,000 shares authorized; 1,715,000<br>shares issued and outstanding of Senior<br>Preferred Stock, Series B (liquidation<br>preference of \$1,000 per share) | 1,715         | 1,715         | 1,715         |
| Common Stock, \$1.00 par<br>value; 530,164,081 shares issued<br>(530,164,081 shares at December 31,<br>2009 and 272,318,615 shares at March<br>31, 2009)  | 530,164       | 530,164       | 272,319       |
| Additional paid-in capital  | 4,959,570     | 4,997,606     | 3,841,725     |
| Retained earnings   | 1,520,214     | 1,666,021     | 2,419,433     |
| Treasury stock, at cost: 3,029,908<br>shares (4,793,885 shares at December<br>31, 2009 and 6,617,041 shares at March<br>31, 2009)   | (81,122 )     | (132,191 )    | (182,840 )    |
| Deferred compensation   | (37,751 )     | (37,538 )     | (36,533 )     |
| Accumulated other comprehensive<br>income, net of related taxes   | (33,730 )     | (51,321 )     | (75,606 )     |
| Total Marshall & Ilsley Corporation<br>shareholders' equity   | 6,859,060     | 6,974,456     | 6,240,213     |
| Noncontrolling interest in subsidiaries   | 11,336        | 11,135        | 10,445        |
| Total Equity  | 6,870,396     | 6,985,591     | 6,250,658     |
| Total Liabilities and Equity  | \$ 56,569,369 | \$ 57,209,978 | \$ 61,790,032 |

See notes to financial statements.

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

|  | Three Months Ended March 31, |            |
|--|------------------------------|------------|
|  | 2010                         | 2009       |
| Interest and fee income  |                              |            |
| Loans and leases   | \$ 509,573                   | \$ 566,334 |
| Investment securities:   |                              |            |
| Taxable  | 49,370                       | 63,117     |
| Exempt from federal income taxes                                     | 9,386                        | 12,255     |
| Trading securities   | 183                          | 1,449      |
| Short-term investments   | 1,086                        | 628        |
| Total interest and fee income  | 569,598                      | 643,783    |
| Interest expense   |                              |            |
| Deposits   | 112,564                      | 138,089    |
| Short-term borrowings  | 677                          | 3,992      |
| Long-term borrowings   | 52,892                       | 99,956     |
| Total interest expense   | 166,133                      | 242,037    |
| Net interest income  | 403,465                      | 401,746    |
| Provision for loan and lease losses                                  | 458,112                      | 477,924    |
| Net interest income (loss) after provision for loan and lease losses | (54,647 )                    | (76,178 )  |
| Other income   |                              |            |
| Wealth management  | 68,147                       | 62,682     |
| Service charges on deposits  | 32,099                       | 35,313     |
| Gain on sale of mortgage loans                                       | 5,660                        | 9,814      |
| Other mortgage banking revenue                                       | 692                          | 993        |
| Net investment securities gains (losses)                             | 102                          | 72         |
| Bank-owned life insurance revenue                                    | 10,794                       | 9,316      |
| Gain on termination of debt  | 10,296                       | 3,056      |
| Sale of merchant portfolio processing                                | 48,272                       | -          |
| OREO income  | 6,078                        | 2,568      |
| Other  | 45,424                       | 52,892     |
| Total other income   | 227,564                      | 176,706    |
| Other expense  |                              |            |
| Salaries and employee benefits                                       | 161,598                      | 155,188    |
| Net occupancy and equipment  | 34,102                       | 33,793     |
| Software expenses  | 7,902                        | 6,598      |
| Processing charges   | 32,082                       | 33,722     |
| Supplies, printing, postage and delivery                             | 8,154                        | 9,094      |
| FDIC insurance   | 27,254                       | 15,104     |
| Professional services  | 20,790                       | 19,181     |
| Amortization of intangibles  | 5,140                        | 5,794      |
| OREO expenses  | 37,504                       | 32,623     |
| Other  | 36,965                       | 34,060     |
| Total other expense  | 371,491                      | 345,157    |
| Income (loss) before income taxes                                    | (198,574 )                   | (244,629)  |
| Provision (benefit) for income taxes                                 | (83,605 )                    | (152,982)  |

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|   |               |              |
|---|---------------|--------------|
| Net income (loss) before noncontrolling interests                                   | (114,969 )    | (91,647 )    |
| Less: Net income attributable to noncontrolling interests                           | (389 )        | (319 )       |
| Net income (loss) attributable to Marshall & Ilsley Corporation                     | (115,358 )    | (91,966 )    |
| Preferred dividends   | (25,180 )     | (24,959 )    |
| Net income (loss) attributable to Marshall & Ilsley Corporation common shareholders | \$ (140,538 ) | \$ (116,925) |
| Per share attributable to Marshall & Ilsley Corporation common shareholders         |               |              |
| Basic   | \$ (0.27 )    | \$ (0.44 )   |
| Diluted   | \$ (0.27 )    | \$ (0.44 )   |
| Dividends paid per common share   | \$ 0.01       | \$ 0.01      |
| Weighted average common shares outstanding (000's):                                 |               |              |
| Basic   | 524,086       | 264,544      |
| Diluted   | 524,086       | 264,544      |



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

|   | Three Months Ended March 31, |              |
|---|------------------------------|--------------|
|   | 2010                         | 2009         |
| Net Cash Provided by / (Used in) Operating Activities                 | \$ 379,613                   | \$ (63,732 ) |
| Cash Flows from Investing Activities:                                 |                              |              |
| Net increase in short-term investments                                | (810,213)                    | (106,669 )   |
| Proceeds from sales of securities available for sale                  | 8                            | 46,023       |
| Proceeds from maturities of securities available for sale             | 346,054                      | 337,432      |
| Proceeds from maturities of securities held to maturity               | 14,009                       | 50,804       |
| Purchases of securities available for sale                            | (771,139)                    | (376,840 )   |
| Net decrease in loans and leases                                      | 961,738                      | 352,247      |
| Purchases of premises and equipment, net                              | (5,474 )                     | (16,890 )    |
| Cash paid for acquisitions, net of cash and cash equivalents acquired | -                            | (454 )       |
| Proceeds from sale of merchant portfolio processing                   | 48,272                       | -            |
| Net proceeds from sale of OREO  | 106,641                      | 49,684       |
| Net cash (used in) / provided by investing activities                 | (110,104)                    | 335,337      |
| Cash Flows from Financing Activities:                                 |                              |              |
| Net increase (decrease) in deposits                                   | 413,879                      | (1,460,417)  |
| Net (decrease) / increase in short-term borrowings                    | (226,027)                    | 1,281,558    |
| Proceeds from issuance of long-term borrowings                        | -                            | 375          |
| Payments of long-term borrowings                                      | (593,557)                    | (63,461 )    |
| Dividends paid on preferred stock                                     | (21,437 )                    | (21,676 )    |
| Dividends paid on common stock  | (5,269 )                     | (2,630 )     |
| Proceeds from the issuance of common stock                            | 1,542                        | 2,105        |
| Other   | 55                           | -            |
| Net cash used in financing activities                                 | (430,814)                    | (264,146 )   |
| Net (decrease) / increase in cash and cash equivalents                | (161,305)                    | 7,459        |
| Cash and cash equivalents, beginning of year                          | 832,483                      | 1,072,407    |
| Cash and cash equivalents, end of period                              | \$ 671,178                   | \$ 1,079,866 |
| Supplemental Cash Flow Information:                                   |                              |              |
| Cash paid/(received) during the period for:                           |                              |              |
| Interest  | \$ 196,936                   | \$ 286,504   |
| Income taxes  | (136,313)                    | (119,001 )   |



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MARSHALL & ILSLEY CORPORATION

Notes to Financial Statements

March 31, 2010 & 2009 (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, 2009. 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 months ended March 31, 2010 and 2009. The results of operations for the three months ended March 31, 2010 and 2009 are not necessarily indicative of results to be expected for the entire year.

2. New Accounting Pronouncements

On January 1, 2010 the Corporation adopted updated accounting guidance to the Transfers and Servicing Topic and the Consolidations Topic to the FASB Accounting Standards Codification. Changes to the Transfers and Servicing Topic eliminate the concept of a qualifying special-purpose entity ("QSPE"), change the requirements for derecognizing financial assets, and require additional disclosures regarding an entity's continuing involvement in and exposure to risks related to transferred financial assets. The changes to the Consolidations Topic replace the quantitative approach previously required for determining which enterprise should consolidate a variable interest entity with a consolidation approach focused on which enterprise has both the power to direct the activities of the entity that most significantly impact the entity's economic performance and the obligation to absorb losses of the entity that could potentially be significant to the entity or the right to receive benefits from the entity that could potentially be significant to the entity. The updated Consolidations Topic also requires ongoing reassessments of whether an enterprise is the primary beneficiary of a variable interest entity, and eliminates an exception indicating that a troubled debt restructuring, as defined by the Debt Topic, is not an event that required reconsideration of whether an entity is a variable interest entity and whether an enterprise is the primary beneficiary of a variable interest entity. The adoption of this updated accounting guidance did not have a material impact on the financial statements and related disclosures.

In January 2010, the FASB updated the disclosure guidance in the Fair Value Measurements and Disclosures Topic. This update clarifies certain existing disclosure requirements and requires separate disclosures of significant transfers in and out of Level 1 and Level 2 of the fair value hierarchy along with descriptions of the reasons for the transfers. In addition, information about purchases, sales, issuances, and settlements should be presented separately for Level 3 disclosures. The updated guidance was effective beginning on January 1, 2010, except for the disclosures about purchases, sales, issuances, and settlements of Level 3 fair value measurements. Those disclosures are effective beginning on January 1, 2011. The impact of the updated disclosure guidance is reflected in Note 3 - Fair Value Measurements.

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MARSHALL & ILSLEY CORPORATION

Notes to Financial Statements - Continued

March 31, 2010 & 2009 (Unaudited)

3. Fair Value Measurements

The Fair Value Measurements and Disclosures Topic of the Codification generally apply whenever other topics require or permit assets or liabilities to be measured at fair value. Under the topic, 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 topic does not expand the use of fair value in any new circumstances.

Fair-Value Hierarchy

The Fair Value Measurements and Disclosures Topic of the Codification 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

The 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, residential mortgage-backed securities and obligations of states and political subdivisions where quoted prices are not available for identical securities in an active market, the Corporation determines fair value utilizing vendors who apply matrix pricing for similar bonds where no price is observable or may compile prices from various sources. These models are primarily industry-standard models that consider various assumptions, including time value, yield curve, volatility factors, prepayment speeds, default rates, loss severity, current market and contractual prices for the underlying financial instruments, as well as other relevant economic measures. Substantially all of these assumptions are observable in the marketplace, can be derived from observable data or are supported by observable levels at which transactions are executed in the marketplace. Fair

values from these models are verified, where possible, against 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.

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MARSHALL & ILSLEY CORPORATION

Notes to Financial Statements - Continued

March 31, 2010 & 2009 (Unaudited)

The Corporation's Private Equity 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. There were no automobile loan securitizations outstanding at March 31, 2010.

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 are used for fair value hedges, cash flow hedges and economic hedges of interest rate swaps executed with the Corporation's customers. The Corporation and its subsidiaries maintain risk management policies and procedures to monitor and limit exposure to credit risk to derivative transactions with dealers. Approved dealers for these transactions must have and maintain an investment grade rating on long-term senior debt from at least two nationally recognized statistical rating organizations or have a guarantor with an acceptable rating from such organizations. International Swaps and Derivative Association Master 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 unforeseen events could result in counterparty failure. The Corporation also recognizes that there could be additional credit exposure due to certain industry conventions established for operational efficiencies.

On a quarterly basis, the Corporation performs an analysis using historical and market implied default and recovery rates that also consider certain industry conventions established for operational efficiencies to estimate the potential impact on the reported fair values of these derivative financial assets and liabilities due to counterparty credit risk and the Corporation's own credit risk. Based on this analysis, the Corporation determined that the impact of these factors was insignificant and did not make any additional credit risk adjustments for purposes of determining the reported fair values of these derivative assets and liabilities with dealers at March 31, 2010.

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 March 31, 2010. While not significant, the Corporation did factor the estimated amount of expected loss due to customer default in the reported fair value of its customer derivative assets at March 31, 2010.

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## MARSHALL &amp; ILSLEY CORPORATION

## Notes to Financial Statements - Continued

March 31, 2010 &amp; 2009 (Unaudited)

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 March 31, 2010 (\$000's):

|   | Quoted<br>Prices in<br>Active<br>Markets for<br>Identical<br>Assets or<br>Liabilities<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
|---|--|---|--|
| <b>Assets (1)</b>   |  |   |  |
| <b>Trading Assets:</b>                                    |  |   |  |
| Trading securities  | \$ -   | \$ 21,859   | \$ -   |
| Derivative assets   | -  | 232,690   | -  |
| <b>Total trading assets</b>                               | <b>\$ -</b>  | <b>\$ 254,549</b>   | <b>\$ -</b>  |
| <b>Investment securities available for sale<br/>(2)</b>   |  |   |  |
| U.S. treasury   | \$ -   | \$ 7,367  | \$ -   |
| U.S. government agencies                                  | -  | 5,801,642   | -  |
| States and political subdivisions                         | -  | 769,010   | 40,683   |
| Residential mortgage backed securities                    | -  | 203,167   | -  |
| Corporate notes   | -  | -   | -  |
| Asset backed securities                                   | -  | 63,052  | 88,551   |
| Foreign   | -  | -   | 43   |
| Private equity investments                                | -  | -   | 70,686   |
| <b>Total investment securities available for<br/>sale</b> | <b>\$ -</b>  | <b>\$ 6,844,238</b>                                       | <b>\$ 199,963</b>                                  |
| <b>Accrued interest and other assets:</b>                 |  |   |  |
| Financial guarantees - credit protection<br>purchased     | \$ -   | \$ 8  | \$ -   |
| <b>Liabilities (1)</b>                                    |  |   |  |
| Short-term borrowings                                     | \$ -   | \$ 7,261  | \$ -   |
| <b>Accrued expenses and other liabilities:</b>            |  |   |  |
| Derivative liabilities                                    | \$ -   | \$ 203,307  | \$ 11,600  |
| Financial guarantees - credit protection<br>sold          | -  | 271   | -  |
| <b>Total accrued expenses and other<br/>liabilities</b>   | <b>\$ -</b>  | <b>\$ 203,578</b>   | <b>\$ 11,600</b>                                   |

(1)



The amounts presented above exclude certain over-the-counter interest rate swaps that are the designated hedging instruments in fair value and cash flow hedges that are used by the Corporation to manage its interest rate risk. These interest rate swaps are measured at fair value on a recurring basis based on significant other observable inputs and are categorized as Level 2. See Note 11 – Derivative Financial Instruments and Hedging Activities in Notes to Financial Statements for further information. Level 3 derivative liabilities represent the fair value of the derivative financial instrument entered into in conjunction with the sale of the Corporation’s shares of Visa, Inc. (“Visa”) Class B common stock. See Note 14 – Guarantees in Notes to Financial Statements for additional information regarding Visa.

- (2) The investment securities included in Level 3 are primarily senior tranche asset-backed securities. The amounts presented are exclusive of \$411,901 of investments in Federal Reserve Bank and FHLB stock, which are bought and sold at par and are carried at cost, and \$64,363 in affordable housing partnerships, which are generally carried on the equity method.

