

MARSHALL & ILSLEY CORP/WI/
Form 10-K
February 28, 2007
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2006

OR

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

Commission File No. 1-15403

MARSHALL & ILSLEY CORPORATION

(Exact name of registrant as specified in its charter)

Wisconsin (State or other jurisdiction of incorporation or organization)	39-0968604 (I.R.S. Employer Identification No.)
770 North Water Street Milwaukee, Wisconsin (Address of principal executive offices)	53202 (Zip Code)
Registrant's telephone number, including area code: (414) 765-7801	

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class:
Common Stock - \$1.00 par value

Name of Each Exchange on Which Registered:
New York Stock Exchange

6.50% Common SPACESSM

New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer Accelerated filer Non-accelerated filer

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

The aggregate market value of the voting stock held by nonaffiliates of the registrant as of June 30, 2006 was approximately \$11,421,958,000. The number of shares of common stock outstanding as of January 31, 2007 was 255,719,948.

DOCUMENTS INCORPORATED BY REFERENCE

Part III incorporates information by reference from the Proxy Statement for the registrant's Annual Meeting of Shareholders to be held on April 24, 2007.

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MARSHALL & ILSLEY CORPORATION
ANNUAL REPORT ON FORM 10-K
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2006

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PART I

ITEM 1. BUSINESS

General

Marshall & Ilsley Corporation (M&I or the Corporation), incorporated in Wisconsin in 1959, is a registered bank holding company under the Bank Holding Company Act of 1956 (the BHCA) and is certified as a financial holding company under the Gramm-Leach-Bliley Act. As of December 31, 2006, M&I had consolidated total assets of approximately \$56.2 billion and consolidated total deposits of approximately \$34.1 billion, making M&I the largest bank holding company headquartered in Wisconsin. The executive offices of M&I are located at 770 North Water Street, Milwaukee, Wisconsin 53202 (telephone number (414) 765-7801).

M&I's principal assets are the stock of its bank and nonbank subsidiaries, which, as of February 1, 2007, included Metavante Corporation (Metavante), five bank and trust subsidiaries and a number of companies engaged in businesses that the Board of Governors of the Federal Reserve System (the Federal Reserve Board) has determined to be closely-related or incidental to the business of banking. M&I provides its subsidiaries with financial and managerial assistance in such areas as budgeting, tax planning, auditing, compliance assistance, asset and liability management, investment administration and portfolio planning, business development, advertising and human resources management.

Generally, M&I organizes its business segments based on legal entities. Each entity offers a variety of products and services to meet the needs of its customers and the particular market served. Based on the way M&I organizes its business, M&I has two reportable segments: Banking and Data Services (or Metavante). Banking consists of accepting deposits, making loans and providing other services such as cash management, foreign exchange and correspondent banking to a variety of commercial and retail customers. Data Services consists of providing data processing services, developing and selling software and providing consulting services to financial services companies, including M&I affiliates, as well as providing credit card merchant services. M&I's primary other business segments include Trust Services, Capital Markets Group, Brokerage and Insurance Services, and Commercial Leasing.

Banking Operations

M&I's bank subsidiaries provide a full range of banking services to individuals, businesses and governments. These subsidiaries offer retail, institutional, business, international and correspondent banking and investment services through the operation of 194 banking offices in Wisconsin, 46 offices in Arizona, 17 offices in Kansas City and nearby communities, 17 offices on Florida's west coast, 17 offices in metropolitan Minneapolis/St. Paul and one in Duluth, Minnesota, three offices in Tulsa, Oklahoma, and one office in Las Vegas, Nevada, as well as on the Internet. M&I's Southwest Bank subsidiary has 16 offices in the greater St. Louis area. M&I's bank subsidiaries hold a significant portion of their mortgage loan and investment portfolios indirectly through their ownership interests in direct and indirect subsidiaries. M&I Marshall & Ilsley Bank (M&I Bank) is M&I's largest bank subsidiary, with consolidated assets as of December 31, 2006 of approximately \$48.0 billion.

Through its bank and nonbank subsidiaries, M&I offers a variety of loan products to retail customers, including credit cards, lines of credit, automobile loans and leases, student loans, home equity loans, personal loans, residential mortgage loans and mortgage refinancing. M&I also offers a variety of loan and leasing products to business, commercial and institutional customers, including business loans, lines of credit, standby letters of credit, credit cards, government-sponsored loans, commercial real estate financing, construction financing, commercial mortgage loans and equipment and machinery leases. In addition, through its Home Lending Solutions division, M&I Bank FSB originates residential mortgage loans and lines of credit as part of its wholesale lending program. M&I Business Credit, LLC provides working capital loans to commercial borrowers secured by accounts receivable, inventory and other marketable assets. M&I Dealer Finance, Inc. provides retail vehicle lease and installment sale financing. M&I Support Services Corp. provides bank operation support for loan and deposit account processing and maintenance, item processing and other banking services.

