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MARSHALL & ILSLEY CORP/WI/

Form 10-Q

August 09, 2006

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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2006

OR

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

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

Commission file number 1-15403

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

Wisconsin  
(State or other jurisdiction of  
Incorporation or organization)

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

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

53202  
(Zip Code)

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

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

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

Yes  No

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

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

Yes  No

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

Class -----	Outstanding at July 31, 2006 -----
Common Stock, \$1.00 Par Value	254,295,652

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	June 30, 2006	December 31, 2005	As Adjusted Note June 30, 2005
<b>Assets</b>			
-----			
Cash and cash equivalents:			
Cash and due from banks	\$ 1,280,941	\$ 1,155,263	\$ 97,000
Federal funds sold and security resale agreements	221,497	209,869	21,000
Money market funds	40,831	49,219	5,000
	-----	-----	-----
Total cash and cash equivalents	1,543,269	1,414,351	1,24,000
Investment securities:			
Trading securities, at market value	54,928	29,779	2,000
Interest bearing deposits at other banks	18,252	40,659	1,000
Available for sale, at market value	6,627,287	5,701,703	5,57,000
Held to maturity, market value \$559,869 (\$638,135 December 31, 2005 and \$698,534 June 30, 2005)	547,686	618,554	66,000
	-----	-----	-----
Total investment securities	7,248,153	6,390,695	6,27,000
Loans held for sale	157,041	277,847	19,000
Loans and leases:			
Loans and leases, net of unearned income	40,230,299	33,889,066	31,95,000
Less: Allowance for loan and lease losses	415,201	363,769	36,000
	-----	-----	-----
Net loans and leases	39,815,098	33,525,297	31,59,000
Premises and equipment, net	569,240	490,687	44,000
Goodwill and other intangibles	3,154,828	2,461,461	2,15,000
Accrued interest and other assets	1,931,237	1,652,379	1,56,000
	-----	-----	-----
Total Assets	\$ 54,418,866	\$ 46,212,717	\$ 43,48,000
=====			
<b>Liabilities and Shareholders' Equity</b>			
-----			
Deposits:			

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Noninterest bearing	\$ 5,773,090	\$ 5,525,019	\$ 5,08
Interest bearing	27,184,702	22,149,202	20,97
	-----	-----	-----
Total deposits	32,957,792	27,674,221	26,06
Federal funds purchased and security repurchase agreements	2,378,380	2,327,258	1,70
Other short-term borrowings	4,399,478	3,299,476	3,45
Accrued expenses and other liabilities	1,449,603	1,507,621	1,51
Long-term borrowings	7,476,087	6,668,670	6,47
	-----	-----	-----
Total liabilities	48,661,340	41,477,246	39,20
Shareholders' equity:			
-----			
Series A convertible preferred stock, \$1.00 par value; 2,000,000 shares authorized	--	--	
Common stock, \$1.00 par value; 261,972,933 shares issued (244,587,222 shares at December 31, 2005 and 244,432,222 shares at June 30, 2005)	261,973	244,587	24
Additional paid-in capital	1,747,576	970,739	87
Retained earnings	4,137,607	3,871,614	3,62
Accumulated other comprehensive income, net of related taxes	(101,251)	(37,291)	1
Less: Treasury stock, at cost: 8,000,318 shares (9,148,493 December 31, 2005 and 14,782,208 June 30, 2005)	253,201	277,423	44
Deferred compensation	35,178	36,755	2
	-----	-----	-----
Total shareholders' equity	5,757,526	4,735,471	4,27
	-----	-----	-----
Total Liabilities and Shareholders' Equity	\$ 54,418,866	\$ 46,212,717	\$ 43,48
	=====	=====	=====

See notes to financial statements.

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

		As Adjusted Note 11
	Three Months Ended June 30, 2006	Three Months Ended June 30, 2005
	-----	-----
Interest and fee income		
-----		
Loans and leases	\$ 714,243	\$ 469,774
Investment securities:		
Taxable	70,908	53,265
Exempt from federal income taxes	15,749	16,103
Trading securities	198	47
Short-term investments	5,011	2,294
	-----	-----
Total interest and fee income	806,109	541,483
Interest expense		

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Deposits	271,592	122,803
Short-term borrowings	43,124	28,391
Long-term borrowings	117,336	77,284
	-----	-----
Total interest expense	432,052	228,478
	-----	-----
Net interest income	374,057	313,005
Provision for loan and lease losses	11,053	13,725
	-----	-----
Net interest income after provision for loan and lease losses	363,004	299,280
Other income		
-----		
Data processing services	344,976	282,363
Wealth management	56,309	48,129
Service charges on deposits	25,005	23,711
Gains on sale of mortgage loans	10,219	9,489
Other mortgage banking revenue	2,062	1,702
Net investment securities gains	960	29,422
Life insurance revenue	7,408	8,055
Other	37,434	31,453
	-----	-----
Total other income	484,373	434,324
Other expense		
-----		
Salaries and employee benefits	307,060	268,975
Net occupancy	25,698	20,789
Equipment	38,113	30,076
Software expenses	17,348	14,143
Processing charges	29,586	13,517
Supplies and printing	6,473	5,791
Professional services	14,036	12,802
Shipping and handling	21,669	16,751
Amortization of intangibles	12,004	8,106
Other	72,269	68,903
	-----	-----
Total other expense	544,256	459,853
	-----	-----
Income before income taxes	303,121	273,751
Provision for income taxes	99,372	90,006
	-----	-----
Net income	\$ 203,749	\$ 183,745
	=====	=====
Net income per common share		
Basic	\$ 0.81	\$ 0.80
Diluted	0.79	0.79
Dividends paid per common share	\$ 0.270	\$ 0.240
Weighted average common shares outstanding (000's):		
Basic	252,764	228,630
Diluted	258,298	233,904

See notes to financial statements.

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## CONSOLIDATED STATEMENTS OF INCOME (Unaudited)

(\$000's except per share data)

	Six Months Ended June 30, 2006	As Adjusted Note 11 Six Months Ended June 30, 2005
	-----	-----
Interest and fee income		
-----		
Loans and leases	\$ 1,303,126	\$ 893,695
Investment securities:		
Taxable	128,776	105,208
Exempt from federal income taxes	31,748	31,510
Trading securities	268	116
Short-term investments	8,576	3,638
	-----	-----
Total interest and fee income	1,472,494	1,034,167
Interest expense		
-----		
Deposits	469,718	226,293
Short-term borrowings	82,459	50,353
Long-term borrowings	221,680	145,658
	-----	-----
Total interest expense	773,857	422,304
	-----	-----
Net interest income	698,637	611,863
Provision for loan and lease losses	22,048	21,851
	-----	-----
Net interest income after provision for loan and lease losses	676,589	590,012
Other income		
-----		
Data processing services	687,956	565,297
Wealth management	109,108	95,197
Service charges on deposits	47,555	47,056
Gains on sale of mortgage loans	20,960	16,426
Other mortgage banking revenue	3,776	2,945
Net investment securities gains	2,090	35,276
Life insurance revenue	14,374	14,264
Other	71,324	60,320
	-----	-----
Total other income	957,143	836,781
Other expense		
-----		
Salaries and employee benefits	584,463	514,051
Net occupancy	50,579	43,153
Equipment	71,052	61,086
Software expenses	34,786	27,495
Processing charges	56,599	28,442
Supplies and printing	12,595	12,287
Professional services	25,485	23,688
Shipping and handling	45,571	36,386
Amortization of intangibles	20,879	16,198
Other	147,380	140,058
	-----	-----
Total other expense	1,049,389	902,844
	-----	-----

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Income before income taxes	584,343	523,949
Provision for income taxes	193,826	174,888
	-----	-----
Net income	\$ 390,517	\$ 349,061
	=====	=====
Net income per common share		
Basic	\$ 1.60	\$ 1.53
Diluted	1.57	1.50
Dividends paid per common share	\$ 0.510	\$ 0.450
Weighted average common shares outstanding (000's) :		
Basic	244,088	228,097
Diluted	249,379	233,310

See notes to financial statements.

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

	Six Months Ended June 30, 2006	Six Months Ended June 30, 2005
	-----	-----
Net Cash Provided by Operating Activities	\$ 436,972	\$ 349,951
Cash Flows From Investing Activities:		
-----		
Proceeds from sales of securities available for sale	558,720	82,409
Proceeds from maturities of securities available for sale	587,188	575,259
Proceeds from maturities of securities held to maturity	71,539	58,468
Purchases of securities available for sale	(1,366,562)	(857,602)
Net increase in loans	(2,609,407)	(2,526,610)
Purchases of assets to be leased	(101,711)	(142,589)
Principal payments on lease receivables	105,735	100,071
Purchases of premises and equipment, net	(56,977)	(18,022)
Acquisitions, net of cash and cash equivalents acquired	(66,911)	(15,910)
Other	(1,684)	3,270
	-----	-----
Net cash used in investing activities	(2,880,070)	(2,741,256)
Cash Flows From Financing Activities:		
-----		
Net increase (decrease) in deposits	1,596,693	(369,087)
Proceeds from issuance of commercial paper	2,019,445	2,566,764
Principal payments on commercial paper	(1,972,059)	(2,582,429)
Net increase in other short-term borrowings	521,658	1,197,465
Proceeds from issuance of long-term borrowings	1,199,051	2,030,041
Payments of long-term borrowings	(670,666)	(123,569)
Dividends paid	(124,524)	(102,567)
Purchases of common stock	(41,790)	--
Proceeds from exercise of stock options	49,408	36,372
Other	(5,200)	(5,201)
	-----	-----
Net cash provided by financing activities	2,572,016	2,647,789
	-----	-----

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Net increase in cash and cash equivalents	128,918	256,484
Cash and cash equivalents, beginning of year	1,414,351	988,138
Cash and cash equivalents, end of period	\$ 1,543,269	\$ 1,244,622

Supplemental cash flow information:

Cash paid during the period for:

Interest	\$ 688,262	\$ 355,298
Income taxes	174,028	169,032

See notes to financial statements.

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

1. The accompanying unaudited consolidated financial statements should be read in conjunction with Marshall & Ilsley Corporation's ("M&I" or "Corporation") Annual Report on Form 10-K for the year ended December 31, 2005. The unaudited financial information included in this report reflects all adjustments consisting of normal recurring accruals and the adjustments as discussed in Note 11 which are necessary for a fair statement of the financial position and results of operations as of and for the three and six months ended June 30, 2006 and 2005. The results of operations for the three and six months ended June 30, 2006 and 2005 are not necessarily indicative of results to be expected for the entire year. Certain amounts in the 2005 consolidated financial statements and analyses have been reclassified to conform with the 2006 presentation.

2. New Accounting Pronouncements

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

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

On June 28, 2006, the FASB ratified EITF Issue No. 06-3, How Taxes Collected from Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement (That Is, Gross versus Net Presentation). Certain taxes such as sales taxes and other excise taxes are levied by various taxing authorities based on sales activity. Although generally levied on the purchaser of the goods or services, the selling party usually collects and remits the sales tax to the government. However, in certain jurisdictions sales taxes are levied on

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sellers of the goods and services as opposed to the purchasers. Under this consensus these taxes may be presented gross as revenue and an offsetting expense or may be presented net and excluded from revenue. The guidance in this consensus is effective January 1, 2007 with early application permitted. This consensus will not impact the Corporation's results of operations or financial position and the Corporation will continue to report these taxes on a net basis. Taxes subject to this consensus primarily relate to the Corporation's data processing subsidiary, Metavante.

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

### 3. Comprehensive Income

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

	Three Months Ended June 30, 2006		
	Before-Tax Amount	Tax (Expense) Benefit	Net-of-Tax Amount
Net income			\$ 203,749
Other comprehensive income:			
Unrealized gains (losses) on securities:			
Arising during the period	\$ (86,639)	\$ 30,269	(56,370)
Reclassification for securities transactions included in net income	(1,493)	522	(971)
Unrealized gains (losses)	(88,132)	30,791	(57,341)
Net gains (losses) on derivatives hedging variability of cash flows:			
Arising during the period	3,536	(1,238)	2,298
Reclassification adjustments for hedging activities included in net income	(3,794)	1,328	(2,466)
Net gains (losses)	\$ (258)	\$ 90	(168)
Other comprehensive income (loss)			(57,509)
Total comprehensive income			\$ 146,240

	Three Months Ended June 30, 2005 As Adjusted		
	Before-Tax Amount	Tax (Expense) Benefit	Net-of-Tax Amount
Net income			\$ 183,745



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Other comprehensive income:

Unrealized gains (losses) on securities:			
Arising during the period	\$	49,028	\$ (17,313)
Reclassification for securities			
transactions included in net income		(144)	50
		-----	-----
Unrealized gains (losses)		48,884	(17,263)
			-----
Net gains (losses) on derivatives			
hedging variability of cash flows:			
Arising during the period		403	(141)
Reclassification adjustments for			
hedging activities included in net income		(34)	12
		-----	-----
Net gains (losses)	\$	369	\$ (129)
		-----	-----
Other comprehensive income (loss)			31,861
			-----
Total comprehensive income			\$ 215,606
			=====

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

	Six Months Ended June 30, 2006		
	Before-Tax Amount	Tax (Expense) Benefit	Net-of-Tax Amount
	-----	-----	-----
Net income			\$ 390,517
Other comprehensive income:			
Unrealized gains (losses) on securities:			
Arising during the period	\$	(102,563)	\$ 35,865
Reclassification for securities			
transactions included in net income		(1,941)	679
		-----	-----
Unrealized gains (losses)		(104,504)	36,544
			-----
Net gains (losses) on derivatives			
hedging variability of cash flows:			
Arising during the period		11,873	(4,156)
Reclassification adjustments for			
hedging activities included in net income		(5,719)	2,002
		-----	-----
Net gains (losses)	\$	6,154	\$ (2,154)
		-----	-----
Other comprehensive income (loss)			(63,960)
			-----
Total comprehensive income			\$ 326,557
			=====

Six Months Ended June 30, 2005  
As Adjusted

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	Before-Tax Amount	Tax (Expense) Benefit	Net-of-Tax Amount
Net income			\$ 349,061
Other comprehensive income:			
Unrealized gains (losses) on securities:			
Arising during the period	\$ (26,691)	\$ 9,426	(17,265)
Reclassification for securities transactions included in net income	(118)	41	(77)
Unrealized gains (losses)	(26,809)	9,467	(17,342)
Net gains (losses) on derivatives hedging variability of cash flows:			
Arising during the period	11,594	(4,058)	7,536
Reclassification adjustments for hedging activities included in net income	3,040	(1,064)	1,976
Net gains (losses)	\$ 14,634	\$ (5,122)	9,512
Other comprehensive income (loss)			(7,830)
Total comprehensive income			\$ 341,231 =====

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

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

Three Months Ended June 30, 2006			
	Income (Numerator)	Average Shares (Denominator)	Per Share Amount
Basic Earnings Per Share			
Income Available to Common Shareholders	\$ 203,749	252,764	\$ 0.81 =====
Effect of Dilutive Securities			
Stock Options, Restricted Stock and Other Plans	--	5,534	
Diluted Earnings Per Share			
Income Available to Common Shareholders	\$ 203,749	258,298	\$ 0.79 =====
Three Months Ended June 30, 2005 As Adjusted			
	Income	Average Shares	Per Share

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	(Numerator)	(Denominator)	Amount
	-----	-----	-----
Basic Earnings Per Share			
Income Available to Common Shareholders	\$ 183,745	228,630	\$ 0.80
			=====
Effect of Dilutive Securities			
Stock Options, Restricted Stock and Other Plans	--	5,274	
	-----	-----	
Diluted Earnings Per Share			
Income Available to Common Shareholders	\$ 183,745	233,904	\$ 0.79
			=====

Six Months Ended June 30, 2006

	Income (Numerator)	Average Shares (Denominator)	Per Share Amount
	-----	-----	-----
Basic Earnings Per Share			
Income Available to Common Shareholders	\$ 390,517	244,088	\$ 1.60
			=====
Effect of Dilutive Securities			
Stock Options, Restricted Stock and Other Plans	--	5,291	
	-----	-----	
Diluted Earnings Per Share			
Income Available to Common Shareholders	\$ 390,517	249,379	\$ 1.57
			=====

Six Months Ended June 30, 2005  
As Adjusted

	Income (Numerator)	Average Shares (Denominator)	Per Share Amount
	-----	-----	-----
Basic Earnings Per Share			
Income Available to Common Shareholders	\$ 349,061	228,097	\$ 1.53
			=====
Effect of Dilutive Securities			
Stock Options, Restricted Stock and Other Plans	--	5,213	
	-----	-----	
Diluted Earnings Per Share			
Income Available to Common Shareholders	\$ 349,061	233,310	\$ 1.50
			=====

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

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

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	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2005	2006	2005
Shares	47	8	131	34
Price Range	\$45.110 - \$47.020	\$43.310 - \$44.200	\$44.200 - \$47.020	\$42.710 - \$44.200

5. Business Combinations

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

On April 1, 2006, Marshall & Ilsley Corporation completed the acquisition of Gold Banc Corporation, Inc. ("Gold Banc"), a bank holding company headquartered in Leawood, Kansas, which offers commercial banking, retail banking, trust and asset management products and services through various subsidiaries. Gold Banc had consolidated assets of \$4.2 billion at the time of the merger. Total consideration in this transaction, including the effect of terminating Gold Banc's employee stock ownership plan, amounted to \$716.2 million, consisting of 13,673,072 shares of M&I common stock valued at \$601.0 million, the exchange of 119,816 vested options valued at \$2.9 million and total cash consideration of \$112.3 million. Gold Banc's largest subsidiary, Gold Bank, a Kansas state-chartered bank, was merged with and into M&I Marshall & Ilsley Bank on April 1, 2006, at which time the 32 Gold Bank branch offices in Florida, Kansas, Missouri and Oklahoma became interstate branch offices of M&I Marshall & Ilsley Bank. Initial goodwill, subject to the completion of appraisals and valuation of the assets acquired and liabilities assumed, amounted to \$493.3 million. Approximately \$485.4 million of the goodwill was assigned to the Banking segment and the remainder was assigned to the Corporation's Trust reporting unit. The estimated identifiable intangible asset to be amortized (core deposits) with an estimated weighted average life of 5.0 years amounted to \$44.1 million. The goodwill and intangibles resulting from this transaction are not deductible for tax purposes.