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## MARSHALL &amp; ILSLEY CORPORATION

## Notes to Financial Statements - Continued

March 31, 2010 &amp; 2009 (Unaudited)

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 March 31, 2009 (\$000's):

|   | Quoted<br>Prices in<br>Active<br>Markets for<br>Identical<br>Assets or<br>Liabilities<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
|---|--|---|--|
| <b>Assets (1)</b>   |  |   |  |
| <b>Trading Assets:</b>                                    |  |   |  |
| Trading securities  | \$ -   | \$ 385,344  | \$ -   |
| Derivative assets   | 85   | 301,294   | -  |
| <b>Total trading assets</b>                               | <b>\$ 85</b>   | <b>\$ 686,638</b>   | <b>\$ -</b>  |
| <b>Investment securities available for sale<br/>(2)</b>   |  |   |  |
| U.S. treasury   | \$ -   | \$ 2,327  | \$ -   |
| U.S. government agencies                                  | -  | 5,543,626   | 10   |
| States and political subdivisions                         | -  | 907,933   | 11,967   |
| Residential mortgage backed securities                    | -  | 288,500   | -  |
| Corporate notes   | -  | 140,263   | 10,000   |
| Asset backed securities                                   | -  | 1,414   | 143,120  |
| Foreign   | -  | 2,375   | 2,030  |
| Equity  | 46   | -   | -  |
| Private equity investments                                | -  | -   | 66,222   |
| Other   | -  | -   | 5,254  |
| <b>Total investment securities available for<br/>sale</b> | <b>\$ 46</b>   | <b>\$ 6,886,438</b>                                       | <b>\$ 238,603</b>                                  |
| <b>Liabilities (1)</b>                                    |  |   |  |
| Other short-term borrowings                               | \$ -   | \$ 168  | \$ -   |
| <b>Accrued expenses and other liabilities:</b>            |  |   |  |
| Derivative liabilities                                    | \$ 55  | \$ 257,223  | \$ -   |

(1) The amounts presented above exclude certain over-the-counter interest rate swaps that are the designated hedging instruments in fair value and cash flow hedges that are used by the Corporation to manage its interest rate risk. These interest rate swaps are measured at fair value on a recurring basis based on significant other observable inputs and are categorized as Level 2. See Note 11 – Derivative Financial Instruments and Hedging Activities in Notes to Financial Statements for further information.

(2)

The investment securities included in Level 3 are primarily senior tranche asset-backed securities. The amounts presented are exclusive of \$362,890 of investments in Federal Reserve Bank and FHLB stock, which are bought and sold at par and are carried at cost, and \$52,099 in affordable housing partnerships, which are generally carried on the equity method.

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## MARSHALL &amp; ILSLEY CORPORATION

## Notes to Financial Statements - Continued

March 31, 2010 &amp; 2009 (Unaudited)

## 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 three months ended March 31, 2010 (\$000's):

|  | Investment<br>Securities (1) | Private<br>Equity<br>Investments<br>(2) | Total      | Derivative<br>Liabilities |
|--|------------------------------|---|------------|---------------------------|
| Balance at December 31, 2009   | \$ 271,196                   | \$ 68,482                               | \$ 339,678 | \$ 11,600                 |
| Net payments, purchases and sales  | (370 )                       | 1,402                                   | 1,032      | -                         |
| Discount accretion   | (8 )                         | -                                       | (8 )       | -                         |
| Transfers out of Level 3   | (140,483)                    | -                                       | (140,483)  | -                         |
| Total gains or losses (realized or unrealized):  |                              |   |            |                           |
| Included in earnings   | -                            | 802                                     | 802        | -                         |
| Included in other comprehensive income   | (1,058 )                     | -                                       | (1,058 )   | -                         |
| Balance at March 31, 2010  | \$ 129,277                   | \$ 70,686                               | \$ 199,963 | \$ 11,600                 |
| Unrealized gains or (losses) for the period included in earnings attributable to unrealized gains or losses for financial instruments still held at March 31, 2010 | \$ -                         | \$ 802                                  | \$ 802     | -                         |

- (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 (losses) 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 (losses) in the Consolidated Statements of Income.

At March 31, 2010, \$62,140 of highly-rated asset backed securities and \$66,692 of Government National Mortgage Association securities were transferred to Level 2 as significant inputs to the pricing model used to value these securities became observable in the marketplace, could be derived from observable data or the values could be supported by observable levels at which transactions were executed in the marketplace.

## Level 3 Gains and Losses

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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 three months ended March 31, 2009 (\$000's):

|  | Investment<br>Securities<br>(1) | Private<br>Equity<br>Investments<br>(2) | Other<br>Assets | Total      |
|--|---------------------------------|---|-----------------|------------|
| Balance at December 31, 2008   | \$ 135,953                      | \$ 65,288                               | \$ 5,903        | \$ 207,144 |
| Net payments, purchases and sales  | (1,008 )                        | 706                                     | (255 )          | (557 )     |
| Discount accretion   | 49                              | -                                       | 160             | 209        |
| Net transfers in and/or out of Level 3   | (2,860 )                        | -                                       | -               | (2,860 )   |
| Total gains or losses (realized or unrealized):  |                                 |   |                 |            |
| Included in earnings   | -                               | 228                                     | 52              | 280        |
| Included in other comprehensive income   | 34,993                          | -                                       | (606 )          | 34,387     |
| Balance at March 31, 2009  | \$ 167,127                      | \$ 66,222                               | \$ 5,254        | \$ 238,603 |
| Unrealized gains or losses for the period included in earnings attributable to unrealized gains or losses for financial instruments still held at March 31, 2009 | \$ -                            | \$ 191                                  | \$ -            | \$ 191     |

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MARSHALL & ILSLEY CORPORATION

Notes to Financial Statements - Continued

March 31, 2010 & 2009 (Unaudited)

- (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 (losses) 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 (losses) in the Consolidated Statements of Income.

Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis

Loans held for sale are recorded at lower of cost or market and therefore are reported at fair value on a nonrecurring basis. Such fair values are generally based on bids and are considered Level 2 fair values.

Nonaccrual loans greater than \$1.0 million were individually evaluated for impairment. Impairment was measured based on the fair value of the collateral less estimated selling costs or the fair value of the loan ("collateral value method"). All consumer-related renegotiated loans were evaluated for impairment based on the present value of the estimated cash flows discounted at the loan's original effective interest rate ("discounted cash flow method"). A valuation allowance was recorded for the excess of the loan's recorded investment over the amount determined by either the collateral value method or the discounted cash flow method. This valuation allowance is a component of the Allowance for loan and lease losses. The discounted cash flow method is not a fair value measure. For the collateral value method, the Corporation generally obtains appraisals to support the fair value of collateral underlying loans. Appraisals incorporate measures such as recent sales prices for comparable properties and costs of construction. The Corporation considers these fair values Level 3. For those loans individually evaluated for impairment using the collateral value method, the Corporation required a valuation allowance of \$156,562 and \$163,976 for loans with a recorded investment of \$649,365 and \$1,220,396 at March 31, 2010 and March 31, 2009, respectively. See Note 8 – Allowance for Loan and Lease Losses in Notes to Consolidated Financial Statements for more information.

OREO is recorded at fair value based on property appraisals, less estimated selling costs, at the date of transfer. Subsequent to transfer, OREO is carried at the lower of cost or fair value, less estimated selling costs. The carrying value of OREO is not re-measured to fair value on a recurring basis but is subject to fair value adjustments when the carrying value exceeds the fair value, less estimated selling costs. At March 31, 2010 and 2009, the estimated fair value of OREO, less estimated selling costs, amounted to \$454,317 and \$344,271, respectively.

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## MARSHALL &amp; ILSLEY CORPORATION

## Notes to Financial Statements - Continued

March 31, 2010 &amp; 2009 (Unaudited)

## Fair Value of Financial Instruments

Book values and estimated fair values for on and off-balance sheet financial instruments as of March 31, 2010 are presented in the following table. Derivative financial instruments designated as hedging instruments are included in the book values and fair values presented for the related hedged items. Derivative financial instruments designated as trading and other free standing derivatives are included in Trading assets.

## Balance Sheet Financial Instruments (\$ in millions)

|  | March 31, 2010 |             |
|--|----------------|-------------|
|  | Book Value     | Fair Value  |
| <b>Financial assets:</b>                 |                |             |
| Cash and short term investments          | \$ 2,610.2     | \$ 2,610.2  |
| Trading assets                           | 254.5          | 254.5       |
| Investment securities available for sale | 7,520.5        | 7,520.5     |
| Investment securities held to maturity   | 104.2          | 107.3       |
| Net loans and leases                     | 41,133.7       | 36,511.1    |
| Interest receivable                      | 164.3          | 164.3       |
| <b>Financial liabilities:</b>            |                |             |
| Deposits                                 | \$ 41,982.3    | \$ 42,325.5 |
| Short-term borrowings                    | 894.0          | 894.0       |
| Long-term borrowings                     | 5,865.4        | 5,745.8     |
| Derivative liabilities                   | 215.2          | 215.2       |
| Interest payable                         | 126.8          | 126.8       |

Where readily available, quoted market prices are utilized by the Corporation for determining fair value. If quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. These techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. The calculated fair value estimates, therefore, cannot be substantiated by comparison to independent markets and, in many cases, could not be realized upon immediate settlement of the instrument. The current reporting requirements exclude certain financial instruments and all nonfinancial assets and liabilities from its disclosure requirements. Accordingly, the aggregate fair value amounts presented do not represent the underlying value of the entire Corporation.

The following methods and assumptions are used in estimating the fair value for financial instruments.

## Cash and short-term investments

The carrying amounts reported for cash and short-term investments approximate the fair values for those assets.

## Trading assets and investment securities

Fair value is based on market prices where available. The fair value of trading assets and investment securities are categorized as Level 1, Level 2 and Level 3, based on the inputs to the valuations.

#### Net loans and leases

The fair value of loans and leases was derived from discounted cash flow analyses. Loans and leases as of March 31, 2010 were grouped into 1,587 pools based on similar characteristics such as maturity, payment type and payment frequency, rate type and underlying index, recent loan-to-value (LTV) measures and various types of credit indicators such as recent FICO scores and the Corporation's internal loan rating system. Credit spreads were derived from observable information wherever possible. In cases where observable information was not available because of inactive markets or the change in the loan characteristics such as declining collateral values, certain adjustments were judgmentally made to estimate credit spreads consistent with the manner the Corporation believes market participants would assess the fair value of the loan pool. The Corporation has estimated that increasing or decreasing the credit spreads by the equivalent of a 2 credit rating adjustment could affect the aggregate fair value of the loans and leases by approximately \$0.8 billion or 2.0% of the net carrying value of total loans and leases at March 31, 2010. The fair value of loans held for sale is based on the expected sales price. At March 31, 2010, the fair value of net loans and leases is considered Level 2 and Level 3 in the fair value hierarchy.



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## MARSHALL &amp; ILSLEY CORPORATION

## Notes to Financial Statements - Continued

March 31, 2010 &amp; 2009 (Unaudited)

## Deposits

The fair value for demand deposits or any interest bearing deposits with no fixed maturity date is considered to approximate carrying value. Time deposits with defined maturity dates are considered to have a fair value which approximates the book value if the maturity date was within three months of the measurement date. The remaining time deposits are assigned fair values based on a discounted cash flow analysis using discount rates that approximate interest rates currently being offered on time deposits with comparable maturities. At March 31, 2010, the fair value of deposits is considered Level 2 in the Fair Value Hierarchy.

## Borrowings

Short-term borrowings are generally carried at cost that approximates fair value. Long-term debt is valued using discounted cash flow analysis with discount curves developed using several methods. Wherever possible, the Corporation uses pricing from industry accepted services or recently observed transactions in the Corporation's long-term debt to develop the discounting curves. The observed transactions are between unaffiliated parties where there has been sufficient transaction volume to conclude that the observed pricing is representative of the fair value of the long-term debt obligation. In the absence of representative observed transactions, the Corporation develops discount curves based on current incremental borrowing rates for similar types of arrangements. At March 31, 2010, the fair value of borrowings is considered Level 2 in the Fair Value Hierarchy.

## Off-Balance Sheet Financial Instruments

Fair values of off-balance sheet financial instruments have been estimated based on the equivalent fees, net of expenses, that would be charged for similar contracts and customers at March 31, 2010 (\$ in millions):

|                              |       |
|------------------------------|-------|
| Loan commitments             | \$9.7 |
| Commercial letters of credit | 0.3   |
| Standby letters of credit    | 8.6   |

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## MARSHALL &amp; ILSLEY CORPORATION

## Notes to Financial Statements - Continued

March 31, 2010 &amp; 2009 (Unaudited)

## 4. Comprehensive Income

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

|  | Three Months Ended March 31, 2010 |                          |                      |
|--|-----------------------------------|--------------------------|----------------------|
|  | Before-Tax<br>Amount              | Tax (Expense)<br>Benefit | Net-of-Tax<br>Amount |
| Net loss before noncontrolling interests   |                                   |                          | \$ (114,969)         |
| Other comprehensive income (loss):   |                                   |                          |                      |
| Unrealized gains (losses) on available for sale investment securities:   |                                   |                          |                      |
| Arising during the period  | \$ 40,310                         | \$ (14,636)              | \$ 25,674            |
| Reclassification for securities transactions included in net income  | -                                 | -                        | -                    |
| Total unrealized gains (losses) on available for sale investment securities                                      | \$ 40,310                         | \$ (14,636)              | \$ 25,674            |
| Unrealized gains (losses) on derivatives hedging variability of cash flows:                                      |                                   |                          |                      |
| Arising during the period  | \$ (29,136 )                      | \$ 10,850                | \$ (18,286 )         |
| Reclassification adjustments for hedging activities included in net income                                       | 16,889                            | (6,289 )                 | 10,600               |
| Total net gains (losses) on derivatives hedging variability of cash flows  | \$ (12,247 )                      | \$ 4,561                 | \$ (7,686 )          |
| 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 | (559 )                            | 162                      | (397 )               |
| Total unrealized gains (losses) on funded status of defined benefit postretirement plan                          | \$ (559 )                         | \$ 162                   | \$ (397 )            |
| Other comprehensive income, net of tax   |                                   |                          | 17,591               |
| Total comprehensive income (loss)  |                                   |                          | (97,378 )            |
| Less: Comprehensive income attributable to the noncontrolling interests  |                                   |                          | (389 )               |
| Comprehensive income (loss) attributable to Marshall & Ilsley Corporation  |                                   |                          | \$ (97,767 )         |

|  | Three Months Ended March 31, 2009 |                          |                      |
|--|-----------------------------------|--------------------------|----------------------|
|  | Before-Tax<br>Amount              | Tax (Expense)<br>Benefit | Net-of-Tax<br>Amount |
| Net loss before noncontrolling interests   |                                   |                          | \$ (91,647 )         |
| Other comprehensive income (loss):   |                                   |                          |                      |
| Unrealized gains (losses) on available for sale investment securities:   |                                   |                          |                      |
| Arising during the period  | \$ 112,266                        | \$ (39,428 )             | \$ 72,838            |
| Reclassification for securities transactions included in net income  | (246 )                            | 86                       | (160 )               |
| Total unrealized gains (losses) on available for sale investment securities                                      | \$ 112,020                        | \$ (39,342 )             | \$ 72,678            |
| Unrealized gains (losses) on derivatives hedging variability of cash flows:                                      |                                   |                          |                      |
| Arising during the period  | \$ 614                            | \$ (215 )                | \$ 399               |
| Reclassification adjustments for hedging activities included in net income                                       | 14,555                            | (5,094 )                 | 9,461                |
| Total net gains (losses) on derivatives hedging variability of cash flows  | \$ 15,169                         | \$ (5,309 )              | \$ 9,860             |
| 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 | (350 )                            | 158                      | (192 )               |
| Total unrealized gains (losses) on funded status of defined benefit postretirement plan                          | \$ (350 )                         | \$ 158                   | \$ (192 )            |
| Other comprehensive income (loss), net of tax  |                                   |                          | 82,346               |
| Total comprehensive income   |                                   |                          | (9,301 )             |
| Less: Comprehensive income attributable to the noncontrolling interests  |                                   |                          | (319 )               |
| Comprehensive income (loss) attributable to Marshall & Ilsley Corporation  |                                   |                          | \$ (9,620 )          |



