SEAY LARRY WAYNE
Form 4
February 13, 2009

# FORM 4

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

OMB APPROVAL

| | |
|---|---|
| OMB Number: | 3235-0287 |
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## STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

(Print or Type Responses)

1. Name and Address of Reporting Person *
SEAY LARRY WAYNE

(Last) (First) (Middle)

17851 NORTH 85TH STREET, SUITE 300

(Street)

SCOTTSDALE, AZ 85255

(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
Meritage Homes CORP [MTH]

3. Date of Earliest Transaction (Month/Day/Year)
02/11/2009

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

_____ Director _____ 10% Owner
__X__ Officer (give title below) _____ Other (specify below)
Executive VP - CFO

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

**Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned**

| 1.Title of Security (Instr. 3) | 2. Transaction Date (Month/Day/Year) | 2A. Deemed Execution Date, if any (Month/Day/Year) | 3. Transaction Code (Instr. 8) | | 4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5) | | | 5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4) | 6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4) | 7. Nature of Indirect Beneficial Ownership (Instr. 4) |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | Code | V | Amount | (A) or (D) | Price | | | |
| MTH Common Stock (1) (2) | 02/11/2009 | | A | | 30,000 | A | $ 0 | 101,965 | D | |

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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SEC 1474 (9-02)

**Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned**
**(*e.g.*, puts, calls, warrants, options, convertible securities)**

| 1. Title of Derivative Security (Instr. 3) | 2. Conversion or Exercise Price of Derivative Security | 3. Transaction Date (Month/Day/Year) | 3A. Deemed Execution Date, if any (Month/Day/Year) | 4. Transaction Code (Instr. 8) | | 5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5) | | 6. Date Exercisable and Expiration Date (Month/Day/Year) | | 7. Title and Amount of Underlying Securities (Instr. 3 and 4) | | 8. Price of Derivative Security (Instr. 5) | 9. Nu Deriv Secur Bene Owne Follo Repo Trans (Instr |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | Code | V | (A) | (D) | Date Exercisable | Expiration Date | Title | Amount or Number of Shares | | |

# Reporting Owners

| Reporting Owner Name / Address | Relationships | | | |
|---|---|---|---|---|
| | Director | 10% Owner | Officer | Other |
| SEAY LARRY WAYNE<br>17851 NORTH 85TH STREET<br>SUITE 300<br>SCOTTSDALE, AZ 85255 | | | Executive VP - CFO | |

# Signatures

| /s/ Larry W. Seay | 02/13/2009 |
|---|---|
| **Signature of Reporting Person | Date |

# Explanation of Responses:

* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

**(1)** Balance represents the grant of restricted stock. The restricted stock will vest in equal increments over the three-year period beginning on the first anniversary of the grant date.

**(2)** In addition to this restricted stock grant, the reporting person was also granted 45,000 shares of restricted stock on February 11, 2009 which will also vest in equal increments over the three-year period beginning on the first anniversary of the grant date, however, vesting is also contingent upon the acheivement of pre-specified performance targets.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.
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Changes in connection with the Separation

(8,596) (346,405) (298,272) 351,705 2,938 358

Issuance of 9,226,951 Common Shares Under STACKS/SPACES

9,227 390,762

Issuance of 4,851,899 Common Shares in the 2007 Business Combinations

4,852 239,526

Issuance of 4,436,659 Treasury Common Shares Under Stock Option and Restricted Stock Plans

(50,327) 161,570

Issuance of 403,508 Treasury Common Shares for Retirement Plan Funding

6,343 12,836

Acquisition of 10,792,502 Common Shares

(2,255) (438,114)

Dividends Declared on Common Stock $1.20 Per Share

(313,298)

Net Change in Deferred Compensation

(6,998)

Income Tax Benefit for Compensation Expense for Tax Purposes in Excess of Amounts Recognized for Financial Reporting Purposes

4,251

Stock Based Compensation Expense

46,923

Other

(85)

Balance, December 31, 2007

$ $267,455 $2,059,273 $4,923,008 $(117,941) $(45,359) $(53,707)

The accompanying notes are an integral part of the Consolidated Financial Statements.

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**Notes to Consolidated Financial Statements**

**December 31, 2007, 2006, and 2005 ($000 s except share data)**

Marshall & Ilsley Corporation ( M&I or the Corporation ) is a financial holding company that provides diversified financial services to a wide variety of corporate, institutional, government and individual customers. M&I s largest affiliates and principal operations are in Wisconsin; however, it has activities in other markets, particularly in certain neighboring Midwestern states, and in Arizona, Nevada and Florida. The Corporation s principal activities consist of banking and wealth management services. Banking services, lending and accepting deposits from commercial banking and community banking customers are provided through its lead bank, M&I Marshall & Ilsley Bank ( M&I Bank ), which is headquartered in Wisconsin, one federally chartered thrift headquartered in Nevada, one state chartered bank headquartered in St. Louis, Missouri, and an asset-based lending subsidiary headquartered in Minneapolis, Minnesota. In addition to branches located throughout Wisconsin, banking services are provided in branches located throughout Arizona, the Minneapolis, Minnesota, Kansas City, Missouri and St. Louis, Missouri metropolitan areas, Duluth, Minnesota, Belleville, Illinois, Las Vegas, Nevada, Florida and central Indiana, as well as on the Internet. Wealth Management, which includes Marshall & Ilsley Trust Company, N.A. ( M&I Trust ), M&I Brokerage Services, the private banking divisions of the Corporation s bank subsidiaries and other subsidiaries related to the wealth management business, provides trust services, brokerage and insurance services, and investment management and advisory services to residents of Wisconsin, Arizona, Minnesota, Missouri, Florida, Nevada and Indiana. Other financial services provided by M&I include personal property lease financing, wholesale lending, investment services to institutional clients and venture capital.

**1. Summary of Significant Accounting Policies**

*Estimates* The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported periods. Actual results could differ from those estimates.

*Consolidation principles* The Consolidated Financial Statements include the accounts of the Corporation, its subsidiaries that are wholly or majority owned and/or over which it exercises substantive control and significant variable interest entities for which the Corporation has determined that, based on the variable interests it holds, it is the primary beneficiary in accordance with Financial Accounting Standards Board ( FASB ) Interpretation No. 46 ( FIN 46R ), ***Consolidation of Variable Interest Entities an interpretation of Accounting Research Board ( ARB ) No. 51 (revised December 2003)***. The primary beneficiary of a variable interest entity is the party that absorbs a majority of an entity s expected losses, receives a majority of an entity s expected residual returns, or both, as a result of holding variable interests. Variable interests are the ownership, contractual or other pecuniary interests in an entity. Investments in unconsolidated affiliates, in which the Corporation has 20 percent or more ownership interest and has the ability to exercise significant influence, but not substantive control, over the affiliates operating and financial policies, are accounted for using the equity method of accounting, unless the investment has been determined to be temporary. All intercompany balances and transactions are eliminated in consolidation.

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 facilities. These facilities 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 No. 140 ( SFAS 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.

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**Notes to Consolidated Financial Statements (Continued)**

**December 31, 2007, 2006, and 2005 ($000 s except share data)**

*Cash and cash equivalents* For purposes of the Consolidated Financial Statements, the Corporation defines cash and cash equivalents as short-term investments, which have an original maturity of three months or less and are readily convertible into cash.

*Trading Securities* Securities are designated as Trading Securities when purchased and are held principally for sale in the near term. Trading Securities are carried at fair value, with adjustments to the carrying value reflected in the Consolidated Statements of Income.

*Investment Securities* Securities, when purchased, are designated as Investment Securities Available for Sale or Investment Securities Held to Maturity, and remain in that category until they are sold or mature. The specific identification method is used in determining the cost of securities sold. Investment Securities Held to Maturity are carried at cost, adjusted for amortization of premiums and accretion of discounts. The Corporation designates investment securities as held to maturity only when it has the positive intent and ability to hold them to maturity. All other securities are classified as Investment Securities Available for Sale and are carried at fair value with fair value adjustments net of the related income tax effects reported as a component of Accumulated Other Comprehensive Income in the Consolidated Balance Sheets.

*Loans Held for Sale* Loans that the Corporation originates and intends to sell or securitize are reported as loans held for sale and are carried at the lower of cost or market ( LOCOM ) value. Any excess of the cost of a loan held for sale over its market value is recognized as a valuation allowance, with changes in the valuation allowance recognized in the consolidated statements of income. Purchase premiums, discounts and/or other loan basis adjustments on loans held for sale are deferred upon acquisition, included in the cost basis of the loan, and are not amortized. The Corporation determines any LOCOM adjustment on loans held for sale on a pool basis by aggregating those loans based on similar risks and other characteristics, such as product types and interest rates. The market value of loans held for sale is generally based on whole loan sale prices if formally committed or observable market prices of securities that have loan collateral or interests in loans that are similar to the loans held for sale. If market prices are not readily available, the market value is based on a discounted cash flow model, which takes into account the degree of credit risk associated with the loans and the estimated effects of changes in market interest rates relative to the loans interest rates.

Reclassifications of loans held in portfolio to loans held for sale are generally infrequent in nature. In the event that loans held for sale are reclassified to loans held in portfolio, the loans are transferred at LOCOM on the date of transfer, forming the new cost basis of such loans. Any LOCOM adjustment recognized upon transfer is recognized as a basis adjustment to the portfolio loan. For reclassifications of loans held in portfolio to loans held for sale, the loan is transferred from loans held in portfolio to loans held for sale at LOCOM. If the change in market value on these loans is due to credit concern on such loans, the loans are reclassified net of the portion of the allowance for loan losses that is attributable to the transferred loans, with a corresponding reduction in the allowance for loan losses. The cash proceeds from the sale of loans that were reclassified from loans held in portfolio to loans held for sale are classified as investing activities in the Consolidated Statement of Cash Flows.

*Loans and leases* Interest on loans, other than direct financing leases, is recognized as income based on the loan principal outstanding during the period. Unearned income on financing leases is recognized over the lease term on a basis that results in an approximate level rate of return on the lease investment. Loans are generally placed on nonaccrual status when they are past due 90 days as to either interest or principal. When a loan is placed on nonaccrual status, previously accrued and uncollected interest is charged to interest and fee income on loans. A nonaccrual loan may be restored to an accrual basis when interest and principal payments are brought current and collectibility of future payments is not in doubt.

The Corporation defers and amortizes fees and certain incremental direct costs, primarily salary and employee benefit expenses, over the contractual term of the loan or lease as an adjustment to the yield. The unamortized net fees and costs are reported as part of the loan or lease balance outstanding.

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**Notes to Consolidated Financial Statements (Continued)**

**December 31, 2007, 2006, and 2005 ($000 s except share data)**

The Corporation periodically reviews the residual values associated with its leasing portfolios. Declines in residual values that are judged to be other than temporary are recognized as a loss resulting in a reduction in the net investment in the lease.

*Allowance for loan and lease losses* The allowance for loan and lease losses is maintained at a level believed adequate by management to absorb estimated losses inherent in the loan and lease portfolio including loans that have been determined to be impaired. 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. Management s determination of the adequacy of the allowance is based on a continual review of the loan and lease portfolio, loan and lease loss experience, economic conditions, growth and composition of the portfolio, and other relevant factors. As a result of management s continual review, the allowance is adjusted through provisions for loan and lease losses charged against income.

*Financial asset sales* 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 provides additional credit support by maintaining cash reserve accounts. 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.

*Premises and equipment* Land is recorded at cost. Premises and equipment are recorded at cost and depreciated principally on the straight-line method with annual rates varying from 10 to 50 years for buildings and 3 to 10 years for equipment. Long-lived assets which are impaired are carried at fair value and long-lived assets to be disposed of are carried at the lower of the carrying amount or fair value less cost to sell. Maintenance and repairs are charged to expense and betterments are capitalized.

*Other real estate owned* Other real estate owned consists primarily of assets that have been acquired in satisfaction of debts. Other real estate owned is recorded at fair value, less estimated selling costs, at the date of transfer. Valuation adjustments required at the date of transfer for assets acquired in satisfaction of debts are charged to the allowance for loan and lease losses. Subsequent to transfer, other real estate owned is carried at the lower of cost or fair value, less estimated selling costs, based upon periodic evaluations. Rental income from properties and gains on sales are included in other income, and property expenses, which include carrying costs, required valuation adjustments and losses on sales, are recorded in other expense. At December 31, 2007 and 2006, total other real estate owned amounted to $115,074 and $25,452, respectively.

*Goodwill and other intangibles* The Corporation annually tests goodwill for impairment using a two-step process that begins with an estimation of the fair value of a reporting unit. For purposes of the test, the Corporation s reporting units are the operating segments as defined in Statement of Financial Accounting Standards No. 131, ***Disclosures about Segments of an Enterprise and Related Information***. The first step is a screen for potential impairment and the second step measures the amount of impairment, if any. See Note 12 for additional information.

Identifiable intangibles arising from purchase acquisitions with a finite useful life are amortized over their useful lives and consist of core deposit intangibles, customer lists, non-compete agreements and tradenames.

Identifiable intangibles that have been determined to have an indefinite useful life are not amortized but are subject to periodic tests for impairment. At December 31, 2007, the Corporation did not have any identifiable intangibles that have been determined to have an indefinite useful life.

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**Notes to Consolidated Financial Statements (Continued)**

**December 31, 2007, 2006, and 2005 ($000 s except share data)**

*Derivative financial instruments* Derivative financial instruments, including certain derivative instruments embedded in other contracts, are carried in the Consolidated Balance Sheets as either an asset or liability measured at its fair value. The fair value of the Corporation s derivative financial instruments is determined based on market prices for comparable transactions, if available, or a valuation model that calculates the present value of expected future cash flows.

Changes in the fair value of derivative financial instruments are recognized currently in earnings unless specific hedge accounting criteria are met. For derivative financial instruments designated as hedging the exposure to changes in the fair value of a recognized asset or liability (fair value hedge), the gain or loss is recognized in earnings in the period of change together with the offsetting loss or gain on the hedged item attributable to the risk being hedged. For derivative financial instruments designated as hedging the exposure to variable cash flows of a forecasted transaction (cash flow hedge), the effective portion of the derivative financial instrument s gain or loss is initially reported as a component of accumulated other comprehensive income and is subsequently reclassified into earnings when the forecasted transaction affects earnings. The ineffective portion of the gain or loss is reported in earnings immediately.

At inception of a hedge, the Corporation formally documents the hedging relationship as well as the Corporation s risk management objective and strategy for undertaking the hedge, including identification of the hedging instrument, the hedged transaction, the nature of the risk being hedged, and how the hedging instrument s effectiveness in hedging the exposure will be assessed.

The adjustment of the carrying amount of an interest bearing hedged asset or liability in a fair value hedge is amortized into earnings when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged.

If a cash flow hedge is discontinued because it is probable that the original forecasted transaction will not occur, the net gain or loss in accumulated other comprehensive income is immediately reclassified into earnings. If the cash flow hedge is sold, terminated, expires or the designation of the cash flow hedge is removed, the net gain or loss in accumulated other comprehensive income is reclassified into earnings in the same period or periods during which the hedged forecasted transaction affects earnings.

Cash flows from derivative financial instruments are reported in the Consolidated Statements of Cash Flows as operating activities.

*Foreign exchange contracts* Foreign exchange contracts include such commitments as foreign currency spot, forward, future and option contracts. Foreign exchange contracts and the premiums on options written or sold are carried at market value with changes in market value included in other income.

*Treasury stock* Treasury stock acquired is recorded at cost and is carried as a reduction of shareholders equity in the Consolidated Balance Sheets. Treasury stock issued is valued based on average cost. The difference between the consideration received upon issuance and the average cost is charged or credited to additional paid-in capital.

*New accounting pronouncements* In December 2007, the Financial Accounting Standards Board ( FASB ) issued Statement of Financial Accounting Standards No. 141 (revised 2007), ***Business Combinations*** ( SFAS 141R ). SFAS 141R establishes principles and requirements for how an acquirer in a business combination recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, goodwill and any noncontrolling interest in the acquiree. SFAS 141R will be applied prospectively to business combinations for which the acquisition date is on or after January 1, 2009. Early adoption is not permitted.

While the impact on the Corporation will depend on the facts of a particular business combination, SFAS 141R presents several significant changes from current accounting for business combinations, including accounting for contingent consideration, transaction costs, preacqusition contingencies, restructuring costs and step-acquisitions. Upon

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**Notes to Consolidated Financial Statements (Continued)**

**December 31, 2007, 2006, and 2005 ($000 s except share data)**

adoption, contingent consideration arrangements would be recorded at fair value at the acquisition date. The concept of recognizing contingent consideration at a later date when the amount of that consideration is determinable beyond a reasonable doubt will no longer be applicable. Transaction costs are not an element of fair value of the target, so they would be expensed as incurred. Preacquisition contingencies, such as legal issues, would generally be recorded at fair value. However, if it is more likely than not that a non-contractual contingency will not materialize, nothing would be recorded at the acquisition date and, instead, that contingency will be subject to the recognition criteria prescribed in FASB Statement No. 5, ***Accounting for Contingencies***. Adjustments of valuation allowances related to acquired deferred tax assets and changes to acquired income tax uncertainties will be recognized in earnings, except for qualified measurement period adjustments. The measurement period is a period of up to one year during which the initial amounts recognized for an acquisition can be adjusted. Restructuring costs that the acquirer expects but is not obligated to incur would be recognized separately from the business combination instead of being recognized as if they were a liability assumed at the acquisition date. Upon initially obtaining control, an acquirer will recognize 100% of the fair values of acquired assets, including goodwill, and assumed liabilities, with only limited exceptions, even if the acquirer has not acquired 100% of its target. As a consequence, the current step acquisition model will be eliminated.

Also in December 2007, the FASB adopted Statement of Financial Accounting Standards No. 160, ***Noncontrolling Interests in Consolidated Financial Statements an amendment of ARB No. 51*** ( SFAS 160 ). SFAS 160 clarifies the classification of noncontrolling interests in consolidated statements of financial position and the accounting for and reporting of transactions between the reporting entity and holders of such noncontrolling interests. Under the new standard, noncontrolling interests are considered equity and will be reported as part of consolidated equity. Thus, the practice of classifying minority interests between liabilities and equity on the balance sheet will be eliminated. The current practice of reporting minority interest expense also will change. Under the new standard, net income will encompass the total income of all consolidated subsidiaries and there will be separate disclosure on the face of the income statement of the attribution of that income between the controlling and noncontrolling interests. Increases and decreases in the noncontrolling ownership interest amount will be accounted for as equity transactions. Thus, the difference between the proceeds of a purchase or issuance of noncontrolling interests will be accounted for as a change to the controlling interest s equity. In current practice, those differences are accounted for by step acquisition and sale accounting, respectively. If an issuance of noncontrolling interests causes the controlling interest to lose control and deconsolidate a subsidiary, that transaction will be accounted for by full gain or loss recognition.

SFAS 160 will be applied prospectively beginning on January 1, 2009. Early adoption is not permitted. The Corporation does not believe SFAS 160 will have a material effect on its financial statements and related disclosures.

In June 2007, the FASB ratified Emerging Issues Task Force Issue No. 06-11, ***Accounting for Income Tax Benefits of Dividends on Share-Based Payment Awards*** ( EITF 06-11 ). EITF 06-11 specifies how entities should recognize the income tax benefit received on dividends that are (a) paid to employees holding equity-classified nonvested shares, equity-classified nonvested share units, or equity-classified outstanding stock options and (b) charged to retained earnings under Statement of Financial Accounting Standards 123(R), ***Share-Based Payment***. EITF 06-11 was effective for the Corporation on January 1, 2008. The adoption of EITF 06-11 did not have a material effect on its financial statements and related disclosures.

In May 2007, FASB issued FASB Staff Position No. FIN 48-1, ***Definition of Settlement in FASB Interpretation No. 48*** ( FSP FIN 48-1 ). FSP FIN 48-1 amends FASB Interpretation No. 48, ***Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109*** ( FIN 48 ). FIN 48, which was adopted by the Corporation on January 1, 2007, clarifies the accounting for uncertainty in income taxes recognized in financial statements in accordance with FASB Statement 109, ***Accounting for Income Taxes***. FSP FIN 48-1 provides guidance on how an entity should determine whether a tax position is effectively settled for the purpose of recognizing previously unrecognized tax benefits. FSP FIN 48-1 clarifies that a tax position can be effectively settled upon the completion of an examination by a taxing authority without being legally extinguished. FSP FIN 48-1 is effective upon the initial adoption of FIN 48 and therefore was adopted by the Corporation in the beginning of fiscal 2007. The adoption of FSP FIN 48-1 did not have an impact on the accompanying financial statements.

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**Notes to Consolidated Financial Statements (Continued)**

**December 31, 2007, 2006, and 2005 ($000 s except share data)**

In February 2007, the FASB issued Statement of Financial Accounting Standard No. 159, ***The Fair Value Option for Financial Assets and Financial Liabilities, Including an Amendment of FASB Statement No. 115*** ( SFAS 159 ). SFAS 159 permits entities to choose to measure many financial instruments and certain other items generally on an instrument-by-instrument basis at fair value that are not currently required to be measured at fair value. SFAS 159 is intended to provide entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. SFAS 159 does not change requirements for recognizing and measuring dividend income, interest income, or interest expense. SFAS 159 is effective for the Corporation on January 1, 2008. The Corporation has not elected to measure any existing financial instruments at fair value at January 1, 2008 as permitted under SFAS No. 159. However, the Corporation may elect to measure newly acquired financial instruments at fair value in the future.

Statement of Financial Accounting Standard No. 157, ***Fair Value Measurements*** (SFAS 157), is effective for the Corporation on January 1, 2008. SFAS 157 provides enhanced guidance for using fair value to measure assets and liabilities. The standard applies, except as discussed below, whenever other standards require or permit (such as SFAS 159) assets or liabilities to be measured at fair value. Under the standard, fair value refers to the price at the measurement date that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in which the reporting entity is engaged. The standard does not expand the use of fair value in any new circumstances. However, SFAS 157 requires two distinct transition approaches depending on the historical accounting treatment of the instrument being measured: (i) cumulative-effect adjustment to beginning retained earnings or (ii) prospective through earnings or other comprehensive income (OCI), as applicable.

For certain types of financial instruments including (i) positions in active markets previously measured using a blockage factor, (ii) financial instruments initially measured at their transaction price in accordance with the guidance in EITF Issue No. 02-3, ***Issues Involved in Accounting for Derivative Contracts Held for Trading Purposes and Contracts Involved in Energy Trading and Risk Management Activities***, and (iii) hybrid financial instruments initially measured at their transaction price in accordance with the guidance in FASB Statement No. 155, ***Accounting for Certain Hybrid Financial Instruments***, SFAS 157 requires any difference between the carrying amounts of these instruments and their fair values determined in accordance with the provisions of SFAS 157 at the date the statement is initially applied is recognized as a cumulative-effect adjustment to beginning retained earnings. The Corporation did not record a cumulative-effect adjustment to retained earnings on January 1, 2008.

All other changes resulting from the application of SFAS 157 will be applied prospectively as of January 1, 2008 with the effect of adoption recognized in either earnings or OCI depending on the applicable accounting requirements for the particular asset or liability being measured. The impact is not expected to be significant.