On April 1, 2006, Marshall & Ilsley Corporation completed the acquisition of St. Louis-based Trustcorp Financial, Inc. ("Trustcorp"). With the acquisition of Trustcorp, which had consolidated assets of \$735.7 million at the time of the merger, the Corporation acquired Missouri State Bank and Trust Company, which provides commercial banking services in Missouri through seven bank locations. In July 2006, Missouri State Bank and all of its branches were merged with and into Southwest Bank, the Corporation's St. Louis-based banking affiliate. Total consideration in this transaction amounted to \$182.0 million, consisting of 3,069,430 shares of M&I common stock valued at \$134.9 million, the exchange of 412,317 vested options valued at \$13.4 million and cash consideration of \$33.7 million. Initial goodwill, subject to the completion of appraisals and valuation of the assets acquired and liabilities assumed, amounted to \$129.4 million. The estimated identifiable intangible asset to be amortized (core deposits) with an estimated weighted average life of 7.5 years amounted to \$10.9 million. The goodwill and intangibles resulting from this transaction are partially deductible for tax purposes.

The common stock issued and vested options exchanged in the acquisition

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of Gold Banc and Trustcorp are non-cash transactions for purposes of the Consolidated Statements of Cash Flows.

Recent acquisition activities

On June 29, 2006, Metavante announced the signing of a definitive agreement to acquire VICOR, Inc. ("VICOR") of Richmond, California. VICOR is a provider of software and solutions that simplify and automate the processing of complex payments for businesses and financial institutions. The acquisition is expected to close in the third quarter of 2006, pending regulatory approval and other customary closing conditions. The purchase is not expected to have a material impact on the financial results of Metavante or the Corporation.

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

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

	June 30, 2006	December 31, 2005	June 30, 2005
Investment securities available for sale:			
U.S. treasury and government agencies	\$ 5,219,287	\$ 4,379,148	\$ 4,254,711
State and political subdivisions	748,967	703,892	671,782
Mortgage backed securities	101,945	116,464	144,070
Other	557,088	502,199	502,065
Total	\$ 6,627,287	\$ 5,701,703	\$ 5,572,628
Investment securities held to maturity:			
State and political subdivisions	\$ 546,186	\$ 616,554	\$ 665,807
Other	1,500	2,000	2,300
Total	\$ 547,686	\$ 618,554	\$ 668,107

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 June 30, 2006 (\$000's):

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. treasury and government agencies	\$ 3,090,843	\$ 78,238	\$ 1,936,556	\$ 86,669	\$ 5,027,399	\$ 164,907
State and political subdivisions	328,100	7,300	82,492	4,070	410,592	11,370

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Mortgage backed securities	36,796	910	65,149	2,912	101,945	
Other	1,822	62	--	--	1,822	
	-----	-----	-----	-----	-----	-----
Total	\$ 3,457,561	\$ 86,510	\$ 2,084,197	\$ 93,651	\$ 5,541,758	\$ 1
	=====	=====	=====	=====	=====	=====

The investment securities in the above table were temporarily impaired at June 30, 2006. This temporary impairment represents the amount of loss that would have been realized if the investment securities had been sold on June 30, 2006. The temporary impairment in the investment securities portfolio is predominantly the result of increases in market interest rates since the investment securities were acquired and not from deterioration in the creditworthiness of the issuer.

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

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

	June 30, 2006	December 31, 2005	June 30, 2005
	-----	-----	-----
Commercial, financial and agricultural	\$ 11,763,501	\$ 9,599,361	\$ 9,147,994
Cash flow hedging instruments at fair value	(55,541)	(33,886)	(4,549)
	-----	-----	-----
Commercial, financial and agricultural	11,707,960	9,565,475	9,143,445
Real estate:			
Construction	5,402,120	3,641,942	2,984,601
Residential mortgage	5,816,886	5,050,803	4,335,593
Home equity loans and lines of credit	4,537,014	4,833,480	4,977,525
Commercial mortgage	10,860,893	8,825,104	8,585,700
	-----	-----	-----
Total real estate	26,616,913	22,351,329	20,883,419
Personal	1,408,973	1,617,761	1,526,442
Lease financing	653,494	632,348	592,545
	-----	-----	-----
Total loans and leases	\$ 40,387,340	\$ 34,166,913	\$ 32,145,851
	=====	=====	=====

8. Financial Asset Sales

During the second quarter of 2006, automobile loans with principal balances of \$177.7 million were sold in securitization transactions. The net gains and losses from the sale and securitization of auto loans for the three and six months ended June 30, 2006 and 2005, respectively, were not significant. Other income associated with auto securitizations, primarily servicing income, amounted to \$3.0 million in the current quarter.

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

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Prepayment speed (CPR)	17-42 %
Weighted average life (in months)	20.8
Expected credit losses (based on original balance)	0.36-1.03 %
Residual cash flow discount rate	12.0 %
Variable returns to transferees	Forward one-month LIBOR yield curve

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

	Securitized	Portfolio	Total Managed
	-----	-----	-----
Loan balances	\$ 1,028,361	\$ 152,716	\$ 1,181,077
Principal amounts of loans			
60 days or more past due	2,075	390	2,465
Net credit losses year to date	1,230	807	2,037

9. Goodwill and Other Intangibles

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

	Banking	Metavante	Others	Tot
	-----	-----	-----	-----
Goodwill balance as of January 1, 2006	\$ 809,376	\$ 1,272,039	\$ 7,804	\$ 2,08
Goodwill acquired during the period	614,801	21,767	21,251	65
Purchase accounting adjustments	(121)	(22,224)	--	(2
Goodwill balance as of June 30, 2006	\$ 1,424,056	\$ 1,271,582	\$ 29,055	\$ 2,72
	=====	=====	=====	=====

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

Goodwill acquired during the second quarter of 2006 for the Banking segment includes initial goodwill of \$485.4 million for the acquisition of Gold Banc and \$129.4 million in initial goodwill relating to the acquisition of Trustcorp. Goodwill acquired for the Metavante segment includes initial goodwill relating to the acquisition of AdminiSource in the first quarter of 2006. Goodwill for the Others segment includes initial goodwill relating to the acquisition of FirstTrust Indiana of \$13.4 million in the first quarter of 2006, and initial goodwill allocated to the Trust reporting unit of \$7.9 million from the acquisition of Gold Banc in the second quarter of 2006.

Purchase accounting adjustments for Metavante for the six months ended June 30, 2006 represent adjustments made to the initial estimates of fair value associated with the acquisitions of Everlink Payment Services, Inc., GHR Systems, Inc., Brasfield, AdminiSource, Med-i-Bank,

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Inc., LINK2GOV Corp. and NYCE Corporation ("NYCE") and its affiliate companies. During the first quarter, Metavante received \$29.9 million as a return of the purchase price associated with the NYCE acquisition. Purchase accounting adjustments for the Banking segment were attributable to the reduction of goodwill allocated to a branch divestiture.

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

	June 30, 2006		
	Gross Carrying Amount	Accum- ulated Amort- ization	Ne Carr Val
Other intangible assets			
Core deposit intangible	\$ 207,805	\$ 86,516	\$ 12
Data processing contract rights/customer lists	338,608	45,367	29
Trust customers	6,750	1,580	
Tradenname	8,275	996	
Other Intangibles	1,250	552	
	----- \$ 562,688	----- \$ 135,011	----- \$ 42
	=====	=====	=====
Mortgage loan servicing rights			\$ =====

Amortization expense of other intangible assets for the three and six months ended June 30, 2006 amounted to \$12.0 million and \$20.9 million, respectively. Amortization expense of other intangible assets for the three and six months ended June 30, 2005 was \$8.1 million and \$16.2 million, respectively.

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

2007	\$ 44,441
2008	40,863
2009	37,775
2010	35,455
2011	33,688

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

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

	June 30, 2006	December 31, 2005	June 30, 2005
	-----	-----	-----



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Noninterest bearing demand	\$ 5,773,090	\$ 5,525,019	\$ 5,088,947
Savings and NOW	11,549,045	10,462,831	9,999,393
Cash flow hedge-Brokered MMDA	(5,633)	(5,326)	(2,998)
	-----	-----	-----
Total Savings and NOW	11,543,412	10,457,505	9,996,395
CD's \$100,000 and over	8,107,033	5,652,359	5,980,536
Cash flow hedge-Institutional CDs	(17,419)	(13,767)	(13,944)
	-----	-----	-----
Total CD's \$100,000 and over	8,089,614	5,638,592	5,966,592
Other time deposits	4,801,124	3,434,476	3,006,936
Foreign deposits	2,750,552	2,618,629	2,002,570
	-----	-----	-----
Total deposits	\$ 32,957,792	\$ 27,674,221	\$ 26,061,440
	=====	=====	=====

11. Share-Based Compensation Plans

The Corporation has Equity Incentive Plans which provide for the grant of nonqualified and incentive stock options, stock appreciation rights, rights to purchase shares of restricted stock and the award of restricted stock units to key employees and directors of the Corporation at prices ranging from zero to the market value of the shares at the date of grant. The Equity Incentive Plans generally provide for the grant of options to purchase shares of the Corporation's common stock for a period of ten years from the date of grant. Stock options granted generally become exercisable over a period of three years from the date of grant. However, stock options granted to directors of the Corporation vest immediately and stock options granted after 1996 provide accelerated or immediate vesting for grants to individuals who meet certain age and years of service criteria at the date of grant. Restrictions on stock or units issued pursuant to the Equity Incentive Plans generally lapse within a three to seven year period.

The Corporation also has a Long-Term Incentive Plan. Under the plan, performance units may be awarded from time to time. Once awarded, additional performance units will be credited to each participant based on dividends paid by the Corporation on its common stock. At the end of a designated vesting period, participants will receive a cash award equal to the Corporation's average common stock price over the last five days of the vesting period multiplied by some percent (0%-275%) of the initial performance units credited plus those additional units credited as dividends based on the established performance criteria. The vesting period is three years from the date the performance units were awarded.

The Corporation also has a qualified employee stock purchase plan (the "ESPP") which gives employees who elect to participate in the plan the right to acquire shares of the Corporation's common stock at the purchase price which is 85 percent of the lesser of the fair market value of the Corporation's common stock on the first or last day of the one-year offering period ("look-back feature") which has historically been from July 1 to June 30. Effective July 1, 2006, the ESPP plan was amended to eliminate the look-back feature and to provide employees who elect to participate in the plan the right to acquire shares of the Corporation's common stock at the purchase price which is 85 percent of the fair market value of the Corporation's common stock on the last day of each three month period within the one-year offering period.

Effective January 1, 2006, the Corporation adopted Statement of

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

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

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

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

Under the fair value method of accounting, compensation cost is measured at the grant date based on the fair value of the award using an option-pricing model that takes into account the stock price at the grant date, the exercise price, the expected life of the option, the volatility of the underlying stock, expected dividends and the risk-free interest rate over the expected life of the option. The resulting compensation cost for stock options that vest is recognized over the service period, which is usually the vesting period. The fair value method of accounting provided under SFAS 123 is generally similar to the fair value method of accounting under SFAS 123(R).

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

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

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	December 31, 2005	June 30, 2005
	-----	-----
Decrease to Retained Earnings	\$ (149,544)	\$ (137,271)
Increase to Additional Paid-in Capital	217,205	203,021
	-----	-----
Net Increase to Shareholders' equity	\$ 67,661	\$ 65,750
	=====	=====

The net increase to Shareholders' equity represents the deferred income tax benefit outstanding associated with the cumulative effect on net income from January 1, 1995 to December 31, 2005 and June 30, 2005, respectively, from recognizing share-based compensation previously not reported.

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

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

	Three Months Ended June 30, 2005	Six Months Ended June 30, 2005
	-----	-----
Net Income, as originally reported	\$ 188,487	\$ 358,067
Less: Stock-based employee compensation expense previously not included in net income under the intrinsic method of accounting, net of tax	(4,742)	(9,006)
	-----	-----
Restated net income	\$ 183,745	\$349,061
	=====	=====
Basic earnings per share:		
As originally reported	\$0.82	\$1.57
Restated	0.80	1.53
Diluted earnings per share:		
As originally reported	\$0.81	\$1.54
Restated	0.79	1.50

The Consolidated Statements of Cash Flows was not materially impacted.

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

Number of Shares	Option Price Per Share	Weighted- Average Exercise Price
---------------------	---------------------------	---

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Shares under option at March 31, 2005	22,380,226	\$10.13 - 44.20	\$30.86
Options granted	102,750	41.72 - 44.96	42.24
Options lapsed or surrendered	(77,815)	22.80 - 41.95	34.72
Options exercised	(594,584)	10.13 - 38.25	24.50
Shares under option at June 30, 2005	21,810,577	\$13.09 - 44.96	\$31.07
Shares under option at March 31, 2006	23,806,283	\$15.94 - 47.02	\$33.30
Options granted	398,500	43.36 - 45.72	43.99
Vested options exchanged in acquisitions	532,133	5.71 - 43.67	12.99
Options lapsed or surrendered	(64,918)	31.72 - 44.96	42.60
Options exercised	(779,491)	5.71 - 42.82	23.22
Shares under option at June 30, 2006	23,892,507	\$ 5.71 - 47.02	\$33.32

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

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

	Number of Shares	Option Price Per Share	Weighted- Average Exercise Price
Shares under option at December 31, 2004	22,878,097	\$10.13 - 44.20	\$30.70
Options granted	153,250	40.49 - 44.96	42.20
Options lapsed or surrendered	(149,339)	22.80 - 41.95	36.03
Options exercised	(1,071,431)	10.13 - 41.95	23.99
Shares under option at June 30, 2005	21,810,577	\$13.09 - 44.96	\$31.07
Shares under option at December 31, 2005	24,655,317	\$15.94 - 47.02	\$33.09
Options granted	470,400	41.30 - 45.72	43.92
Vested options exchanged in acquisitions	532,133	5.71 - 43.67	12.99
Options lapsed or surrendered	(238,172)	31.72 - 44.96	41.73
Options exercised	(1,527,171)	5.71 - 42.82	24.46
Shares under option at June 30, 2006	23,892,507	\$ 5.71 - 47.02	\$33.32

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

The ranges of nonqualified and incentive stock options outstanding at June 30, 2006 were:

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Price Range	Number of Shares		Weighted-Average Exercise Price		Weighted-Average Aggregate Intrinsic Value		Weighted-Average Remaining Contractual Life (In Years)	
	Out-standing	Exer-cisable	Out-standing	Exer-cisable	Out-standing	Exer-cisable	Out-standing	Exer-cisable
\$ 5.50 - 24.99	2,579,983	2,579,983	\$20.32	\$20.32	\$25.42	\$25.42	4.0	4.0
\$25.00 - 28.49	1,724,245	1,724,245	25.93	25.93	19.81	19.81	3.1	3.1
\$28.50 - 30.49	4,025,390	4,022,990	28.59	28.59	17.15	17.15	5.2	5.2
\$30.50 - 32.49	4,708,106	4,700,704	31.43	31.43	14.31	14.31	4.7	4.7
\$32.50 - 35.49	3,092,706	2,281,898	34.77	34.76	10.97	10.98	7.3	7.2
\$35.50 - 42.49	3,632,670	1,696,229	41.59	41.41	4.15	4.33	8.3	8.3
Over \$42.50	4,129,407	617,943	42.97	42.96	2.77	2.78	9.4	9.4
	23,892,507	17,623,992	\$33.32	\$30.41	\$12.42	\$15.33	6.3	5.4

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

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

	Three Months Ended June 30,		Six Months Ended June 30	
	2006	2005	2006	2005
Weighted-average grant date fair value	\$7.93	\$8.38	\$7.92	\$8.02
Assumptions:				
Risk-free interest rates	4.87 - 5.66 %	3.33 - 4.45 %	4.22 - 5.66 %	3.33 - 4.45 %
Expected volatility	18.20 %	18.50 %	18.20 - 18.50 %	13.12 - 18.50 %
Expected term (in years)	6.3 - 6.9	5.1 - 7.8	6.3 - 6.9	5.1 - 7.8
Expected dividend yield	2.20 %	2.19 %	2.20 %	1.92 - 2.19 %

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

The total intrinsic value of nonqualified and incentive stock options exercised during the three months ended June 30, 2006 and 2005 was \$17.2 million and \$11.2 million, respectively. For the six months ended June 30, 2006 and 2005, the total intrinsic value of nonqualified and incentive stock options exercised was \$30.7 million and \$19.9 million, respectively. The total fair value of shares vested during the three months ended June 30, 2006 and 2005 amounted to \$1.1 million and \$1.2 million, respectively. For the six months ended June 30, 2006 and 2005, the total fair value of shares vested amounted to \$1.6 million and \$1.5 million, respectively.