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## MARSHALL &amp; ILSLEY CORPORATION

## Notes to Financial Statements - Continued

March 31, 2010 &amp; 2009 (Unaudited)

## 5. Earnings Per Common Share

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

|  | Three Months Ended March 31, 2010 |               |            |
|--|-----------------------------------|---------------|------------|
|  | Income                            | Average       | Per        |
|  | (Numerator)                       | Shares        | Share      |
|  |                                   | (Denominator) | Amount     |
| Basic:   |                                   |               |            |
| Net loss attributable to Marshall & Ilsley Corporation                     | \$ (115,358)                      |               |            |
| Preferred stock dividends  | (25,180 )                         |               |            |
| Net loss attributable to Marshall & Ilsley Corporation common shareholders | \$ (140,538)                      | 524,086       | \$ (0.27 ) |
| Effect of dilutive securities:   |                                   |               |            |
| Stock option, restricted stock and other plans                             |                                   | -             |            |
| Diluted:   |                                   |               |            |
| Net loss attributable to Marshall & Ilsley Corporation                     | \$ (115,358)                      |               |            |
| Preferred stock dividends  | (25,180 )                         |               |            |
| Net loss attributable to Marshall & Ilsley Corporation common shareholders | \$ (140,538)                      | 524,086       | \$ (0.27 ) |

|  | Three Months Ended March 31, 2009 |               |            |
|--|-----------------------------------|---------------|------------|
|  | Income                            | Average       | Per        |
|  | (Numerator)                       | Shares        | Share      |
|  |                                   | (Denominator) | Amount     |
| Basic:   |                                   |               |            |
| Net loss attributable to Marshall & Ilsley Corporation                     | \$ (91,966 )                      |               |            |
| Preferred stock dividends  | (24,959 )                         |               |            |
| Net loss attributable to Marshall & Ilsley Corporation common shareholders | \$ (116,925)                      | 264,544       | \$ (0.44 ) |
| Effect of dilutive securities:   |                                   |               |            |
|  |                                   | -             |            |

Stock option, restricted stock  
and other plans

Diluted:

|  |              |         |            |
|--|--------------|---------|------------|
| Net loss attributable to Marshall<br>& Ilsley Corporation                        | \$ (91,966 ) |         |            |
| Preferred stock dividends  | (24,959 )    |         |            |
| Net loss attributable to Marshall<br>& Ilsley Corporation common<br>shareholders | \$ (116,925) | 264,544 | \$ (0.44 ) |

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## MARSHALL &amp; ILSLEY CORPORATION

## Notes to Financial Statements - Continued

March 31, 2010 &amp; 2009 (Unaudited)

The table below presents the outstanding options to purchase shares of common stock not included in the computation of diluted earnings per common share because the exercise price was greater than the average market price of the common shares for the three month periods ended March 31, 2010 and 2009 (anti-dilutive options). As a result of the Corporation's reported net loss for the three months ended March 31, 2010 and 2009, all stock options outstanding were excluded from the computation of diluted earnings per common share (shares in thousands):

|                           | Three Months<br>Ended March 31, |                  |
|---------------------------|---------------------------------|------------------|
|                           | 2010                            | 2009             |
| Shares Subject to Options | 33,276                          | 33,162           |
| Price Range               | \$4.76 - \$36.82                | \$8.55 - \$36.82 |

An outstanding warrant to purchase 13,815,789 shares of the Corporation's common stock issued in connection with the Corporation's participation in the U.S. Treasury Department's Capital Purchase Program was not included in the computation of diluted earnings per common share for the three months ended March 31, 2010 and 2009, because of the reported net loss in both periods. In addition, the \$18.62 per share exercise price of the warrant was greater than the average market price of the common shares for the three months ended March 31, 2010 and 2009.

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## MARSHALL &amp; ILSLEY CORPORATION

## Notes to Financial Statements - Continued

March 31, 2010 &amp; 2009 (Unaudited)

## 6. Investment Securities

The amortized cost, fair value and unrealized gains and losses of selected investment securities, by major security type, held by the Corporation were as follows (\$000's):

|  | March 31, 2010      |                  |                   | Fair Value          |
|--|---------------------|------------------|-------------------|---------------------|
|  | Amortized Cost      | Unrealized Gains | Unrealized Losses |                     |
| <b>Available for sale:</b>             |                     |                  |                   |                     |
| U.S. Treasury                          | \$ 7,325            | \$ 42            | \$ -              | \$ 7,367            |
| U.S. Government agencies               | 5,739,353           | 69,796           | 7,507             | 5,801,642           |
| States and political subdivisions      | 799,007             | 22,796           | 12,110            | 809,693             |
| Residential mortgage backed securities | 201,297             | 3,440            | 1,570             | 203,167             |
| Asset backed securities                | 207,261             | 7                | 55,665            | 151,603             |
| Private Equity investments             | 70,698              | 52               | 64                | 70,686              |
| Federal Reserve Bank & FHLB stock      | 411,901             | -                | -                 | 411,901             |
| Affordable Housing Partnerships        | 64,363              | -                | -                 | 64,363              |
| Foreign                                | 43                  | -                | -                 | 43                  |
| <b>Total</b>                           | <b>\$ 7,501,248</b> | <b>\$ 96,133</b> | <b>\$ 76,916</b>  | <b>\$ 7,520,465</b> |
| <b>Held to maturity:</b>               |                     |                  |                   |                     |
| States and political subdivisions      | \$ 88,877           | \$ 3,192         | \$ 239            | \$ 91,830           |
| Corporate notes                        | 10,000              | 13               | -                 | 10,013              |
| Foreign                                | 5,368               | 121              | 13                | 5,476               |
| <b>Total</b>                           | <b>\$ 104,245</b>   | <b>\$ 3,326</b>  | <b>\$ 252</b>     | <b>\$ 107,319</b>   |

|                                   | December 31, 2009 |                  |                   | Fair Value |
|-----------------------------------|-------------------|------------------|-------------------|------------|
|                                   | Amortized Cost    | Unrealized Gains | Unrealized Losses |            |
| <b>Available for sale:</b>        |                   |                  |                   |            |
| U.S. Treasury                     | \$ 7,335          | \$ 47            | \$ 3              | \$ 7,379   |
| U.S. Government agencies          | 5,291,115         | 53,272           | 31,852            | 5,312,535  |
| States and political subdivisions | 831,248           | 23,557           | 10,803            | 844,002    |



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|  |                     |                  |                   |                     |
|--|---------------------|------------------|-------------------|---------------------|
| Residential mortgage backed securities | 221,819             | 2,041            | 3,250             | 220,610             |
| Corporate notes                        | 10,000              | -                | -                 | 10,000              |
| Asset backed securities                | 208,330             | 8                | 54,118            | 154,220             |
| Equity                                 | 115                 | 20               | -                 | 135                 |
| Private Equity investments             | 68,494              | 52               | 64                | 68,482              |
| Federal Reserve Bank & FHLB stock      | 395,281             | -                | -                 | 395,281             |
| Affordable Housing Partnerships        | 56,538              | -                | -                 | 56,538              |
| Foreign                                | 4,410               | -                | -                 | 4,410               |
| <b>Total</b>                           | <b>\$ 7,094,685</b> | <b>\$ 78,997</b> | <b>\$ 100,090</b> | <b>\$ 7,073,592</b> |
| <b>Held to maturity:</b>               |                     |                  |                   |                     |
| States and political subdivisions      | \$ 102,566          | \$ 3,613         | \$ 217            | \$ 105,962          |
| Foreign                                | 1,000               | -                | -                 | 1,000               |
| <b>Total</b>                           | <b>\$ 103,566</b>   | <b>\$ 3,613</b>  | <b>\$ 217</b>     | <b>\$ 106,962</b>   |

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Notes to Financial Statements - Continued

March 31, 2010 &amp; 2009 (Unaudited)

|  | March 31, 2009    |                     |                      |               |
|--|-------------------|---------------------|----------------------|---------------|
|  | Amortized<br>Cost | Unrealized<br>Gains | Unrealized<br>Losses | Fair<br>Value |
| <b>Available for sale:</b>             |                   |                     |                      |               |
| U.S. Treasury                          | \$ 2,308          | \$ 19               | \$ -                 | \$ 2,327      |
| U.S. Government agencies               | 5,445,591         | 131,480             | 33,435               | 5,543,636     |
| States and political subdivisions      | 911,880           | 20,480              | 12,460               | 919,900       |
| Residential mortgage backed securities | 301,394           | 935                 | 13,829               | 288,500       |
| Corporate notes                        | 152,980           | 234                 | 3,435                | 149,779       |
| Cash flow hedge - corporate notes      | 484               | -                   | -                    | 484           |
| Total Corporate notes                  | 153,464           | 234                 | 3,435                | 150,263       |
| Asset backed securities                | 210,755           | -                   | 66,221               | 144,534       |
| Equity                                 | 115               | -                   | 69                   | 46            |
| Private Equity investments             | 66,234            | 52                  | 64                   | 66,222        |
| Federal Reserve Bank & FHLB stock      | 362,890           | -                   | -                    | 362,890       |
| Affordable Housing Partnerships        | 52,099            | -                   | -                    | 52,099        |
| Foreign                                | 4,405             | -                   | -                    | 4,405         |
| Other                                  | 4,423             | 831                 | -                    | 5,254         |
| Total                                  | \$ 7,515,558      | \$ 154,031          | \$ 129,513           | \$ 7,540,076  |
| <b>Held to maturity:</b>               |                   |                     |                      |               |
| States and political subdivisions      | \$ 186,551        | \$ 4,933            | \$ 160               | \$ 191,324    |
| Foreign                                | 1,000             | -                   | -                    | 1,000         |
| Total                                  | \$ 187,551        | \$ 4,933            | \$ 160               | \$ 192,324    |

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, 2010 (\$000's):

|  | Less than 12 Months |                   | 12 Months or More |                   | Total      |                   |
|--|---------------------|-------------------|-------------------|-------------------|------------|-------------------|
|  | Fair Value          | Unrealized Losses | Fair Value        | Unrealized Losses | Fair Value | Unrealized Losses |

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|  |              |           |            |           |              |           |
|--|--------------|-----------|------------|-----------|--------------|-----------|
| U.S. Treasury                          | \$ -         | \$ -      | \$ -       | \$ -      | \$ -         | \$ -      |
| U.S. Government agencies               | 1,632,198    | 5,749     | 457,651    | 1,758     | 2,089,849    | 7,507     |
| States and political subdivisions      | 55,955       | 5,533     | 96,724     | 6,816     | 152,679      | 12,349    |
| Residential mortgage backed securities | 11,263       | 1,066     | 34,926     | 504       | 46,189       | 1,570     |
| Corporate notes                        | -            | -         | -          | -         | -            | -         |
| Asset backed securities                | -            | -         | 150,690    | 55,665    | 150,690      | 55,665    |
| Private Equity investments             | -            | -         | -          | 64        | -            | 64        |
| Federal Reserve Bank & FHLB stock      | -            | -         | -          | -         | -            | -         |
| Affordable Housing Partnerships        | -            | -         | -          | -         | -            | -         |
| Foreign                                | 1,438        | 12        | 399        | 1         | 1,837        | 13        |
| Other                                  | -            | -         | -          | -         | -            | -         |
| Total                                  | \$ 1,700,854 | \$ 12,360 | \$ 740,390 | \$ 64,808 | \$ 2,441,244 | \$ 77,168 |

The investment securities in the above table were temporarily impaired at March 31, 2010. This temporary impairment represents the amount of loss that would have been realized if the investment securities had been sold on March 31, 2010. The temporary impairment in the investment securities portfolio is the result of market interest rates since the investment securities were acquired and not from deterioration in the creditworthiness of the issuer. At March 31, 2010, the Corporation does not intend to sell these temporarily impaired investment securities until a recovery of recorded investment, which may be at maturity, and it is more likely than not that the Corporation will not have to sell the investment securities prior to recovery of recorded investment.

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## MARSHALL &amp; ILSLEY CORPORATION

## Notes to Financial Statements - Continued

March 31, 2010 &amp; 2009 (Unaudited)

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, 2009 (\$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                          | \$ -                | \$ -              | \$ -                | \$ -              | \$ -                | \$ -              |
| U.S. Government agencies               | 342,841             | 5,316             | 1,058,923           | 28,119            | 1,401,764           | 33,435            |
| States and political subdivisions      | 91,205              | 3,083             | 127,602             | 9,537             | 218,807             | 12,620            |
| Residential mortgage backed securities | 141,812             | 8,573             | 57,652              | 5,256             | 199,464             | 13,829            |
| Corporate notes                        | 91,239              | 3,435             | -                   | -                 | 91,239              | 3,435             |
| Asset backed securities                | 995                 | 4                 | 143,119             | 66,217            | 144,114             | 66,221            |
| Equity                                 | 46                  | 69                | -                   | -                 | 46                  | 69                |
| Private Equity investments             | -                   | -                 | -                   | 64                | -                   | 64                |
| Federal Reserve Bank & FHLB stock      | -                   | -                 | -                   | -                 | -                   | -                 |
| Affordable Housing Partnerships        | -                   | -                 | -                   | -                 | -                   | -                 |
| Foreign                                | 1,150               | -                 | 400                 | -                 | 1,550               | -                 |
| Other                                  | -                   | -                 | -                   | -                 | -                   | -                 |
| <b>Total</b>                           | <b>\$ 669,288</b>   | <b>\$ 20,480</b>  | <b>\$ 1,387,696</b> | <b>\$ 109,193</b> | <b>\$ 2,056,984</b> | <b>\$ 129,673</b> |

The amortized cost and fair value of investment securities by contractual maturity at March 31, 2010 (\$000's):

|                 | Investment Securities Available for Sale |            | Investment Securities Held to Maturity |            |
|-----------------|--|------------|--|------------|
|                 | Amortized Cost                           | Fair Value | Amortized Cost                         | Fair Value |
| Within one year | \$ 420,944                               | \$ 430,312 | \$ 22,508                              | \$ 22,757  |
|                 | 3,614,413                                | 3,671,727  | 35,156                                 | 36,571     |

|                                   |              |              |            |            |
|-----------------------------------|--------------|--------------|------------|------------|
| From one<br>through five<br>years |              |              |            |            |
| From five<br>through ten<br>years | 2,293,008    | 2,304,855    | 46,581     | 47,991     |
| After ten years                   | 1,172,883    | 1,113,571    | -          | -          |
|                                   | \$ 7,501,248 | \$ 7,520,465 | \$ 104,245 | \$ 107,319 |

The gross investment securities gains and losses, including Wealth Management transactions, amounted to \$3,066 and \$2,964 for the three months ended March 31, 2010, respectively and \$1,848 and \$1,581 for the three months ended March 31, 2009, respectively. See the Consolidated Statements of Cash Flows for the proceeds from the sale of investment securities.