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

Level 1 Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets. The Corporation s U.S. Treasury and government agencies and government-sponsored mortgage-backed securities where quoted prices are available in an active market generally will be classified within level 1 of the fair value hierarchy.

Level 2 Inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument. The Corporation s investments in mortgage-backed securities and obligations of states and political subdivisions, derivative financial instruments and liabilities subject to fair value hedges will be generally classified in Level 2 of the fair value hierarchy. Fair values for these instruments are estimated using pricing models, quoted prices of securities with similar characteristics, or discounted cash flows.

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**Notes to Consolidated Financial Statements (Continued)**

**December 31, 2007, 2006, and 2005 ($000 s except share data)**

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement. Private equity investments will be classified within level 3 of the fair value hierarchy. Fair values are initially valued based upon transaction price and are adjusted to reflect exit values as evidenced by financing and sale transactions with third parties.

On February 14, 2008, the FASB issued FASB Staff Position No. FAS 157-1, Application of FASB Statement No. 157 to FASB Statement No. 13 and Other Accounting Pronouncements That Address Fair Value Measurements for Purposes of Lease Classification or Measurement under FASB Statement 13. This FSP amends SFAS 157 to exclude accounting pronouncements, other than those related to business combinations, that address fair value measurements for purposes of lease classification or measurement.

On February 12, 2008, the FASB issued FASB Staff Position No. FAS 157-2, Effective Date of FASB Statement No. 157 ( FSP FAS 157-2 ). This FSP delays the effective date of SFAS 157 for certain nonfinancial assets and nonfinancial liabilities to January 1, 2009. The delay is intended to allow the FASB additional time to consider the effect of various implementation issues that have arisen, or that may arise, from the application of SFAS 157. The Corporation expects to adopt SFAS 157 subject to the deferral provisions provided in FSP FAS 157-2.

**2. Discontinued Operations**

On November 1, 2007, Marshall & Ilsley Corporation ( Marshall & Ilsley ), Metavante Corporation ( Metavante ), WPM, L.P., a limited partnership affiliated with Warburg Pincus Private Equity IX, L.P. ( Warburg Pincus ), and others consummated the transactions provided for in an investment agreement, a separation agreement and related transaction agreements pursuant to which,

Marshall & Ilsley separated into two publicly-traded companies, referred to herein as New Marshall & Ilsley and New Metavante. New Marshall & Ilsley owns and operates Marshall & Ilsley s banking business, and New Metavante owns and operates Metavante s business. Immediately following the transactions, the issued and outstanding common stock of New Marshall & Ilsley was 100% owned by Marshall & Ilsley s shareholders and the issued and outstanding common stock of New Metavante was 75% owned by Marshall & Ilsley s shareholders. The remaining 25% of the issued and outstanding common stock of New Metavante is owned by Warburg Pincus;

Marshall & Ilsley s shareholders received one share of New Metavante common stock for every three shares of Marshall & Ilsley common stock held and three shares of New Marshall & Ilsley Corporation common stock for each share of New Metavante common stock held;

each holder of Marshall & Ilsley common stock that would otherwise have been entitled to receive fractional shares of New Metavante common stock received cash in lieu of such fractional shares (and therefore did not receive shares of New Marshall & Ilsley common stock in respect of such fractional shares);

Warburg Pincus invested $625 million in New Metavante for an equity interest representing 25% of New Metavante common stock;

New Metavante incurred approximately $1.75 billion of indebtedness; and

Metavante paid off certain intercompany indebtedness owed to Marshall & Ilsley of $982 million and New Marshall & Ilsley received capital contributions of $1,665 million in cash from New Metavante, which consisted of a contribution from New Metavante of $1,040 million and proceeds of $625 million from Metavante s issuance of a 25% equity interest to Warburg Pincus.

The shares of New Marshall & Ilsley common stock issued to the holders of Marshall & Ilsley common stock represented 100% of the outstanding shares of New Marshall & Ilsley common stock and the shares of New Metavante common stock issued to the holders of Marshall & Ilsley common stock represented 75% of the outstanding shares of New Metavante common stock.

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**Notes to Consolidated Financial Statements (Continued)**

**December 31, 2007, 2006, and 2005 ($000 s except share data)**

Notwithstanding the legal form of the transactions, New Marshall & Ilsley was considered the divesting entity and treated as the accounting successor to Marshall & Ilsley Corporation and Metavante was considered the accounting spinnee for financial reporting purposes in accordance with Emerging Issues Task Force Issue No. 02-11, ***Accounting for Reverse Spinoffs***.

For periods beginning after November 1, 2007, New Marshall & Ilsley reported the historical consolidated results of operations (subject to certain adjustments) of Metavante in discontinued operations in accordance with the provisions of Statement of Financial Accounting Standards No. 144 ( SFAS 144 ), ***Accounting for the Impairment or Disposal of Long-Lived Assets***.

For accounting purposes only, the investment by Warburg Pincus in New Metavante for an equity interest representing 25% of New Metavante common stock was treated as a sale of 25% of Metavante s common stock by Marshall & Ilsley Corporation to Warburg Pincus for cash in the amount of $625 million. The sale resulted in a tax-free gain of $525.6 million that is reported as a component of discontinued operations in the Consolidated Statements of Income for the year ended December 31, 2007.

Marshall & Ilsley became M&I LLC a wholly-owned subsidiary of New Marshall & Ilsley. New Marshall & Ilsley was renamed Marshall & Ilsley Corporation. New Metavante was renamed Metavante Technologies, Inc.

The separation of Marshall & Ilsley Corporation into Marshall & Ilsley Corporation and Metavante Technologies, Inc., and the related transactions, are referred to in this report as the Separation.

The components of the assets and liabilities of discontinued operations as of December 31, 2006 were as follows:

| | December 31, 2006 |
|---|---|
| **Assets** | |
| Cash and Cash Equivalents | $ 46,178 |
| Interest Bearing Deposits at Other Banks | 3,285 |
| Investment Securities | |
| Available for Sale, at Market Value | 68,330 |
| Loan to Metavante | (982,000) |
| Loans and Leases | (34) |
| Premises and Equipment, Net | 135,221 |
| Goodwill and Other Intangibles | 1,639,169 |
| Accrued Interest and Other Assets | 407,793 |
| Total Assets | $ 1,317,942 |

| | | |
|---|---|---|
| **Liabilities** | | |
| Deposits: | | |
| Noninterest Bearing | $ | (31,382) |
| Interest Bearing | | (511,008) |
| Total Deposits | | (542,390) |
| Short-term Borrowings | | 395 |
| Accrued Expenses and Other Liabilities | | 597,803 |
| Total Liabilities | $ | 55,808 |

Prior to November 1, 2007, intercompany transactions between Metavante and Marshall & Ilsley Corporation and its affiliates were eliminated in the Corporation s consolidated financial statements. The above table reflects the reclassification of Metavante s intercompany borrowing from M&I LLC to Loan to Metavante . On November 1, 2007, the Corporation received cash of $982 million from Metavante to retire this indebtedness. The Noninterest Bearing and Interest Bearing Deposits in the above table reflects the reclassification of Metavante s cash and investments held as deposits at the Corporation s affiliate banks.

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**Notes to Consolidated Financial Statements (Continued)**

**December 31, 2007, 2006, and 2005 ($000 s except share data)**

The results of discontinued operations for the years ended December 31, 2007, 2006 and 2005 consisted of the following:

| | Years Ended December 31, | | |
|---|---|---|---|
| | 2007 | 2006 | 2005 |
| Metavante Income Before Provision for Income Taxes | $ 242,687 | $ 240,483 | $ 192,870 |
| Transaction Expenses and other related costs | (29,833) | | |
| Gain on Sale of Metavante | 525,576 | | |
| Income Before Provision for Income Taxes | 738,430 | 240,483 | 192,870 |
| Provision for Income Taxes | 84,433 | 80,359 | 73,339 |
| Income from Discontinued Operations, Net of Tax | $ 653,997 | $ 160,124 | $ 119,531 |

Metavante s results of operations for the year ended December 31, 2007 included in the table above reflect results of operations for the ten months ended October 31, 2007.

The transaction expenses of the Corporation related to the Separation which are included in discontinued operations consisted of the following:

| | Year Ended December 31, 2007 |
|---|---|
| Investment Banking Fees | $ 10,200 |
| Stock Option Expense | 11,969 |
| Accounting, Legal & Tax Fees | 5,002 |
| Consulting Fees | 1,036 |
| Printing, Proxy & Regulatory Fees | 1,008 |
| Other | 618 |
| Total Transaction Expenses | $ 29,833 |

As permitted under U.S. generally accepted accounting principles, the Corporation has elected not to adjust the Consolidated Statements of Cash Flows for the periods presented to exclude cash flows attributable to discontinued operations.

Included in Acquisitions, Net of Cash and Cash Equivalents Acquired in the Corporation s Consolidated Statements of Cash Flows are Metavante s acquisitions, which are now part of discontinued operations. The total cash consideration associated with Metavante s acquisitions amounted to $41.0 million in 2007, $80.1 million in 2006 and $95.4 million in 2005. During 2006, Metavante received $29.9 million as a return of purchase price associated with a 2004 acquisition.

The net proceeds from the Separation included in the Consolidated Statements of Cash Flows consisted of the following:

| | Year Ended December 31, 2007 |
|---|---|
| Cash Dividend from Metavante | $ 1,040,000 |
| Proceeds from Warburg Pincus | 625,000 |
| Metavante s Cash and Cash Equivalents maintained at Unaffiliated Entities | (46,388) |
| Capital Contribution to Metavante | (17,500) |
| Cash Paid for Transaction Costs | (8,466) |
| Net Proceeds from the Separation | $ 1,592,646 |

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**Notes to Consolidated Financial Statements (Continued)**

**December 31, 2007, 2006, and 2005 ($000 s except share data)**

As part of the Separation, the Corporation and Metavante entered into an agreement to share certain transaction costs and the cash paid to shareholders in lieu of fractional shares. In accordance with that agreement, the Corporation received $5,066 from Metavante.

For accounting purposes only, after the sale to Warburg Pincus of a 25% equity interest in Metavante, and after the dividend from Metavante, the Corporation distributed its remaining 75% ownership interest in Metavante to its shareholders on November 1, 2007. The Corporation s investment in Metavante at the time of the distribution was $298,272.

In addition to the cash paid for Metavante-related acquisitions, the Corporation issued shares of its common stock for certain acquisitions which consisted of the following:

| Year Ended December 31, | Common Shares Issued | Amount ($000 s) |
|---|---|---|
| 2006 | 527,864 | $ 23,190 |
| 2005 | 5,254,523 | 241,095 |

These were non-cash transactions for purposes of the Consolidated Statements of Cash Flows.

**3. Adoption of SAB 108**

In 2006 the Corporation elected early application of SAB 108, and, as a result, adjusted its opening financial position for 2006 to reflect a change in its hedge accounting under SFAS 133.

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

The cumulative effect of adjusting the reported carrying amount of the assets, liabilities and accumulated other comprehensive income at January 1, 2006, reduced total Shareholders Equity as follows:

| | Gross Impact | Income Tax Effect | Shareholders Equity |
|---|---|---|---|
| Retained Earnings | $ (53,471) | $ 19,196 | $ (34,275) |
| Accumulated Other Comprehensive Income | 24,969 | (8,739) | 16,230 |
| Total | | | $ (18,045) |

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**Notes to Consolidated Financial Statements (Continued)**

**December 31, 2007, 2006, and 2005 ($000 s except share data)**

**4. Earnings Per Share**

The following presents a reconciliation of the numerators and denominators of the basic and diluted per share computations (dollars and shares in thousands, except per share data):

| | Year Ended December 31, 2007 | | |
|---|---|---|---|
| | Income (Numerator) | Average Shares (Denominator) | Per Share Amount |
| **Basic earnings per share**: | | | |
| Income from continuing operations available to common shareholders | $ 496,939 | | $ 1.91 |
| Income from discontinued operations | 653,997 | | 2.51 |
| Net income available to common shareholders | $ 1,150,936 | 260,268 | $ 4.42 |
| Effect of dilutive securities: | | | |
| Stock option, restricted stock and other plans | | 5,212 | |
| **Diluted earnings per share**: | | | |
| Income from continuing operations available to common shareholders | $ 496,939 | | $ 1.87 |
| Income from discontinued operations | 653,997 | | 2.47 |
| Net income available to common shareholders | $ 1,150,936 | 265,480 | $ 4.34 |

| | Year Ended December 31, 2006 | | |
|---|---|---|---|
| | Income (Numerator) | Average Shares (Denominator) | Per Share Amount |
| **Basic earnings per share**: | | | |
| Income from continuing operations available to common shareholders | $ 647,714 | | $ 2.60 |
| Income from discontinued operations | 160,124 | | 0.64 |
| Net income available to common shareholders | $ 807,838 | 249,163 | $ 3.24 |
| Effect of dilutive securities: | | | |
| Stock option, restricted stock and other plans | | 5,421 | |
| **Diluted earnings per share**: | | | |
| Income from continuing operations available to common shareholders | $ 647,714 | | $ 2.54 |
| Income from discontinued operations | 160,124 | | 0.63 |
| Net income available to common shareholders | $ 807,838 | 254,584 | $ 3.17 |

| | Year Ended December 31, 2005 | | |
|---|---|---|---|
| | Income (Numerator) | Average Shares (Denominator) | Per Share Amount |
| **Basic earnings per share**: | | | |
| Income from continuing operations available to common shareholders | $ 586,659 | | $ 2.54 |
| Income from discontinued operations | 119,531 | | 0.52 |
| Net income available to common shareholders | $ 706,190 | 230,849 | $ 3.06 |
| Effect of dilutive securities: | | | |
| Stock option, restricted stock and other plans | | 5,182 | |
| **Diluted earnings per share**: | | | |
| Income from continuing operations available to common shareholders | $ 586,659 | | $ 2.49 |
| Income from discontinued operations | 119,531 | | 0.50 |
| Net income available to common shareholders | $ 706,190 | 236,031 | $ 2.99 |

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**Notes to Consolidated Financial Statements (Continued)**

**December 31, 2007, 2006, and 2005 ($000 s except share data)**

Options to purchase shares of common stock not included in the computation of diluted net income per share because the options exercise price was greater than the average market price of the common shares for the periods (anti-dilutive options) are shown below (shares in thousands):

| Year Ended December 31, | Price Range | | Shares |
|---|---|---|---|
| 2007 | $ 28.71 | $36.82 | 5,709 |
| 2006 | 45.71 | 48.54 | 3,725 |
| 2005 | 43.31 | 47.02 | 62 |

**5. Business Combinations**

Recently completed acquisition:

On January 2, 2008, the Corporation completed its acquisition of First Indiana Corporation ( First Indiana ) based in Indianapolis, Indiana. First Indiana, with $2.1 billion in consolidated assets as of December 31, 2007, had 32 branches in central Indiana which became branches of M&I Bank on February 2, 2008. Stockholders of First Indiana received $32.00 in cash for each share of First Indiana common stock outstanding. Total consideration amounted to $530.2 million.

The following acquisitions, which are not considered to be material business combinations individually or in the aggregate, were completed during 2007:

On July 1, 2007, the Corporation completed its acquisition of Excel Bank Corporation ( Excel ). Pursuant to an Amended and Restated Merger Agreement, shareholders of Excel received $13.97 per share in cash for each issued and outstanding share of Excel common stock. Total consideration in this transaction amounted to approximately $105.0 million in the aggregate, consisting of $101.2 million in cash and the exchange of vested stock options valued at approximately $3.8 million. Outstanding vested options to acquire Excel common stock were exchanged for options to acquire the Corporation s common stock. Excel, with $616.0 million in consolidated assets as of June 30, 2007, had four branches in the greater Minneapolis/St. Paul, Minnesota metropolitan area which became branches of M&I Bank on August 1, 2007. Initial goodwill, subject to the completion of appraisals and valuation of the assets acquired and liabilities assumed, amounted to $80.3 million. The estimated identifiable intangible asset to be amortized (core deposits) with a weighted average life of 6.2 years amounted to $4.2 million. The goodwill and intangibles resulting from this acquisition are deductible for tax purposes.

On April 20, 2007, the Corporation completed its acquisition of North Star Financial Corporation ( North Star ) of Chicago, Illinois. Total consideration in this transaction amounted to $21.0 million, consisting of 441,252 shares of the Corporation s common stock valued at $47.55 per common share. North Star and its subsidiaries provide a variety of wealth management services through personal and other trusts. In addition, North Star offers a variety of other products and services including land trusts, 1031 exchanges for both real and personal property, and ESOP services, including consultative services relating to the transfer of small-business stock ownership. North Star s businesses were integrated with the Corporation s Wealth Management unit. Initial goodwill, subject to the completion of appraisals and valuation of the assets acquired and liabilities assumed, amounted to $16.7 million. The estimated identifiable intangible assets to be amortized (customer relationships, tradename and non-compete agreements) with a weighted average life of 7.0 years amounted to $10.2 million. This is considered a non-cash transaction for the purposes of the Consolidated Statement of Cash Flows. The goodwill and intangibles resulting from this acquisition are not deductible for tax purposes.

On April 1, 2007, the Corporation completed its acquisition of United Heritage Bankshares of Florida, Inc. ( United Heritage ). United Heritage Bank, a wholly-owned subsidiary of United Heritage, with $791.3 million in assets as of March 31, 2007, had 13 branches in the metropolitan Orlando area which became M&I Bank branches in the second quarter of 2007. Total consideration in this transaction amounted to approximately $219.6 million, consisting of 4,410,647 shares of the Corporation s common stock valued at $204.3 million and the exchange of vested

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**Notes to Consolidated Financial Statements (Continued)**

**December 31, 2007, 2006, and 2005 ($000 s except share data)**

stock options valued at approximately $15.3 million. Initial goodwill, subject to the completion of appraisals and valuation of the assets acquired and liabilities assumed, amounted to $147.8 million. The estimated identifiable intangible asset to be amortized (core deposits) with a weighted average life of 7.7 years amounted to $11.6 million. This is considered a non-cash transaction for the purposes of the Consolidated Statement of Cash Flows. The goodwill and intangibles resulting from this acquisition are not deductible for tax purposes.

The following acquisitions, which are not considered to be material business combinations individually or in the aggregate, were completed during 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 13,672,665 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 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 Bank. Goodwill amounted to $493.5 million. Approximately $485.6 million of the goodwill was assigned to Banking and the remainder was assigned to the Corporation s Trust reporting unit of the Wealth Management segment. 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, the 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 3,069,328 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. Goodwill amounted to $130.4 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.

On January 3, 2006, M&I Trust completed the acquisition of the trust and asset management business assets of FirstTrust Indiana of Indianapolis, Indiana, a division of First Indiana Bank, N.A. ( FirstTrust Indiana ). The total cash consideration was $15.9 million. FirstTrust Indiana offers asset management, trust administration and estate planning services to high net-worth individuals and institutional customers. Goodwill amounted to $13.4 million. The estimated identifiable intangible asset to be amortized (trust customers) with an estimated weighted average life of 5.9 years amounted to $2.0 million. The goodwill and intangibles resulting from this transaction are deductible for tax purposes.

The results of operations of the acquired entities have been included in the consolidated results since the dates the transactions were closed.

**6. Cash and Due from Banks**

At December 31, 2007 and 2006, $62,108 and $42,601, respectively, of cash and due from banks of continuing operations was restricted, primarily due to requirements of the Federal Reserve System to maintain certain reserve balances.

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**Notes to Consolidated Financial Statements (Continued)**

**December 31, 2007, 2006, and 2005 ($000 s except share data)**

**7. Securities**

The amortized cost and market value of selected securities at December 31 were:

| | 2007 | | 2006 | |
|---|---|---|---|---|
| | Amortized Cost | Market Value | Amortized Cost | Market Value |
| Investment Securities Available for Sale: | | | | |
| U.S. Treasury and government agencies | $ 5,849,041 | $ 5,824,303 | $ 5,521,975 | $ 5,466,369 |
| States and political subdivisions | 894,015 | 904,230 | 806,887 | 824,015 |
| Mortgage backed securities | 119,487 | 118,477 | 116,397 | 114,467 |
| Other | 596,314 | 595,879 | 498,448 | 504,672 |
| Total | $ 7,458,857 | $ 7,442,889 | $ 6,943,707 | $ 6,909,523 |
| Investment Securities Held to Maturity: | | | | |
| States and political subdivisions | $ 373,861 | $ 382,190 | $ 494,020 | $ 506,417 |
| Other | 1,000 | 1,000 | 1,500 | 1,492 |
| Total | $ 374,861 | $ 383,190 | $ 495,520 | $ 507,909 |

The unrealized gains and losses of selected securities at December 31 were:

| | 2007 | | 2006 | |
|---|---|---|---|---|
| | Unrealized Gains | Unrealized Losses | Unrealized Gains | Unrealized Losses |
| Investment Securities Available for Sale: | | | | |
| U.S. Treasury and government agencies | $ 17,188 | $ 41,926 | $ 15,291 | $ 70,897 |
| States and political subdivisions | 15,201 | 4,986 | 18,584 | 1,456 |
| Mortgage backed securities | 323 | 1,333 | 4 | 1,934 |
| Other | 741 | 1,176 | 6,288 | 64 |
| Total | $ 33,453 | $ 49,421 | $ 40,167 | $ 74,351 |
| Investment Securities Held to Maturity: | | | | |
| States and political subdivisions | $ 8,375 | $ 46 | $ 12,401 | $ 4 |
| Other | | | | 8 |
| Total | $ 8,375 | $ 46 | $ 12,401 | $ 12 |

The amortized cost and market value of selected securities by contractual maturity at December 31, 2007 were:

| | Investment Securities Available for Sale | | Investment Securities Held to Maturity | |
|---|---|---|---|---|
| | Amortized Cost | Market Value | Amortized Cost | Market Value |
| Within one year | $ 120,114 | $ 120,508 | $ 78,708 | $ 79,225 |
| From one through five years | 5,173,602 | 5,158,300 | 123,253 | 126,276 |
| From five through ten years | 1,090,087 | 1,089,547 | 130,804 | 134,434 |
| After ten years | 1,075,054 | 1,074,534 | 42,096 | 43,255 |
| Total | $ 7,458,857 | $ 7,442,889 | $ 374,861 | $ 383,190 |

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**Notes to Consolidated Financial Statements (Continued)**

**December 31, 2007, 2006, and 2005 ($000 s except share data)**

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 December 31, 2007:

| | Less than 12 Months | | 12 Months or More | | Total | |
|---|---|---|---|---|---|---|
| | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses |
| U.S. Treasury and government agencies | $ 1,192,332 | $ 5,563 | $ 2,378,349 | $ 36,363 | $ 3,570,681 | $ 41,926 |
| States and political subdivisions | 205,834 | 3,642 | 97,628 | 1,390 | 303,462 | 5,032 |
| Mortgage backed securities | 18,730 | 224 | 61,345 | 1,109 | 80,075 | 1,333 |
| Other | 142,096 | 1,112 | 400 | 64 | 142,496 | 1,176 |
| Total | $ 1,558,992 | $ 10,541 | $ 2,537,722 | $ 38,926 | $ 4,096,714 | $ 49,467 |

The investment securities in the above table were temporarily impaired at December 31, 2007. This temporary impairment represents the amount of loss that would have been realized if the investment securities had been sold on December 31, 2007. The temporary impairment in the investment securities portfolio is predominantly the result of increases in market interest rates since the investment securities were acquired and not from deterioration in the creditworthiness of the issuer or the quality of the underlying assets. At December 31, 2007, the Corporation had the ability and intent to hold these temporarily impaired investment securities until a recovery of fair value, which may be maturity.