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M&I's lending activities involve credit risk. Credit risk is controlled through active asset quality management and the use of lending standards and thorough review of potential borrowers. M&I evaluates the credit risk of each borrower on an individual basis and, where deemed appropriate, collateral is obtained. Collateral varies by individual loan customer but may include accounts receivable, inventory, real estate, equipment, deposits, personal and government guarantees, and general security agreements. Access to collateral is dependent upon the type of collateral obtained. On an on-going basis, M&I monitors its collateral and the collateral value related to the loan balance outstanding.

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

M&I's securitization activities are generally limited to basic term or revolving securitization facilities associated with indirect automobile loans. A discussion of M&I's securitization activities is contained in Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, and in Note 10 of the Notes to the Consolidated Financial Statements contained in Item 8, Consolidated Financial Statements and Supplementary Data.

Data Services Metavante Operations

Metavante delivers banking and payment technologies to financial services firms and businesses. Metavante products and services drive account processing for deposit, loan and trust systems, image-based and conventional check processing, electronic funds transfer, consumer health care payments, and electronic presentment and payment. Metavante organizes its business in two groups: Financial Solutions and Payment Solutions.

The Financial Solutions Group includes banking and trust solutions, offering integrated products and services for financial services providers that are centered on customer and account management, specializing in deposit, loan and investment accounts. Two core processing products offer financial institution clients flexibility in choosing either a licensed or an outsourced solution. Metavante delivers a complete, integrated customer relationship management solution that offers analytical and decision support capabilities, channel integration, sales and service automation, and consulting services. Metavante electronic banking solutions provide end-users with consolidated access to their financial relationships through Internet and mobile banking, as well as personal financial management software and telephone banking. Metavante corporate electronic banking solutions provide a comprehensive set of Internet banking, multi-bank services, and collection and disbursement services that address the needs of corporate and middle-market customers. Metavante investment technology services offers a set of Internet-enabled products and services that address asset and liability aggregation, trust and investment account management, and client and regulatory reporting. Through its image solutions division, Metavante provides comprehensive image-based check and document processing and distributed image-capture solutions, including image-based payment processing, a national check image exchange and settlement network, and browser-based document and report management software. Metavante lending solutions provide loan originating, processing and closing software systems for the residential mortgage, consumer and small business lending industries. Metavante also offers risk and compliance software, data, and services that address the regulatory and compliance mandate of financial institutions.

Through its Payment Solutions Group, Metavante provides a complete suite of payment solutions including electronic bill presentment and payment; electronic check presentment and exchange; electronic funds transfer; signature and PIN-debit services; debit-, prepaid- and credit-card account processing; flexible-spending account, health-savings account and health-reimbursement arrangement (FSA/HSA/HRA) medical payment cards; card personalization; balance transfer; automated clearing house (ACH); automated teller machine (ATM) driving; merchant and gateway processing; and transportation payment services. Metavante owns and operates the NYCE Network. The NYCE Network provides financial institutions, retailers and independent ATM deployers with shared network services for ATMs, point-of-sale, account-to-account transfers and direct bill payment for millions of consumers across the United States and Canada. Beyond its core service of providing the convenience of personal

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identification number (PIN) debit account access at ATMs and retailer point-of-sale terminals, NYCE provides ATM driving and fully automated monitoring services, gateway services, on and off-line signature debit card processing, and card authorization solutions. Through its healthcare payments division, Metavante offers a consumer-directed health benefits payment platform and a market-leading employee benefits card to electronically access FSAs, HRAs, HSAs, transit/parking accounts and dependent care accounts. Metavante provides medical identification cards, combination eligibility/payment cards, and the ability to access multiple benefits accounts from a single card. Metavante also provides a comprehensive FSA/HSA/HRA platform that provides all the technology a financial institution, health insurance company, third-party administrator, or commercial business needs to offer these accounts. Services include account processing, trustee services, checks and debit cards, online and phone access to account information, investment options, regulatory reporting and related data translation and movement between payers, providers and consumers.

Metavante's revenue consists of fees related to information and transaction processing services, software licensing and maintenance, conversion services and other professional services. Maintenance fees include ongoing client support and product updates. Metavante also receives buyout fees related to client termination prior to the end of the contract term. The buyout fee is contractual and based on the estimated remaining contract value. Buyout fees can vary significantly from quarter to quarter and year to year.

Metavante's expenses consist primarily of salaries and related expenses and processing servicing expenses, such as data processing, telecommunications and equipment expenses. Other operating costs include selling, general and administrative costs, such as advertising and marketing expenses, travel, supplies and postage, and the use of outside firms for legal, accounting or other professional services, and amortization of investments in software, premises and equipment, conversions and acquired intangible assets.

Other Business Operations

M&I's other nonbank subsidiaries operate a variety of bank-related businesses, including those providing trust services, residential mortgage banking, capital markets, brokerage and insurance, commercial leasing, and commercial mortgage banking.