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## MARSHALL &amp; ILSLEY CORPORATION

## Notes to Financial Statements - Continued

March 31, 2010 &amp; 2009 (Unaudited)

## 7. Loans and Leases

Total loans and leases were \$42,648,807, \$44,217,626 and \$49,244,654 at March 31, 2010, December 31, 2009, and March 31, 2009, respectively.

Loans and leases, excluding loans held for sale consisted of the following (\$000's):

|  | March 31,<br>2010 | December 31,<br>2009 | March 31,<br>2009 |
|--|-------------------|----------------------|-------------------|
| Commercial, financial and agricultural | \$ 11,858,422     | \$ 12,473,995        | \$ 14,576,302     |
| Real estate:                           |                   |                      |                   |
| Commercial mortgage                    | 13,517,055        | 13,634,894           | 12,984,609        |
| Construction and development           | 5,055,544         | 5,481,547            | 8,135,368         |
| Residential mortgage                   | 4,786,886         | 4,920,765            | 5,616,988         |
| Home equity loans and lines of credit  | 4,547,066         | 4,685,370            | 5,006,401         |
| Total real estate                      | 27,906,551        | 28,722,576           | 31,743,366        |
| Personal                               | 2,131,523         | 2,191,449            | 1,889,910         |
| Lease financing                        | 578,208           | 615,447              | 729,994           |
| Total loans and leases                 | \$ 42,474,704     | \$ 44,003,467        | \$ 48,939,572     |

Loans are presented net of unearned income and unamortized deferred fees, which amounted to \$100,224, \$111,924 and \$135,261 at March 31, 2010, December 31, 2009 and March 31, 2009, respectively.

Loans held for sale consisted of the following (\$000's):

|  | March 31,<br>2010 | December<br>31,<br>2009 | March 31,<br>2009 |
|--|-------------------|-------------------------|-------------------|
| Commercial, financial and agricultural | \$ 2,774          | \$ 1,633                | \$ -              |
| Real estate:                           |                   |                         |                   |
| Commercial mortgage                    | 14,995            | 11,031                  | 14,317            |
| Construction and development           | 50,014            | 57,333                  | 115,983           |
| Residential mortgage                   | 36,947            | 48,105                  | 94,045            |
| Home equity loans and lines of credit  | 43,040            | 29,224                  | 18,691            |
| Total real estate                      | 144,996           | 145,693                 | 243,036           |
| Personal                               | 26,333            | 66,833                  | 62,046            |

Total loans and leases        \$ 174,103    \$ 214,159    \$ 305,082

Included in loans held for sale are nonaccrual loans which amounted to \$55,063 and \$113,737 at March 31, 2010 and 2009, respectively. Loans held for sale at December 31, 2009 included nonaccrual loans of \$57,670 and \$15 of troubled debt restructured loans, which the Corporation refers to as renegotiated loans.

For the three months ended March 31, 2010 and 2009, loans transferred to OREO amounted to \$146,852 and \$95,794, respectively. These amounts are considered non-cash transactions for cash flow purposes.

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Notes to Financial Statements - Continued

March 31, 2010 &amp; 2009 (Unaudited)

## 8. Allowance for Loan and Lease Losses

An analysis of the allowance for loan and lease losses follows (\$000's):

|                                     | Three Months Ended March |              |
|-------------------------------------|--------------------------|--------------|
|                                     | 2010                     | 2009         |
| Balance at beginning of period      | \$ 1,480,470             | \$ 1,202,167 |
| Provision for loan and lease losses | 458,112                  | 477,924      |
| Charge-offs                         | (436,459 )               | (340,223 )   |
| Recoveries                          | 13,031                   | 12,249       |
| Balance at end of period            | \$ 1,515,154             | \$ 1,352,117 |

As of March 31, 2010, December 31, 2009 and March 31, 2009, nonaccrual loans and leases totaled \$1,953,797, \$2,044,751 and \$2,074,553 and troubled debt restructurings, which the Corporation refers to as renegotiated loans, totaled \$731,839, \$793,459 and \$445,995, respectively.

For purposes of impairment testing, nonaccrual loans greater than one million dollars, renegotiated commercial loans greater than \$250,000 and all consumer related renegotiated loans were individually assessed for impairment. Consumer-related renegotiated loans are evaluated at the present value of expected future cash flows discounted at the loan's effective interest rate. Nonaccrual loans below the threshold were collectively evaluated as homogeneous pools. The required valuation allowance is included in the allowance for loan and lease losses in the Consolidated Balance Sheets.

The Corporation's recorded investment in impaired loans and leases and the related valuation allowance are as follows (\$000's):

|  | March 31, 2010      |                     | March 31, 2009      |                     |
|--|---------------------|---------------------|---------------------|---------------------|
|  | Recorded Investment | Valuation Allowance | Recorded Investment | Valuation Allowance |
| Total nonaccrual and renegotiated loans and leases   | \$ 2,685,636        |                     | \$ 2,520,548        |                     |
| Less: nonaccrual loans held for sale                 | (55,063 )           |                     | (113,737 )          |                     |
| Total impaired loans and leases                      | \$ 2,630,573        |                     | \$ 2,406,811        |                     |
| Loans and leases excluded from individual evaluation | (664,771 )          |                     | (838,941 )          |                     |



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|                                 |              |            |              |            |
|---------------------------------|--------------|------------|--------------|------------|
| Impaired loans evaluated        | \$ 1,965,802 |            | \$ 1,567,870 |            |
| Valuation allowance required    | \$ 1,413,884 | \$ 359,788 | \$ 1,026,947 | \$ 222,827 |
| No valuation allowance required | 551,918      | -          | 540,923      | -          |
| Impaired loans evaluated        | \$ 1,965,802 | \$ 359,788 | \$ 1,567,870 | \$ 222,827 |

The average recorded investment in total impaired loans and leases for the quarters ended March 31, 2010 and 2009 amounted to \$2,758,713 and \$2,271,378 respectively.

The amount of cumulative net charge-offs recorded on the Corporation's impaired loans outstanding at March 31, 2010 was approximately \$829,570.

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## MARSHALL &amp; ILSLEY CORPORATION

## Notes to Financial Statements - Continued

March 31, 2010 &amp; 2009 (Unaudited)

## 9. Goodwill and Other Intangibles

The changes in the carrying amount of goodwill for the three months ended March 31, 2010 were as follows (\$000's):

|  | Commercial<br>Banking | Community<br>Banking | Wealth<br>Management | Others     | Total        |
|--|-----------------------|----------------------|----------------------|------------|--------------|
| Gross amount of goodwill                 | \$ 1,250,595          | \$ 609,510           | \$ 163,779           | \$ 120,777 | \$ 2,144,661 |
| Accumulated impairment losses            | (925,634 )            | (609,510)            | -                    | -          | (1,535,144)  |
| Goodwill balance as of December 31, 2009 | 324,961               | -                    | 163,779              | 120,777    | 609,517      |
| Activity                                 | -                     | -                    | -                    | -          | -            |
| Goodwill balance as of March 31, 2010    | \$ 324,961            | \$ -                 | \$ 163,779           | \$ 120,777 | \$ 609,517   |

The changes in the carrying amount of goodwill for the three months ended March 31, 2009 were as follows (\$000's):

|  | Commercial<br>Banking | Community<br>Banking | Wealth<br>Management | Others     | Total        |
|--|-----------------------|----------------------|----------------------|------------|--------------|
| Gross amount of goodwill                 | \$ 1,252,880          | \$ 609,510           | \$ 157,121           | \$ 120,777 | \$ 2,140,288 |
| Accumulated impairment losses            | (925,634 )            | (609,510)            | -                    | -          | (1,535,144)  |
| Goodwill balance as of December 31, 2008 | 327,246               | -                    | 157,121              | 120,777    | 605,144      |
| Purchase accounting adjustments          | -                     | -                    | 2,810                | -          | 2,810        |
| Goodwill balance as of March 31, 2009    | \$ 327,246            | \$ -                 | \$ 159,931           | \$ 120,777 | \$ 607,954   |

Purchase accounting adjustments for Wealth Management represent adjustments made to the initial estimates of fair value associated with the acquisition of Taplin, Canida & Habacht.

At March 31, 2010, the Corporation's other intangible assets consisted of the following (\$000's):

|   | Gross<br>Carrying<br>Amount | Accumulated<br>Amortization | Net<br>Carrying<br>Amount |
|---|-----------------------------|-----------------------------|---------------------------|
| Other<br>intangible<br>assets:          |                             |                             |                           |
| Core<br>deposit<br>intangible           | \$ 216,177                  | \$ (116,966 )               | \$ 99,211                 |
| Trust<br>customers                      | 29,354                      | (8,014 )                    | 21,340                    |
| Tradename                               | 3,975                       | (1,147 )                    | 2,828                     |
| Other<br>intangibles                    | 7,336                       | (3,181 )                    | 4,155                     |
|   | \$ 256,842                  | \$ (129,308 )               | \$ 127,534                |
| Mortgage<br>loan<br>servicing<br>rights |                             |                             | \$ 1,530                  |

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## MARSHALL &amp; ILSLEY CORPORATION

## Notes to Financial Statements - Continued

March 31, 2010 &amp; 2009 (Unaudited)

At March 31, 2009, the Corporation's other intangible assets consisted of the following (\$000's):

|   | Gross<br>Carrying<br>Amount | Accumulated<br>Amortization | Net<br>Carrying<br>Amount |
|---|-----------------------------|-----------------------------|---------------------------|
| Other<br>intangible<br>assets           |                             |                             |                           |
| Core<br>deposit<br>intangible           | \$ 254,229                  | \$ (138,336 )               | \$ 115,893                |
| Trust<br>customers                      | 28,424                      | (5,015 )                    | 23,409                    |
| Tradename                               | 3,975                       | (617 )                      | 3,358                     |
| Other<br>intangibles                    | 6,787                       | (1,647 )                    | 5,140                     |
|   | \$ 293,415                  | \$ (145,615 )               | \$ 147,800                |
| Mortgage<br>loan<br>servicing<br>rights |                             |                             | \$ 2,354                  |

Amortization expense of other intangible assets for the three months ended March 31, 2010 and 2009 amounted to \$4.9 million and \$5.5 million, respectively.

Amortization of mortgage loan servicing rights amounted to \$0.2 million and \$0.3 million for the three months ended March 31, 2010 and 2009, respectively.

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

|      |          |
|------|----------|
| 2011 | \$19,379 |
| 2012 | 16,785   |
| 2013 | 14,322   |
| 2014 | 12,358   |
| 2015 | 11,078   |

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

The Intangibles – Goodwill and Other Topic of the Codification provides guidance for impairment testing of goodwill and intangible assets that are not amortized. Goodwill is tested for impairment using a two-step process that begins with an estimation of the fair value of a reporting unit. The first step is a screen for potential impairment and the

second step measures the amount of impairment, if any.

The Corporation has elected to perform its annual test for goodwill as of June 30th. As a result of performing the annual test in 2009, the Corporation determined that the recorded goodwill was not impaired. There have been no events since the annual test to indicate that it is more likely than not that the recorded goodwill had become impaired. Other than goodwill, the Corporation did not have any other intangible assets with indefinite lives at March 31, 2010.

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## MARSHALL &amp; ILSLEY CORPORATION

## Notes to Financial Statements - Continued

March 31, 2010 &amp; 2009 (Unaudited)

## 10. Deposits

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

|                                     | March 31,<br>2010 | December 31,<br>2009 | March 31,<br>2009 |
|-------------------------------------|-------------------|----------------------|-------------------|
| Noninterest bearing demand          | \$ 7,787,831      | \$ 7,832,752         | \$ 6,988,312      |
| Interest bearing:                   |                   |                      |                   |
| Savings and NOW                     | 7,373,242         | 6,938,091            | 3,628,284         |
| Money Market                        | 12,758,186        | 11,314,909           | 10,613,915        |
| CD's \$100,000 and over:            |                   |                      |                   |
| CD's \$100,000 and over             | 8,691,562         | 9,702,183            | 11,757,126        |
| Cash flow hedge - Institutional CDs | 13,349            | 13,427               | 22,933            |
| Total CD's \$100,000 and over       | 8,704,911         | 9,715,610            | 11,780,059        |
| Other time                          | 5,124,930         | 5,589,900            | 5,945,355         |
| Foreign                             | 233,150           | 246,263              | 608,439           |
| Total interest bearing              | 34,194,419        | 33,804,773           | 32,576,052        |
| Total deposits                      | \$ 41,982,250     | \$ 41,637,525        | \$ 39,564,364     |

## FDIC's Temporary Liquidity Guarantee Program

On December 5, 2008, the Corporation announced that it and its eligible affiliates would be participating in a component of the FDIC's Temporary Liquidity Guarantee Program – the Transaction Account Guarantee Program (the "TAGP").

Under the TAGP, which has been extended until June 30, 2010, all noninterest-bearing transaction accounts (which the TAGP defines as including all noninterest-bearing personal and business checking accounts, NOW accounts earning no more than 0.5 percent interest, and Interest on Lawyer Trust Accounts) held at M&I's affiliate banks are fully guaranteed by the FDIC for the entire amount in the account. Coverage under the TAGP is in addition to and separate from the coverage available under the FDIC's general deposit rules.

Separately, Congress extended the temporary increase in the standard coverage of FDIC insurance on deposits to a limit of \$250,000 until December 31, 2013.

On April 13, 2010, the Board of Directors of the FDIC approved an interim rule to further extend the TAGP to December 31, 2010. The interim rule gives the FDIC discretion to extend the program to the end of 2011, without additional rulemaking, if it determines that economic conditions warrant such an extension.

Due to the stressed economic conditions that existed in 2008 and 2009, the Corporation believes that its participation in the TAGP was warranted and that such participation had a positive affect on its deposit growth in 2009. The Corporation has determined that its participation in the program and the additional cost of participating in the program is no longer warranted. On April 30, 2010, the Corporation elected to opt out of the TAGP program extension. The impact of the opt-out to the Corporation is uncertain. However, the Corporation anticipates that certain NOW deposits and certain noninterest bearing demand deposits, will likely migrate to other deposit accounts, investment products or

into products offered by other entities.

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March 31, 2010 & 2009 (Unaudited)

11. 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, 2009. There were no significant new hedging strategies employed during the three months ended March 31, 2010.

Interest rate risk, the exposure of the Corporation's net interest income and net fair value of its assets and liabilities to adverse movements in interest rates, is a significant market risk exposure that can have a material effect on the Corporation's financial condition, results of operations and cash flows. The Corporation has established policies that neither earnings nor fair value at risk should exceed established guidelines and assesses these risks by modeling the impact of changes in interest rates that may adversely impact expected future earnings and fair values.

The Corporation has strategies designed to confine these risks within the established limits and identify appropriate risk / reward trade-offs in the financial structure of its balance sheet. These strategies include the use of derivative financial instruments to help achieve the desired balance sheet repricing structure while meeting the desired objectives of its customers.