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 December 31, 2006:

| | 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 | $ 422,638 | $ 1,667 | $ 3,160,890 | $ 69,230 | $ 3,583,528 | $ 70,897 |
| States and political subdivisions | 83,509 | 400 | 67,513 | 1,060 | 151,022 | 1,460 |
| Mortgage backed securities | 1,104 | 4 | 89,426 | 1,930 | 90,530 | 1,934 |
| Other | 991 | 8 | 400 | 64 | 1,391 | 72 |
| Total | $ 508,242 | $ 2,079 | $ 3,318,229 | $ 72,284 | $ 3,826,471 | $ 74,363 |

The gross investment securities gains and losses, including Wealth Management transactions, amounted to $46,378 and $11,560 in 2007, $15,810 and $6,205 in 2006, and $48,012 and $2,598 in 2005, respectively. See the Consolidated Statements of Cash Flows for the proceeds from the sale of investment securities.

Income tax expense related to net securities transactions amounted to $12,198, $3,428, and $15,901 in 2007, 2006, and 2005, respectively.

At December 31, 2007, securities with a value of approximately $1,552,830 were pledged to secure public deposits, short-term borrowings, and for other purposes required by law.

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**Notes to Consolidated Financial Statements (Continued)**

**December 31, 2007, 2006, and 2005 ($000 s except share data)**

**8. Loans and Leases**

Loans and leases, including loans held for sale at December 31 were:

| | 2007 | 2006 |
|---|---|---|
| Commercial, financial and agricultural | $ 13,793,951 | $ 12,050,963 |
| Cash flow hedging instruments at fair value | (694) | (2,773) |
| Commercial, financial and agricultural | 13,793,257 | 12,048,190 |
| Real estate: | | |
| Construction | 6,691,716 | 6,088,206 |
| Residential mortgage | 7,105,201 | 6,328,478 |
| Home equity loans and lines of credit | 4,413,205 | 4,342,362 |
| Commercial mortgage | 12,002,162 | 10,965,607 |
| Total Real Estate | 30,212,284 | 27,724,653 |
| Personal | 1,560,573 | 1,458,628 |
| Lease financing | 730,144 | 703,580 |
| Total loans and leases | $ 46,296,258 | $ 41,935,051 |

Included in the real estate loans category are residential mortgage loans held for sale which amounted to $40,253 and $139,301 at December 31, 2007 and 2006, respectively. Auto loans held for sale, which are included in personal loans category, amounted to $83,434 at December 31, 2006. There were no auto loans held for sale at December 31, 2007. Student loans held for sale, which are included in the personal loans category were $91,620 and $77,942 at December 31, 2007 and 2006, respectively.

Commercial loans and commercial mortgages are evaluated for the adequacy of repayment sources at the time of approval and are regularly reviewed for any possible deterioration in the ability of the borrower to repay the loan.

The Corporation evaluates the credit risk of each commercial customer on an individual basis and, where deemed appropriate, collateral is obtained. Collateral varies by the type of loan and individual loan customer and may include accounts receivable, inventory, real estate, equipment, deposits, personal and government guarantees, and general security agreements. The Corporation s access to collateral is dependent upon the type of collateral obtained.

Policies have been established that set standards for the maximum commercial mortgage loan amount by type of property, loan terms, pricing structures, loan-to-value limits by property type, minimum requirements for initial investment and maintenance of equity by the borrower, borrower net worth, property cash flow and debt service coverage as well as policies and procedures for granting exceptions to established underwriting standards.

The Corporation s residential real estate lending policies require all loans to have viable repayment sources. Residential real estate loans are evaluated for the adequacy of these repayment sources at the time of approval, using such factors as credit scores, debt-to-income ratios and collateral values. Home equity loans and lines of credit are generally governed by the same lending policies.

Origination activities for commercial construction loans and residential construction loans are similar to those described above for commercial mortgages and residential real estate lending.

The Corporation s lending activities are concentrated primarily in the Midwest. Approximately 38% of the portfolio consists of loans granted to customers located in Wisconsin, 17% of the loans are to customers located in Arizona, 11% of the loans are to customers in Minnesota, 7% are to customers located in Missouri and 6% to customers located in Florida. The Corporation s loan portfolio consists of business loans extending across many industry types, as well as loans to individuals. As of December 31, 2007, total loans to any group of customers engaged in similar activities and having similar economic characteristics, as defined by the North American Industry Classification System, did not exceed 10% of total loans.

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**Notes to Consolidated Financial Statements  (Continued)**

**December 31, 2007, 2006, and 2005 ($000  s except share data)**

The Corporation offers a variety of loan products with payment terms and rate structures that have been designed to meet the needs of its customers within an established framework of acceptable credit risk. Payment terms range from fully amortizing loans that require periodic principal and interest payments to terms that require periodic payments of interest-only with principal due at maturity. Interest-only loans are typical in commercial and business line-of-credit or revolving line-of-credit loans, home equity lines-of-credit and construction loans (residential and commercial). At December 31, 2007, the Corporation did not have loans with below market or so-called teaser interest rates. At December 31, 2007, the Corporation did not offer, hold or service option adjustable rate mortgages that may expose the borrowers to future increase in repayments in excess of changes resulting solely from increases in the market rate of interest (loans subject to negative amortization).

The Corporation periodically reviews the residual values associated with its leasing portfolios. Declines in residual values that are judged to be other than temporary are recognized as a loss resulting in a reduction in the net investment in the lease. No residual impairment losses were incurred for the years ended December 31, 2007 and 2006.

An analysis of loans outstanding to directors and officers, including their related interests, by the Corporation and its significant subsidiaries for 2007 is presented in the following table. All of these loans were made in the ordinary course of business with normal credit terms, including interest rates and collateral. The beginning balance has been adjusted to reflect the activity of newly-elected directors and newly-appointed executive officers, and directors and executive officers from the prior year that are no longer affiliated with the Corporation.

| | |
|---|---|
| Loans to directors and executive officers: | |
| Balance, beginning of year | $ 146,579 |
| New loans | 259,194 |
| Repayments | (232,466) |
| Balance, end of year | $ 173,307 |

**9. Allowance for Loan and Lease Losses**

An analysis of the allowance for loan and lease losses follows:

| | 2007 | 2006 | 2005 |
|---|---|---|---|
| Balance, beginning of year | $ 420,610 | $ 363,769 | $ 358,110 |
| Allowance of loans and leases acquired | 11,713 | 45,258 | |
| Provision charged to expense | 319,760 | 50,551 | 44,795 |
| Charge-offs | (271,345) | (55,430) | (59,524) |
| Recoveries | 15,453 | 16,462 | 20,388 |

| | | | |
|---|---|---|---|
| Balance, end of year | $ 496,191 | $ 420,610 | $ 363,769 |

As of December 31, 2007 and 2006, nonaccrual loans and leases totaled $686,888 and $264,890, respectively.

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**Notes to Consolidated Financial Statements (Continued)**

**December 31, 2007, 2006, and 2005 ($000 s except share data)**

At December 31, 2007 and 2006 the Corporation s recorded investment in impaired loans and leases and the related valuation allowance are as follows:

| | 2007 | | 2006 | |
|---|---|---|---|---|
| | Recorded Investment | Valuation Allowance | Recorded Investment | Valuation Allowance |
| Total impaired loans and leases | $ 911,286 | | $ 265,015 | |
| Loans and leases excluded from individual evaluation | (251,789) | | (85,157) | |
| Impaired loans evaluated | $ 659,497 | | $ 179,858 | |
| Valuation allowance required | $ 45,823 | $ 15,148 | $ 76,557 | $ 24,175 |
| No valuation allowance required | 613,674 | | 103,301 | |
| Impaired loans evaluated | $ 659,497 | $ 15,148 | $ 179,858 | $ 24,175 |

The recorded investment in impaired loans for which no allowance is required is net of applications of cash interest payments and net of previous direct write-downs of $211,874 in 2007 and $34,655 in 2006 against the loan balances outstanding. For purposes of impairment testing, loans greater than an established threshold were individually evaluated for impairment. Loans below those scopes were collectively evaluated as homogeneous pools. The required valuation allowance is included in the allowance for loan and lease losses in the Consolidated Balance Sheets.

The average recorded investment in total impaired loans and leases for the years ended December 31, 2007 and 2006 amounted to $453,009 and $203,014, respectively.

Interest payments received on impaired loans and leases are recorded as interest income unless collection of the remaining recorded investment is doubtful at which time payments received are recorded as reductions of principal. Interest income recognized on total impaired loans and leases amounted to $42,806 in 2007, $14,099 in 2006 and $8,528 in 2005. The gross income that would have been recognized had such loans and leases been performing in accordance with their original terms would have been $75,164 in 2007, $26,970 in 2006 and $10,954 in 2005.

**10. Financial Asset Sales and Variable Interest Entities**

The Corporation sold indirect automobile loans to an unconsolidated multi-seller asset-backed commercial paper conduit or basic term facilities, in securitization transactions in accordance with SFAS 140. Servicing responsibilities and subordinated interests were retained. The Corporation receives annual servicing fees based on the loan balances outstanding and rights to future cash flows arising after investors in the securitization trusts have received their contractual return and after certain administrative costs of operating the trusts. The investors and the securitization trusts have no recourse to the Corporation s other assets for failure of debtors to pay when due. The Corporation s retained interests are subordinate to investors interests. Their value is subject to credit, prepayment and interest rate risks on the transferred financial assets. During 2007, the Corporation opted to discontinue, on a recurring basis, the sale and securitization of automobile loans into the secondary market. Automobile loans previously classified as held for sale were reclassified as portfolio loans at the lower of cost or market. The difference between cost and market was insignificant.

During 2007, 2006 and 2005, the Corporation recognized net gains/(losses) of $1,155, ($119) and ($1,957), respectively, on the sale and securitization of automobile loans. Net trading gains/(losses) associated with related interest swaps amounted to ($60), $31 and ($1,078) in 2007, 2006, and 2005, respectively.

Net gains/(losses) associated with the retained interests, held in the form of interest-only strips amounted to ($1,940) in 2007, $866 in 2006 and $1,009 in 2005 and are included in Net Investment Securities Gains in the Consolidated Statements of Income. During 2007 and 2006, the Corporation realized $1,001 and $4,021 in gains that were offset by impairment losses of $2,941 and $3,155, respectively. There were no impairment losses in 2005. The

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**Notes to Consolidated Financial Statements (Continued)**

**December 31, 2007, 2006, and 2005 ($000 s except share data)**

gains realized in 2007 and 2006 resulted from the excess of cash received over the carrying amount of certain interest- only strips. The impairments in 2007 and 2006 were the result of the differences between the actual credit losses experienced compared to the expected credit losses used in measuring certain interest-only strips. Those impairments were deemed to be other than temporary.

The values of retained interests are based on cash flow models, which incorporate key assumptions. Key economic assumptions used in measuring the retained interests at the date of securitization resulting from securitizations of automobile loans completed during the year were as follows (rate per annum):

| | 2007 | 2006 |
|---|---|---|
| Prepayment speed (CPR) | 15-41% | 15-42% |
| Weighted average life (in months) | 22.7 | 20.9 |
| Expected credit losses (based on original balance) | 0.50-1.53% | 0.36-1.32% |
| Residual cash flow discount rate (annual) | 12.0% | 12.0% |
| Variable returns to transferees | Forward one month LIBOR yield curve | |

For 2007, the prepayment speed and expected credit loss estimates are based on historical prepayment rates, credit losses on similar assets and consider current environmental factors. The prepayment speed curve ramps to its maximum near the end of the fourth year. The expected credit losses are based in part on whether the loan is on a new or used vehicle. Estimates of net credit losses reach their peak levels at various points during year five. The expected credit losses presented are based on the original loan balances of the loans securitized. The Corporation has not changed any aspect of its overall approach to determining the key economic assumptions. However, on an ongoing basis the Corporation continues to refine the assumptions used in measuring retained interests.

Retained interests and other assets consisted of the following at December 31:

| | 2007 | 2006 |
|---|---|---|
| Interest-only strips | $ 9,030 | $ 14,898 |
| Cash collateral accounts | 18,784 | 19,217 |
| Servicing advances | 132 | 208 |
| Total retained interests | $ 27,946 | $ 34,323 |

At December 31, 2007, key economic assumptions and the sensitivity of the current fair value of residual cash flows to immediate 10 percent and 20 percent adverse changes in those assumptions are as follows ($ in millions):

| | | Adverse Change in Assumptions | |
|---|---|---|---|
| | | 10% | 20% |
| Weighted average life of collateral (in months) | 16.0 | | |
| Prepayment speed (CPR) | 16-42% | $ 0.7 | $ 1.3 |
| Expected credit losses (based on original balance) | 0.35-1.66% | 0.7 | 1.4 |
| Residual cash flows discount rate (annual) | 12.0% | 0.1 | 0.2 |

These sensitivities are hypothetical and should be used with caution. As the figures indicate, changes in fair value based on a 10 percent adverse variation in assumptions generally can not be extrapolated because the relationship of the change in assumption to the change in fair value may not be linear. Also, the effect of an adverse variation in a particular assumption on the fair value of the retained interest is calculated without changing any other assumption. Realistically, changes in one factor may result in changes in another (for example, increases in market interest rates may result in lower prepayments and increased credit losses), which might magnify or counteract the sensitivities.

Actual and projected net credit losses represented 1.32% of total automobile loans that have been securitized at December 31, 2007, based on original balances at the time of the initial securitization.

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**Notes to Consolidated Financial Statements (Continued)**

**December 31, 2007, 2006, and 2005 ($000 s except share data)**

The following table summarizes certain cash flows received from and paid to the securitization entities for the years ended December 31:

| | 2007 | 2006 |
|---|---|---|
| Proceeds from new securitizations | $ 168,812 | $ 526,236 |
| Servicing fees received | 4,897 | 6,105 |
| Net charge-offs | (7,629) | (4,871) |
| Cash collateral account transfers, net | 433 | 4,167 |
| Other cash flows received on retained interests, net | 9,362 | 11,393 |

At December 31, 2007 securitized automobile loans and other automobile loans managed together with them along with delinquency and credit loss information consisted of the following:

| | Securitized | Portfolio | Total Managed |
|---|---|---|---|
| Loan balances | $ 612,609 | $ 316,910 | $ 929,519 |
| Principal amounts of loans 60 days or more past due | 3,829 | 771 | 4,600 |
| Net credit losses | 7,672 | 784 | 8,456 |

From time to time, the Corporation also purchased and immediately sold certain debt securities classified as available for sale that are highly rated to a QSPE whose activities were limited to issuing highly rated asset-backed commercial paper with maturities up to 180 days that was used to finance the purchase of the debt securities. In order to be sold, the debt securities were required to meet predetermined eligibility requirements that are primarily based on their credit rating.

The Corporation provided liquidity back-up in the form of liquidity purchase agreements. In addition, a subsidiary of the Corporation entered into interest rate swaps with the QSPE designed to counteract the interest rate risk associated with third party beneficial interests and the debt securities.

During 2007, the QSPE experienced difficulty finding investors for its commercial paper. The lack of investor demand was consistent with what many smaller issuers of commercial paper in the asset backed commercial paper market had been experiencing and appeared to be happening regardless of the underlying assets that served as collateral for the related commercial paper outstanding. On October 31, 2007, the Corporation acquired for cash the $406.1 million of highly rated debt securities that served as collateral for the QSPE s commercial paper outstanding in accordance with the liquidity purchase agreements and the QSPE was liquidated. At the time the Corporation acquired the outstanding debt securities that served as collateral for commercial paper, the difference between market value and the carrying amount was insignificant.

Highly rated investment securities in the amount of $358.9 million were outstanding at December 31, 2006 in the QSPE to support the outstanding commercial paper.

The Corporation also holds other variable interests in variable interest entities.

The Corporation is committed to community reinvestment and is required under federal law to take affirmative steps to meet the credit needs of the local communities it serves. The Corporation regularly invests in or lends to entities that: own residential facilities that provide housing for low-to-moderate income families (affordable housing projects); own commercial properties that are involved in historical preservations (rehabilitation projects); or provide funds for qualified low income community investments. These projects are generally located within the geographic markets served by the Corporation s banking segment. The Corporation s involvement in these entities is limited to providing funding in the form of subordinated debt or equity interests. At December 31, 2007, the aggregate carrying value of investments in the form of subordinated debt amounted to $3.9 million and represented an involvement in nine unrelated entities.

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**Notes to Consolidated Financial Statements (Continued)**

**December 31, 2007, 2006, and 2005 ($000 s except share data)**

Generally, the economic benefit from the equity investments consists of the income tax benefits obtained from the Corporation s allocated operating losses from the partnership that are tax deductible, allocated income tax credits for projects that qualify under the Internal Revenue Code and in some cases, participation in the proceeds from the eventual disposition of the property. The Corporation uses the equity method of accounting to account for these investments. To the extent a project qualifies for income tax credits, the project must continue to qualify as an affordable housing project for fifteen years, a rehabilitation project for five years, or a qualified low income community investment for seven years in order to avoid recapture of the income tax credit which generally defines the time the Corporation will be involved in a project.

The Corporation s maximum exposure to loss as a result of its involvement with these entities is generally limited to the carrying value of these investments plus any unfunded commitments on projects that are not completed. At December 31, 2007, the aggregate carrying value of the subordinated debt and equity investments was $33,395 and the amount of unfunded commitments outstanding was $26,349.

**11. Premises and Equipment**

The composition of premises and equipment at December 31 was:

| | 2007 | 2006 |
|---|---|---|
| Land | $ 121,483 | $ 107,556 |
| Building and leasehold improvements | 508,090 | 473,556 |
| Furniture and equipment | 289,959 | 282,448 |
| | 919,532 | 863,560 |
| Less: Accumulated depreciation | 449,653 | 427,144 |
| Total premises and equipment, net | $ 469,879 | $ 436,416 |

Depreciation expense from continuing operations was $43,117 in 2007, $42,408 in 2006, and $36,028 in 2005.

The Corporation leases certain of its facilities and equipment. Rent expense under such operating leases was $29,172 in 2007, $23,751 in 2006, and $18,414 in 2005.

The future minimum lease payments under operating leases that have initial or remaining noncancellable lease terms in excess of one year for 2008 through 2012 are $26,994, $26,415, $23,874, $19,926, and $18,109, respectively.

**12. Goodwill and Other Intangibles**

SFAS 142, ***Goodwill and Other Intangible Assets*** adopts an aggregate view of goodwill and bases the accounting for goodwill on the units of the combined entity into which an acquired entity is integrated (those units are referred to as Reporting Units). A Reporting Unit is an operating segment as defined in SFAS 131 or one level below an operating segment.

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

The Corporation has elected to perform its annual test for goodwill impairment during the second quarter. Accordingly, the Corporation updated the analysis to June 30, 2007 and concluded that there continues to be no impairment with respect to goodwill at any reporting unit.

In conjunction with the Separation, the Corporation reorganized its operating segments and accordingly, updated its test for goodwill impairment and concluded that there continues to be no impairment with respect to goodwill at any reporting unit as of November 30, 2007.

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**Notes to Consolidated Financial Statements (Continued)**

**December 31, 2007, 2006, and 2005 ($000 s except share data)**

The changes in the carrying amount of goodwill for the twelve months ended December 31, 2007 and 2006 are as follows:

| | Banking | Others | Total |
|---|---|---|---|
| Goodwill balance as of December 31, 2005 | $ 809,376 | $ 7,804 | $ 817,180 |
| Goodwill acquired during the period | 615,942 | 21,251 | 637,193 |
| Purchase accounting adjustments | (121) | 1 | (120) |
| Goodwill balance as of December 31, 2006 | 1,425,197 | 29,056 | 1,454,253 |
| Goodwill acquired during the period | 228,076 | 16,747 | 244,823 |
| Purchase accounting adjustments | (14,362) | 231 | (14,131) |
| Goodwill balance as of December 31, 2007 | $ 1,638,911 | $ 46,034 | $ 1,684,945 |

Purchase accounting adjustments are the adjustments to the initial goodwill recorded at the time an acquisition is completed. Such adjustments generally consist of adjustments to the assigned fair value of the assets acquired and liabilities assumed resulting from the completion of appraisals or other valuations, adjustments to initial estimates recorded for transaction costs or exit liabilities, if any, and the reduction of goodwill allocated to sale transactions. For the year ended December 31, 2007, purchase accounting adjustments for Banking represent adjustments related to the initial goodwill recorded for Gold Banc and Trustcorp, a reduction in goodwill allocated to the divestiture of the Tulsa, Oklahoma branches, and reduction in goodwill related to the divestiture of an insignificant business line. Purchase accounting adjustments for the Others segment includes adjustments to the initial goodwill for the trust reporting unit of Gold Banc. For the year ended December 31, 2006, purchase accounting adjustments for the Banking segment represent a reduction in goodwill allocated to a branch divestiture.

In conjunction with the Separation, the Corporation reorganized its operating segments. The carrying amount of goodwill allocated to these segments are as follows:

| | Commercial Banking | Community Banking | Wealth Management | Others | Total |
|---|---|---|---|---|---|
| Goodwill balance as of December 31, 2007 | $ 922,264 | $ 560,332 | $ 114,572 | $ 87,777 | $ 1,684,945 |

The Corporation s other intangible assets consisted of the following at December 31, 2007:

| | Gross Carrying Value | Accumulated Amortization | Net Carrying Value | Weighted Average Amortiza-tion |
|---|---|---|---|---|

| | | | | Period (Yrs) |
|---|---|---|---|---|
| Other intangible assets: | | | | |
| Core deposit intangible | $ 220,674 | $ 113,607 | $ 107,067 | 6.2 |
| Trust customers | 11,479 | 2,924 | 8,555 | 6.9 |
| Tradename | 1,360 | 189 | 1,171 | 5.0 |
| Other intangibles | 4,156 | 412 | 3,744 | 7.0 |
| | $ 237,669 | $ 117,132 | $ 120,537 | 6.2 |
| Mortgage loan servicing rights | | | $ 2,479 | |

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**Notes to Consolidated Financial Statements  (Continued)**

**December 31, 2007, 2006, and 2005 ($000  s except share data)**

The Corporation  s other intangible assets consisted of the following at December 31, 2006:

| | Gross Carrying Value | Accumulated Amortiza-tion | Net Carrying Value | Weighted Average Amortization Period (Yrs) |
|---|---|---|---|---|
| Other intangible assets: | | | | |
| Core deposit intangible | $ 207,805 | $ 96,002 | $ 111,803 | 6.1 |
| Trust customers | 6,750 | 1,930 | 4,820 | 8.0 |
| | $ 214,555 | $ 97,932 | $ 116,623 | 6.2 |
| Mortgage loan servicing rights | | | $ 2,057 | |

Amortization expense of other acquired intangible assets amounted to $19,199, $17,178 and $11,404 in 2007, 2006 and 2005, respectively. Amortization of mortgage servicing rights was $1,352, $1,465 and $1,650 in 2007, 2006 and 2005, respectively.