Trust Services. Marshall & Ilsley Trust Company National Association (M&I Trust) provides trust and employee benefit plan services to customers throughout the United States with offices in Wisconsin, Arizona, Minnesota, Florida, Nevada, Missouri and Indiana. M&I Investment Management Corp. offers a full range of asset management services to M&I Trust, the Marshall Funds and other individual, business and institutional customers.

Capital Markets. M&I Capital Markets Group L.L.C., M&I Capital Markets Group II, L.L.C. and M&I Ventures L.L.C. provide venture capital, financial advisory and strategic planning services to customers, including assistance in connection with the private placement of securities, raising funds for expansion, leveraged buy-outs, divestitures, mergers and acquisitions and small business investment company transactions.

Brokerage and Insurance. M&I Brokerage Services, Inc., a broker-dealer registered with the National Association of Securities Dealers, Inc. and the Securities and Exchange Commission, provides brokerage and other investment-related services to a variety of retail and commercial customers. M&I Insurance Services, Inc. provides life, long-term care and disability income insurance products and annuities to retail clients and business owners.

Commercial Leasing. M&I Equipment Finance Company, a subsidiary of M&I Bank, leases a variety of equipment and machinery to large and small businesses.

Other. M&I Community Development Corporation makes investments designed primarily to promote the public welfare in markets and communities served by affiliates and subsidiaries of M&I.

More information on M&I's business segments is contained in Note 24 of the Notes to the Consolidated Financial Statements contained in Item 8, Consolidated Financial Statements and Supplementary Data.

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Risk Management

Managing risk is an essential component of successfully operating a financial services company. M&I has an enterprise-wide approach to risk governance, measurement, management and reporting risks inherent in its businesses. Risk management practices include key elements such as independent checks and balances, formal authority limits, policies and procedures and portfolio management. M&I's internal audit department also evaluates risk management activities. These evaluations include performing internal audits and reporting the results to management and the Audit and Risk Management Committees, as appropriate.

M&I has established a number of management committees responsible for assessing and evaluating risks associated with the Company's businesses including the Credit Policy Committee, Asset Liability Committee (ALCO) and the Enterprise Risk Committee. M&I has in place a Risk Management Committee of the Board of Directors for oversight and governance of its risk management function. The Risk Management Committee consists of three non-management directors and has the responsibility of overseeing management's actions with respect to credit, market, liquidity, fiduciary, operational, compliance, legal and reputation risks as well as M&I's overall risk profile. The Chief Risk Officer is responsible for reporting to this committee.

Operational Risk Management

Operational risk is the risk of loss from human errors, failed or inadequate processes or systems and external events. This risk is inherent in all businesses. Resulting losses could take the form of explicit charges, increased operational costs, harm to M&I's reputation or lost opportunities.

M&I seeks to mitigate operational risk through a system of internal controls to manage this risk at appropriate levels. Primary responsibility for managing internal controls lies with the managers of M&I's various business lines. M&I monitors and assesses the overall effectiveness of its system of internal controls on an ongoing basis. The Enterprise Risk Committee oversees M&I's monitoring, management and measurement of operational risk. In addition, M&I has established several other executive management committees to monitor, measure and report on specific operational risks to the Company, including, business continuity planning, customer information security and compliance. These committees report to the Risk Management Committee of the Board of Directors on a regular basis.

Corporate Governance Matters

M&I has adopted a Code of Business Conduct and Ethics that applies to all of M&I's employees, officers and directors, including M&I's Chief Executive Officer, Chief Financial Officer and Controller. The Code of Business Conduct and Ethics is filed as an exhibit to this report and is also available on M&I's website at www.micorp.com. M&I intends to disclose any amendment to or waiver of the Code of Business Conduct and Ethics that applies to M&I's Chief Executive Officer, Chief Financial Officer or Controller on its website within five business days following the date of the amendment or waiver.

M&I makes available free of charge through its website its Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and its insiders' Section 16 reports and all amendments to these reports as soon as reasonably practicable after these materials are filed with or furnished to the Securities and Exchange Commission. In addition, certain documents relating to corporate governance matters are available on M&I's website described above. These documents include, among others, the following:

Charter for the Audit Committee of the Board of Directors;

Charter for the Compensation and Human Resources Committee of the Board of Directors;

Charter for the Nominating and Corporate Governance Committee of the Board of Directors;

Categorical Standards for Lending, Banking and Other Business Relationships Involving M&I's Directors;

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Corporate Governance Guidelines; and

Code of Business Conduct and Ethics.

Shareholders also may obtain a copy of any of these documents free of charge by calling the M&I Shareholder Information Line at 1 (800) 642-2657. Information contained on any of M&I's websites is not deemed to be a part of this Annual Report.

Acquisitions Completed in 2006

On September 1, 2006, Metavante completed the acquisition of VICOR, Inc. (VICOR) of Richmond, California. VICOR is a provider of corporate payment processing software and solutions that simplify and automate the processing of complex payments for businesses and financial institutions.