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There was approximately \$24.7 million of total unrecognized compensation expense related to unvested nonqualified and incentive stock options at June 30, 2006. The total unrecognized compensation expense will be recognized over a weighted average period of 2.0 years. For awards with graded vesting, compensation expense was recognized using an accelerated method prior to the adoption of SFAS 123(R) and is recognized on a straight line basis for awards granted after the effective date.

For the three months ended June 30, 2006 and 2005 the expense for nonqualified and incentive stock options that is included in Salaries and employee benefits expense in the Consolidated Statements of Income amounted to \$6.7 million and \$5.9 million, respectively. For the six months ended June 30, 2006 and 2005 the expense for nonqualified and incentive stock options that is included in Salaries and employee benefits expense in the Consolidated Statements of Income amounted to \$13.3 million and \$11.7 million, respectively. These amounts are considered non-cash expenses for the Statements of Cash Flow purposes.

For the three and six months ended June 30, 2006 and 2005 the expense for Director's nonqualified and incentive stock options that is included in Other expense in the Consolidated Statements of Income amounted to \$0.6 million and \$0.7 million, respectively.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2005	2006	2005
Restricted stock purchase rights outstanding - Beginning of Year	--	--	--	--
Restricted stock purchase rights granted	44,000	7,000	51,000	14,500
Restricted stock purchase rights exercised	(44,000)	(7,000)	(51,000)	(14,500)
Restricted stock purchase rights outstanding - End of Period	--	--	--	--
Weighted-average grant date market value	\$44.67	\$42.61	\$44.54	\$41.95
Aggregate compensation expense (\$000's)	\$1,377	\$977	\$2,647	\$2,027
Unamortized compensation expense (\$000's)	\$12,298	\$9,027	\$12,298	\$9,027

Restrictions on stock issued pursuant to the exercise of stock purchase rights generally lapse within a three to seven year period. Accordingly, the compensation related to issuance of the rights is amortized over the vesting period. At June 30, 2006, the unamortized compensation expense will be recognized over a weighted average period of 1.8 years. Aggregate compensation expense for the three and six months ended June 30, 2006 amounted to \$1.4 million and \$2.6 million, respectively. For the three and six months ended June 30, 2005, the aggregate compensation expense amounted to \$1.0 million and \$2.0 million, respectively. These amounts are considered non-cash expenses for the Statements of Cash Flow purposes.

As participants in the Long-Term Incentive Plan will receive a cash award at the end of the designated vesting period, this plan meets the

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definition of a liability award. Unlike equity awards, liability awards are remeasured at fair value at each balance sheet date until settlement. For the three months ended June 30, 2006 and 2005 the expense for the Long-Term Incentive Plan that is included in Salaries and employee benefits expense in the Consolidated Statements of Income amounted to \$5.4 million and \$6.0 million, respectively. For the six months ended June 30, 2006 and 2005 the expense for the Long-Term Incentive Plan that is included in Salaries and employee benefits expense in the Consolidated Statements of Income amounted to \$3.5 million and \$6.6 million, respectively.

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

Under SFAS 123(R), compensation expense is recognized for the ESPP. The compensation cost per share is approximately equal to the sum of: the initial discount (15% of beginning of plan period price per share), plus the value of a one year call option on 85% of a share of common stock and the value of a one year put option on 15% of a share of common stock for each share purchased. The compensation cost per share for the ESPP was \$9.96 and \$8.04 for the three and six months ended June 30, 2006 and 2005, respectively. Employee contributions under the ESPP are made ratably during the plan period. Employees may withdraw from the plan prior to the end of the one year offering period. The total estimated shares to be purchased are estimated at the beginning of the plan period based on total expected contributions for the plan period and 85% of the market price at that date. The Corporation estimated that 346,342 shares would be purchased on July 1, 2006 for the purpose of determining compensation expense. For the three months ended June 30, 2006 and 2005 the total expense for the ESPP that is included in Salaries and employee benefits expense in the Consolidated Statements of Income amounted to \$0.9 million and \$0.7 million, respectively. For the six months ended June 30, 2006 and 2005 the total expense for the ESPP that is included in Salaries and employee benefits expense in the Consolidated Statements of Income amounted to \$1.8 million and \$1.4 million, respectively. These amounts are considered non-cash expenses for the Statements of Cash Flow purposes.

As previously discussed, effective July 1, 2006 the ESPP plan was amended to eliminate the look-back feature and to provide employees, who elect to participate in the plan, the right to acquire shares of the Corporation's common stock at the purchase price, which is 85 percent of the fair market value of the Corporation's common stock on the last day of each three month period within the one-year offering period. The effect of the amendment will be to lower the amount of expense in future quarters. The Corporation estimates that the quarterly savings in expense will be approximately \$0.3 million.

### 12. Derivative Financial Instruments and Hedging Activities

The following is an update of the Corporation's use of derivative financial instruments and its hedging activities as described in its Annual Report on Form 10-K for the year ended December 31, 2005. Generally there were no substantive changes in the types of derivative financial instruments the Corporation employs or its hedging activities in the six months ended June 30, 2006.

Trading Instruments and Other Free Standing Derivatives

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

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

At June 30, 2006, free standing interest rate swaps consisted of \$2.1 billion in notional amount of receive fixed / pay floating with an aggregate negative fair value of \$46.3 million and \$1.4 billion in notional amount of pay fixed / receive floating with an aggregate positive fair value of \$44.8 million.

At June 30, 2006, interest rate caps purchased amounted to \$20.5 million in notional amount with a positive fair value of \$0.1 million and interest rate caps sold amounted to \$20.5 million in notional amount with a negative fair value of \$0.1 million.

At June 30, 2006, the notional value of interest rate futures designated as trading was \$3.4 billion with a negative fair value of \$0.3 million.

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

### Fair Value Hedges

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

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

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

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

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

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



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Fair Value Hedges

June 30, 2006

Hedged Item	Hedging Instrument	Notional Amount (\$ in mil)	Fair Value (\$ in mil)	Weighted Average Remaining Term (Yrs)
-------------	--------------------	-----------------------------	------------------------	---------------------------------------

Fair Value Hedges that Qualify for Shortcut Accounting

Fixed Rate Bank Notes	Receive Fixed Swap	\$ 427.3	\$ (27.7)	8.3
-----------------------	--------------------	----------	-----------	-----

Other Fair Value Hedges

Fixed Rate CDs	Receive Fixed Swap	\$1,045.1	\$ (40.9)	7.8
Medium Term Notes	Receive Fixed Swap	359.3	(13.1)	6.9
Fixed Rate Bank Notes	Receive Fixed Swap	625.0	(24.6)	4.4
Institutional CDs	Receive Fixed Swap	65.0	(1.5)	24.8
Brokered Bullet CDs	Receive Fixed Swap	627.9	(2.5)	0.6

The impact from fair value hedges to total net interest income for the three and six months ended June 30, 2006 was a negative \$1.1 million and a positive \$0.6 million, respectively. The impact to net interest income due to ineffectiveness was not material.

Cash Flow Hedges

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

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

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

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

Hedge effectiveness is assessed at inception and each quarter on an on-

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

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

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

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

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

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

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

At June 30, 2006, one interest rate swap designated as a cash flow hedge met the criteria required to qualify for the shortcut method of

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accounting. Based on the shortcut method of accounting treatment, no ineffectiveness is assumed.

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

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

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

Cash Flow Hedges June 30, 2006		Notional Amount (\$ in mil)	Fair Value (\$ in mil)	Weighted Average Remaining Term (Yrs)
Hedged Item	Hedging Instrument			
Cash Flow Hedges that Qualify for Shortcut Accounting				
Floating Rate Bank Notes	Pay Fixed Swap	\$ 125.0	\$ 1.5	0.8
Other Cash Flow Hedges				
Variable Rate Loans	Receive Fixed Swap	\$ 1,150.0	\$ (55.5)	3.4
Institutional CDs	Pay Fixed Swap	1,980.0	17.4	2.0
Federal Funds Purchased	Pay Fixed Swap	250.0	0.7	1.1
FHLB Advances	Pay Fixed Swap	1,220.0	35.7	2.5
Floating Rate Bank Notes	Pay Fixed Swap	300.0	4.2	2.2
Money Market Accounts	Pay Fixed Swap	250.0	5.6	1.0

The impact to total net interest income from cash flow hedges, including amortization of terminated cash flow hedges for the three and six months ended June 30, 2006 was a positive \$3.8 million and a positive \$5.7 million, respectively. The impact due to ineffectiveness was not material.

For the three and six months ended June 30, 2005, the total effect on net interest income resulting from derivative financial instruments was a positive \$9.1 million and a positive \$16.1 million, respectively, including the amortization of terminated derivative financial instruments.

### 13. Postretirement Health Plan

The Corporation sponsors a defined benefit health plan that provides health care benefits to eligible current and retired employees. Eligibility for retiree benefits is dependent upon age, years of

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service, and participation in the health plan during active service. The plan is contributory and in 1997 and 2002 the plan was amended. Employees hired or retained from mergers after September 1, 1997 will be granted access to the Corporation's plan upon becoming an eligible retiree; however, such retirees must pay 100% of the cost of health care benefits. The plan continues to contain other cost-sharing features such as deductibles and coinsurance.

Net periodic postretirement benefit costs for the three and six month periods ended June 30, 2006 and 2005 included the following components (\$000's):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2005	2006	2005
Service cost	\$ 570	\$ 552	\$ 1,140	\$ 1,140
Interest on APBO	1,022	1,159	2,044	2,044
Expected return on assets	(232)	(150)	(464)	(464)
Prior service amortization	(680)	(680)	(1,360)	(1,360)
Actuarial loss amortization	378	264	757	757
Total postretirement benefit costs	\$ 1,058	\$ 1,145	\$ 2,117	\$ 2,117

Benefit payments and expenses, net of participant contributions, for the three and six months ended June 30, 2006 amounted to \$1.1 million and \$2.1 million, respectively.

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

14. Segments

The following represents the Corporation's operating segments as of and for the three and six months ended June 30, 2006 and 2005. Effective January 1, 2006, the Corporation transferred a portion of its Item Processing business from the Banking segment to Metavante. Prior period segment information has been adjusted for the transfer. There have not been any other changes to the way the Corporation organizes its segments. Beginning with the third quarter of 2005, total other income for Metavante includes float income which represents interest income on balances invested in an affiliate bank which arises from Electronic Bill Payment activities. This income was formerly reported as a component of Net Interest Income for Metavante. Segment information for all periods has been adjusted for this reclassification. Fees - intercompany represent intercompany revenue charged to other segments for providing certain services. Expenses - intercompany represent fees charged by other segments for certain services received. For each segment, Expenses - intercompany are not the costs of that segment's reported intercompany revenues. Intra-segment revenues, expenses and assets have been eliminated (\$ in millions):

Three Months Ended June 30, 2006

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	Banking	Metavante	Others	Corporate Overhead	Reclassifications & Eliminations	
Net interest income	\$ 381.3	\$ (7.5)	\$ 5.9	\$ (8.3)	\$ 2.7	\$
Other income						
Fees - external	82.0	345.0	56.0	1.4	--	
Fees - internal						
Fees - intercompany	16.8	25.8	5.7	25.0	(73.3)	
Float income - intercompany	--	2.7	--	--	(2.7)	
Total other income	98.8	373.5	61.7	26.4	(76.0)	
Other expense						
Expenses - other	179.3	294.6	41.6	28.4	0.4	
Expenses - intercompany	46.9	13.0	12.7	1.1	(73.7)	
Total other expense	226.2	307.6	54.3	29.5	(73.3)	
Provision for loan and lease losses	10.6	--	0.5	--	--	
Income before taxes	243.3	58.4	12.8	(11.4)	--	
Income tax expense	80.8	18.0	4.7	(4.1)	--	
Segment income (loss)	\$ 162.5	\$ 40.4	\$ 8.1	\$ (7.3)	\$ --	\$
Identifiable assets	\$ 51,578.5	\$ 2,790.6	\$ 821.4	\$ 684.9	\$ (1,456.5)	\$
Return on average equity	13.3%	14.5%	11.2%			

Three Months Ended June 30, 2005

	Banking	Metavante	Others	Corporate Overhead	Reclassifications & Eliminations	
Net interest income	\$ 314.9	\$ (9.6)	\$ 6.8	\$ (2.1)	\$ 3.0	\$
Other income						
Fees - external	73.5	282.3	70.1	8.4	--	
Fees - internal						
Fees - intercompany	15.5	21.9	5.6	21.6	(64.6)	
Float income - intercompany	--	3.0	--	--	(3.0)	
Total other income	89.0	307.2	75.7	30.0	(67.6)	
Other expense						
Expenses - other	153.6	237.6	33.7	36.4	(1.4)	
Expenses - intercompany	40.7	10.1	12.0	0.4	(63.2)	

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Total other expense	194.3	247.7	45.7	36.8	(64.6)
Provision for loan and lease losses	13.4	--	0.3	--	--
Income (loss) before taxes	196.2	49.9	36.5	(8.9)	--
Income tax expense (benefit)	59.1	19.9	14.3	(3.3)	--
Segment income (loss) As Adjusted	\$ 137.1	\$ 30.0	\$ 22.2	\$ (5.6)	\$ --
Identifiable assets	\$ 41,149.6	\$ 2,469.0	\$ 759.5	\$ 733.1	\$ (1,627.5)
Return on average equity	16.0%	18.6%	33.0%		

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

Six Months Ended June 30, 2006

	Banking	Metavante	Others	Corporate Overhead	Reclass- ifications & Elimi- nations
Net interest income	\$ 708.9	\$ (15.8)	\$ 11.6	\$ (12.0)	\$ 5.9
Other income					
Fees - external	155.5	688.0	110.4	3.2	--
Fees - internal					
Fees - intercompany	33.7	50.6	10.5	49.9	(144.7)
Float income - intercompany	--	5.9	--	--	(5.9)
Total other income	189.2	744.5	120.9	53.1	(150.6)
Other expense					
Expenses - other	337.7	590.7	81.1	40.5	(0.6)
Expenses - intercompany	90.1	25.6	25.1	3.3	(144.1)
Total other expense	427.8	616.3	106.2	43.8	(144.7)
Provision for loan and lease losses	21.0	--	1.0	--	--
Income before taxes	449.3	112.4	25.3	(2.7)	--
Income tax expense	148.6	37.5	9.3	(1.6)	--
Segment income (loss)	\$ 300.7	\$ 74.9	\$ 16.0	\$ (1.1)	\$ --
Identifiable assets	\$ 51,578.5	2,790.6	821.4	684.9	(1,456.5)
Return on average equity	13.9%	13.8%	11.5%		

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Six Months Ended June 30, 2005						
	Banking	Metavante	Others	Corporate Overhead	Reclassifications & Eliminations	
Net interest income	\$ 618.1	\$ (20.0)	\$ 12.4	\$ (3.9)	\$ 5.3	\$
Other income						
Fees - external	143.6	565.3	117.7	10.2	--	
Fees - internal						
Fees - intercompany	31.4	42.8	10.3	43.2	(127.7)	
Float income - intercompany	--	5.3	--	--	(5.3)	
Total other income	175.0	613.4	128.0	53.4	(133.0)	
Other expense						
Expenses - other	300.5	478.6	65.6	59.0	(0.8)	
Expenses - intercompany	79.5	21.1	24.5	1.8	(126.9)	
Total other expense	380.0	499.7	90.1	60.8	(127.7)	
Provision for loan and lease losses	21.2	--	0.6	--	--	
Income before taxes	391.9	93.7	49.7	(11.3)	--	
Income tax expense	122.9	37.4	19.4	(4.8)	--	
Segment income (loss) As Adjusted	\$ 269.0	\$ 56.3	\$ 30.3	\$ (6.5)	\$ --	\$
Identifiable assets	\$ 41,149.6	\$ 2,469.0	\$ 759.5	\$ 733.1	\$ (1,627.5)	\$
Return on average equity	16.0%	18.1%	23.4%			