The Corporation employs certain over-the-counter interest rate swaps that are the designated hedging instruments in fair value and cash flow hedges that are used by the Corporation to manage its interest rate risk. These interest rate swaps are measured at fair value on a recurring basis based on significant other observable inputs and are categorized as Level 2. See Note 3 – Fair Value Measurements in Notes to Consolidated Financial Statements for additional information.

Trading Instruments and Other Free Standing Derivatives

The Corporation enters into various derivative contracts which are designated as trading and other free standing derivative contracts. These derivative contracts are not linked to specific assets and liabilities on the balance sheet or to forecasted transactions in an accounting hedge relationship and, therefore, do not qualify for hedge accounting under the Derivatives and Hedging Topic of the Codification. They are carried at fair value with changes in fair value recorded as a component of other noninterest income.

Trading and other free standing derivatives are used primarily to focus on providing derivative products to customers which enables them to manage their exposures to interest rate risk. The Corporation's market risk from unfavorable movements in interest rates is generally economically hedged by concurrently entering into offsetting derivative contracts. The offsetting derivative contracts generally have nearly identical notional values, terms and indices. The Corporation used interest rate futures to economically hedge exposure to interest rate risk arising from the interest rate swap (designated as trading) entered into in conjunction with its auto securitization activities. There were no auto securitization activities during the first quarter of 2010.

As permitted under the by-laws of Visa, during the second quarter of 2009 the Corporation sold its 998,826 shares of Visa Class B common stock for \$35.4 million to a qualified purchaser ("purchaser"). At the time of the sale, the conversion ratio of Visa Class B common stock to Visa Class A common stock was 0.6296. That exchange ratio can change based on the outcome of certain litigation matters. Concurrently with the sale, the Corporation and the purchaser entered into a derivative transaction whereby the Corporation will make cash payments to the purchaser



whenever the conversion ratio of Visa Class B common stock to Visa Class A common stock was reset to an amount less than 0.6296. The purchaser will make cash payments to the Corporation when the litigation is settled and the ultimate settlement results in a return of cash or additional shares of Visa common stock to the purchaser. The Corporation determined that the initial fair value of the derivative was equal to the Corporation's Visa U.S.A. membership proportion of the unfunded estimated fair value of the litigation settlement amount. That amount was determined to be a liability of \$14.7 million.

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MARSHALL & ILSLEY CORPORATION

Notes to Financial Statements - Continued

March 31, 2010 & 2009 (Unaudited)

The Corporation's estimate of the fair value of the litigation settlement amount was based in part on the announced settled litigation and based in part on an estimate of the amount required to settle the unresolved matters. Estimating the amount required to settle the unresolved matters involved a significant amount of judgment that can not be verified other than by information disclosed by Visa. As a result, the Corporation has determined that the estimated fair value should be classified in Level 3 of the fair value hierarchy.

On June 30, 2009, Visa announced that it had decided to deposit \$700 million ("Loss Funds") into the litigation escrow account previously established under its retrospective responsibility plan. Despite the funding, Visa did not disclose any updates about the litigation matters that would change the Corporation's estimate of the fair value of the litigation settlement amount. As a result of the deposit, the conversion ratio of Visa Class B common stock to Visa Class A common stock was revised to 0.5824 and the Corporation made a \$3.1 million payment to the counterparty in 2009. There has been no further activity since that payment was made.

The Corporation is both a purchaser and seller of credit protection in the financial guarantees market. The Corporation primarily uses financial guarantees to mitigate credit risk associated with the derivative receivables associated with loan participations (bought and sold).

Financial guarantees are financial instruments whose value is derived from credit risk associated with debt of a third-party issuer (the reference entity) and which allow one party (the protection purchaser) to transfer that risk to another party (the protection seller). Financial guarantees expose the protection purchaser to the creditworthiness of the protection seller, as the protection seller is required to make payments under the contract when the reference entity experiences a credit event, such as a bankruptcy, a failure to pay its obligation or a restructuring. The seller of credit protection receives a premium for providing protection but has the risk that the underlying instrument referenced in the contract will be subject to a credit event.

Upon a credit event, the seller of protection would typically pay out only a percentage of the full notional amount of net protection sold, as the amount actually required to be paid on the contracts takes into account the recovery value of the reference obligation at the time of settlement. The Corporation does not use notional as the primary measure of risk management for credit derivatives because notional does not take into account the probability of occurrence of a credit event, recovery value of the reference obligation, or related cash instruments and economic hedges.

At March 31, 2010, the maximum potential amount of future payments (undiscounted) that the Corporation, as a seller of protection, could be required to make under the credit derivative amounted to \$9.3 million, of which \$2.2 million matures within one year and \$7.1 million matures in one to five years. The fair value of the credit derivative amounted to a negative \$0.3 million at March 31, 2010 and is included in the Accrued Expenses and Other Liabilities category of the Corporation's Consolidated Balance Sheets.

At March 31, 2010, the maximum potential amount of future receivables that the Corporation, as a purchaser of protection, may be eligible to receive under the credit derivative amounted to \$3.6 million, of which \$0.2 million matures within one year, \$1.4 million matures in one to five years and \$2.0 million matures in five to ten years. At March 31, 2010, the fair value of the credit derivative was immaterial.

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## MARSHALL &amp; ILSLEY CORPORATION

## Notes to Financial Statements - Continued

March 31, 2010 &amp; 2009 (Unaudited)

The following tables summarize the balance sheet category and fair values of trading instruments and other free standing derivatives not designated as hedging instruments:

| March 31, 2010  | Notional<br>Amount<br>(\$ in<br>millions) | Balance Sheet<br>Category                 | Fair Value<br>(\$ in<br>millions) |
|---|---|---|-----------------------------------|
| <b>Assets:</b>  |   |   |                                   |
| Interest rate contracts - swaps                           | \$ 4,550.3                                | Trading assets                            | \$ 222.9                          |
| Interest rate contracts -<br>purchased interest rate caps | 151.5                                     | Trading assets                            | 1.3                               |
| Equity derivative contracts -<br>equity indexed CDs       | 94.7                                      | Trading assets                            | 8.5                               |
| <b>Total assets</b>                                       |   |   | <b>\$ 232.7</b>                   |
| <b>Liabilities:</b>                                       |   |   |                                   |
| Interest rate contracts - swaps                           | \$ 4,272.1                                | Accrued expenses<br>and other liabilities | \$ 193.6                          |
| Interest rate contracts - sold<br>interest rate caps      | 135.4                                     | Accrued expenses<br>and other liabilities | 1.3                               |
| Equity derivative contracts -<br>equity indexed CDs       | 94.2                                      | Accrued expenses<br>and other liabilities | 8.4                               |
| Equity derivative contracts -<br>Visa                     | 1.0                                       | Accrued expenses<br>and other liabilities | 11.6                              |
| <b>Total liabilities</b>                                  |   |   | <b>\$ 214.9</b>                   |
| <b>Net positive fair value impact</b>                     |   |   | <b>\$ 17.8</b>                    |

| March 31, 2009                                      | Notional<br>Amount<br>(\$ in<br>millions) | Balance Sheet<br>Category                 | Fair Value<br>(\$ in<br>millions) |
|---|---|---|-----------------------------------|
| <b>Assets:</b>                                      |   |   |                                   |
| Interest rate contracts - swaps                     | \$ 4,844.8                                | Trading assets                            | \$ 297.9                          |
| Interest rate contracts - options                   | 184.0                                     | Trading assets                            | 1.2                               |
| Equity derivative contracts -<br>equity indexed CDs | 49.2                                      | Trading assets                            | 2.2                               |
| Equity derivative contracts -<br>warrants           | 0.1                                       | Trading assets                            | 0.1                               |
| <b>Total assets</b>                                 |   |   | <b>\$ 301.4</b>                   |
| <b>Liabilities:</b>                                 |   |   |                                   |
| Interest rate contracts - swaps                     | \$ 4,690.0                                | Accrued expenses<br>and other liabilities | \$ 253.8                          |
| Interest rate contracts - options                   | 203.8                                     |   | 1.2                               |

|   |         |   |          |
|---|---------|---|----------|
|   |         | Accrued expenses<br>and other liabilities |          |
| Interest rate contracts - interest<br>rate futures  | 1,427.0 | Accrued expenses<br>and other liabilities | 0.1      |
| Equity derivative contracts -<br>equity indexed CDs | 49.1    | Accrued expenses<br>and other liabilities | 2.2      |
| Total liabilities                                   |         |   | \$ 257.3 |
| Net positive fair value impact                      |         |   | \$ 44.1  |

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## MARSHALL &amp; ILSLEY CORPORATION

## Notes to Financial Statements - Continued

March 31, 2010 &amp; 2009 (Unaudited)

The following tables summarize the income statement categories of the gain or (loss) recognized in income on trading instruments and other free standing derivatives not designated as hedging instruments:

| Three Months Ended<br>March 31, 2010                   | Category of<br>Gain or<br>(Loss)<br>Recognized<br>in<br>Income on<br>Derivative | Amount of<br>Gain<br>or(Loss)<br>Recognized<br>in Income<br>on<br>Derivative<br>(\$ in<br>millions) |
|--|---|---|
| Interest Rate<br>Contracts – Swaps                     | Other<br>income -<br>Other  | \$ 0.8  |
| Interest Rate<br>Contracts – Purchased                 | Other<br>income -<br>Other  | (0.1 )  |
| Interest Rate<br>Contracts – Sold                      | Other<br>income -<br>Other  | 0.1   |
| Equity Derivative<br>Contracts –<br>Equity-Indexed CDs | Other<br>income -<br>Other  | (0.0 )  |
| Equity Derivative<br>Contracts – Visa                  | Other<br>income -<br>Other  | -   |

| Three Months Ended<br>March 31, 2009   | Category of<br>Gain or<br>(Loss)<br>Recognized<br>in<br>Income on<br>Derivative | Amount of<br>Gain or<br>(Loss)<br>Recognized<br>in Income<br>on<br>Derivative<br>(\$ in<br>millions) |
|--|---|--|
| Interest Rate<br>Contracts – Swaps     | Other<br>income -<br>Other  | \$ 3.2   |
| Interest Rate<br>Contracts – Purchased | Other<br>income -<br>Other  | 1.0  |
| Interest Rate<br>Contracts – Sold      | Other<br>income -<br>Other  | (1.0 )   |

|                      |          |        |
|----------------------|----------|--------|
| Interest Rate Caps   | Other    |        |
| Interest Rate        | Other    |        |
| Contracts – Interest | income - |        |
| Rate Futures         | Other    | (0.5 ) |
| Equity Derivative    | Other    |        |
| Contracts –          | income - |        |
| Equity-Indexed CDs   | Other    | -      |
|                      | Other    |        |
| Equity Derivative    | income - |        |
| Contracts – Warrants | Other    | (0.0 ) |

#### Fair Value Hedges and Cash Flow Hedges

The Corporation uses various derivative instruments that qualify as hedging relationships under the Derivatives and Hedging Topic of the Codification. These instruments are designated as either fair value hedges or cash flow hedges. The Corporation recognizes these derivative instruments as either assets or liabilities at fair value in the statement of financial position.

The Corporation employs certain over-the-counter interest rate swaps that are the designated hedging instruments in fair value and cash flow hedges that are used by the Corporation to manage its interest rate risk. These interest rate swaps are measured at fair value on a recurring basis based on significant other observable inputs and are categorized as Level 2. See Note 3 – Fair Value Measurements in Notes to Financial Statements for additional information.

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## MARSHALL &amp; ILSLEY CORPORATION

## Notes to Financial Statements - Continued

March 31, 2010 &amp; 2009 (Unaudited)

The following tables summarize the balance sheet category and fair values of derivatives designated as hedging instruments:

| March 31,<br>2010              | Derivative<br>Type | Hedged<br>Item           | Notional<br>Amount<br>(\$ in<br>millions) | Balance<br>Sheet<br>Category | Fair<br>Value<br>(\$ in<br>millions) | Weighted<br>Average<br>Remaining<br>Term<br>(Years) |
|--------------------------------|--------------------|--------------------------|---|------------------------------|--------------------------------------|---|
| <b>Liabilities</b>             |                    |                          |   |                              |                                      |   |
| Interest rate contracts:       |                    |                          |   |                              |                                      |   |
| Receive fixed rate swaps       |                    |                          |   |                              |                                      |   |
|                                | Fair Value         | Institutional CDs        | \$ 25.0                                   | Deposits                     | \$ (1.3 )                            | 26.2  |
| Receive fixed rate swaps       |                    |                          |   |                              |                                      |   |
|                                | Fair Value         | Callable CDs             | 4,972.1                                   | Deposits                     | 4.6                                  | 14.2  |
| Receive fixed rate swaps       |                    |                          |   |                              |                                      |   |
|                                | Fair Value         | Brokered Bullet CD's     | 204.9                                     | Deposits                     | (10.4 )                              | 3.2   |
| Pay fixed rate swaps           |                    |                          |   |                              |                                      |   |
|                                | Cash Flow          | Institutional CDs        | 250.0                                     | Deposits                     | 13.3                                 | 1.1   |
| Receive fixed rate swaps       |                    |                          |   |                              |                                      |   |
|                                | Fair Value         | Fixed rate bank notes    | 590.0                                     | Long-term borrowings         | (5.0 )                               | 5.2   |
| Pay fixed rate swaps           |                    |                          |   |                              |                                      |   |
|                                | Cash Flow          | FHLB advances            | 800.0                                     | Long-term borrowings         | 64.2                                 | 2.3   |
| Receive fixed rate swaps       |                    |                          |   |                              |                                      |   |
|                                | Fair Value         | FHLB advances            | 280.0                                     | Long-term borrowings         | (7.1 )                               | 2.4   |
| Pay fixed rate swaps           |                    |                          |   |                              |                                      |   |
|                                | Cash Flow          | Floating Rate Bank Notes | 78.8                                      | Long-term borrowings         | 4.4                                  | 1.2   |
| Receive fixed rate swaps       |                    |                          |   |                              |                                      |   |
|                                | Fair Value         | Medium term notes        | 6.6                                       | Long-term borrowings         | 0.0                                  | 17.9  |
| Total liabilities              |                    |                          |   |                              | 62.7                                 |   |
| Net negative fair value impact |                    |                          |   |                              | \$ (62.7 )                           |   |