On April 1, 2006, M&I completed the acquisition of Gold Banc Corporation, Inc. (Gold Banc), a bank holding company headquartered in Leawood, Kansas. Gold Banc offered commercial banking, retail banking, and 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. Gold Banc's largest subsidiary, Gold Bank, a Kansas state-chartered bank, was merged with and into M&I Marshall & Ilsley Bank on April 1, 2006, at which time the 32 Gold Bank branch offices in Florida, Kansas, Missouri and Oklahoma became interstate branch offices of M&I Marshall & Ilsley Bank.

On April 1, 2006, M&I 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 provided commercial banking services in Missouri through seven bank locations. In July 2006, Missouri State Bank and all of its branches were merged with and into Southwest Bank, the Corporation's St. Louis-based banking affiliate.

On January 3, 2006, Marshall & Ilsley Trust Company National Association completed the acquisition of the trust and asset management assets of FirstTrust Indiana (FirstTrust), a division of First Indiana Bank, N.A. The acquired assets included those related to FirstTrust's provision of asset management, trust administration and estate planning services to high-net-worth individuals and institutional customers.

On January 3, 2006, Metavante completed the acquisition of AdminiSource Corporation (AdminiSource) of Carrollton, Texas. AdminiSource is a provider of health care payment distribution services, providing printed and electronic payment and remittance advice distribution services for payer organizations nationwide. The acquisition was part of Metavante's continuing expansion of its consumer-directed health care payments business.

Information regarding recently announced acquisitions can be found in Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, and more information on M&I's acquisitions can be found in Note 5 of the Notes to the Consolidated Financial Statements contained in Item 8, Consolidated Financial Statements and Supplementary Data.

M&I continues to evaluate opportunities to acquire banking institutions and other financial service providers and frequently conducts due diligence activities in connection with possible transactions. As a result, M&I may engage in discussions, and in some cases, negotiations with prospective targets and may make future acquisitions for cash, equity or debt securities. The issuance of additional shares of M&I common stock would dilute a shareholder's ownership interest in M&I. In addition, M&I's acquisitions may involve the payment of a premium over book value, and therefore, some dilution of book value may occur with any future acquisition. Generally, it is M&I's policy not to comment on such discussions or possible acquisitions until a definitive agreement has been signed. M&I's strategy for growth includes strengthening its presence in core markets, expanding into attractive markets and broadening its product offerings.

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The table below shows the amount and percentages of M&I's total consolidated revenues resulting from interest and fees on loans and leases, fees for data processing services and interest on investment securities for each of the last three years (\$ in thousands):

Years Ended	Interest and Fees on Loans and Leases		Fees for Data Processing Services		Interest on Investment Securities		Total Revenues
	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total	
		Revenues		Revenues		Revenues	
December 31,							
2006	\$ 2,856,043	55.7%	\$ 1,382,658	27.0%	\$ 355,843	6.9%	\$ 5,127,921
2005	1,959,063	49.4	1,185,024	29.9	287,339	7.3	3,962,890
2004	1,432,754	46.0	934,128	30.0	261,330	8.4	3,112,285

M&I business segment information is contained in Note 24 of the Notes to the Consolidated Financial Statements contained in Item 8, Consolidated Financial Statements and Supplementary Data.

Competition

M&I and its subsidiaries face substantial competition from hundreds of competitors in the markets they serve, some of which are larger and have greater resources than M&I. M&I's bank subsidiaries compete for deposits and other sources of funds and for credit relationships with other banks, savings associations, credit unions, finance companies, mutual funds, life insurance companies (and other long-term lenders) and other financial and non-financial companies located both within and outside M&I's primary market area, many of which offer products functionally equivalent to bank products. M&I's nonbank operations compete with numerous banks, finance companies, data servicing companies, leasing companies, mortgage bankers, brokerage firms, financial advisors, trust companies, mutual funds and investment bankers in Wisconsin and throughout the United States.

The markets for the banking and payment products and services offered by Metavante are intensely competitive. Metavante competes with a variety of companies in various segments of the financial services industry, and its competitors vary in size and in the scope and breadth of products and services they offer. Certain segments of the financial services industry tend to be highly fragmented with numerous companies competing for market share. Other segments of the financial services industry have large well-capitalized competitors who command the majority of market share. Metavante also faces competition from in-house technology departments of existing and potential clients who may develop their own product offerings.

Employees

As of December 31, 2006, M&I and its subsidiaries employed in the aggregate 14,699 employees. M&I considers employee relations to be excellent. None of the employees of M&I or its subsidiaries are represented by a collective bargaining group.

Supervision and Regulation

As a registered bank holding company, M&I is subject to regulation and examination by the Federal Reserve Board under the BHCA. As of February 1, 2007, M&I owned a total of five bank and trust subsidiaries, including two Wisconsin state banks, a Missouri state bank, a federal savings bank, and a national banking association. M&I's two Wisconsin state bank subsidiaries are subject to regulation and examination by the Wisconsin Department of Financial Institutions, as well as by the Federal Reserve Board. M&I's Missouri state bank subsidiary is subject to regulation and examination by the Missouri Department of Economic Development, Division of Finance, and the Federal Reserve Board. M&I's federal savings bank subsidiary is subject to regulation and examination by the Office of Thrift Supervision. M&I's national bank, through which trust operations are conducted, is subject to regulation and examination by the Office of the Comptroller of the Currency. In addition, all of M&I's bank subsidiaries are subject to examination by the Federal Deposit Insurance Corporation (FDIC).