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2005	2006	2005
Trust Services	\$ 49.2	\$ 40.6	\$ 95.2	\$ 80.2
Residential Mortgage Banking	5.8	6.1	10.9	11.1
Capital Markets	(0.3)	21.6	0.3	22.3
Brokerage and Insurance	7.4	7.2	14.6	14.3
Commercial Leasing	2.9	4.1	5.8	7.6
Commercial Mortgage Banking	1.6	1.6	3.3	2.8

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Others	1.0	1.3	2.4	2.2
	-----	-----	-----	-----
Total revenue	\$ 67.6	\$ 82.5	\$ 132.5	\$ 140.5
	=====	=====	=====	=====

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

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

	Three Months Ended June 30,	
	2006	2005
	-----	-----
Assets		
-----		
Cash and due from banks	\$ 1,030,657	\$ 938,451
Investment securities:		
Trading securities	50,268	25,582
Short-term investments	374,212	271,731
Other investment securities:		
Taxable	5,818,278	4,828,606
Tax-exempt	1,316,122	1,333,700
Total investment securities	7,558,880	6,459,619
Loans and leases:		
Loans and leases, net of unearned income	39,649,733	31,294,058
Less: Allowance for loan and lease losses	416,328	361,488
Net loans and leases	39,233,405	30,932,570
Premises and equipment, net	565,369	445,382
Accrued interest and other assets	5,199,418	3,877,271
Total Assets	\$ 53,587,729	\$ 42,653,293
	=====	=====
Liabilities and Shareholders' Equity		
Deposits:		
Noninterest bearing	\$ 5,404,147	\$ 4,826,304
Interest bearing	27,331,590	20,643,276
Total deposits	32,735,737	25,469,580
Federal funds purchased and security repurchase agreements	2,332,734	2,393,989
Other short-term borrowings	1,085,859	998,363
Long-term borrowings	10,050,166	7,920,117
Accrued expenses and other liabilities	1,691,978	1,664,868
Total liabilities	47,896,474	38,446,917
Shareholders' equity	5,691,255	4,206,376
Total Liabilities and Shareholders' Equity	\$ 53,587,729	\$ 42,653,293



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

	Six Months Ended June 30,	
	2006	2005
<b>Assets</b>		
Cash and due from banks	\$ 1,005,507	\$ 928,733
Investment securities:		
Trading securities	42,267	24,355
Short-term investments	345,127	229,595
Other investment securities:		
Taxable	5,401,133	4,825,732
Tax-exempt	1,328,293	1,306,082
Total investment securities	7,116,820	6,385,764
Loans and leases:		
Loans and leases, net of unearned income	37,159,330	30,592,745
Less: Allowance for loan and lease losses	392,442	361,220
Net loans and leases	36,766,888	30,231,525
Premises and equipment, net	530,820	448,079
Accrued interest and other assets	4,769,638	3,857,632
Total Assets	\$ 50,189,673	\$ 41,851,733
<b>Liabilities and Shareholders' Equity</b>		
Deposits:		
Noninterest bearing	\$ 5,174,349	\$ 4,760,154
Interest bearing	24,944,683	20,592,326
Total deposits	30,119,032	25,352,480
Federal funds purchased and security repurchase agreements	2,386,379	2,170,661
Other short-term borrowings	1,008,475	973,360
Long-term borrowings	9,728,869	7,564,611
Accrued expenses and other liabilities	1,682,305	1,666,152
Total liabilities	44,925,060	37,727,264
Shareholders' equity	5,264,613	4,124,469
Total Liabilities and Shareholders' Equity	\$ 50,189,673	\$ 41,851,733

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### OVERVIEW

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The Corporation's overall strategy is to drive earnings per share growth by: (1) expanding banking operations not only in Wisconsin but also into faster growing regions beyond Wisconsin; (2) increasing the number of financial institutions to which the Corporation provides correspondent banking services and products; (3) expanding trust services and other wealth management product and service offerings; and (4) growing Metavante's business through organic growth, cross sales of technology products and acquisitions.

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

Net income for the second quarter of 2006 amounted to \$203.7 million compared to \$183.7 million for the same period in the prior year, an increase of \$20.0 million, or 10.9%. Diluted earnings per share were \$0.79 for the three months ended June 30, 2006 and 2005, respectively. The return on average assets and average equity was 1.53% and 14.36%, respectively, for the quarter ended June 30, 2006, and 1.73% and 17.52%, respectively, for the quarter ended June 30, 2005.

Net income for the first half of 2006 amounted to \$390.5 million compared to \$349.1 million for the same period in the prior year, an increase of \$41.4 million, or 11.9%. Diluted earnings per share were \$1.57 for the six months ended June 30, 2006, compared with \$1.50 for the six months ended June 30, 2005, an increase of 4.7%. The return on average assets and average equity was 1.57% and 14.96%, respectively, for the six months ended June 30, 2006, and 1.68% and 17.07%, respectively, for the six months ended June 30, 2005.

Earnings growth for the three and six months ended June 30, 2006 compared to the three and six months ended June 30, 2005 was attributable to a number of factors. The increase in net interest income was due to strong organic loan and bank-issued deposit growth and the contribution from the two banking acquisitions that were completed on April 1, 2006. Strong credit quality has resulted in net charge-offs that continue to be below the Corporation's five-year historical average. Metavante continued to exhibit growth in both revenue and earnings which was attributable, in part, to the impact of its acquisition activities as well as success in retaining and cross-selling products and services to its core customer base. Metavante's acquisition activities included one acquisition completed in the first quarter of 2006, two acquisitions completed in the fourth quarter of 2005, three acquisitions completed in the third quarter of 2005 and one acquisition completed in the first quarter of 2005. Net investment securities gains were not significant in the three or six months ended June 30, 2006. During the second quarter of 2005, the Corporation realized a gain due to the sale of an entity associated with the Corporation's investment in an independent private equity and venture capital partnership. The gross gain amounted to \$29.0 million and is reported in Net investment securities gains in the Consolidated Statements of Income. On an after-tax basis, and net of related compensation expense, the gain amounted to \$16.2 million or \$0.07 per diluted share. The increase in expenses for the three and six months ended June 30, 2006 compared to the three and six months ended June 30, 2005 were primarily due to the banking and Metavante acquisitions. These factors along with continued organic expense management resulted in the reported earnings growth in the three and six months ended 2006 compared to the three and

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six months ended June 30, 2005.

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

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### NOTEWORTHY TRANSACTIONS AND EVENTS

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

#### Second quarter 2006

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

For the three months ended June 30, 2006, Salaries and employee benefits expense includes \$7.6 million and Other expense includes \$0.6 million of expense for stock options and the Corporation's employee stock purchase plan ("ESPP"), which reduced net income by \$5.3 million or \$0.02 per diluted share. The Corporation expects that the additional compensation expense associated with stock options and the ESPP will be dilutive to the Corporation's operating results by \$0.02 per diluted share in the third quarter of 2006 and \$0.04 per diluted share in the fourth quarter of 2006. The Corporation's largest stock option awards have historically been granted during the fourth quarter and expense for stock options is larger in the fourth quarter compared to the other quarters in any given year. Under the existing plans, awards to individuals who meet certain age and years of service criteria at the date of grant immediately vest and therefore the full fair value of those awards are immediately expensed. For the year ended December 31, 2006, the Corporation expects that the additional compensation expense associated with stock options and the ESPP will be dilutive to the Corporation's operating results by approximately \$0.10 per diluted share compared to \$0.11 per diluted share for the year ended December 31, 2005 as adjusted. See Note 11 in Notes to Financial Statements for further information.

Beginning with the second quarter of 2006, trust services revenue,

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

First quarter 2006

On January 1, 2006 the Corporation adopted the accounting standard that requires share-based compensation to be expensed. The Corporation elected the Modified Retrospective Application method to implement this new accounting standard. Under that method all prior period consolidated and segment financial information was adjusted to reflect the effect of expensing share-based compensation plans which were not previously expensed. Prior to the adoption of the new standard, the Corporation used the intrinsic method of accounting for stock options. Under that method generally, no compensation expense was recognized for stock option awards or the Corporation's ESPP. Shareholders' equity as of January 1, 2006 increased \$67.7 million due to the deferred income tax benefit recognized from applying the Modified Retrospective Application method of adoption. For the three months ended March 31, 2006, Salaries and employee benefits expense includes \$7.5 million of expense for stock options and the ESPP, which reduced net income by \$4.9 million or \$0.02 per diluted share.

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

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On January 1, 2006 the Banking segment transferred its external item processing business, including all check-processing client relationships, to Metavante. This transfer, together with recent investments in electronic check image technology, enables Metavante to provide its clients with an end-to-end image solution that includes check truncation at the point of first presentment, image exchange through the Endpoint Exchange Network and final settlement. As a result of the transfer, the previously reported Other income line, Item processing, was reclassified to Data processing services in the Consolidated Statements of Income and prior period segment financial information for both the Banking segment and Metavante has been adjusted for the transfer. See Note 14 in Notes to Financial Statements for segment information.

Second quarter 2005

As a result of adopting the accounting standard that requires share-based compensation to be expensed, as previously discussed, adjusted Salaries and employee benefits expense includes \$6.6 million and adjusted Other expense includes \$0.7 million of expense for stock options and the Corporation's ESPP, which reduced previously reported net income by \$4.7 million or \$0.02 per diluted share for the three months ended June 30, 2005.

During the second quarter of 2005, the Corporation realized a gain due to the sale of an entity associated with the Corporation's investment in an

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independent private equity and venture capital partnership. The gross gain amounted to \$29.0 million and is reported in Net investment securities gains in the Consolidated Statements of Income. On an after-tax basis, and net of related compensation expense, the gain amounted to \$16.2 million or \$0.07 per diluted share.

First quarter 2005

As a result of adopting the accounting standard that requires share-based compensation to be expensed, as previously discussed, adjusted Salaries and employee benefits expense for the three months ended March 31, 2005 includes \$6.5 million of expense for stock options and the ESPP which reduced previously reported net income by \$4.3 million or \$0.02 per diluted share.

### NET INTEREST INCOME

Net interest income is the difference between interest earned on earning assets and interest owed on interest bearing liabilities. Net interest income represented approximately 43.6% of the Corporation's source of revenues for the three months ended June 30, 2006 compared to 41.9% for the three months ended June 30, 2005. For the six months ended June 30, 2006 net interest income represented approximately 42.2% of the Corporation's source of revenues compared to 42.2% for the six months ended June 30, 2005.

Net interest income for the second quarter of 2006 amounted to \$374.1 million compared to \$313.0 million reported for the second quarter of 2005, an increase of \$61.1 million or 19.5%. For the six months ended June 30, 2006, net interest income amounted to \$698.6 million compared to \$611.9 million reported for the six months ended June 30, 2005, an increase of \$86.7 million or 14.2%. Both acquisition related and organic loan growth, as well as the growth in noninterest bearing and other bank-issued deposits, were the primary contributors to the increase in net interest income. Factors negatively affecting net interest income compared to the prior year included the impact of the financing costs associated with the 2006 banking acquisitions and Metavante's acquisitions, common stock buybacks and a general shift in the bank-issued deposit mix from lower cost to higher cost deposit products in response to increasing interest rates.

Average earning assets in the second quarter of 2006 amounted to \$47.2 billion compared to \$37.8 billion in the second quarter of 2005, an increase of \$9.4 billion or 25.0%. Average loans and leases accounted for \$8.4 billion of the growth in average earning assets in the second quarter of 2006 compared to the second quarter of 2005. Average investment securities increased \$1.0 billion over the prior year quarter. The growth in average investment securities was primarily due to the banking acquisitions.

Average interest bearing liabilities increased \$8.8 billion or 27.7% in the second quarter of 2006 compared to the second quarter of 2005. Average interest bearing deposits increased \$6.7 billion or 32.4% in the second quarter of 2006 compared to the second quarter of last year. Average total borrowings, primarily long-term borrowings, increased \$2.2 billion or 19.1% in the second quarter of 2006 compared to the same period in 2005.

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For the six months ended June 30, 2006, average earning assets amounted to \$44.3 billion compared to \$37.0 billion in the six months ended June 30,

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2005, an increase of \$7.3 billion or 19.7%. Average loans and leases accounted for \$6.6 billion of the growth in average earning assets in the six months ended June 30, 2006 compared to the six months ended June 30, 2005. Average investment securities increased \$0.6 billion over the comparative six month periods. The growth in average investment securities was primarily due to the banking acquisitions.

Average interest bearing liabilities increased \$6.8 billion or 21.6% in the six months ended June 30, 2006 compared to the six months ended June 30, 2005. Average interest bearing deposits increased \$4.4 billion or 21.1% in the six months ended June 30, 2006 compared to the six months ended June 30, 2005. Average total borrowings, primarily long-term borrowings, increased \$2.4 billion or 22.6% over the comparative six month periods.

Average noninterest bearing deposits increased \$0.6 billion or 12.0% in the three months ended June 30, 2006 compared to the three months ended June 30, 2005. For the six months ended June 30, 2006 compared to the six months ended June 30, 2005, average noninterest bearing deposits increased \$0.4 billion or 8.7%

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

Consolidated Average Loans and Leases

	2006		2005			Growth Pct.	
	Second Quarter	First Quarter	Fourth Quarter	Third Quarter	Second Quarter	Annual	Prior Quarte
<b>Commercial Loans and Leases</b>							
Commercial	\$ 11,393	\$ 9,839	\$ 9,290	\$ 9,126	\$ 8,932	27.5 %	15.8
Commercial real estate							
Commercial mortgages	10,746	8,839	8,850	8,661	8,509	26.3	21.6
Construction	2,834	1,742	1,564	1,484	1,358	108.7	62.7
Total commercial real estate	13,580	10,581	10,414	10,145	9,867	37.6	28.4
Commercial lease financing	504	493	471	462	425	18.6	2.2
Total Commercial Loans and Leases	25,477	20,913	20,175	19,733	19,224	32.5	21.8
<b>Personal Loans and Leases</b>							
Residential real estate							
Residential mortgages	5,621	5,190	4,855	4,537	3,986	41.0	8.3
Construction	2,365	2,085	1,862	1,633	1,382	71.2	13.4
Total residential real estate	7,986	7,275	6,717	6,170	5,368	48.8	9.8
Personal loans							
Student	51	99	78	74	78	(33.7)	(48.0)
Credit card	237	227	233	228	217	9.5	(4.4)

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Home equity loans and lines	4,596	4,706	4,822	4,905	5,098	(9.9)	(2.3)
Other	1,167	1,289	1,245	1,241	1,186	(1.6)	(9.4)
Total personal loans	6,051	6,321	6,378	6,448	6,579	(8.0)	(4.3)
Personal lease financing	136	132	132	128	123	10.3	2.8
Total Personal Loans and Leases	14,173	13,728	13,227	12,746	12,070	17.4	3.2
Total Consolidated Average Loans and Leases	\$ 39,650	\$ 34,641	\$ 33,402	\$ 32,479	\$ 31,294	26.7 %	14.5

Total consolidated average loans and leases increased \$8.4 billion or 26.7% in the second quarter of 2006 compared to the second quarter of 2005. Excluding the effect of the banking acquisitions, total consolidated average loan and lease organic growth was 12.6% in the second quarter of 2006 compared to the second quarter of 2005. Approximately \$3.9 billion of the growth in total consolidated average loans and leases was attributable to the banking acquisitions and \$4.5 billion of the growth was organic. Of the \$3.9 billion of average growth attributable to the banking acquisitions, \$2.8 billion was attributable to average commercial real estate loans, \$0.8 billion was attributable to average commercial loans and leases and \$0.3 billion was attributable to average residential real estate loans. Of the \$4.5 billion of average loan and lease organic growth, \$1.7 billion was attributable to average commercial loans and leases, \$0.9 billion was attributable to average commercial real estate loans, and \$2.4 billion was attributable to residential real estate loans. From a production standpoint, residential real estate loan closings in the second quarter of 2006 were \$1.4 billion compared to \$1.2 billion in the first quarter of 2006 and \$1.6 billion in the second quarter of 2005. Average home equity loans and lines declined \$0.5 billion in the second quarter of 2006 compared to the second quarter of 2005.