The estimated amortization expense of other intangible assets and mortgage loan servicing rights for the next five years are:

| | |
|---|---|
| 2008 | $ 18,277 |
| 2009 | 15,651 |
| 2010 | 13,155 |
| 2011 | 11,292 |
| 2012 | 9,611 |

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

At December 31, 2007 and 2006, none of the Corporation  s other intangible assets were determined to have indefinite lives.

**13. Deposits**

The composition of deposits at December 31 was:

| | 2007 | 2006 |
|---|---|---|
| Noninterest bearing demand | $ 6,174,281 | $ 6,143,744 |
| Savings and NOW | 13,903,479 | 12,081,260 |
| CDs $100,000 and over | 8,075,691 | 8,001,500 |
| Cash flow hedge Institutional CDs | 18,027 | (970) |
| Total CDs $100,000 and over | 8,093,718 | 8,000,530 |
| Other time deposits | 4,412,933 | 4,821,233 |
| Foreign deposits | 2,606,943 | 3,580,005 |
| Total deposits | $ 35,191,354 | $ 34,626,772 |

At December 31, 2007 and 2006, brokered deposits amounted to $6,072 million and $5,411 million, respectively.

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**Notes to Consolidated Financial Statements (Continued)**

**December 31, 2007, 2006, and 2005 ($000 s except share data)**

At December 31, 2007, the scheduled maturities for CDs $100,000 and over, other time deposits, and foreign deposits were:

| | |
|---|---|
| 2008 | $ 11,811,270 |
| 2009 | 805,009 |
| 2010 | 370,644 |
| 2011 | 272,252 |
| 2012 and thereafter | 1,836,392 |
| Total | $ 15,095,567 |

**14. Short-term Borrowings**

Short-term borrowings at December 31 were:

| | 2007 | 2006 |
|---|---|---|
| Federal funds purchased and security repurchase agreements | $ 2,262,355 | $ 2,838,618 |
| Cash flow hedge Federal funds | | 138 |
| Federal funds purchased and security repurchase agreements | 2,262,355 | 2,838,756 |
| U.S. Treasury demand notes | 98,113 | 36,721 |
| U.S. Treasury demand notes term | 2,150,000 | |
| Bank notes | 1,227,659 | |
| Commercial paper | 798,986 | 521,549 |
| Federal Home Loan Bank (FHLB) notes payable | 260,000 | 200,000 |
| Other | 13,897 | 11,956 |
| Subtotal | 6,811,010 | 3,608,982 |
| Current maturities of long-term borrowings | 1,665,372 | 2,815,753 |
| Total short-term borrowings | $ 8,476,382 | $ 6,424,735 |

U.S. Treasury demand notes term represent a term note issued by the U.S. Treasury for treasury, tax and loan. The term of this note was five days.

During 2007, holders of approximately $1.2 billion of the Corporation s senior bank notes Extendible Monthly Securities elected not to extend. As a result, the notes are due between August 2008 and October 2008 and, accordingly were reclassified from long-term borrowings to short-term borrowings. This reclassification is considered a non-cash transaction for purposes of the Consolidated Statements of Cash Flows.

The Corporation issues commercial paper in order to meet short-term funding needs. Maturities of commercial paper range from 1 day to 270 days. At December 31, 2007, commercial paper in the amount of $244,739 represented obligations of M&I LLC that existed prior to the Separation. As of November 1, 2007, the commercial paper program for M&I LLC was closed and a new commercial paper program was established for the Corporation.

At December 31, 2007, the FHLB short-term notes payable with an interest rate of 4.21%, matured on January 2, 2008. The Corporation was required to pledge mortgage related assets as collateral to the FHLB to secure the borrowing.

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**Notes to Consolidated Financial Statements (Continued)**

**December 31, 2007, 2006, and 2005 ($000 s except share data)**

**15. Long-term Borrowings**

Long-term borrowings at December 31 were:

| | 2007 | 2006 |
|---|---|---|
| **M&I LLC:** | | |
| Medium-term notes Series E, F and MiNotes | $ 451,509 | $ 468,118 |
| 4.375% senior notes | 599,080 | 598,532 |
| 5.626% senior notes | 398,162 | |
| 3.90% junior subordinated debt securities | | 397,052 |
| 7.65% junior subordinated deferrable interest debentures | | 199,355 |
| 5.80% junior subordinated debt securities | 15,583 | 15,270 |
| Floating rate junior subordinated debt securities | 30,475 | 30,831 |
| 6.00% junior subordinated deferrable interest debentures | 37,767 | 37,651 |
| 10.60% junior subordinated deferrable interest debentures | 16,394 | 16,901 |
| Floating rate junior subordinated deferrable interest debentures | 10,000 | |
| Floating rate junior subordinated deferrable interest debentures | 5,000 | |
| Floating rate subordinated notes | 33,612 | 34,515 |
| **Subsidiaries:** | | |
| Borrowings from Federal Home Loan Bank (FHLB): | | |
| Floating rate advances | 800,000 | 1,410,000 |
| Cash flow hedge | 38,331 | (6,235) |
| Floating rate advances | 838,331 | 1,403,765 |
| Fixed rate advances | 1,780,639 | 1,022,225 |
| Senior bank notes: | | |
| Floating rate bank notes | 1,749,316 | 1,623,913 |
| Cash flow hedge | 13,034 | 2,262 |
| Floating rate bank notes | 1,762,350 | 1,626,175 |
| Fixed rate bank notes | 1,923,377 | 2,110,444 |
| Senior bank notes Amortizing bank notes | 72,692 | 109,006 |
| Senior bank notes Extendible Monthly Securities | 21,993 | 499,813 |
| Senior bank notes Puttable Reset Securities | | 1,000,126 |
| Subordinated bank notes: | | |
| Floating rate subordinated bank notes | 600,000 | |
| Fixed rate subordinated bank notes | 1,275,497 | 1,270,375 |
| Nonrecourse notes | 265 | 1,620 |
| Other | 52 | 134 |
| Total long-term borrowing including current maturities | 9,872,778 | 10,841,908 |
| Less current maturities | (1,665,372) | (2,815,753) |
| Total long-term borrowings | $ 8,207,406 | $ 8,026,155 |

As a result of the Separation on November 1, 2007, Marshall & Ilsley Corporation (Accounting Predecessor to New Marshall & Ilsley Corporation) became M&I LLC and all amounts remaining under existing shelf registration statements were deregistered. There will be no further issuances of debt by M&I LLC.

At December 31, 2007, Series E notes outstanding amounted to $80,000 with fixed rates of 4.50% to 5.02%. Series E notes outstanding mature at various times and amounts through 2023. The MiNotes, issued in minimum denominations of one thousand dollars or integral multiples of one thousand dollars, may have maturities ranging from nine months to 30 years and may be at fixed or floating rates. At December 31, 2007, MiNotes outstanding amounted

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**Notes to Consolidated Financial Statements (Continued)**

**December 31, 2007, 2006, and 2005 ($000 s except share data)**

to $125,896 with fixed rates of 3.25% to 6.00%. MiNotes outstanding mature at various times through 2030. At December 31, 2007, Series F notes outstanding amounted to $250,000 with a fixed rate of 5.35%. The Series F notes mature in 2011.

During 2004, the Corporation issued $600 million of 4.375% senior notes. Interest is paid semi-annually and the notes mature on August 1, 2009.

During 2007, the Corporation remarketed the 3.90% STACKS[SM] of M&I Capital Trust B that were originally issued in 2004 as components of the Corporation s 6.50% Common SPACES[SM]. In connection with the remarketing, the annual interest rate on the remarketed STACKS was reset at 5.626%, M&I Capital Trust B was liquidated and $400 million of 5.626% senior notes that mature on August 17, 2009 were issued by the Corporation in exchange for the outstanding STACKS. Each Common SPACES also included a stock purchase contract requiring the holder to purchase, in accordance with a settlement rate formula, shares of the Corporation s common stock. The Corporation issued 9,226,951 shares of its common stock in settlement of the stock purchase contracts in exchange for $400.0 million in cash.

In December 1996, the Corporation formed M&I Capital Trust A, which issued $200 million in liquidation or principal amount of cumulative preferred capital securities. Holders of the capital securities were entitled to receive cumulative cash distributions at an annual rate of 7.65% payable semiannually. During 2007, the Corporation s 7.65% junior subordinated deferrable interest debentures and the related M&I Capital Trust A 7.65% cumulative preferred capital securities were called and M&I Capital Trust A was liquidated. The loss of $9.5 million associated with the call is included in Losses on Termination of Debt in the Corporation s Consolidated Statements of Income for the year ended December 31, 2007.

In conjunction with the acquisitions of Excel, Gold Banc and Trustcorp, M&I LLC acquired all of the common interests in six trusts that issued cumulative preferred capital securities that are supported by junior subordinated deferrable interest debentures. These trusts are 100% owned unconsolidated finance subsidiaries of the Corporation. M&I LLC has fully and unconditionally guaranteed the securities that the trusts have issued. The junior subordinated deferrable interest debentures qualify as Tier 1 capital for regulatory capital purposes.

Gold Banc Trust III was formed in March 2004, and issued $16,000 of trust-preferred securities to institutional investors. Gold Banc Trust III used the proceeds from the issuance of the trust-preferred securities, as well as Gold Banc s $495 capital investment in the trust, to purchase $16,495 of junior subordinated debt securities issued by Gold Banc. The debentures mature on April 23, 2034, and may be redeemed, at the option of the Corporation after April 23, 2009. The interest rate of the debentures is fixed at 5.80% for a five-year period through April 23, 2009. Thereafter, interest is at a floating rate equal to the three-month London Inter-Bank Offered Rate ( LIBOR ) plus 2.75%, adjustable quarterly. Interest is payable quarterly. The dividend rate on the trust-preferred securities is identical to the interest rate of the related junior subordinated deferrable interest debentures.

Gold Banc Trust IV was formed in March 2004, and issued $30,000 of trust-preferred securities to institutional investors. Gold Banc Trust IV used the proceeds from the issuance of the trust-preferred securities, as well as Gold Banc s $928 capital investment in the trust, to purchase $30,928 of floating rate junior subordinated debt securities issued by Gold Banc. The debentures mature on April 7, 2034 and may be redeemed, at the option of the Corporation after April 7, 2009. The interest rate of the debentures is a floating rate equal to three-month LIBOR plus 2.75%, adjustable quarterly. Interest is payable quarterly. The dividend rate on the trust-preferred securities is identical to the interest rate of the related junior subordinated deferrable interest debentures.

Gold Banc Capital Trust V was formed in November 2004, and issued $38,000 of trust-preferred securities to institutional investors. Gold Banc Capital Trust V used the proceeds from the issuance of the trust-preferred securities, as well as Gold Banc s $1,176 capital investment in the trust, to purchase $39,176 of junior subordinated deferrable interest debentures issued by Gold Banc. The debentures mature on December 15, 2034, and may be redeemed, at the

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option of the Corporation after December 15, 2009. The interest rate of the debentures is fixed at 6.00% for a five-year period through December 15, 2009. Thereafter, interest is at a floating rate equal to three-month LIBOR plus 2.10%, adjustable quarterly. Interest is payable quarterly. The dividend rate on the trust-preferred securities is identical to the interest rate of the related junior subordinated deferrable interest debentures.

Trustcorp Statutory Trust I was formed in August 2000, and issued $15,000 of 10.60% Cumulative Preferred Trust Securities. Trustcorp Statutory Trust I used the proceeds from the issuance of the cumulative preferred trust securities, as well as Trustcorp s $464 capital investment in the trust, to purchase $15,464 of junior subordinated deferrable interest debentures issued by Trustcorp. The debentures mature on September 7, 2030. Interest is payable semi-annually. The dividend rate on the cumulative preferred trust securities is identical to the interest rate of the related junior subordinated deferrable interest debentures.

EBC Statutory Trust I was formed for the purpose of issuing $10,000 of Trust I Preferred Securities to third-party investors and investing the proceeds from the sale of the Trust I Preferred Securities, as well as Excel s $310 capital investment in the trust to purchase $10,310 of floating rate junior subordinated deferrable debentures issued by Excel. The debentures mature on December 18, 2031, or upon earlier redemption as provided in the indenture. The interest rate of the debentures is a floating rate equal to three-month LIBOR plus 3.60%, adjustable quarterly.

EBC Statutory Trust II was formed for the purpose of issuing $5,000 of Trust II Preferred Securities to third-party investors and investing the proceeds from the sale of the Trust II Preferred Securities, as well as Excel s $155 capital investment in the trust to purchase $5,155 of floating rate junior subordinated deferrable debentures issued by Excel. The debentures mature on March 26, 2032, or upon earlier redemption as provided in the indenture. The interest rate of the debentures is a floating rate equal to three-month LIBOR plus 3.60%, adjustable quarterly.

The Corporation s floating rate subordinated-debt securities mature November 2011 and pay interest semiannually at a variable rate, based upon six-month LIBOR plus 3.75%.

On November 6, 2007, New Marshall & Ilsley Corporation filed a shelf registration statement pursuant to which the Corporation is authorized to raise up to $1.9 billion through sales of corporate debt and/or equity securities with a relatively short lead time. There were no issuances under this registration statement in 2007.

Fixed rate FHLB advances have interest rates, which range from 3.30% to 8.47% and mature at various times in 2008 through 2017. At December 31, 2007, floating rate FHLB advances outstanding mature at various times between 2011 and 2013. The interest rate is reset monthly based on one-month LIBOR.

The Corporation is required to maintain unencumbered first mortgage loans and mortgage-related securities such that the outstanding balance of FHLB advances does not exceed 85% (70% for multi-family) of the book value of this collateral. In addition, a portion of these advances are collateralized by all FHLB stock.

The floating rate senior bank notes have interest rates based on one-month or three-month LIBOR with a spread that ranges from a minus 0.03% to a plus 0.30%. Interest payments are either monthly or quarterly. The floating rate senior bank notes outstanding mature at various times and amounts from 2008 to 2011.

The fixed rate senior bank notes have interest rates, which range from 2.90% to 5.52% and pay interest semi-annually. The fixed rate senior bank notes outstanding mature at various times and amounts from 2008 through 2017.

The senior bank notes  Amortizing have a maturity date of August 18, 2009. The senior bank notes pay interest semi-annually at a fixed semi-annual coupon interest rate of 2.90%. In addition, principal in the amount of $18,182 is paid every coupon payment period beginning on August 18, 2004 and ending on August 18, 2009.

The senior bank notes  Extendible Monthly Securities had an initial stated maturity date of December 15, 2006. The noteholders may elect to extend the maturity date through 2011. The interest rate is floating based upon LIBOR plus a contractually specified spread and reset monthly. The applicable spread to LIBOR is initially minus 0.02%,

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0.00% in year two, and for the remaining term is LIBOR plus, 0.01% in year three, 0.03% in years four and five and 0.04% to maturity in 2011.

The Puttable Reset Securities ( PURS ), senior bank notes issued by M&I Bank, with an original maturity date of December 15, 2016, had the provision in certain circumstances, to be put back to the issuing bank at par prior to final maturity. The notes were also subject to the exercise of a call option by a certain broker-dealer. Beginning December 15, 2003 and each December 15 thereafter until and including December 15, 2015, the broker-dealer had the right to purchase all of the outstanding notes from the noteholders at a price equal to 100% of the principal amount of the notes and then remarket the notes. However, if the broker-dealer did not purchase the notes on the aforementioned date(s), each holder of outstanding notes would have been deemed to have put all of the holder s notes to the issuing bank at a price equal to 100% of the principal amount of the notes and the notes would be completely retired. In December 2007, the Corporation purchased the right to remarket the PURS and retired the outstanding notes. The Corporation realized a loss of $74.2 million, which is included in Losses on Termination of Debt in the Corporation s Consolidated Statements of Income for the year ended December 31, 2007.

During 2007, M&I Bank issued $600 million of floating rate subordinated bank notes. The notes mature on December 4, 2012 and have an interest rate based on the three-month LIBOR plus 0.27%, adjustable quarterly. Interest is payable quarterly. The floating rate subordinated bank notes are callable by the issuer in March 2008 and June 2008. At December 31, 2007, 80% of the floating rate subordinated bank notes qualified as Tier 2 or supplementary capital for regulatory capital purposes.

The fixed rate subordinated bank notes have interest rates that range from 4.85% to 7.88% and mature at various times in 2010 through 2020. Interest is paid semi-annually. In conjunction with the 2007 acquisition of Excel, M&I Bank assumed $5.0 million of fixed rate subordinated bank notes due June 28, 2020 bearing an interest rate of 5.87%. These notes qualify as Tier 2 or supplementary capital for regulatory capital purposes.

The nonrecourse notes are reported net of prepaid interest and represent borrowings by the commercial leasing subsidiary from banks and other financial institutions. These notes have a weighted average interest rate of 5.55% at December 31, 2007 and are due in installments over varying periods through 2009. Lease financing receivables at least equal to the amount of the notes are pledged as collateral.

Scheduled maturities of long-term borrowings are $1,897,096, $1,324,078, $1,869,998 and $1,444,807 for 2009 through 2012, respectively.

**16. Shareholders Equity**

The Corporation has 5,000,000 shares of preferred stock authorized, with a par value of $1.00 per share. At December 31, 2007 and 2006 there were no shares of preferred stock outstanding.

During 2004, the Corporation and M&I Capital Trust B issued 16,000,000 units of Common SPACES℠. Each unit has a stated value of $25.00 for an aggregate value of $400.0 million. Each Common SPACES consisted of (i) a stock purchase contract under which the investor agreed to purchase for $25, a fraction of a share of the Corporation s common stock on the stock purchase date and (ii) a 1/40, or 2.5%, undivided beneficial interest in a preferred security of M&I Capital Trust B, also referred to as the STACKS℠, with each share having an initial liquidation amount of $1,000. The stock purchase date was August 15, 2007. Holders of the STACKS were entitled to receive quarterly cumulative cash distributions through the stock purchase date fixed initially at an annual rate of 3.90% of the liquidation amount of $1,000 per STACKS. In addition, the Corporation was required to make quarterly contract payments under the stock purchase contract at the annual rate of 2.60% of the stated amount of $25 per stock purchase contract.

During 2007, the Corporation remarketed the 3.90% STACKS℠ of M&I Capital Trust B that were originally issued in 2004 as components of the Corporation s 6.50% Common SPACES℠. In connection with the remarketing, the annual interest rate on the remarketed STACKS was reset at 5.626%, M&I Capital Trust B was liquidated and $400 million of 5.626% senior notes that mature on August 17, 2009 were issued by the Corporation in exchange for the

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outstanding STACKS. Each Common SPACES also included a stock purchase contract requiring the holder to purchase, in accordance with a settlement rate formula, shares of the Corporation  s common stock. Proceeds of the remarketing, after deducting the remarketing fee payable to the remarketing agents, was used to satisfy the obligations of holders of the Common SPACES to purchase the Corporation  s common stock under the stock purchase contract. On August 15, 2007, upon settlement of each stock purchase contract, the Corporation delivered 0.5767 shares of common stock for each SPACES unit, or 9,226,951 shares in total. No fractional shares were issued upon settlement of the stock purchase contracts.

The Corporation issues treasury common stock in conjunction with exercises of stock options and restricted stock, acquisitions, and from time-to-time issues treasury stock to fund a portion of its retirement plan obligations. Treasury shares are acquired from restricted stock forfeitures, shares tendered to cover tax withholding associated with stock option exercises and vesting of key restricted stock and mature shares tendered for stock option exercises in lieu of cash. Under its approved share repurchase program, the Corporation is currently authorized to repurchase up to 12 million shares of its common stock per year. During 2007, the Corporation completed three accelerated repurchase transactions as well as open market repurchase transactions under its approved share repurchase program. In the aggregate, the Corporation acquired 10,765,889 shares of its common stock in these transactions. Total consideration in these transactions amounted to $437.1 million and consisted of cash of $434.5 million and common treasury stock valued at $2.6 million. In conjunction with the initial accelerated repurchase transaction executed in 2007, the Corporation used 54,035 shares of its treasury common stock to share-settle the final settlement obligation. The Corporation repurchased 1.0 million shares with an aggregate cost of $41.8 million in 2006. There were no shares repurchased in accordance with the approved plan during 2005.

During 2005, the Corporation was party to an equity distribution agreement that is described in the Prospectus Supplement dated October 17, 2005. Under the equity distribution agreement, the Corporation could offer and sell up to 3.5 million shares of its common stock from time to time through certain designated sales agents. No sales occurred during the fiscal years ended December 31, 2007 and 2006. During 2005, the Corporation issued 155,000 shares of its common stock. The net proceeds from the sale amounted to $6,651. As a result of the Separation, no further sales may occur under this agreement.

The Corporation sponsors a deferred compensation plan for its non-employee directors and the non-employee directors and advisory board members of its affiliates. Participants may elect to have their deferred fees used to purchase M&I common stock with dividend reinvestment. Such shares will be distributed to plan participants in accordance with the plan provisions. At December 31, 2007 and 2006, 837,350 and 607,973 shares of M&I common stock, respectively, were held in a grantor trust. The aggregate cost of such shares is included in Deferred Compensation as a reduction of Shareholders   Equity in the Consolidated Balance Sheets and amounted to $18,906 at December 31, 2007 and $17,241 at December 31, 2006.

During 2003, the Corporation amended its deferred compensation plan for its non-employee directors and selected key employees to permit participants to defer the gain from the exercise of nonqualified stock options. In addition, the gain upon vesting of restricted common stock to participating executive officers may be deferred. Shares of M&I common stock, which represent the aggregate value of the gains deferred are maintained in a grantor trust with dividend reinvestment. Such shares will be distributed to plan participants in accordance with the plan provisions. At December 31, 2007 and 2006, 686,974 and 540,498 shares of M&I common stock, respectively, were held in the grantor trust. The aggregate cost of such shares is included in Deferred Compensation as a reduction of Shareholders   Equity in the Consolidated Balance Sheets and amounted to $26,453 at December 31, 2007 and $23,369 at December 31, 2006.

In conjunction with previous acquisitions, the Corporation assumed certain deferred compensation and nonqualified retirement plans for former directors and executive officers of acquired companies. During 2007, the final distribution of shares remaining in the plan was made. At December 31, 2006, 30,657 common shares of M&I stock were maintained in a grantor trust with such shares to be distributed to plan participants in accordance with the provisions of the plans. The aggregate cost of such shares of $689 at December 31, 2006 is included in Deferred Compensation as a reduction of Shareholders Equity in the Consolidated Balance Sheets.

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Federal banking regulatory agencies have established capital adequacy rules which take into account risk attributable to balance sheet assets and off-balance sheet activities. All banks and bank holding companies must meet a minimum total risk-based capital ratio of 8%. Of the 8% required, at least half must be comprised of core capital elements defined as Tier 1 capital. The Federal banking agencies also have adopted leverage capital guidelines which banking organizations must meet. Under these guidelines, the most highly rated banking organizations must meet a minimum leverage ratio of at least 3% Tier 1 capital to total assets, while lower rated banking organizations must maintain a ratio of at least 4% to 5%. Failure to meet minimum capital requirements can result in certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Consolidated Financial Statements.

At December 31, 2007 and 2006, the most recent notification from the Federal Reserve Board categorized the Corporation as well capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since that notification that management believes have changed the Corporation s category.

To be well capitalized under the regulatory framework, the Tier 1 capital ratio must meet or exceed 6%, the total capital ratio must meet or exceed 10% and the leverage ratio must meet or exceed 5%.