Derivative

Notional

Weighted

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| March 31,<br>2009              | Type       | Hedged<br>Item           | Amount<br>(\$ in<br>millions) | Balance<br>Sheet<br>Category | Fair<br>Value<br>(\$ in<br>millions) | Average<br>Remaining<br>Term<br>(Years) |
|--------------------------------|------------|--------------------------|-------------------------------|------------------------------|--------------------------------------|---|
| <b>Assets</b>                  |            |                          |                               |                              |                                      |   |
| Interest rate contracts        |            |                          |                               |                              |                                      |   |
| Receive fixed rate swaps       | Cash Flow  | Corporate Notes - AFS    | \$ 57.4                       | Investment Securities        | \$ 0.5                               | 1.3                                     |
| Total Assets                   |            |                          |                               |                              | 0.5                                  |   |
| <b>Liabilities</b>             |            |                          |                               |                              |                                      |   |
| Interest rate contracts:       |            |                          |                               |                              |                                      |   |
| Receive fixed rate swaps       | Fair Value | Institutional CDs        | \$ 25.0                       | Deposits                     | \$ (2.6 )                            | 27.2                                    |
| Receive fixed rate swaps       | Fair Value | Callable CDs             | 5,746.5                       | Deposits                     | 3.0                                  | 13.6                                    |
| Receive fixed rate swaps       | Fair Value | Brokered Bullet CD's     | 209.3                         | Deposits                     | (13.4 )                              | 4.2                                     |
| Pay fixed rate swaps           | Cash Flow  | Institutional CDs        | 550.0                         | Deposits                     | 22.9                                 | 1.1                                     |
| Receive fixed rate swaps       | Fair Value | Fixed rate bank notes    | 428.2                         | Long-term borrowings         | (43.3 )                              | 7.4                                     |
| Pay fixed rate swaps           | Cash Flow  | FHLB advances            | 1,060.0                       | Long-term borrowings         | 91.5                                 | 2.8                                     |
| Pay fixed rate swaps           | Cash Flow  | Floating Rate Bank Notes | 429.6                         | Long-term borrowings         | 27.8                                 | 2.0                                     |
| Receive fixed rate swaps       | Fair Value | Medium term notes        | 6.9                           | Long-term borrowings         | (0.1 )                               | 18.9                                    |
| Total liabilities              |            |                          |                               |                              | 85.8                                 |   |
| Net negative fair value impact |            |                          |                               |                              | \$ (85.3 )                           |   |



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## MARSHALL &amp; ILSLEY CORPORATION

## Notes to Financial Statements - Continued

March 31, 2010 &amp; 2009 (Unaudited)

The effect of fair value hedges on the Consolidated Statements of Income for the three months ended March 31, 2010 (\$ in millions):

| Derivatives<br>Designated<br>as<br>Hedging<br>Instruments | Category of<br>Gain<br>(Loss)<br>Recognized<br>in<br>Income on<br>Derivative | Amount of<br>Gain<br>(Loss)<br>Recognized<br>on<br>Derivative<br>(a) | Category of<br>Gain<br>(Loss)<br>Recognized<br>in<br>Income on<br>Hedged<br>Item | Amount of<br>Gain<br>(Loss)<br>Recognized<br>in Income<br>on Hedged<br>Item |
|---|--|--|--|---|
| Interest<br>Rate<br>Contracts                             |  |  |  |   |
|   | Interest<br>expense:<br>Deposits:  |  | Interest<br>expense:<br>Deposits:  |   |
| Receive<br>fixed rate<br>swaps                            | Institutional<br>CDs   | \$ 0.4   | Institutional<br>CDs   | \$ (0.0 )   |
| Receive<br>fixed rate<br>swaps                            | Callable<br>CDs  | 120.3  | Callable<br>CDs  | (61.0 )   |
| Receive<br>fixed rate<br>swaps                            | Brokered<br>Bullet CDs   | 3.4  | Brokered<br>Bullet CDs   | (1.7 )  |
|   | Long-term<br>borrowings:   |  | Long-term<br>borrowings:   |   |
| Receive<br>fixed rate<br>swaps                            | FHLB<br>advances   | 4.5  | FHLB<br>advances   | (2.9 )  |
| Receive<br>fixed rate<br>swaps                            | Fixed rate<br>bank notes   | 24.0   | Fixed rate<br>bank notes   | (18.5 )   |
| Receive<br>fixed rate<br>swaps                            | Medium<br>term notes   | 0.1  | Medium<br>term notes   | (0.1 )  |
| Receive<br>fixed rate<br>swaps                            | Other  | -  | Other  | 0.1   |
|   | Total  | \$ 152.7   | Total  | \$ (84.1 )  |

(a) Included in the amount of gain recognized in income on derivative is net derivative interest income which totaled \$68.3 million.

The effect of fair value hedges on the Consolidated Statements of Income for the three months ended March 31, 2009 (\$ in millions):

| Derivatives Designated as Hedging Instruments | Category of Gain (Loss) Recognized in Income on Derivative | Amount of Gain (Loss) Recognized in Income on Derivative (a) | Category of Gain (Loss) Recognized in Income on Hedged Item | Amount of Gain (Loss) Recognized in Income on Hedged Item |
|---|--|--|---|---|
| <b>Interest rate contracts</b>                |  |  |   |   |
|   | Interest expense: Deposits:                                |  | Interest expense: Deposits:                                 |   |
| Receive fixed rate swaps                      | Institutional CDs  | \$ 0.4   | Institutional CDs   | \$ (0.1 )   |
| Receive fixed rate swaps                      | Callable CDs   | (40.1 )  | Callable CDs  | 103.4   |
| Receive fixed rate swaps                      | Brokered Bullet CDs  | 0.5  | Brokered Bullet CDs   | 1.1   |
|   | Long-term borrowings:                                      |  | Long-term borrowings:                                       |   |
| Receive fixed rate swaps                      | Fixed rate bank notes                                      | (8.4 )   | Fixed rate bank notes                                       | 10.6  |
| Receive fixed rate swaps                      | Medium term notes  | (0.1 )   | Medium term notes   | 0.1   |
| Receive fixed rate swaps                      | Other  | -  | Other   | 0.1   |
|   | <b>Total</b>   | <b>\$ (47.7 )</b>  | <b>Total</b>  | <b>\$ 115.2</b>   |

(a) Included in the amount of gain or (loss) recognized in income derivative is net derivative interest income which totaled \$67.5 million.



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## MARSHALL &amp; ILSLEY CORPORATION

## Notes to Financial Statements - Continued

March 31, 2010 &amp; 2009 (Unaudited)

The effect of cash flow hedges for the three months ended March 31, 2010 (\$ in millions):

| Derivatives in<br>Cash Flow<br>Hedging<br>Relationships | Amount of Gain (Loss)<br>Recognized in OCI on Derivative<br>(Effective Portion) |         |           | Category of<br>Amount<br>Reclassified<br>from<br>Accumulated<br>OCI into<br>Earnings<br>(Effective<br>Portion) | Amount Reclassified from<br>Accumulated OCI into<br>Earnings<br>(Effective Portion) |                  |         |
|---|---|---------|-----------|--|---|------------------|---------|
|   | Gross   | Tax     | Net       |  | Gross   | Tax              | Net     |
|   | Interest rate<br>contracts  |         |           |  |   | Interest expense |         |
| Deposits:   |   |         |           | Deposits:  |   |                  |         |
| Institutional CDs                                       | (3.2 )  | 1.2     | (2.0 )    | Institutional CDs  | 3.2   | (1.2 )           | 2.0     |
| Long-term<br>borrowings:                                |   |         |           | Long-term<br>borrowings:   |   |                  |         |
| FHLB advances   | (23.3)  | 8.7     | (14.6)    | FHLB advances  | 10.8  | (4.0 )           | 6.8     |
| Floating rate<br>bank notes                             | (2.6 )  | 0.9     | (1.7 )    | Floating rate<br>bank notes  | 2.8   | (1.1 )           | 1.7     |
| Other   | -   | -       | -         | Other (1)  | 0.1   | (0.0 )           | 0.1     |
|   | \$ (29.1)   | \$ 10.8 | \$ (18.3) |  | \$ 16.9   | \$ (6.3 )        | \$ 10.6 |

(1) Represents amortization for the three months ended March 31, 2010 from the termination of swaps.

The effect of cash flow hedges for the three months ended March 31, 2009 (\$ in millions):

| Derivatives in<br>Cash Flow<br>Hedging<br>Relationships | Amount of Gain (Loss)<br>Recognized in OCI on Derivative<br>(Effective Portion) |           |        | Category of<br>Amount<br>Reclassified<br>from<br>Accumulated<br>OCI into<br>Earnings<br>(Effective<br>Portion) | Amount Reclassified from<br>Accumulated OCI into<br>Earnings<br>(Effective Portion) |                            |      |
|---|---|-----------|--------|--|---|----------------------------|------|
|   | Gross   | Tax       | Net    |  | Gross   | Tax                        | Net  |
|   | Interest rate<br>contracts  |           |        |  |   | Interest and fee<br>income |      |
| Loans and leases<br>- Variable rate<br>loans            | \$ 0.4  | \$ (0.1 ) | \$ 0.3 | Loans and leases<br>- Variable rate<br>loans   | \$ -  | \$ -                       | \$ - |

|                          |        |           |        |                          |         |           |        |
|--------------------------|--------|-----------|--------|--------------------------|---------|-----------|--------|
| Interest rate contracts  |        |           |        | Interest expense         |         |           |        |
| Deposits:                |        |           |        | Deposits:                |         |           |        |
| Institutional CDs        | 0.2    | (0.1 )    | 0.1    | Institutional CDs        | 4.6     | (1.6 )    | 3.0    |
| Long-term borrowings:    |        |           |        | Long-term borrowings:    |         |           |        |
| FHLB advances            | (0.7 ) | 0.3       | (0.4 ) | FHLB advances            | 7.6     | (2.7 )    | 4.9    |
| Floating rate bank notes | 0.7    | (0.3 )    | 0.4    | Floating rate bank notes | 2.2     | (0.7 )    | 1.5    |
| Other                    | -      | -         | -      | Other (1)                | 0.2     | (0.1 )    | 0.1    |
|                          | \$ 0.6 | \$ (0.2 ) | \$ 0.4 |                          | \$ 14.6 | \$ (5.1 ) | \$ 9.5 |

(1) Represents amortization for the three months ended March 31, 2009 from the termination of swaps.

The gain recognized in income representing the ineffective portion of the hedging relationships and excluded from the assessment of hedge effectiveness was not material for the three months ended March 31, 2010 and 2009, respectively. The estimated reclassification from accumulated other comprehensive income related to cash flow hedges in the next twelve months is approximately \$51.8 million.

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## MARSHALL &amp; ILSLEY CORPORATION

## Notes to Financial Statements - Continued

March 31, 2010 &amp; 2009 (Unaudited)

## 12. 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 after September 1, 1997, including employees hired following business combinations, 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, 2010 and 2009 included the following components (\$000's):

|  | Three Months<br>Ended March 31, |        |
|--|---------------------------------|--------|
|  | 2010                            | 2009   |
| Service cost                                   | \$ 222                          | \$ 235 |
| Interest cost on<br>APBO                       | 855                             | 980    |
| Expected<br>return on plan<br>assets           | (446 )                          | (396 ) |
| Prior service<br>amortization                  | (559 )                          | (560 ) |
| Actuarial loss<br>amortization                 | -                               | 210    |
| Net periodic<br>postretirement<br>benefit cost | \$ 72                           | \$ 469 |

Benefit payments and expenses, net of participant contributions, for the three months ended March 31, 2010 amounted to \$1.3 million.

The funded status, which is the accumulated postretirement benefit obligation net of fair value of plan assets, as of March 31, 2010 is as follows (\$000's):

|   |          |
|---|----------|
| Total funded status,<br>December 31, 2009 | \$28,020 |
| Service cost                              | 222      |
| Interest cost on APBO                     | 855      |
| Expected return on plan<br>assets         | (446 )   |
| Employer<br>contributions/payments        | (1,260 ) |
|   | 206      |

Subsidy (Medicare Part  
D)

|  |          |
|--|----------|
| Total funded status,<br>March 31, 2010 | \$27,597 |
|--|----------|

On March 23, 2010, the Patient Protection and Affordable Care Act (the “PPACA”) was signed into law, and, on March 30, 2010, the Health Care and Reconciliation Act of 2010 (the “HCERA” and, together with PPACA, the “Acts”), which makes various amendments to certain aspects of the PPACA, was signed into law. The Acts effectively change the income tax treatment of federal subsidies paid to sponsors of retiree health benefit plans that provide prescription drug benefits that are at least actuarially equivalent to the corresponding benefits provided under Medicare Part D. The federal subsidy paid to employers was introduced as part of the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the “MPDIMA”). The Corporation has been receiving the federal subsidy related to its eligible retiree prescription plan. Under the MPDIMA, the federal subsidy does not reduce the Corporation’s income tax deduction for the costs of providing such prescription drug plans nor is it subject to income tax individually. Under the Acts, beginning in 2013 the Corporation’s income tax deduction for the costs of providing Medicare Part D-equivalent prescription drug benefits to retirees will be reduced by the amount of the subsidy. Under U.S. generally accepted accounting principles, any impact from a change in tax law must be recognized in earnings in the period enacted regardless of the effective date. As a result, the Corporation recognized a noncash charge of \$4.1 million or \$0.01 per diluted share for the write-off of deferred tax assets to reflect the change in tax treatment of the federal subsidy.

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## MARSHALL &amp; ILSLEY CORPORATION

## Notes to Financial Statements - Continued

March 31, 2010 &amp; 2009 (Unaudited)

## 13. Business Segments

The Corporation's operating segments are presented based on its management structure and management accounting practices. The structure and practices are specific to the Corporation; therefore, the financial results of the Corporation's business segments are not necessarily comparable with similar information for other financial institutions.

Based on the way the Corporation organizes its segments, the Corporation has determined that it has four reportable segments: Commercial Banking, Community Banking, Wealth Management and Treasury.

Total Revenues by type in Others consist of the following (\$ in millions):

|   | Three Months<br>Ended<br>March 31, |          |
|---|------------------------------------|----------|
|   | 2010                               | 2009     |
| Capital<br>Markets<br>Division              | \$ 12.3                            | \$ 13.0  |
| National<br>Consumer<br>Banking<br>Division | 37.6                               | 40.0     |
| Administrative<br>& Other                   | 15.0                               | 13.7     |
| Other                                       | 65.4                               | 66.9     |
| Total                                       | \$ 130.3                           | \$ 133.6 |



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## MARSHALL &amp; ILSLEY CORPORATION

## Notes to Financial Statements - Continued

March 31, 2010 &amp; 2009 (Unaudited)

## Three Months Ended March 31, 2010 (\$ in millions)

|   | Commercial Community Wealth |            |            |            |           | Eliminations,<br>Reclassifications<br>&<br>Adjustments |             | Consolidated |
|---|-----------------------------|------------|------------|------------|-----------|--|-------------|--------------|
|   | Banking                     | Banking    | Management | Treasury   | Others    | Overhead   | Adjustments |              |
| Net interest income   | \$230.6                     | \$186.2    | \$17.7     | \$(74.2)   | \$55.5    | \$(6.7)  | \$(5.7)     | \$403.4      |
| Provision for loan<br>and lease losses                              | 223.5                       | 133.0      | 12.3       | -          | 89.3      | -  | -           | 458.1        |
| Net interest income<br>after provision for<br>loan and lease losses | 7.1                         | 53.2       | 5.4        | (74.2)     | (33.8)    | (6.7)  | (5.7)       | (54.7)       |
| Other income  | 22.3                        | 90.6       | 69.8       | 21.0       | 74.8      | 34.6   | (85.5)      | 227.6        |
| Other expense   | 63.4                        | 184.3      | 63.2       | 17.6       | 95.7      | 33.2   | (85.9)      | 371.5        |
| Income before<br>income taxes                                       | (34.0)                      | (40.5)     | 12.0       | (70.8)     | (54.7)    | (5.3)  | (5.3)       | (198.6)      |
| Provision (benefit)<br>for income taxes                             | (13.6)                      | (16.2)     | 4.9        | (28.3)     | (23.7)    | (1.0)  | (5.7)       | (83.6)       |
| Net income  | (20.4)                      | (24.3)     | 7.1        | (42.5)     | (31.0)    | (4.3)  | 0.4         | (115.0)      |
| Less: Noncontrolling<br>interest                                    | -                           | -          | -          | -          | -         | -  | (0.4)       | (0.4)        |
| Segment income  | \$(20.4)                    | \$(24.3)   | \$7.1      | \$(42.5)   | \$(31.0)  | \$(4.3)  | \$-         | \$(115.4)    |
| Identifiable assets   | \$22,110.6                  | \$15,549.2 | \$1,593.8  | \$10,324.0 | \$7,248.1 | \$7,864.3  | \$(8,120.6) | \$56,569.4   |