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For the six months ended June 30, 2006, total consolidated average loans and leases increased \$6.6 billion or 21.5% compared to the six months ended June 30, 2005. Excluding the effect of the banking acquisitions, total consolidated average loan and lease organic growth was 14.1% for the six months ended June 30, 2006 compared to the six months ended June 30, 2005. Approximately \$2.0 billion of the growth in total consolidated average loans and leases was attributable to the banking acquisitions and \$4.6 billion of the growth was organic. Of the \$2.0 billion of average growth attributable to the banking acquisitions, \$1.4 billion was attributable to average commercial real estate loans, \$0.4 billion was attributable to average commercial loans and leases and the remainder was primarily attributable to average residential real estate loans. Of the \$4.6 billion of average loan and lease organic growth, \$1.6 billion was attributable to average commercial loans and leases, \$1.0 billion was attributable to average commercial real estate loans, and \$2.5 billion was attributable to residential real estate loans. From a production standpoint, residential real estate loan closings in the first half of 2006 and the first half of 2005 amounted to \$2.6 billion and \$2.7 billion, respectively. Average home equity loans and lines declined \$0.5 billion in the six months ended June 30, 2006 compared to the six months ended June 30, 2005.

Total average commercial loan and lease organic growth continued to be strong in the second quarter and first half of 2006. Management

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attributes the loan growth to the strength of the local economies in the markets the Corporation serves, new business and continued customer satisfaction. Management continues to expect that year over year organic commercial loan growth (as a percentage) will reach low double digits in 2006. The basis for this expectation includes continued success in attracting new customers in all of the Corporation's markets and continued modest economic growth in the primary markets that the Corporation serves. Recently the Corporation has experienced some slowing in the construction market for both commercial and residential developers, and to some extent throughout the commercial real estate business. As a result, management expects that year over year organic commercial real estate loan growth (as a percentage) will reach mid single digits in 2006.

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

The Corporation sells some of its residential real estate production (residential real estate and home equity loans) in the secondary market. Selected residential real estate loans with rate and term characteristics that are considered desirable are periodically retained in the portfolio. For the three months ended June 30, 2006 and 2005 real estate loans sold to investors amounted to \$0.6 billion and \$0.5 billion, respectively. For the six months ended June 30, 2006, real estate loans sold to investors amounted to \$1.2 billion compared to \$0.9 billion for the six months ended June 30, 2005. At June 30, 2006 and 2005, the Corporation had approximately \$123.4 million and \$153.8 million of mortgage loans held for sale, respectively. Gains from the sale of mortgage loans amounted to \$10.2 million in the second quarter of 2006 compared to \$9.5 million in the second quarter of 2005. For the six months ended June 30, 2006, gains from the sale of mortgage loans amounted to \$21.0 million compared to \$16.4 million in the six months ended June 30, 2005.

Auto loans securitized and sold in the second quarters of 2006 and 2005 amounted to \$0.2 billion and \$0.1 billion, respectively. For the six months ended June 30, 2006, auto loans securitized and sold amounted to \$0.3 billion compared to \$0.2 billion in the six months ended June 30, 2005. The net gains and losses from the sale and securitization of auto loans for the three and six months ended June 30, 2006 and 2005, respectively, were not significant.

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

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

### Consolidated Average Deposits -----

2006		2005		Growth Pct.
Second	First	Fourth	Third	Second
				Prior



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	Quarter	Quarter	Quarter	Quarter	Quarter	Annual	Quarter
	-----	-----	-----	-----	-----	-----	-----
Bank issued deposits							
-----							
Noninterest bearing deposits							
Commercial	\$ 3,873	\$ 3,473	\$ 3,687	\$ 3,589	\$ 3,377	14.7 %	11.5
Personal	998	943	942	932	958	4.2	5.9
Other	533	526	566	528	491	8.5	1.2
	-----	-----	-----	-----	-----	-----	-----
Total noninterest bearing deposits	5,404	4,942	5,195	5,049	4,826	12.0	9.4
Interest bearing deposits							
Savings and NOW	3,251	2,831	2,911	3,049	3,149	3.2	14.8
Money market	7,389	6,599	6,354	6,047	5,819	27.0	12.0
Foreign activity	1,000	1,034	1,084	932	882	13.4	(3.2)
	-----	-----	-----	-----	-----	-----	-----
Total interest bearing deposits	11,640	10,464	10,349	10,028	9,850	18.2	11.2
Time deposits							
Other CDs and time deposits	4,769	3,509	3,354	3,095	2,951	61.7	35.9
CDs greater than \$100,000	2,878	2,035	1,703	1,421	1,243	131.5	41.4
	-----	-----	-----	-----	-----	-----	-----
Total time deposits	7,647	5,544	5,057	4,516	4,194	82.4	37.9
	-----	-----	-----	-----	-----	-----	-----
Total bank issued deposits	24,691	20,950	20,601	19,593	18,870	30.8	17.9
Wholesale deposits							
-----							
Money market	732	887	1,074	1,068	1,077	(32.1)	(17.5)
Brokered CDs	5,382	3,874	4,752	4,615	4,437	21.3	38.9
Foreign time	1,931	1,762	897	1,076	1,086	77.8	9.6
	-----	-----	-----	-----	-----	-----	-----
Total wholesale deposits	8,045	6,523	6,723	6,759	6,600	21.9	23.3
	-----	-----	-----	-----	-----	-----	-----
Total consolidated average deposits	\$ 32,736	\$ 27,473	\$ 27,324	\$ 26,352	\$ 25,470	28.5 %	19.2
	=====	=====	=====	=====	=====	=====	=====

Average total bank issued deposits increased \$5.8 billion or 30.8% in the second quarter of 2006 compared to the second quarter of 2005. Excluding the effect of the banking acquisitions, total average bank issued deposits organic growth was 12.6% in the second quarter of 2006 compared to the second quarter of 2005. Approximately \$3.0 billion of the growth in average total bank issued deposits was attributable to the banking acquisitions and \$2.8 billion of the growth was organic. Of the \$3.0 billion of average growth attributable to the banking acquisitions, \$0.4 billion was attributable to average noninterest bearing deposits, \$0.9 billion was attributable to average interest bearing deposits and \$1.7 billion was attributable to average time deposits. Of the \$2.8 billion of average bank issued deposit organic growth, \$0.2 billion was attributable to average noninterest bearing deposits, \$0.8 billion was attributable to average interest bearing deposits and \$1.8 billion was attributable to average time deposits.

For the six months ended June 30, 2006, average total bank issued deposits increased \$4.2 billion or 22.4% compared to the six month ended June 30, 2005. Excluding the effect of the banking acquisitions, total average bank

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issued deposits organic growth was 13.1% in the six months ended June 30, 2006 compared to the six months ended June 30, 2005. Approximately \$1.5 billion of the growth in average total bank issued deposits was attributable to the banking acquisitions and \$2.7 billion of the growth was organic. Of the \$1.5 billion of average growth attributable to the banking acquisitions, \$0.2 billion was attributable to average noninterest bearing deposits, \$0.5 billion was attributable to average interest bearing deposits and \$0.8 billion was attributable to average time deposits. Of the \$2.7 billion of average bank issued deposit organic growth, \$0.2 billion was attributable to average noninterest bearing deposits, \$0.8 billion was attributable to average interest bearing deposits and \$1.7 billion was attributable to average time deposits.

Noninterest bearing deposit balances tend to exhibit some seasonality with a trend of balances declining somewhat in the early part of the year followed by growth in balances throughout the remainder of the year. A portion of the noninterest balances, especially commercial balances, is sensitive to the interest rate environment. Larger balances tend to be maintained when overall interest rates are low and smaller balances tend to be maintained as overall interest rates increase.

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As interest rates have risen, the Corporation has increasingly been able to competitively price deposit products which has contributed to the growth in average bank-issued interest bearing deposits and average bank issued time deposits. In addition, rising interest rates have resulted in a shift in the bank issued deposit mix. In their search for higher yields, both new and existing customers have been migrating their deposit balances to higher cost money market and time deposit products.

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

Wholesale deposits are funds in the form of deposits generated through distribution channels other than M&I's own banking branches. The Corporation continues to make use of wholesale funding alternatives, especially brokered and institutional certificates of deposit. These deposits allow the Corporation's bank subsidiaries to gather funds across a wider geographic base and at pricing levels considered attractive, where the underlying depositor may be retail or institutional. For the three months ended June 30, 2006, average wholesale deposits increased \$1.4 billion, or 21.9% compared to the three months ended June 30, 2005. For the six months ended June 30, 2006 average wholesale deposits increased \$0.6 billion, or 8.8% compared to the six months ended June 30, 2005. Average wholesale deposits for the three and six months ended June 30, 2006 include \$0.6 billion and \$0.3 billion, respectively, of wholesale deposits that were assumed in the acquisitions. During the first quarter of 2006, a significant portion of longer-term institutional certificates of deposits matured and were re-financed at a higher cost.

At June 30, 2006, long-term borrowings from the banking acquisitions amounted to \$229.0 million. Approximately \$30.0 million is subordinated, \$100.0 million of advances from the Federal Home Loan Bank ("FHLB") and \$99.0 million is subordinated debt associated with four separate issuances of trust preferred securities. During the second quarter of 2006, \$400.0 million of floating rate global senior bank notes were issued. These floating rate senior bank notes mature in 2011 and have a coupon rate that is indexed to the three-month London Inter-Bank Offered Rate ("LIBOR").

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

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

During the first quarter of 2005 the Corporation obtained a new floating rate advance from the FHLB aggregating \$250.0 million. The FHLB advance matures in 2011. During the first quarter of 2005, \$900.0 million of senior bank notes with an annual weighted average coupon interest rate of 4.13% were issued. The notes mature at various times beginning in 2008 through 2017.

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

Consolidated Yield and Cost Analysis

	Three Months Ended June 30, 2006			Three Months Ended June 30, 2005		
	Average Balance	Average Interest	Average Yield or Cost (b)	Average Balance	Average Interest	Average Yield or Cost (b)
Loans and leases: (a)						
Commercial loans and leases	\$ 11,896.4	\$ 215.4	7.26 %	\$ 9,357.0	\$ 136.3	5.84 %
Commercial real estate loans	13,580.4	248.6	7.34	9,867.4	151.4	6.15
Residential real estate loans	7,985.7	139.7	7.01	5,367.6	79.9	5.97
Home equity loans and lines	4,595.7	82.6	7.21	5,098.3	79.2	6.23
Personal loans and leases	1,591.5	28.5	7.20	1,603.8	23.6	5.91
Total loans and leases	39,649.7	714.8	7.23	31,294.1	470.4	6.03
Investment securities (b):						
Taxable	5,818.3	70.9	4.79	4,828.6	53.3	4.41
Tax Exempt (a)	1,316.1	22.9	7.04	1,333.7	23.9	7.34
Total investment securities	7,134.4	93.8	5.19	6,162.3	77.2	5.03
Trading securities (a)	50.3	0.2	1.70	25.6	0.1	0.78
Other short-term investments	374.2	5.0	5.37	271.7	2.2	3.39
Total interest earning assets	\$ 47,208.6	\$ 813.8	6.90 %	\$ 37,753.7	\$ 549.9	5.84 %

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Interest bearing deposits:						
Bank issued deposits:						
Bank issued interest						
bearing activity deposits	\$ 11,639.6	\$ 94.6	3.26 %	\$ 9,850.0	\$ 41.8	1.70 %
Bank issued time deposits	7,646.9	80.9	4.24	4,193.2	31.6	3.02
-----						
Total bank issued deposits	19,286.5	175.5	3.65	14,043.2	73.4	2.10
Wholesale deposits						
	8,045.1	96.1	4.79	6,600.1	49.4	3.00
-----						
Total interest bearing deposits	27,331.6	271.6	3.99	20,643.3	122.8	2.39
Short-term borrowings						
	3,418.6	43.1	5.06	3,392.3	28.4	3.36
Long-term borrowings	10,050.1	117.3	4.68	7,920.1	77.3	3.91
-----						
Total interest bearing liabilities	\$ 40,800.3	\$ 432.0	4.25 %	\$ 31,955.7	\$ 228.5	2.87 %
=====						
Net interest margin (FTE)		\$ 381.8	3.24 %		\$ 321.4	3.42 %
=====						
Net interest spread (FTE)			2.65 %			2.97 %
=====						

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

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

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Consolidated Yield and Cost Analysis

	Six Months Ended June 30, 2006			Six Months Ended June 30, 2005		
	Average Balance	Average Interest	Average Yield or Cost (b)	Average Balance	Average Interest	Average Yield or Cost (b)
-----						
Loans and leases: (a)						
Commercial loans and leases	\$ 11,118.8	\$ 390.6	7.09 %	\$ 9,108.7	\$ 257.1	5.69 %
Commercial real estate loans	12,088.7	429.7	7.17	9,692.9	290.0	6.03
Residential real estate loans	7,632.5	262.5	6.94	5,050.1	147.2	5.88
Home equity loans and lines	4,650.5	163.6	7.09	5,114.4	154.3	6.08
Personal loans and leases	1,668.8	57.7	6.97	1,626.6	46.4	5.75
-----						
Total loans and leases	37,159.3	1,304.1	7.08	30,592.7	895.0	5.90
Investment securities (b):						
Taxable	5,401.1	128.8	4.72	4,825.7	105.2	4.39
Tax Exempt (a)	1,328.3	46.3	7.12	1,306.1	46.9	7.41
-----						
Total investment securities	6,729.4	175.1	5.18	6,131.8	152.1	5.02
Trading securities (a)	42.3	0.3	1.37	24.4	0.1	0.99
Other short-term investments	345.1	8.6	5.01	229.6	3.6	3.20

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Total interest earning assets	\$44,276.1	\$1,488.1	6.77 %	\$ 36,978.5	\$1,050.8	5.73 %
Interest bearing deposits:						
Bank issued deposits:						
Bank issued interest bearing activity deposits	\$11,055.2	\$ 169.2	3.09 %	\$ 9,863.4	\$ 75.5	1.54 %
Bank issued time deposits	6,601.4	134.2	4.10	4,028.1	57.6	2.89
Total bank issued deposits	17,656.6	303.4	3.47	13,891.5	133.1	1.93
Wholesale deposits	7,288.0	166.2	4.60	6,700.8	93.2	2.80
Total interest bearing deposits	24,944.6	469.6	3.80	20,592.3	226.3	2.22
Short-term borrowings	3,394.9	82.5	4.90	3,144.0	50.3	3.23
Long-term borrowings	9,728.9	221.7	4.59	7,564.6	145.7	3.88
Total interest bearing liabilities	\$38,068.4	\$ 773.8	4.10 %	\$ 31,300.9	\$ 422.3	2.72 %
Net interest margin (FTE)		\$ 714.3	3.25 %		\$ 628.5	3.43 %
Net interest spread (FTE)			2.67 %			3.01 %

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

The net interest margin FTE decreased 18 basis points from 3.42% in the second quarter of 2005 to 3.24% in the second quarter of 2006. For the six months ended June 30, 2006, the net interest margin FTE was 3.25% compared to 3.43% for the six months ended June 30, 2005, a decrease of 18 basis points. Beginning with the first quarter of 2006, the Corporation included certain loan and lease fees in interest income on loans and leases. All prior periods have been adjusted for this reclassification. For the three and six months ended June 30, 2005, the net interest margin FTE increased by approximately 9 basis points and 8 basis points, respectively from the previously reported amounts due to this reclassification. Compared to the first quarter of 2006, the net interest margin FTE decreased 2 basis points from 3.26% in the first quarter of 2006 to 3.24% in the second quarter of 2006.

Similar to the general trends being experienced throughout the industry, the Corporation continues to be challenged by narrowing loan spreads in a solid economy with a flat yield curve, loan growth that may exceed the Corporation's ability to generate appropriately priced deposits and the shift in the bank issued deposit mix by new and existing depositors into higher yielding products. Management expects these trends to continue and expects that there will be modest downward pressure on the net interest margin FTE for the remainder of 2006. Net interest income and the net interest margin percentage can vary and continue to be influenced by loan and deposit growth, product spreads, pricing competition in the Corporation's markets, prepayment activity, future interest rate changes and various other factors.