The Corporation s risk-based capital and leverage ratios are as follows ($ in millions):

| | Risk-Based Capital Ratios | | | |
|---|---|---|---|---|
| | As of December 31, 2007 | | As of December 31, 2006 | |
| | Amount | Ratio | Amount | Ratio |
| Tier 1 capital | $ 5,448.4 | 10.22% | $ 3,873.0 | 7.88% |
| Tier 1 capital adequacy minimum requirement | 2,133.0 | 4.00 | 1,965.1 | 4.00 |
| Excess | $ 3,315.4 | 6.22% | $ 1,907.9 | 3.88% |
| Total capital | $ 7,505.0 | 14.07% | $ 5,489.5 | 11.17% |
| Total capital adequacy minimum requirement | 4,266.0 | 8.00 | 3,930.2 | 8.00 |
| Excess | $ 3,239.0 | 6.07% | $ 1,559.3 | 3.17% |
| Risk-adjusted assets | $ 53,324.8 | | $ 49,128.1 | |

| | Leverage Ratio | | | |
|---|---|---|---|---|
| | As of December 31, 2007 | | As of December 31, 2006 | |
| | Amount | Ratio | Amount | Ratio |
| Tier 1 capital to adjusted total assets | $ 5,448.4 | 9.46% | $ 3,873.0 | 7.38% |
| Minimum leverage adequacy requirement | 1,728.4 2,880.6 | 3.00 5.00 | 1,575.2 2,625.4 | 3.00 5.00 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Excess | $ 3,720.0 | 2,567.8 | 6.46 | 4.46% | $ 2,297.8 | 1,247.6 | 4.38 | 2.38% |
| Adjusted average total assets | $ 57,612.9 | | | | $ 52,508.3 | | | |

The Corporation s risk-based capital and leverage ratios as of December 31, 2006 have not been adjusted for discontinued operations.

All of the Corporation s banking subsidiaries risk-based capital and leverage ratios meet or exceed the defined minimum requirements, and have been deemed well capitalized as of December 31, 2007 and 2006. The following table presents the risk-based capital ratios for the Corporation s lead banking subsidiary:

| | **Tier 1** | **Total** | **Leverage** |
|---|---|---|---|
| M&I Marshall & Ilsley Bank | | | |
| December 31, 2007 | 7.88% | 12.01% | 7.43% |
| December 31, 2006 | 7.37 | 10.89 | 6.91 |

At December 31, 2007 and 2006 the estimated deferred tax liabilities that reduced the carrying value of acquired intangibles used in determining Tier 1 capital amounted to $44,563 and $155,183, respectively.

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Banking subsidiaries are restricted by banking regulations from making dividend distributions above prescribed amounts and are limited in making loans and advances to the Corporation. At December 31, 2007, the retained earnings of subsidiaries available for distribution as dividends without regulatory approval, while maintaining well capitalized risk-based capital and leverage ratios, was approximately $1,098.7 million.

**17. Income Taxes**

Effective January 1, 2007, the Corporation adopted the provisions of FASB Interpretation No. 48 ( FIN 48 ), ***Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109***, and there was no effect on the consolidated financial statements. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in financial statements in accordance with FASB Statement No. 109, ***Accounting for Income Taxes***. FIN 48 prescribes a recognition threshold and measurement process 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 Corporation, along with its subsidiaries, files income tax returns in the U.S. and various state jurisdictions. With limited exceptions, the Corporation is no longer subject to examinations by federal and state taxing authorities for taxable years before 2003.

As of December 31, 2007 and the date of adoption, the total amount of gross unrecognized tax benefits was $76.7 million and $76.2 million, respectively, of which $60.1 million and $60.2 million, respectively, relate to benefits that, if recognized, would impact the annual effective tax rate. A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

| | |
|---|---|
| Balance as of January 1, 2007 | $ 76,172 |
| Additions based on tax positions related to the current year | 7,606 |
| Additions for tax positions of prior years | 594 |
| Reductions for tax positions of prior years | (780) |
| Reductions for lapse of statute of limitations | (3,867) |
| Settlements | (3,028) |
| Balance as of December 31, 2007 | $ 76,697 |

The Corporation anticipates it is reasonably possible within twelve months of December 31, 2007, that unrecognized tax benefits of up to approximately $40 million could be realized. The realization would principally result from settlements with taxing authorities as it relates to the tax benefits associated with a 2002 stock issuance and/or how the TEFRA disallowance, as it pertains to tax exempt interest income, should be calculated within a consolidated group.

Upon adoption of FIN 48, the Corporation changed its policy to include interest and penalties related to income tax liabilities in income tax expense. Prior to adoption of FIN 48, the Corporation recorded interest and penalties related to income tax liabilities to other expense, a component of Income Before Income Taxes. The total amount of net interest expense included in the income statement as it pertains to the unrecognized tax benefits for 2007 is $0.5 million. This amount is net of interest income received from settlements and reversal of interest expense on lapsing of the statute of limitations and decreases of prior year s positions. Included in the total liability for unrecognized tax benefits as of year end and the date of adoption is $6.8 million and $6.3 million, respectively, of interest. The Corporation has not accrued any penalties for any unrecognized tax benefits.

Total income tax expense for the years ended December 31, 2007, 2006, and 2005 was allocated as follows:

| | **2007** | **2006** | **2005** |
|---|---|---|---|
| Income from continuing operations before income taxes | $ 213,641 | $ 307,435 | $ 278,124 |
| Shareholders Equity: | | | |
| Compensation expense for tax purposes in excess of amounts recognized for financial reporting purposes | (4,251) | (11,430) | (8,882) |
| Unrealized gains (losses) on accumulated other comprehensive income | (19,262) | 11,102 | (33,133) |
| | $ 190,128 | $ 307,107 | $ 236,109 |

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The current and deferred portions of the provision for income taxes of continuing operations were:

| | 2007 | 2006 | 2005 |
|---|---|---|---|
| Current: | | | |
| Federal | $ 224,580 | $ 254,776 | $ 271,159 |
| State | 10,879 | 13,995 | 21,443 |
| Total current | 235,459 | 268,771 | 292,602 |
| Deferred: | | | |
| Federal | (22,163) | 34,925 | (14,542) |
| State | 345 | 3,739 | 64 |
| Total deferred | (21,818) | 38,664 | (14,478) |
| Total provision for income taxes continuing operations | $ 213,641 | $ 307,435 | $ 278,124 |

The following is a reconciliation between the amount of the provision for income taxes of continuing operations and the amount of tax computed by applying the statutory Federal income tax rate (35%):

| | 2007 | 2006 | 2005 |
|---|---|---|---|
| Tax computed at statutory rates | $ 248,703 | $ 334,302 | $ 302,674 |
| Increase (decrease) in taxes resulting from: | | | |
| Federal tax-exempt income | (18,157) | (19,343) | (21,498) |
| State income taxes, net of Federal tax benefit | 7,296 | 11,527 | 13,586 |
| Bank owned life insurance | (13,211) | (10,197) | (9,478) |
| Federal tax credits | (10,166) | (8,801) | (2,701) |
| Other | (824) | (53) | (4,459) |
| Total provision for income taxes continuing operations | $ 213,641 | $ 307,435 | $ 278,124 |

The tax effects of temporary differences that give rise to significant elements of the deferred tax assets and deferred tax liabilities at December 31 are as follows:

| | 2007 | 2006 |
|---|---|---|
| Deferred tax assets: | | |
| Deferred compensation | $ 61,926 | $ 63,762 |
| Share-based compensation | 73,533 | 65,839 |

| | | |
|---|---|---|
| Allowance for loan and lease losses | 201,972 | 170,871 |
| Accrued postretirement benefits | 16,029 | 18,558 |
| Accrued expenses | 38,441 | 20,945 |
| Net Operating Loss Carryforwards (NOLs) | 43,995 | 41,244 |
| Accumulated other comprehensive income | 28,744 | 9,482 |
| Other | 65,466 | 67,742 |
| Total deferred tax assets before valuation allowance | 530,106 | 458,443 |
| Valuation allowance | (80,167) | (73,620) |
| Net deferred tax assets | 449,939 | 384,823 |
| Deferred tax liabilities: | | |
| Lease revenue reporting | 127,527 | 123,701 |
| REIT dividends | 43,521 | 26,253 |
| Premises and equipment, principally due to depreciation | 18,453 | 16,110 |
| Deductible goodwill | 10,950 | 7,847 |
| Purchase accounting adjustments | 33,621 | 27,519 |
| Other | 29,420 | 32,853 |
| Total deferred tax liabilities | 263,492 | 234,283 |
| Net deferred tax asset | $ 186,447 | $ 150,540 |

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The Corporation continues to carry a valuation allowance to reduce certain state deferred tax assets which include, in part, certain state net operating loss carryforwards which expire at various times through 2022. At December 31, 2007, the Corporation believes it is more likely than not that these items will not be realized. However, as time passes the Corporation will be able to better assess the amount of tax benefit it will realize from using these items.

In 2006, the Corporation was awarded a $75 million allocation of tax credit authority under the Community Development Financial Institutions Fund. Under the program, the Corporation invested $75 million in a wholly-owned subsidiary, which will make qualifying loans and investments. In return, the Corporation will receive federal income tax credits that will be recognized over seven years, including the year in which the funds were invested in the subsidiary. The Corporation recognizes these tax credits for financial reporting purposes in the same year the tax benefit is recognized in the Corporation s tax return. The investment resulted in a tax credit that reduced income tax expense by $3,750 in 2007 and 2006, respectively.

**18. Stock Option, Restricted Stock and Employee Stock Purchase Plans**

The Corporation has equity incentive plans (collectively, the 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 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.

In connection with the Separation, the Corporation and Metavante entered into an Employee Matters Agreement to allocate between them the assets, liabilities, and responsibilities with respect to certain employee compensation, benefit plans and programs, and certain employment matters with respect to their employees (the Employee Matters Agreement ). On November 1, 2007, in connection with the Separation, the Marshall & Ilsley stock options awarded to Metavante employees and outstanding at November 1, 2007 were converted to Metavante stock options in accordance with the formula prescribed in the Employee Matters Agreement. Upon the conversion, the outstanding Marshall & Ilsley stock options awarded to Metavante employees were cancelled and are available for future awards to employees of the Corporation. Marshall & Ilsley stock options awarded to Marshall & Ilsley employees and outstanding at November 1, 2007 were converted to stock options of the New Marshall & Ilsley in accordance with the formula prescribed in the Employee Matters Agreement. The conversion formula was intended to retain, following the Separation, the aggregate spread and the ratio of exercise price to the share value on the options as the option holders had immediately prior to the Separation, thereby maintaining the intrinsic value of the options. Such options were subject to the same terms and conditions (including vesting) as the corresponding Marshall & Ilsley option to which it related. The Corporation determined that no incremental stock compensation expense was recognized as a result of the conversion because the fair value of the outstanding option awards immediately after the Separation was less than the fair value of the option awards immediately before the Separation.

The Corporation also has a long-term incentive plan. Under this 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 a purchase price which

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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 which extends from July 1 to June 30. Prior to July 1, 2006, the ESPP gave employees, who elected to participate in the plan, the right to acquire shares of the Corporation s common stock at the purchase price, which was 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 ). Effective July 1, 2006, the ESPP plan was amended to eliminate the look back feature. 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.

In conjunction with the Separation, Metavante employees that had elected to participate in the ESPP were refunded their accumulated cash balances in accordance with the Employee Matters Agreement.

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.

Activity relating to nonqualified and incentive stock options 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 | 3,911,980 | 40.49 | 47.02 | 42.81 |
| Options lapsed or surrendered | (284,399) | 22.80 | 42.82 | 36.76 |
| Options exercised | (1,850,361) | 10.13 | 41.95 | 23.49 |
| | | | | |
| Shares under option at December 31, 2005 | 24,655,317 | $ 15.94 | 47.02 | $ 33.09 |
| Options granted | 4,215,841 | 41.30 | 48.54 | 47.58 |
| Vested options exchanged in acquisition | 532,133 | 5.71 | 43.67 | 12.99 |
| Options lapsed or surrendered | (376,724) | 26.14 | 48.07 | 42.30 |
| Options exercised | (2,702,031) | 5.71 | 44.95 | 25.25 |
| | | | | |
| Shares under option at December 31, 2006 | 26,324,536 | $ 5.71 | 48.54 | $ 35.68 |
| Options granted | 4,190,533 | 41.21 | 49.20 | 42.43 |
| Vested options exchanged in acquisition | 649,767 | 0.00 | 0.00 | 17.37 |
| Options lapsed or surrendered | (310,564) | 16.77 | 48.07 | 44.88 |
| Options exercised | (3,345,900) | 5.71 | 45.74 | 26.82 |
| | | | | |
| Shares under option at October 31, 2007 | 27,508,372 | $ 8.56 | 49.20 | $ 37.25 |
| Option conversion due to the Separation | 9,247,773 | 6.41 | 36.82 | 27.88 |

| | | | | |
|---|---|---|---|---|
| Options lapsed or surrendered in connection with the Separation | (5,108,249) | 17.06 | 35.98 | 29.69 |
| Options granted | 15,775 | 26.48 | 31.47 | 29.45 |
| Options lapsed or surrendered | (334,058) | 15.53 | 35.98 | 23.17 |
| Options exercised | (379,458) | 11.99 | 26.04 | 22.37 |
| Shares under option at December 31, 2007 | 30,950,155 | $ 6.41 | 36.82 | $ 27.70 |

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**Notes to Consolidated Financial Statements (Continued)**

**December 31, 2007, 2006, and 2005 ($000 s except share data)**

The range of options outstanding at December 31, 2007 were:

| | Number of Shares | | Weighted-Average Exercise Price | | Weighted-Average Aggregate intrinsic Value | | Weighted-Average Remaining Contractual Life (In Years) | |
|---|---|---|---|---|---|---|---|---|
| **Price Range** | **Outstanding** | **Exercisable** | **Outstanding** | **Exercisable** | **Outstanding** | **Exercisable** | **Outstanding** | **Exercisable** |
| $ 6.41-20.99 | 3,581,731 | 3,581,731 | $ 17.08 | $ 17.08 | $ 9.40 | $ 9.40 | 2.6 | 2.6 |
| 21.00-23.49 | 5,152,916 | 5,152,916 | 22.06 | 22.06 | 4.42 | 4.42 | 3.8 | 3.8 |
| 23.50-25.99 | 2,721,760 | 2,721,760 | 23.97 | 23.97 | 2.51 | 2.51 | 4.0 | 4.0 |
| 26.00-28.49 | 3,058,650 | 3,052,150 | 26.14 | 26.14 | 0.34 | 0.34 | 5.9 | 5.9 |
| 28.50-31.49 | 7,381,991 | 4,011,467 | 31.38 | 31.36 | (4.90) | (4.88) | 8.5 | 7.4 |
| 31.50-34.49 | 5,184,382 | 3,631,988 | 32.14 | 32.10 | (5.66) | (5.62) | 8.3 | 8.3 |
| Over $34.50 | 3,868,725 | 1,725,868 | 35.92 | 35.96 | (9.44) | (9.48) | 8.9 | 8.8 |
| | 30,950,155 | 23,877,880 | $ 27.70 | $ 26.14 | $ (1.22) | $ 0.34 | 6.4 | 5.5 |

Options exercisable at December 31, 2006 and 2005 were 19,826,071 and 18,451,293, respectively. The weighted-average exercise price for options exercisable was $32.54 at December 31, 2006 and $30.35 at December 31, 2005.

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

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

| | 2007 (1) | | | |
|---|---|---|---|---|
| | **Post-Separation** | **Pre-Separation** | **2006** | **2005** |
| Weighted-average grant date fair value | $6.36 | $7.39 | $9.11 | $8.78 |
| Assumptions: | | | | |
| Risk-free interest rates | 3.71 3.74% | 4.10 5.50% | 4.22 5.66% | 3.70 4.64% |
| Expected volatility | 19.90% | 16.60 19.90% | 18.20 18.50% | 13.12 18.50% |
| Expected term (in years) | 6.8 7.2 | 6.5 7.3 | 6.3 7.2 | 6.0 |
| Expected dividend yield | 2.91% | 2.33 2.91% | 2.20 2.29% | 2.11% |

(1) The data for 2007 has been separated to show the grant date fair values and assumptions prior to and after the Separation.

The total intrinsic value of nonqualified and incentive stock options exercised during the years ended December 31, 2007, 2006 and 2005 was $72.3 million, $55.2 million and $37.0 million, respectively. The total fair value of shares vested during the years ended December 31, 2007, 2006 and 2005 amounted to $30.2 million, $47.4 million and $29.8 million, respectively.

There was approximately $33.0 million and $40.6 million of total unrecognized compensation expense related to unvested nonqualified and incentive stock options at December 31, 2007 and 2006, respectively. The total unrecognized compensation expense will be recognized over a weighted average period of 1.5 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 years ended December 31, 2007, 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 $19.5 million, $23.3 million and $22.5 million, respectively. These amounts are considered non-cash expenses for the Statements of Cash Flow purposes.

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**Notes to Consolidated Financial Statements (Continued)**

**December 31, 2007, 2006, and 2005 ($000 s except share data)**

For the years ended December 31, 2007, 2006 and 2005 the expense for directors nonqualified and incentive stock options that is included in Other Expense in the Consolidated Statements of Income amounted to $0.2 million, $0.6 million and $0.7 million, respectively.

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

| | December 31 | | |
|---|---|---|---|
| | **2007** | **2006** | **2005** |
| Restricted stock purchase rights outstanding Beginning of Year | | | |
| Restricted stock purchase rights granted | 335,900 | 220,855 | 183,700 |
| Restricted stock purchase rights exercised | (335,900) | (220,855) | (183,700) |
| Restricted stock purchase rights outstanding End of Year | | | |
| Weighted-average grant date market value | $ 43.17 | $ 47.21 | $ 42.88 |
| Aggregate compensation expense | $ 9,101 | $ 6,024 | $ 4,529 |
| Unamortized deferred compensation | $ 15,011 | $ 16,686 | $ 13,794 |

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 December 31, 2007, the unamortized compensation expense will be recognized over a weighted average period of 2.2 years. These amounts are considered non-cash expenses for the Statements of Cash Flow purposes.

Marshall & Ilsley restricted common stock outstanding on November 1, 2007 was converted to shares of common stock of New Marshall & Ilsley and Metavante in the same manner as the other holders of Marshall & Ilsley were converted. Unvested restricted stock is subject to the same terms and conditions (including vesting) as the corresponding Marshall & Ilsley restricted common stock award to which it related.

Compensation under the long-term incentive plan is paid in cash at the end of the designated vesting period. This plan meets the definition of a liability award. Unlike equity awards, liability awards are remeasured at fair value at each balance sheet date until settlement. For the years ended December 31, 2007, 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 $1.6 million, $8.6 million and $8.6 million, respectively.

The compensation cost per share for the ESPP was $7.44 and $9.96 for the plan years ended June 30, 2007 and 2006, 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 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. During 2007 and 2006, common shares purchased by employees under the ESPP amounted to 375,401 and 511,301, respectively. For the years ended December 31, 2007, 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 $1.6 million, $1.8 million and $1.9 million, respectively. These amounts are considered non-cash expenses for the Statements of Cash Flow purposes.

Shares reserved for the granting of options and stock purchase rights at December 31, 2007 were 14,170,933.

**19. Employee Retirement and Health Plans**

In accordance with the Employee Matters Agreement, active employees of Metavante Technologies, Inc. exited the Marshall & Ilsley welfare plans and became covered under new plans adopted by Metavante Technologies, Inc.

The Corporation has a defined contribution program that consists of a retirement plan and employee stock ownership plan for substantially all employees. The retirement plan provides for a guaranteed contribution to eligible participants equal to 2% of compensation. At the Corporation s option, an additional profit sharing amount may also be

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**Notes to Consolidated Financial Statements (Continued)**

**December 31, 2007, 2006, and 2005 ($000 s except share data)**

contributed to the retirement plan and may vary from year to year up to a maximum of 6% of eligible compensation. Under the employee stock ownership plan, employee contributions into the retirement plan of up to 6% of eligible compensation are matched up to 50% by the Corporation. Total expense relating to these plans was $42,650, $39,702, and $35,374 in 2007, 2006, and 2005, respectively. Effective as of the Separation, employees of Metavante ceased to be participants in the defined contribution program. The Corporation transferred assets from the trust relating to the Marshall & Ilsley Retirement Program to the trust established for the Metavante profit sharing retirement plan that was equal to account balances of all Metavante employees and former Metavante employees with an account balance under the Marshall & Ilsley Retirement Program.

The Corporation also has supplemental retirement plans to provide retirement benefits to certain of its key executives. Total expense relating to these plans amounted to $3,889 in 2007, $4,587 in 2006, and $3,112 in 2005.

The Corporation sponsors a defined benefit health plan that provides health care benefits to eligible current and retired employees. Eligibility for retiree benefits is dependent upon age, years of service, and participation in the health plan during active service. The plan is contributory and in 1997 and 2002 the plan was amended. Employees hired after September 1, 1997, including employees retained from mergers, 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. In addition to the normal monthly funding for claims, the Corporation expects to make an additional contribution to its plan of approximately $5.6 million per year.

In conjunction with the Separation, current and former Metavante employees ceased to be participants in the Corporation s health plan effective November 1, 2007. A portion of the assets held in a trust that is used to fund such obligations, which included Metavante s contributions made through November 1, 2007, was transferred by the Corporation to a new trust created by Metavante.

In addition, the Corporation assumed Metavante s obligation to provide postretirement medical benefits to all of Metavante s existing retirees eligible for such coverage and those retirement-eligible employees that were also eligible for postretirement medical benefits but had not yet retired as of November 1, 2007. The assets held in a trust that is used to fund such obligations, which included Metavante s contributions made through November 1, 2007, were retained by the Corporation.

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**Notes to Consolidated Financial Statements (Continued)**

**December 31, 2007, 2006, and 2005 ($000 s except share data)**

The measurement date for the 2007 accumulated postretirement benefit obligation ( APBO ) was December 31, 2007. The changes during the year of the APBO for retiree health benefits are as follows:

| | 2007 | 2006 |
|---|---|---|
| **Change in Benefit Obligation** | | |
| APBO, beginning of year | $ 57,303 | $ 64,148 |
| Service cost | 976 | 1,305 |
| Interest cost on APBO | 3,358 | 3,144 |
| Plan participants contributions | 2,993 | 2,807 |
| Actuarial (gains) losses | (1,337) | (7,649) |
| Gross benefits paid | (7,145) | (6,257) |
| Less: Federal subsidy on benefits paid | 722 | 647 |
| Acquisitions/divestitures | 8,159 | (842) |
| APBO, end of year | $ 65,029 | $ 57,303 |

| | 2007 | 2006 |
|---|---|---|
| **Change in Plan Assets** | | |
| Fair value of plan assets, beginning of year | $ 16,613 | $ 11,283 |
| Actual return on plan assets | 1,180 | 1,480 |
| Employer contribution/payments | 9,813 | 9,161 |
| Plan participants contributions | 2,993 | 2,807 |
| Gross benefits paid | (7,145) | (6,257) |
| Acquisitions/divestitures | 8,937 | (1,861) |
| Fair value of plan assets, end of year | $ 32,391 | $ 16,613 |

| | | |
|---|---|---|
| Weighted annual discount rate used in determining ABPO | 6.00% | 5.75% |
| Expected long term rate of retirement plan assets | 5.25 | 5.25 |

As a result of the Separation, the change in benefit obligation and change in plan assets for the retiree health benefits reflect data from continuing operations. The 2007 change in benefit obligation and plan assets from acquisitions/divestitures relate to the Separation. In 2006, the change in acquisitions/divestitures related to the transfer of the external item processing business from Banking to Metavante.