## Three Months Ended March 31, 2009 (\$ in millions)

|   | Commercial Community Wealth |         |            |          |         | Eliminations,<br>Reclassifications<br>&<br>Adjustments |             | Consolidated |
|---|-----------------------------|---------|------------|----------|---------|--|-------------|--------------|
|   | Banking                     | Banking | Management | Treasury | Others  | Overhead   | Adjustments |              |
| Net interest income   | \$199.6                     | \$173.4 | \$15.0     | \$(14.6) | \$54.9  | \$(19.5)   | \$(7.1)     | \$401.7      |
| Provision for loan<br>and lease losses                              | 154.4                       | 133.5   | 10.0       | -        | 180.0   | -  | -           | 477.9        |
| Net interest income<br>after provision for<br>loan and lease losses | 45.2                        | 39.9    | 5.0        | (14.6)   | (125.1) | (19.5)   | (7.1)       | (76.2)       |
| Other income  | 26.7                        | 47.8    | 64.9       | 11.9     | 78.7    | 33.1   | (86.4)      | 176.7        |
| Other expense   | 57.6                        | 178.8   | 56.6       | 10.9     | 98.3    | 29.7   | (86.7)      | 345.2        |
| Income before<br>income taxes                                       | 14.3                        | (91.1)  | 13.3       | (13.6)   | (144.7) | (16.1)   | (6.8)       | (244.7)      |
| Provision (benefit)<br>for income taxes                             | 5.7                         | (36.4)  | 5.7        | (5.4)    | (106.0) | (9.5)  | (7.1)       | (153.0)      |
| Net income  | 8.6                         | (54.7)  | 7.6        | (8.2)    | (38.7)  | (6.6)  | 0.3         | (91.7)       |
|   | -                           | -       | -          | -        | -       | -  | (0.3)       | (0.3)        |

|                               |            |            |           |           |           |           |             |            |
|-------------------------------|------------|------------|-----------|-----------|-----------|-----------|-------------|------------|
| Less: Noncontrolling interest |            |            |           |           |           |           |             |            |
| Segment income                | \$8.6      | \$(54.7 )  | \$7.6     | \$(8.2 )  | \$(38.7 ) | \$(6.6 )  | \$-         | \$(92.0 )  |
| Identifiable assets           | \$25,478.6 | \$18,322.9 | \$1,676.2 | \$8,866.8 | \$7,807.8 | \$3,323.5 | \$(3,685.8) | \$61,790.0 |

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MARSHALL & ILSLEY CORPORATION

Notes to Financial Statements - Continued

March 31, 2010 & 2009 (Unaudited)

14. Guarantees

Letters of Credit

Standby letters of credit are contingent commitments issued by the Corporation to support customer obligations to a third party and to support public and private financing, and other financial or performance obligations of customers. Standby letters of credit have maturities that generally reflect the maturities of the underlying obligations. The credit risk involved in issuing standby letters of credit is the same as that involved in extending loans to customers. If deemed necessary, the Corporation holds various forms of collateral to support standby letters of credit. The gross amount of standby letters of credit issued at March 31, 2010 was \$2.0 billion. Of the amount outstanding at March 31, 2010, standby letters of credit conveyed to others in the form of participations amounted to \$43.2 million. Since many of the standby letters of credit are expected to expire without being drawn upon, the amounts outstanding do not necessarily represent future cash requirements. At March 31, 2010 the estimated fair value associated with letters of credit amounted to \$8.6 million.

Securities Lending

As described in Note 14 – Guarantees, in Notes to Consolidated Financial Statements in Item 8 of the Corporation's 2009 Annual Report on Form 10-K, as part of securities custody activities and at the direction of its clients, the Corporation's Wealth Management segment lends securities owned by its clients to borrowers who have been evaluated for credit risk in a manner similar to that employed in making lending decisions. In connection with these activities, M&I Trust has issued an indemnification against loss resulting from the default by a borrower under the master securities loan agreement due to the failure of the borrower to return loaned securities when due. The borrowing party is required to fully collateralize securities received with cash or marketable securities. As securities are loaned, collateral is maintained at a minimum of 100% of the fair value of the securities plus accrued interest and the collateral is revalued on a daily basis. The amount of securities loaned subject to indemnification was \$6.0 billion at March 31, 2010, \$7.5 billion at December 31, 2009 and \$6.8 billion at March 31, 2009. Because of the requirement to fully collateralize securities borrowed, management believes that exposure to credit loss from this activity is remote and there are no liabilities reflected on the Consolidated Balance Sheets at March 31, 2010, December 31, 2009 and March 31, 2009 related to these indemnifications.

Capital Support Agreement

Certain entities within the Wealth Management segment are the investment advisor and trustee of the M&I Employee Benefit Stable Principal Fund ("SPF"). In prior periods, the SPF periodically participated in securities lending activities. Although not obligated to do so, the Corporation entered into a capital support agreement with the SPF under which the Corporation was required to contribute capital, under certain specific and defined circumstances in an amount not to exceed \$35.0 million should certain asset loss events occur. During the first quarter of 2010, the SPF discontinued its securities lending activities and the capital support agreement was terminated. The net impact of terminating the capital support agreement was not significant. The Corporation does not intend to provide any further explicit or implicit support to the SPF.

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MARSHALL & ILSLEY CORPORATION

Notes to Financial Statements - Continued

March 31, 2010 & 2009 (Unaudited)

15. Other Contingent Liabilities

In the normal course of business, the Corporation and its subsidiaries are routinely defendants in or parties to a number of pending and threatened legal actions, including, but not limited to, actions brought on behalf of various classes of claimants, employment matters, and challenges from tax authorities regarding the amount of taxes due. In certain of these actions and proceedings, claims for monetary damages or adjustments to recorded tax liabilities are asserted. In view of the inherent difficulty of predicting the outcome of such matters, particularly matters that will be decided by a jury and actions that seek large damages based on novel and complex damage and liability legal theories or that involve a large number of parties, the Corporation cannot state with confidence the eventual outcome of these matters or the timing of their ultimate resolution, or estimate the possible loss or range of loss associated with them; however, based on current knowledge and after consultation with legal counsel, management does not believe that judgments or settlements in excess of amounts already reserved, if any, arising from pending or threatened legal actions, employment matters, or challenges from tax authorities, either individually or in the aggregate, would have a material adverse effect on the consolidated financial position or liquidity of the Corporation, although they could have a material effect on operating results for a particular period.

16. Subsequent Events

On April 27, 2010 the Corporation announced that its Board of Directors declared a regular quarterly cash dividend of \$0.01 per share on its common stock. The dividend is payable on June 11, 2010 to common stock shareholders of record as of the close of business on June 1, 2010.

In addition, the Board of Directors declared a regular quarterly cash dividend of \$21.4 million in the aggregate on its Senior Preferred Stock, Series B. The Senior Preferred Stock, Series B was purchased from the Corporation by the U.S. Treasury as part of the U.S. Treasury's Capital Purchase Program. The Preferred Stock dividend is payable on May 17, 2010 to the shareholder of record at the close of business on May 3, 2010.

In April 2010, two substantially identical putative class action lawsuits were filed in the United States District Court for the Eastern District of Wisconsin against the Corporation, the M&I Retirement Plan Investment Committee, and certain of the Corporation's officers and directors. The lawsuits were purportedly filed on behalf of M&I Retirement Program, three other retirement savings plans and a class of former and current participants in those plans, relating to the holdings of Corporation common stock during the period from November 10, 2006 to December 17, 2009. The complaints allege breaches of fiduciary duties in violation of the Employee Retirement Income Security Act (ERISA) relating to Corporation common stock being offered as an investment alternative for participants in the retirement plans and seek monetary damages. At this early stage of the lawsuits, it is not possible for management of the Corporation to assess the probability of a material adverse outcome or reasonably estimate the amount of any potential loss at this time. The Corporation intends to vigorously defend these lawsuits.

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

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

|  | Three Months Ended March 31, |                      |
|--|------------------------------|----------------------|
|  | 2010                         | 2009                 |
| <b>Assets</b>  |                              |                      |
| Cash and due from banks                                    | \$ 687,090                   | \$ 803,166           |
| Trading assets   | 252,948                      | 584,985              |
| Short-term investments                                     | 1,721,227                    | 570,380              |
| <b>Investment securities:</b>                              |                              |                      |
| Taxable  | 6,551,152                    | 6,607,387            |
| Tax-exempt   | 902,793                      | 1,081,673            |
| Total investment securities                                | 7,453,945                    | 7,689,060            |
| <b>Loans and leases:</b>                                   |                              |                      |
| Loans and leases, net of unearned income                   | 43,533,538                   | 49,815,699           |
| Allowance for loan and lease losses                        | (1,535,406 )                 | (1,245,441 )         |
| Net loans and leases                                       | 41,998,132                   | 48,570,258           |
| Premises and equipment, net                                | 562,873                      | 569,270              |
| Accrued interest and other assets                          | 4,417,793                    | 3,650,360            |
| <b>Total Assets</b>  | <b>\$ 57,094,008</b>         | <b>\$ 62,437,479</b> |
| <b>Liabilities and Equity</b>                              |                              |                      |
| <b>Deposits:</b>   |                              |                      |
| Noninterest bearing  | \$ 7,819,285                 | \$ 6,481,719         |
| Interest bearing   | 34,091,210                   | 33,185,443           |
| Total deposits   | 41,910,495                   | 39,667,162           |
| Federal funds purchased and security repurchase agreements | 714,312                      | 1,950,080            |
| Other short-term borrowings                                | 300,591                      | 3,774,011            |
| Long-term borrowings                                       | 6,231,918                    | 9,570,721            |
| Accrued expenses and other liabilities                     | 927,298                      | 1,122,499            |
| <b>Total Liabilities</b>                                   | <b>50,084,614</b>            | <b>56,084,473</b>    |
| <b>Equity</b>  |                              |                      |
| Marshall & Ilsley Corporation shareholders' equity         | 6,998,186                    | 6,342,617            |
|  | 11,208                       | 10,389               |

|  |               |               |
|--|---------------|---------------|
| Noncontrolling interest<br>in subsidiaries |               |               |
| Total Equity                               | 7,009,394     | 6,353,006     |
| Total Liabilities and<br>Equity            | \$ 57,094,008 | \$ 62,437,479 |

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OVERVIEW

For the three months ended March 31, 2010, the net loss attributable to the Corporation's common shareholders amounted to \$140.5 million or \$0.27 per diluted common share compared to the net loss attributable to the Corporation's common shareholders of \$116.9 million or \$0.44 per diluted common share for the three months ended March 31, 2009.

The net loss attributable to the Corporation's common shareholders for the three months ended March 31, 2010 and 2009 includes \$25.2 million and \$25.0 million, or \$0.05 and \$0.09 per diluted common share, respectively, for dividends on the Senior Preferred Stock, Series B (the "Senior Preferred Stock") issued to the United States Department of the Treasury (the "UST") in the fourth quarter of 2008 under the UST's Capital Purchase Program (the "CPP").

Financial performance in 2010 compared to 2009 based on diluted earnings per share is affected by the number of common shares used to determine earnings per share. Shares of common stock outstanding at March 31, 2010 increased by 261.4 million or 98.4% compared to common shares outstanding at March 31, 2009. Average common shares used to determine diluted earnings per share were 259.5 million or 98.1% greater in the first quarter of 2010 compared to the first quarter of 2009. The increase in the number of shares of common stock outstanding and average common shares used to determine diluted earnings per share was primarily due to the sales of newly-issued shares of common stock during June and October of 2009.

Credit quality-related charges continued to be the primary driver of the Corporation's financial performance in each of the three months ended March 31, 2010 and 2009. For the three months ended March 31, 2010, the provision for loan and lease losses amounted to \$458.1 million, which on an after-tax basis was approximately \$288.6 million or \$0.55 per diluted common share. By comparison, the provision for loan and lease losses in the fourth quarter of 2009 amounted to \$639.0 million, which on an after-tax basis was approximately \$402.6 million or \$0.84 per diluted common share. For the three months ended March 31, 2009, the provision for loan and lease losses amounted to \$477.9 million, which on an after-tax basis was approximately \$301.1 million or \$1.14 per diluted common share. On a linked-quarter basis, the provision for loan and lease losses in the first quarter of 2010 declined \$180.9 million or 28.3% compared with the fourth quarter of 2009.

Write-downs associated with loans available for sale (other than mortgage loans originated for sale) are reported as a reduction of other income in the Consolidated Statements of Income and amounted to \$7.2 million, which on an after-tax basis, was approximately \$4.6 million or \$0.01 per diluted share in the first quarter of 2010. Write-downs associated with loans available for sale amounted to \$11.1 million, which on an after-tax basis, was approximately \$7.0 million or \$0.01 per diluted share in the fourth quarter of 2009. There were no write-downs associated with loans available for sale in the first quarter of 2009.

Nonaccrual loans and leases at March 31, 2010, which the Corporation refers to as nonperforming loans, amounted to \$1,953.8 million at March 31, 2010, a decrease of \$91.0 million or 4.4% from the reported nonperforming loans of \$2,044.8 million at December 31, 2009, and a decrease of \$120.8 million or 5.8% from the reported nonperforming loans of \$2,074.6 million at March 31, 2009. The reported amount of nonperforming loans at March 31, 2010 represents the third consecutive quarter of a reduction in nonperforming loans since June 30, 2009 when nonperforming loans amounted to \$2,416.1 million, the highest reported amount of nonperforming loans at any quarter-end in 2009 and 2008. Despite these improving trends, the levels of nonperforming loans and the amount of impairment, which affects charge-offs and the allowance for loans and leases, remained elevated, reflecting the current state of the economy, ongoing higher levels of unemployment and the continued depressed state of real estate collateral values resulting from weak real estate markets. The decrease in nonperforming loans at March 31, 2010 reflects the effects of the Corporation's actions taken to reduce the levels of nonperforming loans and the continued

decline in new nonperforming loans which began in the second half of 2009. Compared to the fourth quarter of 2009, the amount of new loans and leases that went into nonperforming status in the first quarter of 2010 decreased by approximately \$268.7 million or 28.5% to the lowest level since the third quarter of 2008. Loans past due 30-89 days, excluding credit card loans, student loans and loans in nonperforming status, declined to the lowest level since December 2007 and declined slightly from December 31, 2009 to March 31, 2010.