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

Nonperforming Assets

(\$000's)

	2006		2005		
	Second Quarter	First Quarter	Fourth Quarter	Third Quarter	Second Quarter
Nonaccrual	\$ 193,028	\$ 144,484	\$ 134,718	\$ 141,408	\$ 126,000
Renegotiated	133	138	143	148	
Past due 90 days or more	4,855	4,523	5,725	5,743	4,000
Total nonperforming loans and leases	198,016	149,145	140,586	147,299	131,000
Other real estate owned	11,701	8,207	8,869	8,774	9,000
Total nonperforming assets	\$ 209,717	\$ 157,352	\$ 149,455	\$ 156,073	\$ 140,000
Allowance for loan and lease losses	\$ 415,201	\$ 368,760	\$ 363,769	\$ 362,257	\$ 360,000

Consolidated Statistics

	2006		2005		
	Second Quarter	First Quarter	Fourth Quarter	Third Quarter	Second Quarter
Net charge-offs to average loans and leases annualized	0.10 %	0.07 %	0.14 %	0.10 %	0.08 %
Total nonperforming loans and leases to total loans and leases	0.49	0.42	0.41	0.44	0.40
Total nonperforming assets to total loans and leases and other real estate owned	0.52	0.45	0.44	0.47	0.40
Allowance for loan and lease losses to total loans and leases	1.03	1.05	1.06	1.09	1.05
Allowance for loan and lease losses to total nonperforming loans and leases	210	247	259	246	240

Nonaccrual Loans and Leases By Type

(\$000's)

	2006		2005		
	Second Quarter	First Quarter	Fourth Quarter	Third Quarter	Second Quarter

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	Quarter	Quarter	Quarter	Quarter	Quarter
	-----	-----	-----	-----	-----
Commercial					
Commercial, financial					
and agricultural	\$ 59,558	\$ 50,103	\$ 43,730	\$ 47,644	\$ 35,000
Lease financing receivables	454	1,399	1,539	3,012	3,000
	-----	-----	-----	-----	-----
Total commercial	60,012	51,502	45,269	50,656	39,000
Real estate					
Construction and land development	33,115	3,276	913	3,057	1,000
Commercial mortgage	34,260	30,633	28,644	30,351	37,000
Residential mortgage	64,151	57,425	57,982	56,488	47,000
	-----	-----	-----	-----	-----
Total real estate	131,526	91,334	87,539	89,896	86,000
Personal	1,490	1,648	1,910	856	
	-----	-----	-----	-----	-----
Total nonaccrual loans and leases	\$ 193,028	\$ 144,484	\$ 134,718	\$ 141,408	\$ 126,000
	=====	=====	=====	=====	=====

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Reconciliation of Allowance for Loan and Lease Losses

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(\$000's)

	2006		2005		
	Second	First	Fourth	Third	Second
	Quarter	Quarter	Quarter	Quarter	Quarter
	-----	-----	-----	-----	-----
Beginning balance	\$ 368,760	\$ 363,769	\$ 362,257	\$ 360,138	\$ 358,000
Provision for loan and lease losses	11,053	10,995	12,995	9,949	13,000
Allowance of banks and loans acquired	45,258	--	--	--	
Loans and leases charged-off					
Commercial	6,125	3,869	9,481	2,256	3,000
Real estate	3,385	2,901	3,110	6,576	8,000
Personal	3,088	3,727	5,213	3,186	3,000
Leases	1,253	189	226	337	
	-----	-----	-----	-----	-----
Total charge-offs	13,851	10,686	18,030	12,355	16,000
Recoveries on loans and leases					
Commercial	847	2,715	4,256	2,634	2,000
Real estate	1,224	263	374	575	
Personal	1,149	971	781	787	
Leases	761	733	1,136	529	
	-----	-----	-----	-----	-----
Total recoveries	3,981	4,682	6,547	4,525	4,000
Net loans and leases charge-offs	9,870	6,004	11,483	7,830	11,000
	-----	-----	-----	-----	-----
Ending balance	\$ 415,201	\$ 368,760	\$ 363,769	\$ 362,257	\$ 360,000
	=====	=====	=====	=====	=====

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

OREO is principally comprised of commercial and residential properties acquired in partial or total satisfaction of problem loans and amounted to \$11.7 million at June 30, 2006, compared to \$8.2 million at March 31, 2006 and \$9.1 million at June 30, 2005. The increase in OREO of \$3.5 million from March 31, 2006 to June 30, 2006 is predominantly due to the OREO acquired in the banking acquisitions.

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

Maintaining nonperforming assets at an acceptable level is important to the ongoing success of a financial services institution. The Corporation's comprehensive credit review and approval process are critical to ensuring that the amount of nonperforming assets on a long-term basis is minimized within the overall framework of acceptable levels of credit risk. In addition to the negative impact on net interest income and credit losses, nonperforming assets also increase operating costs due to the expense associated with collection efforts.

At June 30, 2006, nonperforming loans and leases amounted to \$198.0 million or 0.49% of consolidated loans and leases compared to \$149.1 million or 0.42% of consolidated loans and leases at March 31, 2006, and \$131.6 million or 0.41% of consolidated loans and leases at June 30, 2005. Approximately \$42.7 million or 87% of the \$48.9 million increase in nonperforming loans from March 31, 2006 to June 30, 2006 was attributable to the banking acquisitions. Excluding the effect of the acquisitions, nonperforming loans and leases would have amounted to \$155.3 million or 0.43% of consolidated loans and leases at June 30, 2006. Excluding the acquisitions, the pro forma ratio of nonperforming loans and leases to consolidated loans and leases at June 30, 2006 and the actual ratio at each quarter end throughout 2005 has remained in a fairly narrow range and continues to be below management's expectations. Nonaccrual loans and leases continue to be the primary source of nonperforming loans and leases.

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Net charge-offs amounted to \$9.9 million or 0.10% of average loans and leases in the second quarter of 2006 compared to \$6.0 million or 0.07% of average loans and leases in the first quarter of 2006 and \$11.9 million or 0.15% of average loans and leases in the second quarter of 2005. The lower level of net charge-offs experienced throughout 2005 and the first six months of 2006 has to some extent been the result of higher than normal recoveries. Based on the status of some of the larger charge-offs recognized in recent quarters, management expects recoveries will likely return to lower levels in future periods. The ratio of recoveries to charge-offs was 28.7% for the three months ended June 30, 2006 which was closer to average historical experience. The ratio of recoveries to charge-offs was 35.3% for the six months ended June 30, 2006 which continues to be above the Corporation's five year historical average ratio of recoveries to charge-offs of 27.9%.

Management continues to expect the longer term level of nonperforming loans and leases to be in the range of 50-60 basis points of total loans and leases and expects net charge-offs to trend to historical levels. With respect to the banking acquisitions, management expects the level of



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nonperforming loans to decline slowly over the next couple of years and expects net charge-off levels to increase modestly.

The provisions for loan and lease losses amounted to \$11.0 million for the three months ended June 30, 2006 compared to \$11.0 million for the three months ended March 31, 2006 and \$13.7 million for the three months ended June 30, 2005. For the six months ended June 30, 2006, the provisions for loan and lease losses amounted to \$22.0 million compared to \$21.9 million for the six months ended June 30, 2005. The allowance for loan and lease losses as a percent of consolidated loans and leases outstanding was 1.03% at June 30, 2006, 1.05% at March 31, 2006 and 1.12% at June 30, 2005.

### OTHER INCOME

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Other income or noninterest sources of revenue represented approximately 56.4% and 58.1% of the Corporation's total sources of revenues for the three months ended June 30, 2006 and 2005, respectively. Total other income in the second quarter of 2006 amounted to \$484.4 million compared to \$434.3 million in the same period last year, an increase of \$50.1 million or 11.5%. For the six months ended June 30, 2006 and 2005, noninterest sources of revenue represented approximately 57.8% of the Corporation's total sources of revenues, respectively. Total other income for the six months ended June 30, 2006 amounted to \$957.1 million compared to \$836.8 million for the six months ended June 30, 2005, an increase of \$120.3 million or 14.4%. The increase in other income was primarily due to growth in data processing services and wealth management services revenue. Other income for the three and six months ended June 30, 2005 includes significant investment securities gains as previously discussed.

Data processing services revenue (Metavante) amounted to \$345.0 million in the second quarter of 2006 compared to \$282.4 million in the second quarter of 2005, an increase of \$62.6 million or 22.2%. For the six months ended June 30, 2006, Data processing services revenue amounted to \$688.0 million compared to \$565.3 million for the six months ended June 30, 2005, an increase of \$122.7 million or 21.7%. Revenue growth continued throughout the segment due to revenue associated with acquisitions, higher transaction volumes in core processing activity, payment processing and electronic banking and an increase in healthcare eligibility and payment card production. Revenue associated with Metavante's acquisitions completed in 2006 and 2005 contributed a significant portion of the revenue growth in the three and six months ended June 30, 2006, compared to the three and six months ended June 30, 2005. The acquisition related revenue growth includes cross sales of acquired products to clients across the entire segment. Metavante estimates that total revenue growth (internal and external) for the six months ended June 30, 2006 compared to the six months ended June 30, 2005 excluding the acquisitions ("organic revenue growth"), was approximately 8.2%. To determine the estimated organic revenue growth rate, Metavante adjusts its prior year revenue for the acquisitions as if they had been consummated on January 1 of the prior year. The linked-quarter data processing services revenue growth will tend to be somewhat more cyclical and seasonal in nature. Total buyout revenue, which varies from period to period, increased \$3.0 million and \$1.8 million in the three and six months ended June 30, 2006 compared to the three and six months ended June 30, 2005, respectively.

As previously reported, on January 1, 2006 the Banking segment transferred its external item processing business, including all check-processing client relationships, to Metavante. As a result of the transfer, the previously reported Other income line, Item processing, was reclassified to Data processing services in the Consolidated Statements of Income and

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prior period segment financial information for both the Banking segment and Metavante has been adjusted for the transfer.

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

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

Wealth management revenue amounted to \$56.3 million in the second quarter of 2006 compared to \$48.1 million in the second quarter of 2005, an increase of \$8.2 million or 17.0%. For the six months ended June 30, 2006, Wealth management revenue amounted to \$109.1 million compared to \$95.2 million for the six months ended June 30, 2005, an increase of \$13.9 million or 14.6%. For the three and six months ended June 30, 2006, wealth management revenue attributable to the previously reported January 3, 2006 acquisition of certain assets of First Trust Indiana and the April 1, 2006 acquisition of Gold Banc Corporation, Inc. amounted to \$2.3 million and \$3.4 million, respectively. Continued success in the cross-selling and integrated delivery initiatives, improved investment performance and improving results in institutional sales efforts and outsourcing activities were the primary contributors to the remaining revenue growth over the respective periods. Assets under management were approximately \$20.4 billion at June 30, 2006 compared to \$19.8 billion at March 31, 2006, and \$18.5 billion at June 30, 2005.

Service charges on deposits amounted to \$25.0 million in the second quarter of 2006 compared to \$23.7 million in the second quarter of 2005. For the six months ended June 30, 2006, service charges on deposits amounted to \$47.6 million compared to \$47.1 million for the six months ended June 30, 2005. The banking acquisitions contributed \$2.1 million of service charges on deposits for the three and six months ended June 30, 2006. A portion of this source of fee income is sensitive to changes in interest rates. In a rising interest rate environment, customers that pay for services by maintaining eligible deposit balances receive a higher earnings credit which results in lower fee income. Excluding the effect of the banking acquisitions, lower service charges on deposits associated with commercial demand deposits accounted for the majority of the decline in this revenue in the three and six months ended June 30, 2006 compared to the three and six months ended June 30, 2005, respectively.

Total mortgage banking revenue was \$12.3 million in the second quarter of 2006 compared with \$11.2 million in the second quarter of 2005, an increase of \$1.1 million or 9.7%. For the six months ended June 30, 2006, total mortgage banking revenue amounted to \$24.7 million compared to \$19.4 million for the six months ended June 30, 2005, an increase of \$5.3 million or 27.7%. For the three months ended June 30, 2006 and 2005, the Corporation sold \$0.6 billion and \$0.5 billion of residential mortgage and home equity loans to the secondary market, respectively. For the six months ended June 30, 2006 and 2005, the Corporation sold \$1.2 billion and \$0.9 billion of residential mortgage and home equity loans to the

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secondary market, respectively. As previously discussed, the Corporation continues to sell home equity loans at origination which is partly in response to the demand for home equity products with higher loan-to-value characteristics. Retained interests in the form of mortgage servicing rights on residential mortgage loans sold amounted to \$0.4 million for the six months ended June 30, 2006 and \$0.5 million for the six months ended June 30, 2005. At June 30, 2006 mortgage servicing rights amounted to \$2.5 million.

Net investment securities gains for the three and six months ended June 30, 2006 were not significant. Net investment securities gains for the three and six months ended June 30, 2005 amounted to \$29.4 million and \$35.3 million, respectively. As previously discussed, during the second quarter of 2005, the Corporation realized a gain due to the sale of an entity associated with its investment in an independent private equity and venture partnership. The gross gain amounted to \$29.0 million. During the first quarter of 2005, the Corporation's banking segment's investment in certain membership interests of PULSE was liquidated by PULSE. The cash received resulted in a pre-tax gain of \$5.3 million. An additional \$0.3 million was received in the second quarter of 2005.

Other income in the second quarter of 2006 amounted to \$37.4 million compared to \$31.5 million in the second quarter of 2005, an increase of \$5.9 million or 19.0%. For the six months ended June 30, 2006, other income amounted to \$71.3 million compared to \$60.3 million for the six months ended June 30, 2005, an increase of \$11.0 million or 18.2%. Other income for the three and six months ended June 30, 2006 includes \$2.8 million of income attributable to the banking acquisitions. The remaining increase in other income for the three and six months ended June 30, 2006 compared to the three and six months ended June 30, 2005 was primarily due to increases in card related fees and trading and investment fees.

### OTHER EXPENSE

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Total other expense for the three months ended June 30, 2006 amounted to \$544.3 million compared to \$459.9 million for the three months ended June 30, 2005, an increase of \$84.4 million or 18.4%. For the six months ended June 30, 2006, total other expense amounted to \$1,049.4 million compared to \$902.8 million for the six months ended June 30, 2005, an increase of \$146.6 million or 16.2%.

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Total other expense for the three and six months ended June 30, 2006 included the operating expenses associated with Metavante's 2005 and 2006 acquisitions, the 2006 banking acquisitions and the 2006 acquisition of certain assets of First Trust Indiana. The operating expenses of the acquired entities have been included in the Corporation's consolidated operating expenses from the dates the transactions were completed, which had a significant impact on the period to period comparability of operating expenses in 2006 compared to 2005. Approximately \$65.6 million of the operating expense growth in the second quarter of 2006 compared to the second quarter of 2005 and \$109.6 million of the operating expense growth in the six months ended June 30, 2006 compared to the six months ended June 30, 2005 was attributable to the acquisitions. In addition, expenses for the three and six months ended June 30, 2006 include conversion and integration expenses related to the banking acquisitions.

The Corporation estimates that its expense growth in the three and six months ended June 30, 2006 compared to the three and six months ended June 30, 2005, excluding the effects of the acquisitions, was approximately \$18.8 million and \$36.9 million, respectively, and the estimated growth

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rate was approximately 4.1% over the respective comparative periods.

Expense control is sometimes measured in the financial services industry by the efficiency ratio statistic. The efficiency ratio is calculated by taking total other expense divided by the sum of total other income (including Capital Markets revenue but excluding investment securities gains or losses) and net interest income on a fully taxable equivalent basis. The Corporation's efficiency ratios for the three months ended June 30, 2006, and prior four quarters were:

	Efficiency Ratios				
	-----				
	Three Months Ended				
	June 30, 2006	March 31, 2006	December 31, 2005	September 30, 2005	June 30 2005
	-----				
Consolidated Corporation	62.9 %	62.8 %	64.1 %	62.5 %	60.
Consolidated Corporation Excluding Metavante	51.2 %	48.8 %	51.5 %	50.8 %	49.

The Consolidated Corporation Excluding Metavante efficiency ratio for the remainder of 2006 is expected to decline somewhat from the second quarter 2006 and is expected to continue to decline slightly until the banking acquisitions are fully integrated.

Salaries and employee benefits expense amounted to \$307.1 million in the second quarter of 2006 compared to \$269.0 million in the second quarter of 2005, an increase of \$38.1 million or 14.2%. For the six months ended June 30, 2006, Salaries and employee benefits expense amounted to \$584.5 million compared to \$514.1 million for the six months ended June 30, 2005, an increase of \$70.4 million or 13.7%. Salaries and benefits associated with the acquisitions previously discussed accounted for approximately \$27.5 million and \$45.1 million of the increase in Salaries and employee benefits expense in the three and six months ended June 30, 2006 compared to the three and six months ended June 30, 2005, respectively.

For the second quarter of 2006, occupancy and equipment expense amounted to \$63.8 million compared to \$50.9 million in the second quarter of 2005, an increase of \$12.9 million or 25.5%. The acquisitions accounted for approximately \$9.7 million of the increase in occupancy and equipment expense in the three months ended June 30, 2006 compared to the three months ended June 30, 2005. For the six months ended June 30, 2006, occupancy and equipment expense amounted to \$121.6 million compared to \$104.2 million for the six months ended June 30, 2005, an increase of \$17.4 million or 16.7%. The acquisitions accounted for approximately \$12.7 million of the increase in occupancy and equipment expense in the six months ended June 30, 2006 compared to the six months ended June 30, 2005. The remaining increase in occupancy and equipment expense for the three and six months ended June 30, 2006 compared to the three and six months ended June 30, 2005 was primarily attributable to the banking segment and wealth management.