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Under Federal Reserve Board policy, M&I is expected to act as a source of financial strength to each of its bank subsidiaries and to commit resources to support each bank subsidiary in circumstances when it might not do so absent such requirements. In addition, there are numerous federal and state laws and regulations which regulate the activities of M&I and its bank subsidiaries, including requirements and limitations relating to capital and reserve requirements, permissible investments and lines of business, transactions with officers, directors and affiliates, loan limits, consumer protection laws, privacy of financial information, predatory lending, fair lending, mergers and acquisitions, issuances of securities, dividend payments, inter-affiliate liabilities, extensions of credit and branch banking. Information regarding capital requirements for bank holding companies and tables reflecting M&I's regulatory capital position at December 31, 2006 can be found in Note 16 of the Notes to the Consolidated Financial Statements contained in Item 8, Consolidated Financial Statements and Supplementary Data.

The federal regulatory agencies have broad power to take prompt corrective action if a depository institution fails to maintain certain capital levels. In addition, a bank holding company's controlled insured depository institutions are liable for any loss incurred by the FDIC in connection with the default of, or any FDIC-assisted transaction involving, an affiliated insured bank or savings association. Current federal law provides that adequately capitalized and managed bank holding companies from any state may acquire banks and bank holding companies located in any other state, subject to certain conditions. Banks are permitted to create interstate branching networks in states that have not opted out of interstate branching. M&I Bank currently maintains interstate branches in Arizona, Florida, Kansas, Minnesota, Missouri and Oklahoma and Southwest Bank of St. Louis, M&I's Missouri state bank subsidiary, maintains an interstate branch in Illinois.

The laws and regulations to which M&I is subject are constantly under review by Congress, regulatory agencies and state legislatures. In 1999, Congress enacted the Gramm-Leach-Bliley Act (the Act), which eliminated certain barriers to and restrictions on affiliations between banks and securities firms, insurance companies and other financial services organizations. Among other things, the Act repealed certain Glass-Steagall Act restrictions on affiliations between banks and securities firms, and amended the BHCA to permit bank holding companies that qualify as financial holding companies to engage in a broad list of financial activities, and any non-financial activity that the Federal Reserve Board, in consultation with the Secretary of the Treasury, determines is complementary to a financial activity and poses no substantial risk to the safety and soundness of depository institutions or the financial system. The Act treats various lending, insurance underwriting, insurance company, portfolio investment, financial advisory, securities underwriting, dealing and market-making, and merchant banking activities as financial in nature for this purpose.

Under the Act, a bank holding company may become certified as a financial holding company by filing a notice with the Federal Reserve Board, together with a certification that the bank holding company meets certain criteria, including capital, management, and Community Reinvestment Act requirements. M&I elected to become certified as a financial holding company on June 18, 2003.

In 2001, Congress enacted the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (the USA PATRIOT Act). The USA PATRIOT Act is designed to deny terrorists and criminals the ability to obtain access to the United States financial system, and has significant implications for depository institutions, brokers, dealers and other businesses involved in the transfer of money. The USA PATRIOT Act mandates financial services companies to implement additional policies and procedures with respect to, or additional measures designed to address, any or all of the following matters, among others: money laundering, terrorist financing, identifying and reporting suspicious activities and currency transactions, and currency crimes.

The earnings and business of M&I and its bank subsidiaries also are affected by the general economic and political conditions in the United States and abroad and by the monetary and fiscal policies of various federal agencies. The Federal Reserve Board impacts the competitive conditions under which M&I operates by determining the cost of funds obtained from money market sources for lending and investing and by exerting influence on interest rates and credit conditions. In addition, legislative and economic factors can be expected to have an ongoing impact on the competitive environment within the financial services industry. The impact of fluctuating economic conditions and federal regulatory policies on the future profitability of M&I and its subsidiaries cannot be predicted with certainty.

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Selected Statistical Information

Statistical information relating to M&I and its subsidiaries on a consolidated basis is set forth as follows:

- (1) Average Balance Sheets and Analysis of Net Interest Income for each of the last three years is included in Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations.
- (2) Analysis of Changes in Interest Income and Interest Expense for each of the last two years is included in Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations.
- (3) Nonaccrual, Past Due and Restructured Loans and Leases for each of the last five years is included in Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations.
- (4) Summary of Loan and Lease Loss Experience for each of the last five years (including the allocation of the allowance for loans and leases) is included in Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations.
- (5) Return on Average Shareholders' Equity, Return on Average Assets and other statistical ratios for each of the last five years can be found in Item 6, Selected Financial Data.
- (6) Potential Problem Loans and Leases for the last two years can be found in Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations.