The funded status at the end of the year are as follows:

| | 2007 | 2006 |
|---|---|---|
| **Funded Status** | | |

| | | |
|---|---|---|
| Fair value of plan assets | $ 32,391 | $ 16,613 |
| Benefit obligations | (65,029) | (57,303) |
| Funded status | $ (32,638) | $ (40,690) |

At December 31, 2007 and 2006, $32,638 and $40,690, respectively, are included in Accrued Expenses and Other Liabilities in the Consolidated Balance Sheets.

| | 2007 | 2006 |
|---|---|---|
| **Amounts Recognized in Accumulated Other Comprehensive Income Consists of** | | |
| Net actuarial loss | $ 9,428 | $ 12,328 |
| Prior service cost | (15,029) | (20,027) |
| Total | $ (5,601) | $ (7,699) |

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**Notes to Consolidated Financial Statements (Continued)**

**December 31, 2007, 2006, and 2005 ($000 s except share data)**

The amounts that will be amortized from accumulated other comprehensive income into net periodic benefit cost in 2008 are as follows:

| | |
|---|---|
| Actuarial (gains)/loss | $ 301 |
| Prior service (credit)/cost | (2,412) |
| Total | $ (2,111) |

The assumed health care cost trend for 2008 was 8.00% for pre-age 65 and post-age 65 retirees. The rate was assumed to decrease gradually to 5.00% for pre-age 65 and post-age 65 retirees in 2014 and remain at that level thereafter.

The weighted average discount rate used in determining the APBO was based on matching the Corporation s estimated plan duration to a yield curve derived from a portfolio of high-quality corporate bonds with yields within the 10th to 90th percentiles. The portfolio consisted of over 500 actual Aa quality bonds at various maturity points across the full maturity spectrum that were all United States issues.

Net periodic postretirement benefit cost for the years ended December 31, 2007, 2006 and 2005 includes the following components:

| | **2007** | **2006** | **2005** |
|---|---|---|---|
| Service cost | $ 976 | $ 1,305 | $ 1,342 |
| Interest cost on APBO | 3,358 | 3,144 | 3,661 |
| Expected return on plan assets | (1,116) | (716) | (471) |
| Prior service amortization | (2,148) | (2,096) | (2,095) |
| Actuarial loss amortization | 416 | 1,065 | 661 |
| Net periodic postretirement cost | $ 1,486 | $ 2,702 | $ 3,098 |

The assumed health care cost trend rate has a significant effect on the amounts reported for the health care plans. A one-percentage point change on assumed health care cost trend rates would have the following effects:

| | **One Percentage Point Increase** | **One Percentage Point Decrease** |
|---|---|---|
| Effect on accumulated postretirement benefit obligation | $ 6,651 | $ (5,810) |

| | | |
|---|---|---|
| Effect on aggregate service and interest cost | 530 | (462) |

Postretirement medical plan weighted average asset allocations at December 31, by asset category are as follows:

| | 2007 | 2006 |
|---|---|---|
| **Plan Assets by Category** | | |
| Equity securities | 49% | 52% |
| Fixed income securities | 47 | 45 |
| Cash | 4 | 3 |
| Total | 100% | 100% |

The Corporation s primary investment objective is to achieve a combination of capital appreciation and current income. The long-term target asset mix is 50% fixed income securities and 50% equity securities. Individual fixed income securities may be taxable or tax-exempt and will have maturities of thirty years or less. The average maturity of the portfolio will not exceed ten years.

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On December 8, 2003 the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the Act ) was signed into law. The Act introduces a prescription drug benefit program under Medicare (Medicare Part D) as well as a 28% Federal subsidy to sponsors of retiree health care benefit plans that provide a benefit that is at least actuarially equivalent to Medicare Part D.

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

| | Total Without Medicare Part D | Estimated Medicare Part D Subsidy |
|---|---|---|
| 2008 | $ 4,951 | $ (771) |
| 2009 | 5,504 | (843) |
| 2010 | 5,985 | (918) |
| 2011 | 6,505 | (987) |
| 2012 | 6,882 | (1,049) |
| 2013-2017 | 35,678 | (5,553) |

**20. Financial Instruments with Off-Balance Sheet Risk**

Financial instruments with off-balance sheet risk at December 31 were:

| | 2007 | 2006 |
|---|---|---|
| Financial instruments whose amounts represent credit risk: | | |
| Commitments to extend credit: | | |
| To commercial customers | $ 15,998,615 | $ 15,295,917 |
| To individuals | 4,321,591 | 3,322,136 |
| Commercial letters of credit | 85,703 | 64,034 |
| Mortgage loans sold with recourse | 60,805 | 66,991 |

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates and may require payment of a fee. The majority of the Corporation s commitments to extend credit generally provide for the interest rate to be determined at the time the commitment is utilized. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements.

The Corporation evaluates each customer s credit worthiness on an individual basis. Collateral obtained, if any, upon extension of credit, is based upon management s credit evaluation of the customer. Collateral requirements and the ability to access collateral is generally similar to that required on loans outstanding as discussed in Note 8 Loans and Leases.

Commercial letters of credit are contingent commitments issued by the Corporation to support the financial obligations of a customer to a third party. Commercial letters of credit are issued to support payment obligations of a customer as buyer in a commercial contract for the purchase of goods. Letters of credit have maturities which generally reflect the maturities of the underlying obligations. The credit risk involved in issuing letters of credit is the same as that involved in extending loans to customers. If deemed necessary, the Corporation holds various forms of collateral to support letters of credit.

Certain mortgage loans sold have limited recourse provisions. The losses arising from the limited recourse provisions are not material.

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**Notes to Consolidated Financial Statements (Continued)**

**December 31, 2007, 2006, and 2005 ($000 s except share data)**

**21. Foreign Exchange Contracts**

Foreign exchange contracts are commitments to purchase or deliver foreign currency at a specified exchange rate. The Corporation enters into foreign exchange contracts primarily in connection with trading activities to enable customers involved in international trade to hedge their exposure to foreign currency fluctuations and to minimize the Corporation s own exposure to foreign currency fluctuations resulting from the above. Foreign exchange contracts include such commitments as foreign currency spot, forward, future and, to a much lesser extent, option contracts. The risks in these transactions arise from the ability of the counterparties to perform under the terms of the contracts and the risk of trading in a volatile commodity. The Corporation actively monitors all transactions and positions against predetermined limits established on traders and types of currency to ensure reasonable risk taking.

Matching commitments to deliver foreign currencies with commitments to purchase foreign currencies minimizes the Corporation s market risk from unfavorable movements in currency exchange rates.

At December 31, 2007 the Corporation s foreign currency position resulting from foreign exchange contracts by major currency was as follows (U.S. dollars):

| Currency | Commitments to Deliver Foreign Exchange | Commitments to Purchase Foreign Exchange |
|---|---|---|
| Euro | $ 262,152 | $ 261,939 |
| British Pound Sterling | 95,278 | 95,013 |
| Swiss Franc | 51,625 | 51,644 |
| Canadian Dollar | 46,041 | 45,266 |
| Japanese Yen | 12,078 | 12,007 |
| Australian Dollar | 5,369 | 5,129 |
| Norwegian Kronor | 4,153 | 4,155 |
| Mexican Peso | 2,200 | 2,198 |
| All Other | 1,933 | 1,974 |
| Total | $ 480,829 | $ 479,325 |
| Average amount of contracts during 2007 to deliver/purchase foreign exchange | $ 546,481 | $ 547,061 |

**22. Derivative Financial Instruments and Hedging Activities**

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

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

***Trading Instruments and Other Free Standing Derivatives***

The Corporation enters into various derivative contracts primarily to focus on providing derivative products to customers which enables them to manage their exposures to interest rate risk. The Corporation s market risk from unfavorable movements in interest rates is generally economically hedged by concurrently entering into offsetting

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**Notes to Consolidated Financial Statements  (Continued)**

**December 31, 2007, 2006, and 2005 ($000  s except share data)**

derivative contracts. The offsetting derivative contracts generally have nearly identical notional values, terms and indices. The Corporation uses interest rate futures to economically hedge the exposure to interest rate risk arising from the interest rate swap (designated as trading) entered into in conjunction with its auto securitization activities. Interest rate futures have also been used to economically hedge the exposure to interest rate risk arising from auto loans designated as held for sale and other free standing derivatives.

Interest rate lock commitments on residential mortgage loans intended to be held for sale are considered free standing derivative instruments. The option to sell the mortgage loans at the time the commitments are made are also free standing derivative instruments. The change in fair value of these derivative instruments due to changes in interest rates tend to offset each other and act as economic hedges. At December 31, 2007 and 2006, the estimated fair values of interest rate lock commitments on residential mortgage loans intended to be held for sale and related option to sell were insignificant.

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 December 31, 2007, free standing interest rate swaps consisted of $2.7 billion in notional amount of receive fixed / pay floating with an aggregate positive fair value of $67.8 million and $2.2 billion in notional amount of pay fixed / receive floating with an aggregate negative fair value of $55.0 million.

At December 31, 2007, interest rate caps purchased amounted to $56.9 million in notional with an immaterial positive fair value and interest rate caps sold amounted to $56.9 million in notional with an immaterial negative fair value.

At December 31, 2007, the notional value of free standing interest rate futures was $2.4 billion with a negative fair value of $0.3 million.

***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 ongoing basis.

At December 31, 2007, 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 December 31, 2007, 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.

During 2006, the Corporation terminated fair value hedges on certain long-term borrowings. The adjustment to the fair value of the hedged instrument of $4.7 million is being amortized as expense into earnings over the expected remaining term of the borrowings using the effective interest method.

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**Notes to Consolidated Financial Statements (Continued)**

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

**Fair Value Hedges**

**December 31, 2007**

| Hedged Item | Hedging Instrument | Notional Amount ($ in millions) | Fair Value ($ in millions) | Weighted Average Remaining Term (Years) |
|---|---|---|---|---|
| **Fair Value Hedges that Qualify for Shortcut Accounting** | | | | |
| Fixed Rate Bank Notes | Receive Fixed Swap | $ 372.7 | $ 3.1 | 7.6 |
| **Other Fair Value Hedges** | | | | |
| Fixed Rate Bank Notes | Receive Fixed Swap | $ 125.0 | $ (1.9) | 8.5 |
| Institutional CDs | Receive Fixed Swap | 50.0 | 0.3 | 28.5 |
| Callable CDs | Receive Fixed Swap | 520.7 | (2.0) | 7.9 |

The impact from fair value hedges to total net interest income for the year ended December 31, 2007 was a negative $2.4 million. The impact to net interest income due to ineffectiveness was a positive $0.3 million for the year ended December 31, 2007.

***Cash Flow Hedges***

The Corporation has variable rate loans, deposits and borrowings which expose the Corporation to variability in interest 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 December 31, 2007, these instruments consisted of interest rate swaps.

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

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

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

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

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

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**Notes to Consolidated Financial Statements (Continued)**

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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 structures the 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 ongoing basis.

At December 31, 2007, 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.

Changes in the fair value of the interest rate swaps designated as cash flow hedges are reported in accumulated other comprehensive income. These amounts are subsequently reclassified to interest income or interest expense as a yield adjustment in the same period in which the related interest on the variable rate loans and short-term borrowings affects earnings. Ineffectiveness arising from differences between the critical terms of the hedging instrument and hedged item is recorded in interest income or expense.

The following table summarizes the Corporation s cash flow hedges.

**Cash Flow Hedges**

**December 31, 2007**

| Hedged Item | Hedging Instrument | Notional Amount ($ in millions) | Fair Value ($ in millions) | Weighted Average Remaining Term (Years) |
|---|---|---|---|---|
| **Cash Flow Hedges** | | | | |
| Variable Rate Loans | Receive Fixed Swap | $ 100.0 | $ (0.7) | 0.5 |
| Institutional CDs | Pay Fixed Swap | 1,175.0 | (18.0) | 1.3 |
| FHLB Advances | Pay Fixed Swap | 800.0 | (38.3) | 4.5 |
| Floating Rate Bank Notes | Pay Fixed Swap | 550.0 | (13.0) | 1.9 |

During 2007, $370 million of FHLB floating rate advances were retired. In conjunction with the retirement of debt, $370 million in notional value of receive floating / pay fixed interest rate swaps designated as cash flow hedges against the retired floating rate advances were terminated. The unrealized gain in accumulated other comprehensive income aggregating $5.3 million ($3.4 million after tax) was recognized and is included in other noninterest income.

The impact to total net interest income from cash flow hedges, including amortization of terminated cash flow hedges, for the year ended December 31, 2007 was a positive $15.3 million. The impact due to ineffectiveness was immaterial. The estimated reclassification from accumulated other comprehensive income in the next twelve months is approximately $10.0 million.

Credit risk arises from the potential failure of counterparties to perform in accordance with the terms of the contracts. The Corporation maintains risk management policies that define parameters of acceptable market risk within the framework of its overall asset/liability management strategies and monitor and limit exposure to credit risk. The Corporation believes its credit and settlement procedures serve to minimize its exposure to credit risk. Credit exposure resulting from derivative financial instruments is represented by their fair value amounts, increased by an estimate of potential adverse position exposure arising from changes over time in interest rates, maturities and other relevant factors. At December 31, 2007, the estimated credit exposure arising from derivative financial instruments was approximately $3.8 million.

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**Notes to Consolidated Financial Statements (Continued)**

**December 31, 2007, 2006, and 2005 ($000 s except share data)**

For the years ended December 31, 2006 and 2005, the total effect on net interest income resulting from derivative financial instruments, was a positive $22.4 million and a positive $35.5 million including the amortization of terminated derivative financial instruments, respectively.

### 23. Fair Value of Financial Instruments

The book values and estimated fair values for on and off-balance sheet financial instruments as of December 31, 2007 and 2006 are presented in the following table. Derivative financial instruments designated as hedging instruments are included in the book values and fair values presented for the related hedged items. Derivative financial instruments designated as trading and other free standing derivatives are included in Trading securities.

**Balance Sheet Financial Instruments ($ in millions)**

| | 2007 | | 2006 | |
|---|---|---|---|---|
| | Book Value | Fair Value | Book Value | Fair Value |
| Financial Assets: | | | | |
| Cash and short term investments | $ 1,830.8 | $ 1,830.8 | $ 1,454.8 | $ 1,454.8 |
| Trading securities | 124.6 | 124.6 | 36.2 | 36.2 |
| Investment securities available for sale | 7,442.9 | 7,442.9 | 6,909.5 | 6,909.5 |
| Investment securities held to maturity | 374.9 | 383.2 | 495.5 | 507.9 |
| Net loans and leases | 45,800.1 | 46,456.9 | 41,514.4 | 41,588.7 |
| Interest receivable | 267.8 | 267.8 | 279.1 | 279.1 |
| Financial Liabilities: | | | | |
| Deposits | 35,191.4 | 35,244.7 | 34,626.8 | 34,587.8 |
| Short-term borrowings | 6,811.0 | 6,811.0 | 3,609.0 | 3,609.0 |
| Long-term borrowings | 9,872.8 | 9,995.8 | 10,841.9 | 10,784.7 |
| Standby letters of credit | 9.7 | 9.7 | 8.7 | 8.7 |
| Interest payable | 253.1 | 253.1 | 265.1 | 265.1 |

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

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

***Cash and short-term investments***

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

***Trading and investment securities***

Fair value is based on market prices where available. Estimated fair values for residual interests in the form of interest-only strips from automobile loan securitizations are based on discounted cash flow analysis.

***Net loans and leases***

Loan and lease balances are assigned fair values based on a discounted cash flow analysis. The discount rate is based on the LIBOR swap curve, with rate adjustments for credit quality, cost and profit factors. Net loans and leases include loans held for sale.

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**Notes to Consolidated Financial Statements (Continued)**

**December 31, 2007, 2006, and 2005 ($000 s except share data)**

***Deposits***

The fair value for demand deposits or any interest bearing deposits with no fixed maturity date is considered to be equal to the carrying value. Time deposits with defined maturity dates are considered to have a fair value equal to the book value if the maturity date was within three months of December 31. The remaining time deposits are assigned fair values based on a discounted cash flow analysis using discount rates that approximate interest rates currently being offered on time deposits with comparable maturities.

***Borrowings***

Short-term borrowings are carried at cost that approximates fair value. Long-term debt is generally valued using a discounted cash flow analysis with a discount rate based on current incremental borrowing rates for similar types of arrangements or, if not readily available, based on a build up approach similar to that used for loans and deposits. Long-term borrowings include their related current maturities.

***Standby letters of credit***

The book value and fair value of standby letters of credit is based on the unamortized premium (fees paid by customers).

**Off-Balance Sheet Financial Instruments ($ in millions)**

Fair values of loan commitments and commercial letters of credit have been estimated based on the equivalent fees, net of expenses, that would be charged for similar contracts and customers at December 31:

| | **2007** | **2006** |
|---|---|---|
| Loan commitments | $ 11.9 | $ 11.4 |
| Commercial letters of credit | 0.6 | 0.5 |

See Note 20 for additional information on off-balance sheet financial instruments.

**24. Business Segments**

In conjunction with the Separation, the Corporation reorganized its operating segments. The corresponding information for the prior periods has been adjusted.

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

The Corporation manages interest rate risk centrally at the corporate level by employing a funds transfer pricing ( FTP ) methodology. This methodology insulates the business segments from interest rate volatility, enabling them to focus on servicing customers. The FTP system assigns charge rates and credit rates to classes of assets and liabilities, respectively, based on expected duration. The net impact of the FTP methodology is included in Treasury. Net interest income is presented on a fully taxable equivalent basis.

The financial results of the business segments include allocations for shared services and corporate expenses. Even with these allocations, the financial results are not necessarily indicative of the business segments financial condition and results of operations as if they were to exist as independent entities. Additionally, the business segments form synergies by taking advantage of cross-sell opportunities and when funding operations by accessing the capital markets as a collective unit. The financial information for each segment is reported on the basis used internally by the

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**Notes to Consolidated Financial Statements (Continued)**

**December 31, 2007, 2006, and 2005 ($000 s except share data)**

Corporation s management to evaluate performance and allocate resources. The allocation has been consistently applied for all period presented. Revenues from affiliated transactions are typically charged at rates available to and transacted with unaffiliated customers. The accounting policies of the Corporation s segments are generally the same as those described in Note 1.

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

**Commercial Banking**

The Commercial Banking segment provides financial expertise in Corporate, Commercial, Correspondent and Commercial Real Estate Banking. Commercial Banking provides a complete line of commercial, corporate and real estate banking products and services, including: traditional commercial loans and lines of credit, letters of credit, asset-based lending, equipment financing, mezzanine financing, global trade services, foreign exchange services, treasury management and other financial services to middle market, large corporate and public sector clients. Commercial banking also supports the commercial real estate and correspondent market with products and services including secured and unsecured lines of credit, letters of credit, construction loans for commercial and residential development and land acquisition and development loans.

**Community Banking**

Community Banking provides consumer and business banking products and services to customers primarily within M&I s footprint states. Banking services are provided through branches located throughout Wisconsin, Arizona, the Minneapolis, Minnesota, Kansas City, Missouri and St. Louis, Missouri metropolitan areas, and Orlando, Florida metropolitan areas, Duluth Minnesota, Belleville, Illinois, Las Vegas, Nevada and Florida s west coast. Consumer products include loan and deposit products: mortgage, home equity loan and lines, credit cards, student loans, personal lines and term loans, demand deposit accounts, interest bearing transaction accounts and time deposits. Business banking products include secured and unsecured lines and term loans for working capital, inventory and general corporate use, commercial real estate construction loans, agricultural loans, demand deposit accounts, interest bearing transaction accounts and time deposits.

**Wealth Management**

The Wealth Management segment, which includes M&I s Trust, Brokerage and Private Banking businesses, provides integrated asset management, trust and banking services through three business lines: Investment Management, Personal Services and Institutional Services. Investment Management is a multi-dimensional asset management service with a broad range of strategies, styles and product delivery options such as separately managed equity and fixed income strategies, managed asset allocation strategies, alternative investments and The Marshall

Funds, M&I s family of mutual funds. Personal Services includes Cedar Street Advisors, Personal Wealth Management and M&I Financial Advisors. Cedar Street Advisors manages the complex financial affairs of ultra-high net worth individuals and their families. Personal Wealth Management services assemble and implement an all-inclusive financial roadmap for high net worth individuals and families, providing for their private banking (credit and deposits), investment, estate and tax planning needs. M&I Financial Advisors uses a formulized financial planning process based on an individual s resources, goals, and risk tolerance to develop a personalized financial plan, and then offers a full array of brokerage and insurance solutions to meet that plan. The Institutional Services business includes Retirement Plan Services, Taft-Hartley Services, Not-for-Profit Services, North Star Deferred Exchange and Trust Operations Outsourcing.

**Treasury**

Treasury provides management of interest rate risk, capital, liquidity, funding and investments to the Corporation and all of its subsidiary banks.

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**Notes to Consolidated Financial Statements (Continued)**

**December 31, 2007, 2006, and 2005 ($000 s except share data)**

**All Others**

The Other segment includes an Investment Division and a National Consumer Banking Division. The Investment Division provides a variety of products and services designed to address its customers risk management and investment needs. These services include Foreign Exchange Services, Derivative Solutions and Investment Services, currency conversion and foreign exchange risk management. These services are provided primarily to corporate, business banking and financial institution clients. The National Consumer Banking Division provides wholesale home equity consumer lending, indirect automobile financing, and affinity banking services.