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Software expenses, processing charges, supplies and printing, professional services and shipping and handling expenses totaled \$89.1 million in the second quarter of 2006 compared to \$63.0 million in the second quarter of

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2005, an increase of \$26.1 million or 41.4%. For the six months ended June 30, 2006, software expenses, processing charges, supplies and printing, professional services and shipping and handling expenses totaled \$175.0 million compared to \$128.3 million for the six months ended June 30, 2005, an increase of \$46.7 million or 36.4%. The acquisitions accounted for \$19.6 million and \$35.5 million of the expense growth for the three and six months ended June 30, 2006 compared to the three and six months ended June 30, 2005, respectively. Metavante's expense growth accounted for the majority of the remaining increase in expense for these items in the three and six months ended June 30, 2006 compared to the three and six months ended June 30, 2005, respectively.

Amortization of intangibles amounted to \$12.0 million in the second quarter of 2006 compared to \$8.1 million in the second quarter of 2005, an increase of \$3.9 million. For the six months ended June 30, 2006, amortization of intangibles amounted to \$20.9 million compared to \$16.2 million for the six months ended June 30, 2005, an increase of \$4.7 million. The increase in amortization associated with the acquisitions amounted to \$5.1 million and \$7.1 million for the three and six months ended June 30, 2006 compared to the three and six months ended June 30, 2005, respectively. Those increases were offset by lower amortization of core deposit intangibles, which is based on a declining balance method and lower amortization of Metavante's contract intangibles from previous acquisitions.

Other expense amounted to \$72.3 million in the second quarter of 2006 compared to \$68.9 million in the second quarter of 2005, an increase of \$3.4 million or 4.9%. For the six months ended June 30, 2006, other expense amounted to \$147.4 million compared to \$140.1 million for the six months ended June 30, 2005, an increase of \$7.3 million or 5.2%.

Other expense is affected by the capitalization of costs, net of amortization associated with software development and customer data processing conversions. Net software and conversion capitalization was \$0.6 million in the second quarter of 2006 compared to net software and conversion amortization of \$5.7 million in the second quarter of 2005, resulting in a decrease to other expense over the comparative quarters of \$6.3 million. For the six months ended June 30, 2006, net software and conversion amortization was \$2.1 million compared to net software and conversion amortization of \$11.4 million for the six months ended June 30, 2005, resulting in a decrease to other expense over the comparative six months of \$9.3 million.

The acquisitions accounted for \$3.8 million and \$9.3 million of the growth in other expense for the three and six months ended June 30, 2006 compared to the three and six months ended June 30, 2005, respectively. The cost of card plastic and cost of equipment associated with Metavante's revenues and travel and other costs associated with the conversion and integration of the banking acquisitions accounted for the remainder of the increase in other expense for the three and six months ended June 30, 2006 compared to the three and six months ended June 30, 2005, respectively.

### INCOME TAXES

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The provision for income taxes for the three months ended June 30, 2006 amounted to \$99.4 million or 32.8% of pre-tax income compared to \$90.0 million or 32.9% of pre-tax income for the three months ended June 30, 2005. For the six months ended June 30, 2006, the provision for income taxes amounted to \$193.8 million or 33.2% of pre-tax income compared to \$174.9 million or 33.4% of pre-tax income for the six months ended June 30, 2005. During the second quarter of 2006, an income tax benefit was

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recognized for the integration and realignment of Metavante subsidiaries that resulted in a lower provision for income taxes in the consolidated statements of income for the three and six months ended June 30, 2006. During the second quarter of 2005, an income tax issue was resolved which primarily affected the banking segment and resulted in a lower provision for income taxes in the consolidated statements of income for the three and six months ended June 30, 2005.

### LIQUIDITY AND CAPITAL RESOURCES

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Shareholders' equity was \$5.8 billion or 10.6% of total consolidated assets at June 30, 2006, compared to \$4.7 billion or 10.2% of total consolidated assets at December 31, 2005, and \$4.3 billion or 9.8% of total consolidated assets at June 30, 2005.

During the second quarter of 2006, the Corporation issued 13,673,072 shares of its common stock and exchanged fully vested stock options to purchase 119,816 of its common stock with a total value of \$603.9 million in conjunction with the Corporation's acquisition of Gold Banc Corporation, Inc. Also during the second quarter of 2006, the Corporation issued 3,069,430 shares of its common stock and exchanged fully vested stock options to purchase 412,317 of its common stock with a total value of \$148.3 million in conjunction with the Corporation's acquisition of Trustcorp Financial, Inc. During the first quarter of 2006, the Corporation issued 527,864 shares of its common stock valued at \$23.2 million in conjunction with Metavante's acquisition of AdminiSource Inc. Also during the first quarter of 2006, the Corporation issued 385,192 shares of its common stock valued at \$16.9 million to fund its 2005 obligations under its retirement and employee stock ownership plans.

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

The Corporation has a Stock Repurchase Program under which it may repurchase up to 12 million shares of its common stock annually. During the first quarter of 2006, the Corporation repurchased 1.0 million shares at an aggregate cost of \$41.8 million or an average price of \$41.79 per common share. There were no purchases under the program in the second quarter of 2006.

In 2005, the Corporation entered into an equity distribution agreement whereby the Corporation may offer and sell up to 3.5 million shares of its common stock from time to time through certain designated sales agents. However, the Corporation will not sell more than the number of shares of its common stock necessary for the aggregate gross proceeds from such sales to reach \$150.0 million. No sales occurred in the three or six months ended June 30, 2006. The aggregate gross proceeds available for future sales was approximately \$143.3 million at June 30, 2006.

At June 30, 2006, the net loss in accumulated other comprehensive income amounted to \$101.3 million, which represented a negative change in accumulated other comprehensive income of \$64.0 million since December 31, 2005. Net accumulated other comprehensive income associated with available for sale investment securities was a net loss of \$104.3 million at June 30, 2006, compared to a net loss of \$36.3 million at December 31, 2005, resulting in a net loss of \$68.0 million over the six month period. Net accumulated other comprehensive income associated with the change in fair value of the Corporation's derivative financial instruments designated as cash flow hedges was a net gain of \$4.0 million over the six

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month period.

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

RISK-BASED CAPITAL RATIOS

(\$ in millions)

	June 30, 2006		December 31, 2005	
	Amount	Ratio	Amount	Ratio
Tier 1 Capital	\$ 3,623	7.65 %	\$ 3,046	7.67 %
Tier 1 Capital Minimum Requirement	1,894	4.00	1,588	4.00
Excess	\$ 1,729	3.65 %	\$ 1,458	3.67 %
Total Capital	\$ 5,283	11.15 %	\$ 4,659	11.74 %
Total Capital Minimum Requirement	3,789	8.00	3,176	8.00
Excess	\$ 1,494	3.15 %	\$ 1,483	3.74 %
Risk-Adjusted Assets	\$ 47,361		\$ 39,698	

LEVERAGE RATIOS

(\$ in millions)

	June 30, 2006		December 31, 2005	
	Amount	Ratio	Amount	Ratio
Tier 1 Capital Minimum Leverage Requirement	1,524 - 2,540	3.00 - 5.00	1,291 - 2,152	3.00 - 5.00
Excess	\$ 2,099 - 1,083	4.13 - 2.13 %	\$ 1,755 - 894	4.08 - 2.08 %
Adjusted Average Total Assets	\$ 50,807		\$ 43,039	

M&I manages its liquidity to ensure that funds are available to each of its banks to satisfy the cash flow requirements of depositors and borrowers and to ensure the Corporation's own cash requirements are met. M&I maintains liquidity by obtaining funds from several sources.

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The Corporation's most readily available source of liquidity is its investment portfolio. Investment securities available for sale, which totaled \$6.6 billion at June 30, 2006, represent a highly accessible source of liquidity. The Corporation's portfolio of held-to-maturity investment securities, which totaled \$0.5 billion at June 30, 2006, provides liquidity from maturities and amortization payments. The Corporation's loans held for sale provide additional liquidity. These loans represent recently funded loans that are prepared for delivery to investors, which generally occurs within thirty to ninety days after the loan has been funded.

Depositors within M&I's defined markets are another source of liquidity. Core deposits (demand, savings, money market and consumer time deposits) averaged \$20.8 billion in the second quarter of 2006. The Corporation's banking affiliates may also access the federal funds markets or utilize collateralized borrowings such as treasury demand notes or FHLB advances.

The banking affiliates may use wholesale deposits, which include foreign (Eurodollar) deposits. Wholesale deposits are funds in the form of deposits generated through distribution channels other than the Corporation's own banking branches. These deposits allow the Corporation's banking subsidiaries to gather funds across a national geographic base and at pricing levels considered attractive, where the underlying depositor may be retail or institutional. Access to wholesale deposits also provides the Corporation with the flexibility to not pursue single service time deposit relationships in markets that have experienced some unprofitable pricing levels. Wholesale deposits averaged \$8.0 billion in the second quarter of 2006.

The Corporation utilizes certain financing arrangements to meet its balance sheet management, funding, liquidity, and market or credit risk management needs. The majority of these activities are basic term or revolving securitization vehicles. These vehicles are generally funded through term-amortizing debt structures or with short-term commercial paper designed to be paid off based on the underlying cash flows of the assets securitized. These vehicles provide access to funding sources substantially separate from the general credit risk of the Corporation and its subsidiaries. See Note 8 to the Consolidated Financial Statements for an update of the Corporation's securitization activities in the second quarter of 2006.

The Corporation's lead bank, M&I Marshall & Ilsley Bank (the "Bank"), has implemented a bank note program. During the second quarter of 2006, the Bank amended the bank note program into a global bank note program which permits it to issue and sell up to a maximum of US\$13.0 billion aggregate principal amount (or the equivalent thereof in other currencies) at any one time outstanding of its senior global bank notes with maturities of seven days or more from their respective date of issue and subordinated global bank notes with maturities more than five years from their respective date of issue. The notes may be fixed rate or floating rate and the exact terms will be specified in the applicable Pricing Supplement or the applicable Program Supplement. This program is intended to enhance liquidity by enabling the Bank to sell its debt instruments in global markets in the future without the delays which would otherwise be incurred. Senior global bank notes outstanding at June 30, 2006 amounted to \$0.4 billion.

Other bank notes outstanding at June 30, 2006 amounted to \$6.0 billion of which \$1.3 billion is subordinated and qualifies as supplementary capital for regulatory capital purposes. Bank notes issued during the first quarter of 2006 amounted to \$500.0 million.



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

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

During the fourth quarter of 2004, the Corporation filed a shelf registration statement with the Securities and Exchange Commission enabling the Corporation to issue up to 6.0 million shares of its common stock, which may be offered and issued from time to time in connection with acquisitions by M&I, Metavante and/or other consolidated subsidiaries of the Corporation. At June 30, 2006, there were 3.1 million shares of common stock available for future issuances.

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Under another shelf registration statement, the Corporation may issue up to \$0.6 billion of medium-term Series F notes with maturities ranging from 9 months to 30 years and at fixed or floating rates. At June 30, 2006, Series F notes issued amounted to \$250.0 million. The Corporation may issue up to \$0.5 billion of medium-term MiNotes with maturities ranging from 9 months to 30 years and at fixed or floating rates. The MiNotes are issued in smaller denominations to attract retail investors. At June 30, 2006, MiNotes issued amounted to \$0.2 billion. Additionally, the Corporation has a commercial paper program. At June 30, 2006, commercial paper outstanding amounted to \$0.3 billion.

Short-term borrowings represent contractual debt obligations with maturities of one year or less and amounted to \$4.1 billion at June 30, 2006. Long-term borrowings amounted to \$10.1 billion at June 30, 2006. The scheduled maturities of long-term borrowings including estimated interest payments at June 30, 2006 are as follows: \$3.1 billion is due in less than one year; \$2.9 billion is due in one to three years; \$3.0 billion is due in three to five years; and \$4.0 billion is due in more than five years. During the first quarter of 2006, the Corporation issued shares of its common stock valued at \$16.9 million to fund a portion of its 2005 obligations under its retirement and employee stock ownership plans. There have been no other substantive changes to the Corporation's contractual obligations as reported in the Corporation's Annual Report on Form 10-K for the year ended December 31, 2005.

### OFF-BALANCE SHEET ARRANGEMENTS

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In conjunction with the acquisitions of Gold Banc Corporation, Inc. and Trustcorp Financial, Inc., the Corporation acquired all of the common interests in four Trusts that issued cumulative preferred capital securities which are supported by junior subordinated deferrable interest debentures in the amounts of \$16.0 million, \$30.0 million, \$38.0 million and \$15.0 million, respectively and full guarantees assumed by the Corporation. The Corporation does not consolidate these Trusts in accordance with United States generally accepted accounting principles. At June 30, 2006, there have been no other substantive changes with

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respect to the Corporation's off-balance sheet activities as disclosed in the Corporation's Annual Report on Form 10-K for the year ended December 31, 2005. See Note 8 to the Consolidated Financial Statements for an update of the Corporation's securitization activities in the second quarter of 2006. The Corporation continues to believe that based on the off-balance sheet arrangements with which it is presently involved, such off-balance sheet arrangements neither have, nor are reasonably likely to have, a material impact to its current or future financial condition, results of operations, liquidity or capital.

### CRITICAL ACCOUNTING POLICIES

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The Corporation has established various accounting policies which govern the application of accounting principles generally accepted in the United States in the preparation of the Corporation's consolidated financial statements. The significant accounting policies of the Corporation are described in the footnotes to the consolidated financial statements contained in the Corporation's Annual Report on Form 10-K for the year ended December 31, 2005, and updated as necessary in its Quarterly Reports on Form 10-Q. Certain accounting policies involve significant judgments and assumptions by management that may have a material impact on the carrying value of certain assets and liabilities. Management considers such accounting policies to be critical accounting policies. The judgments and assumptions used by management are based on historical experience and other factors, which are believed to be reasonable under the circumstances. Because of the nature of judgments and assumptions made by management, actual results could differ from these judgments and estimates which could have a material impact on the carrying values of assets and liabilities and the results of the operations of the Corporation. Management continues to consider the following to be those accounting policies that require significant judgments and assumptions:

#### Allowance for Loan and Lease Losses

-----

The allowance for loan and lease losses represents management's estimate of probable losses inherent in the Corporation's loan and lease portfolio. Management evaluates the allowance each quarter to determine that it is adequate to absorb these inherent losses. This evaluation is supported by a methodology that identifies estimated losses based on assessments of individual problem loans and historical loss patterns of homogeneous loan pools. In addition, environmental factors, including economic conditions and regulatory guidance, unique to each measurement date are also considered. This reserving methodology has the following components:

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Specific Reserve. The Corporation's internal risk rating system is used to identify loans and leases that meet the criteria as being "impaired" under the definition in SFAS 114. A loan is impaired when, based on current information and events, it is probable that a creditor will be unable to collect all amounts due according to the contractual terms of the loan agreement. For impaired loans, impairment is measured using one of three alternatives: (1) the present value of expected future cash flows discounted at the loan's effective interest rate; (2) the loan's observable market price, if available; or (3) the fair value of the collateral for collateral dependent loans and loans for which foreclosure is deemed to be probable. In general, these loans have been internally identified as credits requiring management's attention due to underlying problems in the borrower's business or collateral concerns. Subject to a minimum size, a quarterly review of these loans is performed to identify the specific reserve necessary to be allocated to each of these loans.

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This analysis considers expected future cash flows, the value of collateral and also other factors that may impact the borrower's ability to make payments when due.

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

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

The following factors were taken into consideration in determining the adequacy of the allowance for loan and lease losses at June 30, 2006:

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

At June 30, 2006, allowances for loan and lease losses continue to be carried for exposures to manufacturing, healthcare, production agriculture (including dairy and cropping operations), truck transportation, accommodation, general contracting, motor vehicle and parts dealers and the airline industries. The majority of the commercial charge-offs incurred during the past three years were in these industry segments. While most loans in these categories are still performing, the Corporation continues to believe these sectors present a higher than normal risk due to their financial and external characteristics. Reduced revenues causing a declining utilization of the industry's capacity levels can affect collateral values and the amounts realized through the sale or liquidation.

During the second quarter of 2006, the Corporation's commitments to Shared National Credits were approximately \$3.6 billion with usage averaging around 47%. Over time, many of the Corporation's largest charge-offs have come from the Shared National Credit portfolio. Although these factors result in an increased risk profile, as of June 30, 2006, there were no Shared National Credit nonperforming loans. The Corporation's exposure to Shared National Credits is monitored closely given this lending group's loss experience.

The Corporation's primary lending areas are Wisconsin, Arizona, Minnesota and Missouri. The vast majority of the assets acquired from Gold Banc Corporation, Inc. are in entirely new markets for the Corporation. Included in these new markets are the Kansas City metropolitan area, Tulsa, Oklahoma, and Tampa, Sarasota and Bradenton,

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Florida. Each of these regions and markets has cultural and environmental factors that are unique to them.