The following tables set forth certain statistical information relating to M&I and its subsidiaries on a consolidated basis.

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The amortized cost of M&I's consolidated investment securities, other than trading and other short-term investments, at December 31 of each year are (\$ in thousands):

	2006	2005	2004
U.S. Treasury and government agencies	\$ 5,521,975	\$ 4,456,610	\$ 4,147,593
States and political subdivisions	1,300,907	1,307,403	1,203,412
Other	684,675	612,621	686,590
Total	\$ 7,507,557	\$ 6,376,634	\$ 6,037,595

The maturities, at amortized cost, and weighted average yields (for tax-exempt obligations on a fully taxable basis assuming a 35% tax rate) of investment securities at December 31, 2006 are (\$ in thousands):

	Within One Year		After One But Within Five Years		After Five But Within Ten Years		After Ten Years		Total	
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
U.S. Treasury and government agencies	\$ 1,329,657	4.92%	\$ 3,114,404	4.95%	\$ 965,218	4.95%	\$ 112,696	4.95%	\$ 5,521,975	4.94%
States and political subdivisions	106,026	7.60	299,109	7.41	332,335	6.59	563,437	6.38	1,300,907	6.77
Other	73,296	6.07	131,041	5.58	31,308	4.83	449,030	3.32	684,675	4.12
Total	\$ 1,508,979	5.16%	\$ 3,544,554	5.18%	\$ 1,328,861	5.36%	\$ 1,125,163	5.02%	\$ 7,507,557	5.18%

Types of Loans and Leases

M&I's consolidated loans and leases, including loans held for sale, classified by type, at December 31 of each year are (\$ in thousands):

	2006	2005	2004	2003	2002
Commercial, financial and agricultural	\$ 11,993,761	\$ 9,491,368	\$ 8,396,069	\$ 7,013,073	\$ 6,791,404
Industrial development revenue bonds	54,429	74,107	85,394	97,601	80,110
Real estate:					
Construction	6,088,206	3,641,942	2,265,227	1,766,697	1,404,414
Mortgage:					
Residential	10,670,840	9,884,283	8,548,029	6,834,360	6,412,380
Commercial	10,965,607	8,825,104	8,164,099	7,149,149	6,586,332
Total mortgage	21,636,447	18,709,387	16,712,128	13,983,509	12,998,712
Personal	1,458,594	1,617,761	1,540,024	1,747,738	1,852,202
Lease financing	703,580	632,348	537,930	576,322	782,004
Total loans and leases	41,935,017	34,166,913	29,536,772	25,184,940	23,908,846
Less:					
Allowance for loan and lease losses	420,610	363,769	358,110	349,561	338,409
Net loans and leases	\$ 41,514,407	\$ 33,803,144	\$ 29,178,662	\$ 24,835,379	\$ 23,570,437

Table of Contents**Loan and Lease Balances and Maturities**

The analysis of selected loan and lease maturities at December 31, 2006 and the rate structure for the categories indicated are (\$ in thousands):

	Rate Structure of Loans and						
	Maturity			Total	Leases Due After One Year		
	One Year	Over One Year	Over Five Years		With	Floating	
	Or Less	Through Five Years	Over Five Years	Pre-determined Rate	Rate	Total	
Commercial, financial and agricultural	\$ 7,525,882	\$ 3,992,811	\$ 477,841	\$ 11,996,534	\$ 1,794,389	\$ 2,676,263	\$ 4,470,652
Industrial development revenue bonds	6,173	17,472	30,784	54,429	25,001	23,255	48,256
Real estate construction	3,158,267	2,917,102	12,837	6,088,206	351,548	2,578,391	2,929,939
Lease Financing	138,390	506,336	58,854	703,580	565,190		565,190
Total	\$ 10,828,712	\$ 7,433,721	\$ 580,316	\$ 18,842,749	\$ 2,736,128	\$ 5,277,909	\$ 8,014,037

Notes:

- (1) Scheduled repayments are reported in the maturity category in which the payments are due based on the terms of the loan agreements. Demand loans, loans having no stated schedule of repayments and no stated maturity, and overdrafts are reported as due in one year or less.
- (2) The estimated effect arising from the use of interest rate swaps as shown in the rate structure of loans and leases is immaterial.

Deposits

The average amount of and the average rate paid on selected deposit categories for each of the years ended December 31 is as follows (\$ in thousands):

	2006		2005		2004	
	Amount	Rate	Amount	Rate	Amount	Rate
Noninterest bearing demand deposits	\$ 5,335,539		\$ 4,942,803		\$ 4,585,628	
Interest bearing demand deposits	2,122,694	1.47%	2,030,996	0.89%	2,233,297	0.74%
Savings deposits	9,205,997	3.71	8,118,331	2.23	7,330,492	0.82
Time deposits	14,924,591	4.60	11,009,343	3.14	9,838,518	2.03
Total deposits	\$ 31,588,821		\$ 26,101,473		\$ 23,987,935	

The maturity distribution of time deposits issued in amounts of \$100,000 and over outstanding at December 31, 2006 (\$ in thousands) is:

Three months or less	\$ 3,920,787
Over three and through six months	809,264
Over six and through twelve months	932,646

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Over twelve months	2,178,802
Total	\$7,841,499

At December 31, 2006, time deposits issued by foreign offices totaled \$3.2 billion. The majority of foreign deposits were in denominations of \$100,000 or more.