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The Corporation continued to employ a variety of strategies to mitigate and reduce its loan loss exposures such as loan sales and restructuring loan terms to lessen the financial stress and the probability of foreclosure for qualifying customers that have demonstrated the capacity and ability to repay their debt obligations in a manner that serves the best interests of both the customer and the Corporation. Troubled debt restructurings, which the Corporation refers to as renegotiated loans, decreased \$61.6 million since December 31, 2009 and amounted to \$731.8 million at March 31, 2010. In addition to normal activity, the decline reflects the net effect of renegotiated loans that were transferred out of renegotiated status on January 1, 2010. Loans transferred out of renegotiated status represent those loans whose payments were current at December 31, 2009 and the original loan was restructured at market interest rates during 2009. At March 31, 2010, renegotiated residential real estate, residential construction by individuals, residential land and other consumer-related renegotiated loans amounted to \$445.2 million or 60.8% of total renegotiated loans.

The allowance for loans and leases amounted to \$1,515.2 million or 3.55% of total loans and leases outstanding at March 31, 2010 compared to \$1,480.5 million or 3.35% at December 31, 2009 and \$1,352.1 million or 2.75% at March 31, 2009. Net charge-offs amounted to \$423.4 million or 3.94% of average loans and leases for the three months ended March 31, 2010 compared to \$572.3 million or 5.01% of average loans and leases for the three months ended December 31, 2009 and \$328.0 million or 2.67% of average loans and leases for the three months ended March 31, 2009. On a linked-quarter basis, net charge-offs in the first quarter of 2010 declined by \$148.9 million or 26.0% compared to the fourth quarter of 2009.

The Corporation continued to experience elevated levels of expenses due to the increase in operating costs associated with collection efforts and carrying nonperforming assets. The estimated expense associated with collection efforts and carrying nonperforming assets, net of related revenue, amounted to \$40.5 million for the first quarter of 2010 compared to \$64.7 million for the fourth quarter of 2009, a decrease of \$24.2 million. That decrease was primarily due to lower losses on sale and lower post-transfer write-downs on other real estate owned (OREO). The estimated expense associated with collection efforts and carrying nonperforming assets, net of related revenue, amounted to \$39.4 million for the first quarter of 2009. On an after-tax basis, that net expense amounted to \$25.5 million or \$0.05 per diluted share in the first quarter of 2010 compared to \$40.8 million or \$0.09 per diluted share in the fourth quarter of 2009 and \$24.8 million or \$0.09 per diluted share in the first quarter of 2009.

As previously discussed, operating expenses for the three months ended March 31, 2010 and the three months ended March 31, 2009 were elevated by the increased costs associated with collection efforts and carrying nonperforming assets as well as other credit-related expenses. Operating expenses for the three months ended March 31, 2010 compared to the three months ended March 31, 2009, also increased due to Federal Deposit Insurance Corporation ("FDIC") insurance premiums for insurance on deposits, which included the cost of participating in a component of the FDIC's Temporary Liquidity Guarantee Program – the Transaction Account Guarantee Program (the "TAGP"). Operating expenses, excluding the expenses associated with collection efforts and carrying nonperforming assets and other credit-related costs and FDIC insurance expense increased approximately 3.3% in the three months ended March 31, 2010 compared to the same period in 2009.

Growth in transaction deposits, a favorable shift in deposit types, lower term funding costs, the partial deployment of excess liquidity and higher loan yields, resulted in higher net interest income in the first quarter of 2010 compared to the first quarter of 2009 despite the absence of loan growth.

Growth in both personal and institutional trust business lines resulted in higher wealth management revenue in the three months ended March 31, 2010 compared to the three months ended March 31, 2009. Lower mortgage loan closings and increased recourse obligation exposure resulted in lower mortgage banking revenue in the three months ended March 31, 2010 compared to the three months ended March 31, 2009. During the first quarter of 2010, the Corporation sold its merchant portfolio processing at a gain.

Net investment securities gains and losses were not significant in the three months ended March 31, 2010 and 2009.

During the first quarter of 2010, health care reform legislation was enacted. Among other matters, this legislation contained provisions that affected the accounting for retiree prescription drug coverage. The Corporation recorded additional income tax expense of \$4.1 million for the write-off of deferred tax assets to reflect the change in the tax treatment of the Medicare Part D federal subsidy as a result of that enacted legislation. As a result of legislation enacted in 2009 that required combined reporting for Wisconsin state income tax purposes, the Corporation recorded an additional income tax benefit of \$51.0 million or \$0.19 per diluted common share to recognize certain state deferred state assets in the first quarter of 2009.

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At March 31, 2010, the Corporation's Tier 1 regulatory capital ratio was 11.1% or \$2,374.4 million in excess of well capitalized under the Federal Reserve Board's regulatory framework. To be well capitalized under the regulatory framework, the Tier 1 capital ratio must meet or exceed 6%.

2010 Outlook

With regard to the outlook for the remainder of 2010, management expects net interest income and the net interest margin will be relatively stable in the near term.

Commercial and industrial loans continued to contract in the first quarter of 2010 compared to the fourth quarter of 2009. The Corporation has observed lower utilization of credit lines and seasonal borrowing from existing customers compared with prior years as commercial customers focus on expense management and debt reduction by delaying capital expenditures and reducing working capital demand. Commercial loan and lease balances are expected to continue to contract until economic improvement takes a stronger hold. Construction and development loans are expected to continue to contract as the Corporation reduces its concentration in these types of loans to its corporate goal of less than 10% of total loans and leases. At March 31, 2010, construction and development loans were slightly less than 12% of total loans and leases outstanding, which is down from the peak at September 30, 2007, when construction and development loans were 22.6% of total loans and leases outstanding. The Corporation continues to experience declines in new commercial real estate development originations and expects this trend to continue. As a result of that reduced demand and normal payment activity, commercial real estate loans are expected to continue to contract slightly. Wealth management revenue will continue to be affected by market volatility and direction.

The decline in nonperforming loans for the third consecutive quarter, continued improvement in delinquencies for the fourth consecutive quarter, reduced levels of loans going into nonperforming status and lower levels of net charge-offs resulted in the lower provision for loan and lease losses this quarter compared to the provisions for loan and lease losses reported in any quarter of 2009. The Corporation's credit quality statistics as of and for the three months ended March 31, 2010 reinforced recent trends with additional positive evidence that the Corporation has experienced credit improvement. Management remains cautiously optimistic that these trends will continue but recognizes that the improving economy remains fragile and unemployment levels continue to be elevated. Management expects it will take a few more quarters to determine if these recent trends are indicative of a longer-term sustainable trend towards normal credit conditions.

Despite those credit trends, the reported amount of the Corporation's nonperforming loans and leases continue to be elevated. As demonstrated in 2008 and 2009, the credit environment and underlying collateral values can change rapidly. As a result, the Corporation continued to increase the allowance for loan and leases in the first quarter of 2010. There are numerous unknown factors at this time that will ultimately affect the timing and amount of nonperforming loans and leases, net charge-offs and the provision for loan and lease losses that will be recognized in the remainder of 2010. The timing and amount of charge-offs will also continue to be influenced by the Corporation's strategies, including sales, for managing its nonperforming loans and leases.

FORWARD-LOOKING STATEMENTS

This report contains statements that may constitute forward-looking statements within the meaning of the safe-harbor provisions for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995, such as statements other than historical facts contained or incorporated by reference in this report. These forward-looking statements include statements with respect to M&I's financial condition, results of operations, plans, objectives, future performance and business, including statements preceded by, followed by or that include the words "believes," "expects,"

or “anticipates,” references to estimates or similar expressions. Future filings by M&I with the Securities and Exchange Commission, and future statements other than historical facts contained in written material, press releases and oral statements issued by, or on behalf of, M&I may also constitute forward-looking statements.

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All forward-looking statements contained in this report or which may be contained in future statements made for or on behalf of M&I are based upon information available at the time the statement is made and M&I assumes no obligation to update any forward-looking statements, except as required by federal securities law. Forward-looking statements are subject to significant risks and uncertainties, and M&I's actual results may differ materially from the expected results discussed in such forward-looking statements. Factors that might cause actual results to differ from the results discussed in forward-looking statements include, but are not limited to, the risk factors in Item 1A, Risk Factors in the Corporation's Annual Report on Form 10-K for the year ended December 31, 2009 and as may be described from time to time in the Corporation's subsequent SEC filings.

OTHER NOTEWORTHY TRANSACTIONS AND EVENTS

Some of the other more noteworthy transactions and events that occurred in the three months ended March 31, 2010 and 2009 consisted of the following:

First Quarter 2010

During the first quarter of 2010, the Corporation sold its merchant portfolio processing. Like other bank holding companies, the Corporation determined that processing, clearing, settlement and related services with respect to credit card and debit card transactions with merchants was not a material source of revenue or part of the Corporation's core operating activities. The gain which is reported as Sale of Merchant Portfolio Processing in the Consolidated Statements of Income amounted to \$48.3 million which on an after-tax basis amounted to \$30.4 million or \$0.06 per diluted share.

On March 23, 2010, the Patient Protection and Affordable Care Act (the "PPACA") was signed into law, and, on March 30, 2010, the Health Care and Reconciliation Act of 2010 (the "HCERA" and, together with PPACA, the "Acts"), which makes various amendments to certain aspects of the PPACA, was signed into law. The Acts effectively change the income tax treatment of federal subsidies paid to sponsors of retiree health benefit plans that provide prescription drug benefits that are at least actuarially equivalent to the corresponding benefits provided under Medicare Part D. The federal subsidy paid to employers was introduced as part of the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the "MPDIMA"). The Corporation has been receiving the federal subsidy related to its eligible retiree prescription plan. Under the MPDIMA, the federal subsidy does not reduce the Corporation's income tax deduction for the costs of providing such prescription drug plans nor is it subject to income tax individually. Under the Acts, beginning in 2013 the Corporation's income tax deduction for the costs of providing Medicare Part D-equivalent prescription drug benefits to retirees will be reduced by the amount of the subsidy. Under U.S. generally accepted accounting principles, any impact from a change in tax law must be recognized in earnings in the period enacted regardless of the effective date. As a result, the Corporation recognized a noncash charge of \$4.1 million or \$0.01 per diluted share for the write-off of deferred tax assets to reflect the change in tax treatment of the federal subsidy.

First Quarter 2009

The State of Wisconsin enacted legislation that requires combined reporting for state income tax purposes. As a result, the Corporation recorded an additional income tax benefit of \$51.0 million, or \$0.19 per diluted common share to recognize certain state deferred tax assets, which included the reduction of a valuation allowance for Wisconsin net operating losses. The Corporation expects that income tax expense will increase in future periods due to the enacted legislation.

### NET INTEREST INCOME

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

Net interest income for the first quarter of 2010 amounted to \$403.5 million compared to \$401.7 million reported for the first quarter of 2009, an increase of \$1.8 million. Growth in transaction deposits, a favorable shift in deposit types, lower term funding costs, the partial deployment of excess liquidity and higher loan yields, resulted in higher net interest income in the first quarter of 2010 compared to the first quarter of 2009 despite the absence of loan growth.

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Average interest earning assets amounted to \$53.0 billion for the first quarter of 2010, a decrease of \$5.7 billion or 9.7% compared to the first quarter of 2009. Average loans and leases decreased \$6.3 billion or 12.6% and average investment securities decreased \$0.2 billion or 3.1% in the first quarter of 2010 compared to the first quarter of 2009. Average short-term investments increased \$1.2 billion in the first quarter of 2010 compared to the first quarter of 2009 which reflects management's decision to maintain higher levels of liquid assets.

Average interest bearing liabilities amounted to \$41.3 billion for the first quarter of 2010, a decrease of \$7.1 billion or 14.7% compared to the first quarter of 2009. Average interest bearing deposits increased \$0.9 billion or 2.7% in the first quarter of 2010 compared to the first quarter of 2009. Average short-term borrowings decreased \$4.7 billion or 82.3% in the first quarter of 2010 compared to the same period in 2009. Average long-term borrowings decreased \$3.3 billion or 34.9% in the first quarter of 2010 compared to the first quarter of 2009. In addition to maturities, the decline in average long-term borrowings reflects the effect of the acquisition and extinguishment of long-term borrowings throughout 2009 and the first quarter of 2010 at a net gain.

Average noninterest bearing deposits increased approximately \$1.3 billion or 20.6% in the three months ended March 31, 2010 compared to the three months ended March 31, 2009.

## Loans and Leases

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

|  | 2010             |                   | 2009             |                   | Growth Percent   |         |                  |
|--|------------------|-------------------|------------------|-------------------|------------------|---------|------------------|
|  | First<br>Quarter | Fourth<br>Quarter | Third<br>Quarter | Second<br>Quarter | First<br>Quarter | Annual  | Prior<br>Quarter |
| <b>Commercial:</b>                           |                  |                   |                  |                   |                  |         |                  |
| Commercial                                   | \$ 12,225        | \$ 12,721         | \$ 13,667        | \$ 14,404         | \$ 14,745        | (17.1)% | (3.9 )%          |
| Commercial<br>lease financing                | 462              | 481               | 497              | 522               | 547              | (15.4)  | (3.9 )           |
| Total<br>commercial<br>loans and leases      | 12,687           | 13,202            | 14,164           | 14,926            | 15,292           | (17.0)  | (3.9 )           |
| <b>Real estate:</b>                          |                  |                   |                  |                   |                  |         |                  |
| <b>Commercial real</b>                       |                  |                   |                  |                   |                  |         |                  |
| estate                                       | 13,587           | 13,813            | 13,844           | 13,549            | 12,872           | 5.6     | (1.6 )           |
| <b>Residential real</b>                      |                  |                   |                  |                   |                  |         |                  |
| estate                                       | 4,868            | 5,085             | 5,263            | 5,695             | 5,768            | (15.6)  | (4.3 )           |
| <b>Construction<br/>and<br/>development:</b> |                  |                   |                  |                   |                  |         |                  |
| Commercial<br>construction                   | 2,392            | 2,649             | 2,860            | 3,290             | 3,966            | (39.7)  | (9.7 )           |

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|  |           |           |           |           |           |         |         |
|--|-----------|-----------|-----------|-----------|-----------|---------|---------|
| Commercial land  | 859       | 878       | 922       | 898       | 854       | 0.6     | (2.2 )  |
| Construction by developers   | 398       | 474       | 520       | 693       | 923       | (56.9)  | (16.1)  |
| Residential land   | 1,526     | 1,705     | 1,851     | 2,016     | 2,094     | (27.1)  | (10.5)  |
| Construction by individuals  | 254       | 358       | 500       | 690       | 834       | (69.6)  | (29.0)  |
| Total construction and development   | 5,429     | 6,064     | 6,653     | 7,587     | 8,671     | (37.4)  | (10.5)  |
| Total real estate  | 23,884    | 24,962    | 25,760    | 26,831    | 27,311    | (12.6)  | (4.3 )  |
| Consumer loans and leases:   |           |           |           |           |           |         |         |
| Home equity loans and lines of credit  | 4,645     | 4,762     | 4,844     | 4,969     | 5,064     | (8.3 )  | (2.4 )  |
| Other personal loans   | 2,185     | 2,255     | 2,200     | 1,959     | 1,942     | 12.6    | (3.1 )  |
| Personal lease financing   | 133       | 150       | 169       | 190       | 207       | (35.7)  | (11.3)  |
| Total consumer loans and leases  | 6,963     | 7,167     | 7,213     | 7,118     | 7,213     | (3.4 )  | (2.8 )  |
| Total consolidated average loans and leases  | \$ 43,534 | \$ 45,331 | \$ 47,137 | \$ 48,875 | \$ 49,816 | (12.6)% | (4.0 )% |
| Total consolidated average loans and leases excluding total construction and development | \$ 38,105 |           |           |           |           |         |         |