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At June 30, 2006, nonperforming loans and leases amounted to \$198.0 million or 0.49% of consolidated loans and leases compared to \$149.1 million or 0.42% of consolidated loans and leases at March 31, 2006, and \$131.6 million or 0.41% of consolidated loans and leases at June 30, 2005. Approximately \$42.7 million or 87% of the \$48.9 million increase in nonperforming loans from March 31, 2006 to June 30, 2006 was attributable to the banking acquisitions. Excluding the effect of the acquisitions, nonperforming loans and leases would have amounted to \$155.3 million or 0.43% of consolidated loans and leases at June 30, 2006. Excluding the acquisitions, the pro forma ratio of nonperforming loans and leases to consolidated loans and leases at June 30, 2006 and the actual ratio at each quarter end throughout 2005 has remained in a fairly narrow range and continues to be below management's expectations. Nonaccrual loans and leases continue to be the primary source of nonperforming loans and leases.

Net charge-offs amounted to \$9.9 million or 0.10% of average loans and leases in the second quarter of 2006 compared to \$6.0 million or 0.07% of average loans and leases in the first quarter of 2006 and \$11.9 million or 0.15% of average loans and leases in the second quarter of 2005. The lower level of net charge-offs experienced throughout 2005 and the first six months of 2006 has to some extent been the result of higher than normal recoveries. Based on the status of some of the larger charge-offs recognized in recent quarters, management expects recoveries will likely return to lower levels in future periods. The ratio of recoveries to charge-offs was 28.7% for the three months ended June 30, 2006 which was closer to average historical experience. The ratio of recoveries to charge-offs was 35.3% for the six months ended June 30, 2006 which continues to be above the Corporation's five year historical average ratio of recoveries to charge-offs of 27.9%.

Based on the above loss estimates, management determined its best estimate of the required allowance for loans and leases. Management's evaluation of the factors described above resulted in an allowance for loan and lease losses of \$415.2 million or 1.03% of loans and leases outstanding at June 30, 2006. The allowance for loan and lease losses was \$363.8 million or 1.06% of loans and leases outstanding at December 31, 2005 and \$360.1 million or 1.12% of loans and leases outstanding at June 30, 2005. Consistent with the credit quality trends noted above, the provision for loan and lease losses amounted to \$11.1 million for the three months ended June 30, 2006 and \$22.0 million for the six months ended June 30, 2006. By comparison, the provision for loan and lease losses amounted to \$13.7 million for the three months ended June 30, 2005 and \$21.9 million for the six months ended June 30, 2005. The resulting provisions for loan and lease losses are the amounts required to establish the allowance for loan and lease losses at the required level after considering charge-offs and recoveries. Management recognizes there are significant estimates in the process and the ultimate losses could be significantly different from those currently estimated.

The Corporation has not materially changed any aspect of its overall approach in the determination of the allowance for loan and lease losses. There have been no material changes in assumptions or estimation techniques as compared to prior periods that impacted the determination of the current period allowance. However, on an on-going basis the Corporation continues to refine the methods used in determining management's best estimate of the allowance for loan and lease losses.

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### Capitalized Software and Conversion Costs

Direct costs associated with the production of computer software that will be licensed externally or used in a service bureau environment are capitalized. Capitalization of such costs is subject to strict accounting policy criteria, although the appropriate time to initiate capitalization requires management judgment. Once the specific capitalized project is put into production, the software cost is amortized over its estimated useful life, generally four years. Each quarter, the Corporation performs net realizable value tests to ensure the assets are recoverable. Such tests require management judgment as to the future sales and profitability of a particular product which involves, in some cases, multi-year projections. Technology changes and changes in customer requirements can have a significant impact on the recoverability of these assets and can be difficult to predict. Should significant adverse changes occur, estimates of useful life may have to be revised or write-offs would be required to recognize impairment. For the three months ended June 30, 2006 and 2005, the amount of software costs capitalized amounted to \$13.7 million and \$9.9 million, respectively. Amortization expense of software costs amounted to \$13.4 million for the three months ended June 30, 2006 compared to \$15.4 million for the three months ended June 30, 2005. For the six months ended June 30, 2006 and 2005, the amount of software costs capitalized amounted to \$25.0 million and \$18.9 million, respectively. Amortization expense of software costs amounted to \$27.6 million for the six months ended June 30, 2006 compared to \$30.3 million for the six months ended June 30, 2005.

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

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Capitalization only occurs when management is satisfied that such costs are recoverable through future operations or penalties (buyout fees) in case of early termination. For the three months ended June 30, 2006 and 2005, the amount of conversion costs capitalized amounted to \$3.1 million and \$2.7 million, respectively. Amortization expense of conversion costs amounted to \$2.8 million and \$2.9 million for the three months ended June 30, 2006 and 2005, respectively. For the six months ended June 30, 2006 and 2005, the amount of conversion costs capitalized amounted to \$5.5 million and \$5.6 million, respectively. Amortization expense of conversion costs amounted to \$5.0 million and \$5.6 million for the six months ended June 30, 2006 and 2005, respectively.

Net unamortized costs were (\$ in millions):

	June 30,	
	2006	2005
Software	\$ 152.5	\$ 151.6
Conversions	27.7	26.5
Total	\$ 180.2	\$ 178.1

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

### Financial Asset Sales and Securitizations

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The Corporation utilizes certain financing arrangements to meet its balance sheet management, funding, liquidity, and market or credit risk management needs. The majority of these activities are basic term or revolving securitization vehicles. These vehicles are generally funded through term-amortizing debt structures or with short term commercial paper designed to be paid off based on the underlying cash flows of the assets securitized. These financing entities are contractually limited to a narrow range of activities that facilitate the transfer of or access to various types of assets or financial instruments. In certain situations, the Corporation provides liquidity and/or loss protection agreements. In determining whether the financing entity should be consolidated, the Corporation considers whether the entity is a qualifying special-purpose entity ("QSPE") as defined in Statement of Financial Accounting Standards ("SFAS") No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities. For non-consolidation, a QSPE must be demonstrably distinct, have significantly limited permitted activities, hold assets that are restricted to transferred financial assets and related assets, and can sell or dispose of non-cash financial assets only in response to specified conditions.

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

The Corporation sells financial assets in a two-step process that results in a surrender of control over the assets as evidenced by true-sale opinions from legal counsel, to unconsolidated entities that securitize the assets. The Corporation retains interests in the securitized assets in the form of interest-only strips and a cash reserve account. Gain or loss on sale of the assets depends in part on the carrying amount assigned to the assets sold allocated between the asset sold and retained interests based on their relative fair values at the date of transfer. The value of the retained interests is based on the present value of expected cash flows estimated using management's best estimates of the key assumptions - credit losses, prepayment speeds, forward yield curves and discount rates commensurate with the risks involved. Actual results can differ from expected results.

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

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The Corporation regularly sells automobile loans to an unconsolidated multi-seller special purpose entity commercial paper conduit in securitization transactions in which servicing responsibilities and subordinated interests are retained. The outstanding balances of automobile loans sold in these securitization transactions were \$1,028.4 million at June 30, 2006. At June 30, 2006 the carrying amount of retained interests amounted to \$35.4 million.

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

At June 30, 2006, highly rated investment securities in the amount of \$301.7 million were outstanding in the QSPE to support the outstanding commercial paper.

#### Income Taxes

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Income taxes are accounted for using the asset and liability method. Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on tax assets and liabilities of a change in tax rates is recognized in the income statement in the period that includes the enactment date.

The determination of current and deferred income taxes is based on complex analyses of many factors, including interpretation of Federal and state income tax laws, the difference between tax and financial reporting basis of assets and liabilities (temporary differences), estimates of amounts currently due or owed, such as the timing of reversals of temporary differences and current accounting standards. The Federal and state taxing authorities who make assessments based on their determination of tax laws periodically review the Corporation's interpretation of Federal and state income tax laws. Tax liabilities could differ significantly from the estimates and interpretations used in determining the current and deferred income tax liabilities based on the completion of taxing authority examinations.

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

transition.

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

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

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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

Market risk arises from exposure to changes in interest rates, exchange rates, commodity prices, and other relevant market rate or price risk. The Corporation faces market risk through trading and other than trading activities. While market risk that arises from trading activities in the form of foreign exchange and interest rate risk is immaterial to the Corporation, market risk from other than trading activities in the form of interest rate risk is measured and managed through a number of methods.

Interest Rate Risk  
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The Corporation uses financial modeling techniques to identify potential changes in income under a variety of possible interest rate scenarios. Financial institutions, by their nature, bear interest rate and liquidity risk as a necessary part of the business of managing financial assets and liabilities. The Corporation has designed strategies to limit these risks within prudent parameters and identify appropriate risk/reward tradeoffs in the financial structure of the balance sheet.

The financial models identify the specific cash flows, repricing timing and embedded option characteristics of the assets and liabilities held by the Corporation. Policies are in place to assure that neither earnings nor fair value at risk exceed appropriate limits. The use of a limited array of derivative financial instruments has allowed the Corporation to achieve the desired balance sheet repricing structure while simultaneously meeting the desired objectives of both its borrowing and depositing



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customers.

The models used include measures of the expected repricing characteristics of administered rate (NOW, savings and money market accounts) and non-rate related products (demand deposit accounts, other assets and other liabilities). These measures recognize the relative insensitivity of these accounts to changes in market interest rates, as demonstrated through current and historical experiences. In addition to contractual payment information for most other assets and liabilities, the models also include estimates of expected prepayment characteristics for those items that are likely to materially change their payment structures in different rate environments, including residential mortgage products, certain commercial and commercial real estate loans and certain mortgage-related securities. Estimates for these sensitivities are based on industry assessments and are substantially driven by the differential between the contractual coupon of the item and current market rates for similar products.

This information is incorporated into a model that allows the projection of future income levels in several different interest rate environments. Earnings at risk are calculated by modeling income in an environment where rates remain constant, and comparing this result to income in a different rate environment, and then dividing this difference by the Corporation's budgeted operating income before taxes for the calendar year. Since future interest rate moves are difficult to predict, the following table presents two potential scenarios - a gradual increase of 100bp across the entire yield curve over the course of the year (+25bp per quarter), and a gradual decrease of 100bp across the entire yield curve over the course of the year (-25bp per quarter) for the balance sheet as of the indicated dates:

Impact to Annual Pretax Income as of

	June 30, 2006	March 31, 2006	December 31, 2005	September 30, 2005	June 30, 2005
--	------------------	-------------------	----------------------	-----------------------	------------------

Hypothetical Change in Interest Rate

100 basis point gradual:

Rise in rates	(0.3)%	(0.2)%	(0.2)%	(0.1)%	0.
Decline in rates	0.3 %	0.1 %	0.0 %	0.0 %	(0.

These results are based solely on the modeled parallel changes in market rates, and do not reflect the earnings sensitivity that may arise from other factors such as changes in the shape of the yield curve and changes in spread between key market rates. These results also do not include any management action to mitigate potential income variances within the simulation process. Such action could potentially include, but would not be limited to, adjustments to the repricing characteristics of any on- or off-balance sheet item with regard to short-term rate projections and current market value assessments.

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Actual results will differ from simulated results due to the timing, magnitude, and frequency of interest rate changes as well as changes in market conditions and management strategies.

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Another component of interest rate risk is measuring the fair value at risk for a given change in market interest rates. The Corporation also uses computer modeling techniques to determine the present value of all asset and liability cash flows (both on- and off-balance sheet), adjusted for prepayment expectations, using a market discount rate. The net change in the present value of the asset and liability cash flows in different market rate environments is the amount of fair value at risk from those rate movements. As of June 30, 2006, the fair value of equity at risk for a gradual 100bp shift in rates was no more than 2.0% of the market value of the Corporation.

### Equity Risk -----

In addition to interest rate risk, the Corporation incurs market risk in the form of equity risk. The Corporation invests directly and indirectly through investment funds, in private medium-sized companies to help establish new businesses or recapitalize existing ones. These investments expose the Corporation to the change in equity values for the portfolio companies. However, fair values are difficult to determine until an actual sale or liquidation transaction actually occurs. At June 30, 2006, the carrying value of total active capital markets investments amounted to approximately \$39.1 million.

As of June 30, 2006, M&I Trust Services administered \$89.1 billion in assets and directly managed a portfolio of \$20.4 billion. The Corporation is exposed to changes in equity values due to the fact that fee income is partially based on equity balances. Quantification of this exposure is difficult due to the number of other variables affecting fee income. Interest rate changes can also have an effect on fee income for the above stated reasons.

#### ITEM 4. CONTROLS AND PROCEDURES

We maintain a set of disclosure controls and procedures that are designed to ensure that information required to be disclosed by us in the reports filed by us under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. We carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and our Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Rule 13a-15 of the Exchange Act. Based on that evaluation, our Chief Executive Officer and our Chief Financial Officer concluded that our disclosure controls and procedures are effective as of the end of the period covered by this report.

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

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#### PART II - OTHER INFORMATION

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

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

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Period	Total Number of Shares Purchased(1)	Average Price Paid per Share	Total Number of Shares Purchased as Part of of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
January 1 to January 31, 2006	443,919	\$ 41.92	437,700	11,562,300
February 1 to February 28, 2006	565,972	41.70	562,300	11,000,000
March 1 to March 31, 2006	2,434	41.84	--	11,000,000
April 1 to April 30, 2006	123,064	44.22	--	11,000,000
May 1 to May 31, 2006	3,129	45.08	--	11,000,000
June 1 to June 30, 2006	2,635	45.04	--	11,000,000
Total	1,141,153	\$ 42.07	1,000,000	

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

The Corporation's Share Repurchase Program was publicly reconfirmed in April 2005 and again in April 2006. The Share Repurchase Program authorizes the purchase of up to 12 million shares annually and renews each year at that level unless changed or terminated by subsequent Board action.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

(a)

The Corporation held its Annual Meeting of Shareholders on April 25, 2006.

(b)

Votes cast for the election of five directors to serve as Class I directors until the 2009 Annual Meeting of Shareholders are as follows:

Director	For	Withheld
Mark F. Furlong	190,663,322	4,510,194
Ted D. Kellner	188,042,220	7,131,296
Katharine C. Lyall	191,780,574	3,392,942
Peter M. Platten, III	185,630,211	9,543,305
James B. Wigdale	190,741,495	4,432,021

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The continuing directors of the Corporation are as follows:

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Jon F. Chait	Malcolm M. Aslin
Bruce E. Jacobs	Andrew N. Baur
Dennis J. Kuester	John W. Daniels, Jr.
Edward L. Meyer, Jr.	John A. Mellowes
San W. Orr, Jr.	Robert J. O'Toole
Debra S. Waller	John S. Shiely
George E. Wardeberg	

(c)

Votes cast for the ratification of the appointment of Deloitte & Touche LLP to audit the statements of the Company for the fiscal year ending December 31, 2006 are as follows:

	For -----	Against -----	Abstentions -----
Ratification of Auditors	192,281,360	1,415,784	1,476,372

Votes cast to approve the Company's 2006 Equity Incentive Plan are as follows:

	For -----	Against -----	Abstentions -----	Non-Vote -----
Ratification of Plan	119,283,686	38,900,515	3,647,656	33,341,659

Votes cast for the shareholder proposal to request the Board of Directors of the Company to declassify the board are as follows:

	For -----	Against -----	Abstentions -----	Non-Vote -----
Request to declassify the Board of Directors	79,363,430	78,488,983	3,979,444	33,341,659

ITEM 6. EXHIBITS

- Exhibit 10 - Change of Control Agreement, dated June 19, 2006, between the Corporation and Gregory A. Smith, incorporated by reference to Item 1.01 of the Corporation's amended Current Report on Form 8-K/A filed June 19, 2006, SEC File No. 1-15403. \*
- Exhibit 11 - Statement Regarding Computation of Earnings Per Share, Incorporated by Reference to NOTE 4 of Notes to Financial Statements contained in Item 1 - Financial Statements (unaudited) of Part I - Financial Information herein.
- Exhibit 12 - Statement Regarding Computation of Ratio of Earnings to Fixed Charges
- Exhibit 31(a) - Certification of Chief Executive Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as amended.
- Exhibit 31(b) - Certification of Chief Financial Officer

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pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as amended.

Exhibit 32(a) - Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350.

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

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\* Management contract or compensatory plan or arrangement.

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

MARSHALL & ILSLEY CORPORATION  
(Registrant)

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

/s/ James E. Sandy  
-----

James E. Sandy  
Vice President

August 9, 2006

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EXHIBIT INDEX  
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<u>Exhibit Number</u>	<u>Description of Exhibit</u>
(10)	Change of Control Agreement, dated June 19, 2006, between the Corporation and Gregory A. Smith, incorporated by reference to Item 1.01 of the Corporation's amended Current Report on Form 8-K/A filed June 19, 2006, SEC File No. 1-15403. *
(11)	Statement Regarding Computation of Earnings Per Share, Incorporated by Reference to NOTE 4 of Notes to Financial Statements

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

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

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\* Management contract or compensatory plan or arrangement.