Table of Contents**Short-Term Borrowings**

Information related to M&I's Federal funds purchased and security repurchase agreements for the last three years is as follows (\$ in thousands):

	2006	2005	2004
Amount outstanding at year end	\$ 2,838,618	\$ 2,325,863	\$ 1,478,103
Average amount outstanding during the year	2,558,249	2,043,314	2,035,428
Maximum outstanding at any month's end	3,533,812	2,757,845	3,051,606
Weighted average interest rate at year end	5.12%	4.04%	2.05%
Weighted average interest rate during the year	4.99	3.21	1.27

Information relating to the Corporation's short-term borrowings is included in Note 14 of the Notes to the Consolidated Financial Statements contained in Item 8, Consolidated Financial Statements and Supplementary Data.

ITEM 1A. RISK FACTORS**Forward-Looking Statements**

This report contains statements that may constitute forward-looking statements within the meaning of the safe-harbor provisions for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995, such as statements other than historical facts contained or incorporated by reference in this report. These forward-looking statements include statements with respect to M&I's financial condition, results of operations, plans, objectives, future performance and business, including statements preceded by, followed by or that include the words believes, expects, or anticipates, references to estimates or similar expressions. Future filings by M&I with the Securities and Exchange Commission, and future statements other than historical facts contained in written material, press releases and oral statements issued by, or on behalf of, M&I may also constitute forward-looking statements.

All forward-looking statements contained in this report or which may be contained in future statements made for or on behalf of M&I are based upon information available at the time the statement is made and M&I assumes no obligation to update any forward-looking statements, except as required by federal securities law. Forward-looking statements are subject to significant risks and uncertainties, and M&I's actual results may differ materially from the results discussed in such forward-looking statements. Factors that might cause actual results to differ from the results discussed in forward-looking statements include, but are not limited to, the risk factors set forth below.

Risk Factors

M&I's earnings are significantly affected by general business and economic conditions, including credit risk and interest rate risk.

M&I's business and earnings are sensitive to general business and economic conditions in the United States and, in particular, the states where it has significant operations, including Wisconsin, Arizona, Minnesota, Missouri, Oklahoma, Kansas, Nevada and Florida. These conditions include short-term and long-term interest rates, inflation, monetary supply, fluctuations in both debt and equity capital markets, the strength of the U.S. and local economies, consumer spending, borrowing and saving habits, all of which are beyond M&I's control. For example, an economic downturn, increase in unemployment or higher interest rates could decrease the demand for loans and other products and services and/or result in a deterioration in credit quality and/or loan performance and collectibility. Nonpayment of loans, if it occurs, could have an adverse effect on M&I's financial condition and results of operations and cash flows. Higher interest rates also could increase M&I's cost to borrow funds and increase the rate M&I pays on deposits. In addition, an overall economic slowdown could negatively impact the purchasing and decision-making activities of the financial institution customers of Metavante.

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Terrorism, acts of war or international conflicts could negatively affect M&I's business and financial condition.

Acts or threats of war or terrorism, international conflicts, including ongoing military operations in Iraq and Afghanistan, and the actions taken by the U.S. and other governments in response to such events could negatively impact general business and economic conditions in the U.S. If terrorist activity, acts of war or other international hostilities cause an overall economic decline, the financial condition and operating results of M&I could be materially adversely affected. The potential for future terrorist attacks, the national and international responses to terrorist attacks or perceived threats to national security and other actual or potential conflicts or acts of war, including conflict in the Middle East, have created many economic and political uncertainties that could seriously harm M&I's business and results of operations in ways that cannot presently be predicted.

M&I's earnings also are significantly affected by the fiscal and monetary policies of the federal government and its agencies, which could affect repayment of loans and thereby materially adversely affect M&I.

The policies of the Federal Reserve Board impact M&I significantly. The Federal Reserve Board regulates the supply of money and credit in the United States. Its policies directly and indirectly influence the rate of interest earned on loans and paid on borrowings and interest-bearing deposits and can also affect the value of financial instruments M&I holds. Those policies determine to a significant extent M&I's cost of funds for lending and investing. Changes in those policies are beyond M&I's control and are difficult to predict. Federal Reserve Board policies can affect M&I's borrowers, potentially increasing the risk that they may fail to repay their loans. For example, a tightening of the money supply by the Federal Reserve Board could reduce the demand for a borrower's products and services. This could adversely affect the borrower's earnings and ability to repay its loan, which could materially adversely affect M&I.