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

| | 2007 | 2006 | 2005 |
|---|---|---|---|
| Investment Division | $ 37.5 | $ 35.8 | $ 30.9 |
| National Consumer Banking Division | 87.1 | 125.2 | 139.0 |
| Administrative & Other | 103.0 | 38.7 | 31.5 |
| Other | 240.6 | 210.8 | 200.5 |
| Total | $ 468.2 | $ 410.5 | $ 401.9 |

Results of operations and identifiable assets by segment for each of the three years ended December 31 are:

| | Year Ended December 31, 2007 ($ in millions) | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Commercial Banking | Community Banking | Wealth Management | Treasury | Others | Corporate Overhead | Eliminations, Reclassifi-cations & Adjustments | Consolidated |
| Net interest income | $ 685.4 | $ 805.5 | $ 52.1 | $ 15.2 | $ 119.2 | $ (33.7) | $ (27.5) | $ 1,616.2 |
| Provision for loan and lease losses | 237.6 | 48.6 | 3.8 | | 29.8 | | | 319.8 |
| Net interest income after provision for loan and lease losses | 447.8 | 756.9 | 48.3 | 15.2 | 89.4 | (33.7) | (27.5) | 1,296.4 |
| Other income | 87.4 | 149.6 | 269.7 | 46.4 | 349.0 | 131.3 | (304.3) | 729.1 |
| Other expense | 196.9 | 579.3 | 221.8 | 87.6 | 361.8 | 171.8 | (304.3) | 1,314.9 |
| Income before income taxes | 338.3 | 327.2 | 96.2 | (26.0) | 76.6 | (74.2) | (27.5) | 710.6 |
| Income tax expense (benefit) | 135.3 | 130.9 | 35.6 | (10.4) | (20.6) | (29.6) | (27.5) | 213.7 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Segment income | $ 203.0 | $ 196.3 | $ 60.6 | $ (15.6) | $ 97.2 | $ (44.6) | $ | $ 496.9 |
| Identifiable assets | $ 25,403.7 | $ 19,630.5 | $ 1,551.3 | $ 8,918.0 | $ 4,866.7 | $ 3,439.8 | $ (3,961.4) | $ 59,848.6 |

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**Notes to Consolidated Financial Statements (Continued)**

**December 31, 2007, 2006, and 2005 ($000 s except share data)**

| | Year Ended December 31, 2006 ($ in millions) | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Commercial Banking | Community Banking | Wealth Management | Treasury | Others | Corporate Overhead | Eliminations, Reclassifi-cations & Adjustments | Consolidated |
| Net interest income | $ 625.1 | $ 783.6 | $ 43.0 | $ 1.9 | $ 112.6 | $ (29.7) | $ (28.9) | $ 1,507.6 |
| Provision for loan and lease losses | 38.5 | 27.8 | 2.7 | | (18.4) | | | 50.6 |
| Net interest income after provision for loan and lease losses | 586.6 | 755.8 | 40.3 | 1.9 | 131.0 | (29.7) | (28.9) | 1,457.0 |
| Other income | 74.0 | 131.6 | 232.2 | 17.4 | 297.9 | 111.6 | (283.0) | 581.7 |
| Other expense | 167.5 | 530.3 | 191.9 | 12.1 | 335.9 | 110.4 | (264.5) | 1,083.6 |
| Income before income taxes | 493.1 | 357.1 | 80.6 | 7.2 | 93.0 | (28.5) | (47.4) | 955.1 |
| Income tax expense (benefit) | 197.2 | 142.8 | 32.4 | 2.9 | (16.7) | (15.8) | (35.4) | 307.4 |
| Segment income | $ 295.9 | $ 214.3 | $ 48.2 | $ 4.3 | $ 109.7 | $ (12.7) | $ (12.0) | $ 647.7 |
| Identifiable assets (a) | $ 21,676.7 | $ 17,913.3 | $ 1,174.9 | $ 7,923.7 | $ 5,556.4 | $ 781.9 | $ (114.6) | $ 54,912.3 |

(a) Excludes assets of discontinued operations.

| | Year Ended December 31, 2005 ($ in millions) | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Commercial Banking | Community Banking | Wealth Management | Treasury | Others | Corporate Overhead | Eliminations, Reclassifi-cations & Adjustments | Consolidated |
| Net interest income | $ 522.3 | $ 676.8 | $ 38.6 | $ (26.3) | $ 120.8 | $ (9.7) | $ (32.1) | $ 1,290.4 |
| Provision for loan and lease losses | 29.6 | 22.2 | 2.8 | | (9.8) | | | 44.8 |
| Net interest income after provision for loan and lease losses | 492.7 | 654.6 | 35.8 | (26.3) | 130.6 | (9.7) | (32.1) | 1,245.6 |
| Other income | 93.3 | 121.1 | 203.1 | 20.9 | 281.1 | 105.6 | (251.5) | 573.6 |
| Other expense | 159.8 | 461.8 | 163.7 | 10.8 | 295.5 | 114.3 | (251.5) | 954.4 |
| Income before income taxes | 426.2 | 313.9 | 75.2 | (16.2) | 116.2 | (18.4) | (32.1) | 864.8 |
| Income tax expense (benefit) | 170.3 | 125.5 | 30.3 | (6.5) | (0.5) | (8.9) | (32.1) | 278.1 |
| Segment income | $ 255.9 | $ 188.4 | $ 44.9 | $ (9.7) | $ 116.7 | $ (9.5) | $ | $ 586.7 |
| Identifiable assets (a) | $ 16,904.5 | $ 14,273.5 | $ 1,032.5 | $ 6,683.2 | $ 5,370.9 | $ 615.7 | $ 178.5 | $ 45,058.8 |

(a) Excludes assets of discontinued operations.

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**Notes to Consolidated Financial Statements (Continued)**

**December 31, 2007, 2006, and 2005 ($000 s except share data)**

**25. Guarantees**

***Letters of Credit***

Standby letters of credit are contingent commitments issued by the Corporation to support the obligations of a customer to a third party and to support public and private financing, and other financial or performance obligations of customers. Standby letters of credit have maturities that generally reflect the maturities of the underlying obligations. The credit risk involved in issuing standby letters of credit is the same as that involved in extending loans to customers. If deemed necessary, the Corporation holds various forms of collateral to support the standby letters of credit. The gross amount of standby letters of credit issued at December 31, 2007 was $2.6 billion. Of the amount outstanding at December 31, 2007, standby letters of credit conveyed to others in the form of participations amounted to $123.3 million. Since many of the standby letters of credit are expected to expire without being drawn upon, the amounts outstanding do not necessarily represent future cash requirements. At December 31, 2007, the estimated fair value associated with letters of credit amounted to $9.7 million.

***Trust Preferred Securities***

In conjunction with the acquisitions of Gold Banc, Trustcorp and Excel, the Corporation acquired all of the common interests in six trusts that issued cumulative preferred capital securities which are supported by junior subordinated deferrable interest debentures in the aggregate principal amounts of $16.0 million, $30.0 million, $38.0 million, $15.0 million, $10.0 million and $5.0 million, respectively and full guarantees assumed by M&I LLC. See Note 15 Long Term Borrowings for further information.

***Securities Lending***

As part of securities custody activities and at the direction of trust clients, the Corporation s trust subsidiary, M&I Trust lends securities owned by trust clients to borrowers who have been evaluated for credit risk in a manner similar to that employed in making lending decisions. In connection with these activities, M&I Trust has issued certain indemnifications against loss resulting from the default by a borrower under the master securities loan agreement, such as the failure of the borrower to return loaned securities when due or the borrower s bankruptcy or receivership. The borrowing party is required to fully collateralize securities received with cash or marketable securities. As securities are loaned, collateral is maintained at a minimum of 100 percent of the fair value of the securities plus accrued interest and the collateral is revalued on a daily basis. The amount of securities loaned subject to indemnification was $11.2 billion at December 31, 2007 and $9.5 billion at December 31, 2006. Because of the requirement to fully collateralize securities borrowed, management believes that the exposure to credit loss from this activity is remote and there are no liabilities reflected on the Consolidated Balance Sheets at December 31, 2007 and December 31, 2006, related to these indemnifications.

***Visa Litigation***

As a result of the Corporation s banking subsidiaries participation in the Visa USA network, principally related to debit and credit cards, the Corporation owns 0.39914 % of Visa, Inc. ( Visa ) for which there is no investment or carrying value recorded.

Visa has filed a registration statement with the Securities and Exchange Commission for an initial public offering of its common stock. In preparation for the offering, Visa s by-laws were modified in the fourth quarter of 2007 to provide for indemnification of Visa by its members for any ultimate losses related to certain existing litigation ( covered litigation ) that is described in Visa s registration statement.

In general terms, the covered litigation consists of the following:

***American Express Anti-Trust Litigation:*** This litigation was recently settled for $2.1 billion.

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**Notes to Consolidated Financial Statements (Continued)**

**December 31, 2007, 2006, and 2005 ($000 s except share data)**

***Discover Litigation:*** The Discover litigation is a parallel proceeding to the American Express litigation. While this case has not been settled, Visa recently disclosed that it had recorded a liability of $650 million because it was probable and estimateable.

***Attridge Litigation:*** Attridge is a purported consumer class action filed against Visa. The complaint alleges unfair competition. Although discovery is proceeding, no trial date has been set and Visa has not made any disclosures about its potential loss exposure.

***Interchange Litigation:*** Included in the Interchange litigation are two lawsuits. The Interchange lawsuits allege violations of the antitrust rules by Visa in connection with the interchange fee charged to merchants by issuing banks in connection with the processing of Visa credit card transactions. No trial date has been set and Visa has not made any disclosures about its potential loss exposure.

The Corporation accrued $25.8 million as its estimate of the fair value of its indemnification obligation to Visa. The amount accrued was based in part on the announced settled litigation with American Express and Visa s disclosure of its estimate of probable loss for the Discover litigation. However, the other litigation matters are only in the early stages of discovery and it is impossible to determine the probable loss on those matters at this time. The Corporation is not a named defendant in any of Visa s litigation matters, and has no access to information about the matters other than as disclosed by Visa. For these reasons, the estimated fair value of the amount accrued on the other litigation matters involved a significant amount of judgment and management cannot estimate the Corporation s maximum obligation at this time.

At the offering date, Visa members will place their ownership in escrow for a period of three years, and it is expected that any indemnification obligations will be funded by the escrowed ownership interests.

The Corporation expects the ultimate value of its membership interests to exceed its indemnification obligations. However, additional accruals may be necessary depending on the resolution of the pending Visa litigation and the results of Visa s initial public offering of its common stock.

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**Notes to Consolidated Financial Statements (Continued)**

**December 31, 2007, 2006, and 2005 ($000 s except share data)**

**26. Condensed Financial Information Parent Corporation Only**

In conjunction with the Separation on November 1, 2007, Marshall & Ilsley Corporation (Accounting Predecessor to New Marshall & Ilsley Corporation) became M&I LLC, a wholly-owned subsidiary of New Marshall & Ilsley, which became Marshall & Ilsley Corporation. The Condensed Balance Sheet, Condensed Statement of Income and Condensed Statement of Cash Flows as of and for the year ended December 31, 2007 present the Parent Corporation only on a consolidated basis, which is more reflective of the financial position, results of operations and cash flows of the Parent Corporation and its activities.

**Condensed Balance Sheets**

**December 31**

| | 2007 | 2006 |
|---|---|---|
| **Assets** | | |
| Cash and cash equivalents | $ 3,157,670 | $ 477,160 |
| Indebtedness of nonbank affiliates | | 321,350 |
| Loan to Metavante | | 982,000 |
| Investments in affiliates: | | |
| Banks | 5,772,944 | 4,915,565 |
| Nonbanks | 576,323 | 516,938 |
| Investment in discontinued operations | | 1,262,134 |
| Premises and equipment, net | 8,356 | 8,482 |
| Other assets | 286,465 | 332,031 |
| Total assets | $ 9,801,758 | $ 8,815,660 |
| **Liabilities and Shareholders Equity** | | |
| Commercial paper | $ 798,986 | $ 521,549 |
| Other liabilities | 372,461 | 344,515 |
| Long-term borrowings: | | |
| Medium-term notes Series E, F and MiNotes | 451,509 | 468,118 |
| 4.375% senior notes | 599,080 | 598,532 |
| 5.626% senior notes | 398,162 | |
| 3.90% junior subordinated debt securities | | 397,052 |
| 7.65% junior subordinated deferrable interest debentures due to M&I Capital Trust A | | 199,355 |
| 5.80% junior subordinated deferrable interest debentures due to Gold Banc Trust III | 15,583 | 15,270 |
| Floating rate junior subordinated deferrable interest debentures due to Gold Banc Trust IV | 30,475 | 30,831 |
| 6.00% junior subordinated deferrable interest debentures due to Gold Banc Trust V | 37,767 | 37,651 |
| 10.60% junior subordinated deferrable interest debentures due to Trustcorp Statutory Trust I | 16,394 | 16,901 |
| Floating rate junior subordinated deferrable interest debentures due to EBC Statutory Trust I | 10,000 | |
| Floating rate junior subordinated deferrable interest debentures due to EBC Statutory Trust II | 5,000 | |
| Floating rate subordinated notes | 33,612 | 34,515 |

| | | |
|---|---|---|
| Total long-term borrowings | 1,597,582 | 1,798,225 |
| Total liabilities | 2,769,029 | 2,664,289 |
| Shareholders equity | 7,032,729 | 6,151,371 |
| Total liabilities and shareholders equity | $ 9,801,758 | $ 8,815,660 |

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**Notes to Consolidated Financial Statements (Continued)**

**December 31, 2007, 2006, and 2005 ($000 s except share data)**

Scheduled maturities of long-term borrowings are $3,529 in 2008, $1,005,387 in 2009, $18,886 in 2010, $282,045 in 2011 and $14,637 in 2012. See Note 15 for a description of the long-term borrowings.

**Consolidating Balance Sheets**

**December 31, 2007**

| | M&I LLC | Marshall & Ilsley Corporation | Eliminations & Reclassifi-cations | Consolidated Parent Corporation |
|---|---|---|---|---|
| **Assets** | | | | |
| Cash and cash equivalents | $ 1,048,203 | $ 2,109,467 | $ | $ 3,157,670 |
| Indebtedness of nonbank affiliates | | | | |
| Loan to Metavante | | | | |
| Investments in affiliates: | | | | |
| Banks | 5,772,944 | | | 5,772,944 |
| Nonbanks | 576,323 | | | 576,323 |
| M&I LLC | | 5,564,011 | (5,564,011) | |
| Investment in discontinued operations | | | | |
| Premises and equipment, net | 8,356 | | | 8,356 |
| Other assets | 352,489 | 6,099 | (72,123) | 286,465 |
| Total assets | $ 7,758,315 | $ 7,679,577 | $ (5,636,134) | $ 9,801,758 |
| **Liabilities and Shareholders Equity** | | | | |
| Commercial paper | $ 244,739 | $ 554,247 | $ | $ 798,986 |
| Other liabilities | 351,983 | 92,601 | (72,123) | 372,461 |
| Long-term borrowings | 1,597,582 | | | 1,597,582 |
| Total liabilities | 2,194,304 | 646,848 | (72,123) | 2,769,029 |
| Shareholders equity | 5,564,011 | 7,032,729 | (5,564,011) | 7,032,729 |
| Total liabilities and shareholders equity | $ 7,758,315 | $ 7,679,577 | $ (5,636,134) | $ 9,801,758 |

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**Notes to Consolidated Financial Statements (Continued)**

**December 31, 2007, 2006, and 2005 ($000 s except share data)**

**Condensed Statements of Income**

**Years Ended December 31**

| | 2007 | 2006 | 2005 |
|---|---|---|---|
| **Income** | | | |
| Cash dividends: | | | |
| Bank affiliates | $ 168 | $ 301,898 | $ 445 |
| Nonbank affiliates | 402 | 34,391 | 59,473 |
| Interest from affiliates | 82,010 | 79,845 | 68,955 |
| Service fees and other | 133,077 | 116,418 | 112,504 |
| Total income | 215,657 | 532,552 | 241,377 |
| **Expense** | | | |
| Interest | 118,908 | 115,859 | 85,567 |
| Salaries and employee benefits | 61,166 | 58,779 | 70,740 |
| Administrative and general | 110,886 | 51,991 | 44,555 |
| Total expense | 290,960 | 226,629 | 200,862 |
| Income (loss) from continuing operations before income taxes and equity in undistributed net income of affiliates | (75,303) | 305,923 | 40,515 |
| Benefit from income taxes | (29,629) | (15,840) | (8,906) |
| Income from continuing operations before equity in undistributed net income of affiliates | (45,674) | 321,763 | 49,421 |
| Discontinued operations, net of income taxes | 500,646 | | |
| Income before equity in undistributed net income of affiliates | 454,972 | 321,763 | 49,421 |
| Equity in undistributed net income of affiliates, net of dividends paid: | | | |
| Banks | 470,535 | 281,346 | 516,712 |
| Nonbanks | 225,429 | 204,729 | 140,057 |
| **Net income** | $ 1,150,936 | $ 807,838 | $ 706,190 |

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**Notes to Consolidated Financial Statements (Continued)**

**December 31, 2007, 2006, and 2005 ($000 s except share data)**

**Consolidating Statements of Income**

**Year Ended December 31, 2007**

| | M&I LLC | Marshall & Ilsley Corporation | Eliminations & Reclassifications | Consolidated Parent Corporation |
|---|---|---|---|---|
| **Income** | | | | |
| Cash dividends: | | | | |
| Bank affiliates | $ 168 | $ | $ | $ 168 |
| Nonbank affiliates | 402 | | | 402 |
| Interest from affiliates | 67,543 | 14,467 | | 82,010 |
| Service fees and other | 133,075 | 2 | | 133,077 |
| Total income | 201,188 | 14,469 | | 215,657 |
| **Expense** | | | | |
| Interest | 115,992 | 2,916 | | 118,908 |
| Salaries and employee benefits | 60,017 | 1,149 | | 61,166 |
| Administrative and general | 110,437 | 449 | | 110,886 |
| Total expense | 286,446 | 4,514 | | 290,960 |
| Income (loss) from continuing operations before income taxes and equity in undistributed net income of affiliates | (85,258) | 9,955 | | (75,303) |
| Provision for (benefit from) income taxes | (33,120) | 3,491 | | (29,629) |
| Income from continuing operations before equity in undistributed net income of affiliates | (52,138) | 6,464 | | (45,674) |
| Discontinued operations, net of income taxes | (24,780) | 525,426 | | 500,646 |
| Income before equity in undistributed net income of affiliates | (76,918) | 531,890 | | 454,972 |
| Equity in undistributed net income of affiliates, net of dividends paid: | | | | |
| Banks | 470,535 | | | 470,535 |
| Nonbanks | 225,429 | | | 225,429 |
| M&I LLC | | 619,046 | (619,046) | |
| **Net income** | $ 619,046 | $ 1,150,936 | $ (619,046) | $ 1,150,936 |

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**Notes to Consolidated Financial Statements (Continued)**

**December 31, 2007, 2006, and 2005 ($000 s except share data)**

**Condensed Statements of Cash Flows**

**Years Ended December 31**

| | 2007 | 2006 | 2005 |
|---|---|---|---|
| **Cash Flows From Operating Activities:** | | | |
| Net income | $ 1,150,936 | $ 807,838 | $ 706,190 |
| Noncash items included in income: | | | |
| Equity in undistributed net income of affiliates | (695,964) | (486,075) | (656,769) |
| Depreciation and amortization | 3,586 | 4,340 | 5,282 |
| Excess tax benefit from stock based comp. arrangements | 907 | (805) | (1,001) |
| Gain on sale of Metavante | (525,576) | | |
| Other | 64,984 | 15,685 | (7,470) |
| Net cash (used in) provided by operating activities | (1,127) | 340,983 | 46,232 |
| **Cash Flows From Investing Activities:** | | | |
| Increases in indebtedness of affiliates | (16,350) | (476,150) | (548,005) |
| Decreases in indebtedness of affiliates | 1,319,700 | 460,710 | 548,885 |
| Increases in investments in affiliates | (121,106) | (215,753) | (110,014) |
| Net proceeds from the Separation | 1,639,034 | | |
| (Purchases of) proceeds from premises and equipment, net | (1,154) | (913) | 21,456 |
| Other | 55,202 | 40,034 | 24,340 |
| Net cash provided by (used in) investing activities | 2,875,326 | (192,072) | (63,338) |
| **Cash Flows From Financing Activities:** | | | |
| Dividends paid | (313,298) | (261,535) | (214,788) |
| Proceeds from the issuance of commercial paper | 19,190,183 | 5,055,511 | 4,676,424 |
| Principal payments on commercial paper | (18,912,746) | (4,835,925) | (4,686,559) |
| Proceeds from the issuance of long-term borrowings | | 250,000 | 8,005 |
| Payments on long-term borrowings | (230,214) | (201,037) | (111,036) |
| Purchases of common stock | (431,150) | (41,791) | |
| Proceeds from the issuance of common stock | 512,243 | 84,042 | 60,911 |
| Excess tax benefit from stock-based comp. arrangements | (907) | 805 | 1,001 |
| Other | (7,800) | (10,400) | (10,400) |
| Net cash (used in) provided by financing activities | (193,689) | 39,670 | (276,442) |
| Net increase (decrease) in cash and cash equivalents | 2,680,510 | 188,581 | (293,548) |
| Cash and cash equivalents, beginning of year | 477,160 | 288,579 | 582,127 |
| Cash and cash equivalents, end of year | $ 3,157,670 | $ 477,160 | $ 288,579 |

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**Notes to Consolidated Financial Statements (Continued)**

**December 31, 2007, 2006, and 2005 ($000 s except share data)**

**Consolidating Statements of Cash Flows**

**Year Ended December 31, 2007**

| | M&I LLC | Marshall & Ilsley Corporation | Eliminations & Reclassifications | Consolidated Parent Corporation |
|---|---|---|---|---|
| **Cash Flows From Operating Activities:** | | | | |
| Net income | $ 619,046 | $ 1,150,936 | $ (619,046) | $ 1,150,936 |
| Noncash items included in income: | | | | |
| Equity in undistributed net income of affiliates | (695,964) | (619,046) | 619,046 | (695,964) |
| Depreciation and amortization | 3,586 | | | 3,586 |
| Excess tax benefit from stock based comp. arrangements | 907 | | | 907 |
| Gain on sale of Metavante | | (525,576) | | (525,576) |
| Other | (17,298) | 82,282 | | 64,984 |
| Net cash (used in) provided by operating activities | (89,723) | 88,596 | | (1,127) |
| **Cash Flows From Investing Activities:** | | | | |
| Increases in indebtedness of affiliates | (16,350) | | | (16,350) |
| Decreases in indebtedness of affiliates | 1,319,700 | | | 1,319,700 |
| Increases in investments in affiliates | (126,053) | 4,947 | | (121,106) |
| Net proceeds from the Separation | (25,966) | 1,665,000 | | 1,639,034 |
| Purchases of premises and equipment, net | (1,154) | | | (1,154) |
| Other | 58,202 | (3,000) | | 55,202 |
| Net cash provided by investing activities | 1,208,379 | 1,666,947 | | 2,875,326 |
| **Cash Flows From Financing Activities:** | | | | |
| Dividends paid | (231,489) | (81,809) | | (313,298) |
| Proceeds from issuance of commercial paper | 10,123,422 | 9,066,761 | | 19,190,183 |
| Principal payments on commercial paper | (10,400,233) | (8,512,513) | | (18,912,746) |
| Proceeds from issuance of long-term borrowings | | | | |
| Payments on long-term borrowings | (230,214) | | | (230,214) |
| Purchases of common stock | (303,993) | (127,157) | | (431,150) |
| Proceeds from issuance of common stock | 503,601 | 8,642 | | 512,243 |
| Excess tax benefit from stock-based comp. arrangements | (907) | | | (907) |
| Other | (7,800) | | | (7,800) |
| Net cash (used in) provided by financing activities | (547,613) | 353,924 | | (193,689) |
| Net increase in cash and cash equivalents | 571,043 | 2,109,467 | | 2,680,510 |
| Cash and cash equivalents, beginning of year | 477,160 | | | 477,160 |
| Cash and cash equivalents, end of year | $ 1,048,203 | $ 2,109,467 | $ | $ 3,157,670 |

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## Quarterly Financial Information (Unaudited)

Following is unaudited financial information for each of the calendar quarters during the years ended December 31, 2007 and 2006. ($000 s except per share data)

| | Quarter Ended | | | |
|---|---|---|---|---|
| | Dec. 31 | Sept. 30 | June 30 | March 31 |
| **2007** | | | | |
| Total Interest and Fee Income | $ 928,555 | $ 939,133 | $ 911,961 | $ 889,516 |
| Net Interest Income | 418,826 | 403,172 | 399,736 | 394,483 |
| Provision for Loan and Lease Losses | 235,060 | 41,526 | 26,026 | 17,148 |
| Income (Loss) from Continuing Operations | (24,445) | 173,726 | 178,877 | 168,781 |
| Discontinued Operations, Net of Tax | 518,391 | 46,213 | 41,412 | 47,981 |
| Net Income | 493,946 | 219,939 | 220,289 | 216,762 |
| Income (Loss) from Continuing Operations Per Share: | | | | |
| Basic | $ (0.09) | $ 0.66 | $ 0.69 | $ 0.66 |
| Diluted | (0.09) | 0.65 | 0.68 | 0.65 |
| Net Income Per Share: | | | | |
| Basic | $ 1.86 | $ 0.84 | $ 0.85 | $ 0.85 |
| Diluted | 1.83 | 0.83 | 0.83 | 0.83 |
| **2006** | | | | |
| Total Interest and Fee Income | $ 886,260 | $ 870,326 | $ 819,244 | $ 678,404 |
| Net Interest Income | 398,359 | 397,348 | 381,601 | 330,248 |
| Provision for Loan and Lease Losses | 18,253 | 10,250 | 11,053 | 10,995 |
| Income from Continuing Operations | 161,377 | 197,627 | 150,168 | 138,542 |
| Discontinued Operations, Net of Tax | 43,980 | 41,240 | 40,374 | 34,530 |
| Net Income | 205,357 | 238,867 | 190,542 | 173,072 |
| Income from Continuing Operations Per Share: | | | | |
| Basic | $ 0.63 | $ 0.78 | $ 0.59 | $ 0.59 |
| Diluted | 0.62 | 0.76 | 0.58 | 0.58 |
| Net Income Per Share: | | | | |
| Basic | $ 0.81 | $ 0.94 | $ 0.75 | $ 0.74 |
| Diluted | 0.79 | 0.92 | 0.74 | 0.72 |

| | 2007 | 2006 | 2005 | 2004 | 2003 |
|---|---|---|---|---|---|
| **Common Dividends Declared** | | | | | |
| First Quarter | $ 0.27 | $ 0.24 | $ 0.21 | $ 0.18 | $ 0.16 |
| Second Quarter | 0.31 | 0.27 | 0.24 | 0.21 | 0.18 |
| Third Quarter | 0.31 | 0.27 | 0.24 | 0.21 | 0.18 |
| Fourth Quarter | 0.31 | 0.27 | 0.24 | 0.21 | 0.18 |
| | $ 1.20 | $ 1.05 | $ 0.93 | $ 0.81 | $ 0.70 |

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**Price Range of Stock***

**(Low and High Close)**

| | Post-Separation 2007 | Pre-Separation 2007 | 2006 | 2005 | 2004 | 2003 |
|---|---|---|---|---|---|---|
| First Quarter | | | | | | |
| Low | $ | $ 46.18 | $ 40.91 | $ 40.21 | $ 36.18 | $ 25.07 |
| High | | 49.23 | 45.35 | 43.65 | 40.39 | 29.15 |
| Second Quarter | | | | | | |
| Low | | 45.86 | 43.36 | 41.23 | 36.60 | 25.79 |
| High | | 49.83 | 46.44 | 45.06 | 41.15 | 31.75 |
| Third Quarter | | | | | | |
| Low | | 40.41 | 44.76 | 42.83 | 37.32 | 30.13 |
| High | | 48.21 | 48.54 | 47.28 | 41.21 | 32.74 |
| Fourth Quarter | | | | | | |
| Low | 26.36 | 41.96 | 45.53 | 40.18 | 40.28 | 32.53 |
| High | 32.58 | 45.97 | 49.07 | 44.40 | 44.43 | 38.40 |

* The results for 2007 have been separated to show the prices prior to and after the Separation on November 1, 2007. As a result, the fourth quarter pre-Separation prices are through October 31, 2007 only. The post-Separation prices are from November 1, 2007 through December 31, 2007.

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Shareholders and Board of Directors of Marshall & Ilsley Corporation:

We have audited the accompanying consolidated balance sheets of Marshall & Ilsley Corporation and subsidiaries (the Corporation ) as of December 31, 2007 and 2006, and the related consolidated statements of income, shareholders equity, and cash flows for each of the three years in the period ended December 31, 2007. These financial statements are the responsibility of the Corporation s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Marshall & Ilsley Corporation and subsidiaries as of December 31, 2007 and 2006, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2007, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Corporation s internal control over financial reporting as of December 31, 2007, based on the criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 28, 2008, expressed an unqualified opinion on the Corporation s internal control over financial reporting.

/s/ Deloitte & Touche LLP

Milwaukee, Wisconsin

February 28, 2008

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**ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

Not applicable.

**ITEM 9A. CONTROLS AND PROCEDURES**

**Evaluation of Disclosure Controls and Procedures**

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

**Management s Report on Internal Control Over Financial Reporting**

Management is responsible for establishing and maintaining adequate internal control over financial reporting. As such term is defined in Exchange Act Rule 13a-15(f), internal control over financial reporting is a process designed by, or under the supervision of, the principal executive and principal financial officers, or persons performing similar functions, and effected by the board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States. Internal control over financial reporting includes those policies and procedures that:

(1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of assets of the Corporation;

(2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of the financial statements in accordance with accounting principles generally accepted in the United States, and that receipts and expenditures of the Corporation are being made only in accordance with authorizations of management and the directors of the Corporation; and

(3) provide reasonable assurance regarding prevention of unauthorized acquisition, use, or disposition of the Corporation s assets that could have a material effect on the financial statements.

Management conducted an evaluation of the effectiveness of the Corporation s internal control over financial reporting based on the criteria in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation under the criteria in *Internal Control Integrated Framework*, management concluded that internal control over financial reporting was effective as of December 31, 2007.

The effectiveness of internal control over financial reporting as of December 31, 2007 has been audited by Deloitte & Touche LLP, an independent registered public accounting firm, as stated in their report dated February 28, 2008, which is included herein.

**Changes in Internal Controls**

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

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## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Board of Directors of Marshall & Ilsley Corporation:

We have audited the internal control over financial reporting of Marshall & Ilsley Corporation (the Corporation ) as of December 31, 2007, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Corporation s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management Report Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Corporation s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company s internal control over financial reporting is a process designed by, or under the supervision of, the company s principal executive and principal financial officers, or persons performing similar functions, and effected by the company s board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Corporation maintained, in all material respects, effective internal control over financial reporting as of December 31, 2007, based on the criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements as of and for the year ended December 31, 2007, of the Corporation and our report dated February 28, 2008, expressed an unqualified opinion on those financial statements.

/s/ Deloitte & Touche LLP

Milwaukee, Wisconsin

February 28, 2008

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**ITEM 9B. OTHER INFORMATION**

Not applicable.

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## PART III

### ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Incorporated herein by reference to M&I s definitive proxy statement for the Annual Meeting of Shareholders to be held on April 22, 2008, except for information as to executive officers and M&I s Code of Business Conduct and Ethics which is set forth in Part I of this report.

### ITEM 11. EXECUTIVE COMPENSATION

Incorporated herein by reference to M&I s definitive proxy statement for the Annual Meeting of Shareholders to be held on April 22, 2008.

### ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Incorporated herein by reference to M&I s definitive proxy statement for the Annual Meeting of Shareholders to be held on April 22, 2008.

### ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Incorporated herein by reference to M&I s definitive proxy statement for the Annual Meeting of Shareholders to be held on April 22, 2008, except for information as to executive officers which is set forth in Part I of this report.

### ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Incorporated herein by reference to M&I s definitive proxy statement for the Annual Meeting of Shareholders to be held on April 22, 2008.

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## PART IV

### ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) 1. Financial Statements

Consolidated Financial Statements:

Balance Sheets December 31, 2007 and December 31, 2006

Statements of Income years ended December 31, 2007, 2006 and 2005

Statements of Cash Flows years ended December 31, 2007, 2006 and 2005

Statements of Shareholders Equity years ended December 31, 2007, 2006 and 2005

Notes to Consolidated Financial Statements

Quarterly Financial Information (Unaudited)

Report of Independent Registered Public Accounting Firm

2. Financial Statement Schedules

All schedules are omitted because they are not required, not applicable or the required information is contained elsewhere.

3. Exhibits

See Index to Exhibits of this Form 10-K, which is incorporated herein by reference. Shareholders may obtain a copy of any Exhibit free of charge by calling M&I s Shareholder Information Line at 1 (800) 642-2657.

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## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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

By:

/s/ MARK F. FURLONG
Mark F. Furlong
President and Chief Executive Officer

Date: February 29, 2008

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated:

/s/ GREGORY A. SMITH
Gregory A. Smith

Senior Vice President and Chief Financial Officer

(Principal Financial Officer) Date: February 29, 2008

/s/ PATRICIA R. JUSTILIANO
Patricia R. Justiliano

Senior Vice President and Corporate Controller

(Principal Accounting Officer) Date: February 29, 2008

Directors: Malcolm M. Aslin, Andrew N. Baur, Jon F. Chait, John W. Daniels, Jr., Mark F. Furlong, Ted D. Kellner, Dennis J. Kuester, David J. Lubar, Katharine C. Lyall, John A. Mellowes, Robert J. O Toole, San W. Orr, Jr., Peter M. Platten, III, John S. Shiely, Debra S. Waller, George E. Wardeberg and James B. Wigdale.

By:

/s/ RANDALL J. ERICKSON Date: February 29, 2008
Randall J. Erickson
As Attorney-In-Fact*

* Pursuant to authority granted by powers of attorney, copies of which are filed herewith.

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**MARSHALL & ILSLEY CORPORATION**

**INDEX TO EXHIBITS**

**(Item 15(a)3)**

**ITEM**

| | | |
|---|---|---|
| (2) | (a) | Investment Agreement, dated as of April 3, 2007, among Marshall & Ilsley Corporation, Metavante Holding Company, Metavante Corporation, Montana Merger Sub Inc. and WPM, L.P., incorporated by reference to Old M&I s Current Report on Form 8-K filed April 9, 2007, SEC File No. 1-15403 |
| | (b) | Separation Agreement, dated as of April 3, 2007, among Marshall & Ilsley Corporation, Metavante Holding Company, Metavante Corporation and New Marshall & Ilsley Corporation, incorporated by reference to Old M&I s Current Report on Form 8-K filed April 9, 2007, SEC File No. 1-15403 |
| (3) | (a) | Restated Articles of Incorporation incorporated by reference to M&I s SEC File No. 333-147162 |
| | (b) | Amended and Restated By-Laws incorporated by reference to M&I s Registration Statement on Form S-3 filed on November 6, 2007, SEC File No. 333-147162 |
| (4) | | Instruments defining the rights of security holders, including indentures |
| (10) | (a) | Deferred Compensation Trust between Marshall & Ilsley Corporation and Bessemer Trust Company dated April 28, 1987, as amended, incorporated by reference to M&I s Annual Report on Form 10-K for the fiscal year ended December 31, 1988, SEC File No. 1-15403* |
| | (b) | Marshall & Ilsley Corporation Amended and Restated Supplementary Retirement Benefits Plan, incorporated by reference to Old M&I s Annual Report on Form 10-K for the fiscal year ended December 31, 1996, SEC File No. 1-15403* |
| | (c) | Letter Agreement, dated June 17, 2002, between M&I Marshall & Ilsley Bank and Andrew N. Baur and Noncompete Agreement, dated June 17, 2002, between M&I and Andrew N. Baur, incorporated by reference to Old M&I s Registration Statement on Form S-4 (Reg. No. 333-92472)* |
| | (d) | Amended and Restated Directors Deferred Compensation Plan of Marshall & Ilsley Corporation, incorporated by reference to Old M&I s Quarterly Report on Form 10-Q for the quarter ended September 30, 2003, SEC File No. 1-15403* |
| | (e) | Marshall & Ilsley Corporation Amended and Restated Deferred Compensation Trust II between M&I and Marshall & Ilsley Trust Company National Association, incorporated by reference to Old M&I s Quarterly Report on Form 10-Q for the quarter ended September 30, 2003, SEC File No. 1-15403* |
| | (f) | Marshall & Ilsley Corporation Amended and Restated Deferred Compensation Trust III between M&I and Marshall & Ilsley Trust Company National Association, incorporated by reference to Old M&I s Quarterly Report on Form 10-Q for the quarter ended September 30, 2003, SEC File No. 1-15403* |
| | (g) | Marshall & Ilsley Corporation 2003 Death Benefit Plan, incorporated by reference to Old M&I s Annual Report on Form 10-K for the fiscal year ended December 31, 2003* |
| | (h) | Death Benefit Award Agreement, dated December 30, 2003, between M&I and Mr. Kuester, incorporated by reference to Old M&I s Annual Report on Form 10-K for the fiscal year ended December 31, 2003* |
| | (i) | Death Benefit Award Agreement, dated December 30, 2003, between M&I and Mr. Wigdale, incorporated by reference to Old M&I s Annual Report on Form 10-K for the fiscal year ended December 31, 2003* |
| | (j) | Marshall & Ilsley Corporation Amended and Restated Annual Executive Incentive Compensation Plan, incorporated by reference to Old M&I s Annual Report on Form 10-K for the fiscal year ended December 31, 2003* |
| | (k) | Marshall & Ilsley Corporation Amended and Restated Executive Deferred Compensation Plan, incorporated by reference to Old M&I s Annual Report on Form 10-K for the fiscal year ended December 31, 2003* |

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(l) Consulting Agreement dated December 15, 2004, between M&I and Mr. Wigdale, incorporated by reference to Old M&I s Current Report on Form 8-K filed December 17, 2004, SEC File No. 1-15403*

(m) Consulting Agreement dated December 15, 2004 between Southwest Bank of St. Louis and Mr. Baur, incorporated by reference to Old M&I s Current Report on Form 8-K filed December 17, 2004, SEC File No. 1-15403*

(n) 2005 Directors Deferred Compensation Plan of Marshall & Ilsley Corporation, incorporated by reference to Old M&I s Current Report on Form 8-K filed December 17, 2004, SEC File No. 1-15403*

(o) Marshall & Ilsley Corporation 2005 Executive Deferred Compensation Plan, incorporated by reference to Old M&I s Current Report on Form 8-K filed December 17, 2004, SEC File No. 1-15403*

(p) Form of Restricted Stock Agreement, incorporated by reference to Old M&I s Quarterly Report on Form 10-Q for the quarter ended June 30, 2005, SEC File No. 1-15403*

(q) Amended and Restated Marshall & Ilsley Corporation Nonqualified Retirement Benefit Plan, incorporated by reference to Old M&I s Annual Report on Form 10-K for the year ended December 31, 2005, SEC File No. 1-15403*

(r) Marshall & Ilsley Corporation Amended and Restated 1994 Long-Term Incentive Plan for Executives, incorporated by reference to Old M&I s Annual Report on Form 10-K for the year ended December 31, 2005, SEC File No. 1-15403*

(s) Letter Agreement dated as of March 1, 2006 between M&I and Malcolm M. Aslin, incorporated by reference to Old M&I s Current Report on Form 8-K dated March 13, 2006, SEC File No. 1-15403*

(t) Consulting Agreement between M&I Marshall & Ilsley Bank and Malcolm M. Aslin, effective as of March 1, 2006, incorporated by reference to Old M&I s Current Report on Form 8-K dated March 13, 2006, SEC File No. 1-15403*

(u) Transition and Consulting Agreement between the M&I and Dennis J. Kuester dated December 21, 2006, incorporated by reference to Old M&I s Current Report on Form 8-K dated December 21, 2006, SEC File No. 1-15403*

(v) Letter Agreement from M&I to Mark F. Furlong dated December 21, 2006 Containing the Terms of the Supplemental Executive Retirement Benefit, incorporated by reference to Old M&I s Current Report on Form 8-K dated December 21, 2006, SEC File No. 1-15403*

(w) Marshall & Ilsley Corporation 2006 Equity Incentive Plan, as amended October 19, 2006, incorporated by reference to Old M&I s Annual Report on Form 10-K for the year ended December 31, 2006, SEC File No. 1-15403*

(x) Marshall & Ilsley Corporation 2003 Executive Stock Option and Restricted Stock Plan, effective January 1, 2006, retroactive to January 1, 2005, as further amended on February 16, 2006 and October 19, 2006, incorporated by reference to Old M&I s Annual Report on Form 10-K for the year ended December 31, 2006, SEC File No. 1-15403*

(y) Marshall & Ilsley Corporation 2000 Executive Stock Option and Restricted Stock Plan, effective January 1, 2006, retroactive to January 1, 2005, as further amended on October 19, 2006, incorporated by reference to Old M&I s Annual Report on Form 10-K for the year ended December 31, 2006, SEC File No. 1-15403*

(z) Marshall & Ilsley Corporation Amended and Restated 1997 Executive Stock Option and Restricted Stock Plan, effective January 1, 2006, retroactive to January 1, 2005, as further amended on October 19, 2006, incorporated by reference to Old M&I s Annual Report on Form 10-K for the year ended December 31, 2006, SEC File No. 1-15403*

(aa) Marshall & Ilsley Corporation 1995 Directors Stock Option Plan, as amended on August 15, 2002, as further amended on October 19, 2002, incorporated by reference to Old M&I s Annual Report on Form 10-K for the year ended December 31, 2006, SEC File No. 1-15403*

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(bb) Marshall & Ilsley Corporation 1993 Executive Stock Option Plan, as amended on February 13, 1997, December 14, 1995, and December 12, 1996, as further amended on October 19, 2006, incorporated by reference to Old M&I s Annual Report on Form 10-K for the year ended December 31, 2006, SEC File No. 1-15403*

(cc) 1989 Executive Stock Option and Restricted Stock Plan of Marshall & Ilsley Corporation, as amended on October 19, 2006, incorporated by reference to Old M&I s Annual Report on Form 10-K for the year ended December 31, 2006, SEC File No. 1-15403*

(dd) Gold Banc Corporation, Inc. 1996 Equity Compensation Plan, as amended February 2, 2001, as further amended on October 19, 2006, incorporated by reference to Old M&I s Annual Report on Form 10-K for the year ended December 31, 2006, SEC File No. 1-15403*

(ee) First Business Bancshares of Kansas City, Inc. 1994 Key Employee Stock Option Plan, as amended on October 19, 2006, incorporated by reference to Old M&I s Annual Report on Form 10-K for the year ended December 31, 2006, SEC File No. 1-15403*

(ff) American Bancshares, Inc. and American Bank of Bradenton Incentive Stock Option Plan of 1996, as amended on October 19, 2006, incorporated by reference to Old M&I s Annual Report on Form 10-K for the year ended December 31, 2006, SEC File No. 1-15403*

(gg) American Bancshares, Inc. 1999 Stock Option and Equity Incentive Plan, as amended on October 19, 2006, incorporated by reference to Old M&I s Annual Report on Form 10-K for the year ended December 31, 2006, SEC File No. 1-15403*

(hh) Trustcorp Financial, Inc. 1997 Non-Qualified Stock Option Plan, as amended, incorporated by reference to Old M&I s Registration Statement on Form S-8 filed April 4, 2006, SEC File No. 333-132977*

(ii) United Community Bankshares of Florida, Inc. Director Stock Option Plan, incorporated by reference to the United Community Bankshares of Florida, Inc. (n/k/a United Heritage Bankshares of Florida, Inc.) Quarterly Report on Form 10-QSB for the quarter ended March 31, 2003, SEC File No. 000-50287*

(jj) United Community Bankshares of Florida, Inc. Officers and Employees Stock Option Plan, incorporated by reference to the United Community Bankshares of Florida, Inc. (n/k/a United Heritage Bankshares of Florida, Inc.) Quarterly Report on Form 10-QSB for the quarter ended March 31, 2003, SEC File No. 000-50287*

(kk) Tax Allocation Agreement, dated as of April 3, 2007, among Marshall & Ilsley Corporation, Metavante Holding Company, Metavante Corporation and New Marshall & Ilsley Corporation, incorporated by reference to Old M&I s Current Report on Form 8-K filed April 9, 2007, SEC File No. 1-15403

(ll) Employee Matters Agreement, dated as of April 3, 2007, among Marshall & Ilsley Corporation, Metavante Holding Company, Metavante Corporation and New Marshall & Ilsley Corporation, incorporated by reference to Old M&I s Current Report on Form 8-K filed April 9, 2007, SEC File No. 1-15403

(mm) Employee Matters Agreement, dated as of April 3, 2007, among Marshall & Ilsley Corporation, Metavante Holding Company, Metavante Corporation and New Marshall & Ilsley Corporation, incorporated by reference to Old M&I s Current Report on Form 8-K filed April 9, 2007, SEC File No. 1-15403

(nn) Form of Shareholders Agreement, incorporated by reference to Old M&I s Current Report on Form 8-K filed April 9, 2007, SEC File No. 1-15403

(oo) Form of Stock Purchase Right Agreement, incorporated by reference to Old M&I s Current Report on Form 8-K filed April 9, 2007, SEC File No. 1-15403

(pp) Excel Bank Corporation 1998 Equity Incentive Plan, incorporated by reference to Old M&I s Registration Statement on Form S-3 filed July 5, 2007, SEC File No. 333-144360*

(qq) Excel Bank Corporation 2005 Equity Incentive Plan, incorporated by reference to Old M&I s Registration Statement on Form S-3 filed July 5, 2007, SEC File No. 333-144360*

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| | (rr) | Amendment No. 1 to the Employee Matters Agreement, dated as of August 21, 2007, among M&I, Metavante Corporation, Metavante Holding Company and New M&I, incorporated by reference to Old M&I s Current Report on Form 8-K filed September 5, 2007, SEC File No. 1-15403 |
| | (ss) | Assignment and Assumption Agreement dated January 1, 2007 relating to Mr. Furlong s Supplemental Executive Retirement Benefit, by and between M&I LLC, M&I and Mr. Furlong* |
| | (tt) | Form of Change of Control Agreements dated January 1, 2008 between M&I and Messrs. Furlong, O Neill and Gregory A. Smith* |
| | (uu) | Form of Change of Control Agreements dated January 1, 2008 between M&I and Messrs. Deneen, Ellis, Erickson, Hogan, Kelly, Krei, Renard, Roberts, Root, Michael C. Smith and Ronald E. Smith and Ms. Justiliano and Ms. Knickerbocker* |
| (11) | | Computation of Net Income Per Common Share, incorporated by reference to Note 4 of Notes to Consolidated Financial Statements included in Item 8, Consolidated Financial Statements and Supplementary Data |
| (12) | | Computation of Ratio of Earnings to Fixed Charges |
| (14) | | Code of Business Conduct and Ethics, incorporated by reference to M&I s Annual Report on Form 10-K for the fiscal year ended December 31, 2004, SEC File No. 1-15403 |
| (21) | | Subsidiaries |
| (23) | | Consent of Deloitte & Touche LLP |
| (24) | | Powers of Attorney |
| (31) | (a) | Certification of Chief Executive Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as amended |
| | (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 |
| | (b) | Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350 |

The total amount of securities authorized pursuant to any instrument defining the rights of holders of long-term debt of M&I does not exceed 10% of the total assets of M&I and its subsidiaries on a consolidated basis. M&I agrees to furnish to the Commission upon request a copy of any such instrument.

* Management contract or compensatory plan or arrangement.