The banking and financial services industry is highly competitive, which could adversely affect M&I's financial condition and results of operations.

M&I operates in a highly competitive environment in the products and services M&I offers and the markets in which M&I serves. The competition among financial services providers to attract and retain customers is intense. Customer loyalty can be easily influenced by a competitor's new products, especially offerings that provide cost savings to the customer. Some of M&I's competitors may be better able to provide a wider range of products and services over a greater geographic area.

M&I believes the banking and financial services industry will become even more competitive as a result of legislative, regulatory and technological changes and the continued consolidation of the industry. Technology has lowered barriers to entry and made it possible for non-banks to offer products and services traditionally provided by banks, such as automatic funds transfer and automatic payment systems. Also, investment banks and insurance companies are competing in more banking businesses such as syndicated lending and consumer banking. Many of M&I's competitors are subject to fewer regulatory constraints and have lower cost structures. M&I expects the consolidation of the banking and financial services industry to result in larger, better-capitalized companies offering a wide array of financial services and products.

Federal and state agency regulation could increase M&I's cost structures or have other negative effects on M&I.

The holding company, its subsidiary banks and many of its non-bank subsidiaries, including Metavante, are heavily regulated at the federal and state levels. This regulation is designed primarily to protect consumers, depositors and the banking system as a whole, not stockholders. Congress and state legislatures and federal and state regulatory agencies continually review banking laws, regulations and policies for possible changes. Changes to statutes, regulations or regulatory policies, including changes in interpretation or implementation of statutes, regulations or policies, could affect M&I in substantial and unpredictable ways including limiting the types of financial services and products M&I may offer, increasing the ability of non-banks to offer competing financial services and products and/or increasing M&I's cost structures. Also, M&I's failure to comply with laws, regulations or policies could result in sanctions by regulatory agencies and damage to its reputation.

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M&I is subject to examinations and challenges by tax authorities, which, if not resolved in M&I's favor, could adversely affect M&I's financial condition and results of operations and cash flows.

In the normal course of business, M&I and its affiliates are routinely subject to examinations and challenges from federal and state tax authorities regarding the amount of taxes due in connection with investments it has made and the businesses in which it is engaged. Recently, federal and state taxing authorities have become increasingly aggressive in challenging tax positions taken by financial institutions. These tax positions may relate to tax compliance, sales and use, franchise, gross receipts, payroll, property and income tax issues, including tax base, apportionment and tax credit planning. The challenges made by tax authorities may result in adjustments to the timing or amount of taxable income or deductions or the allocation of income among tax jurisdictions. If any such challenges are made and are not resolved in M&I's favor, they could have an adverse effect on M&I's financial condition and results of operations and cash flows.

Consumers may decide not to use banks to complete their financial transactions, which could result in a loss of income to M&I.

Technology and other changes are allowing parties to complete financial transactions that historically have involved banks at one or both ends of the transaction. For example, consumers can now pay bills and transfer funds directly without banks. The process of eliminating banks as intermediaries, known as disintermediation, could result in the loss of fee income, as well as the loss of customer deposits and income generated from those deposits.

Maintaining or increasing M&I's market share depends on market acceptance and regulatory approval of new products and services and other factors, and M&I's failure to achieve such acceptance and approval could harm its market share.

M&I's success depends, in part, on its ability to adapt its products and services to evolving industry standards and to control expenses. There is increasing pressure on financial services companies to provide products and services at lower prices. This can reduce M&I's net interest margin and revenues from its fee-based products and services. In addition, M&I's success depends in part on its ability to generate significant levels of new business in its existing markets and in identifying and penetrating markets. Growth rates for card-based payment transactions and other product markets may not continue at recent levels. Further, the widespread adoption of new technologies, including Internet-based services, could require M&I to make substantial expenditures to modify or adapt its existing products and services or render M&I's existing products obsolete. M&I may not successfully introduce new products and services, achieve market acceptance of its products and services, develop and maintain loyal customers and/or break into targeted markets.

The holding company relies on dividends from its subsidiaries for most of its revenue, and the banking subsidiaries hold a significant portion of their assets indirectly.

The holding company is a separate and distinct legal entity from its subsidiaries. It receives substantially all of its revenue from dividends from its subsidiaries. These dividends are the principal source of funds to pay dividends on the holding company's common stock and interest on its debt. The payment of dividends by a subsidiary is subject to federal law restrictions as well as to the laws of the subsidiary's state of incorporation. Also, a parent company's right to participate in a distribution of assets upon a subsidiary's liquidation or reorganization is subject to the prior claims of the subsidiary's creditors. In addition, the M&I bank and savings association subsidiaries hold a significant portion of their mortgage loan and investment portfolios indirectly through their ownership interests in direct and indirect subsidiaries.

M&I depends on the accuracy and completeness of information about customers and counterparties, and inaccurate or incomplete information could negatively impact M&I's financial condition and results of operations.

In deciding whether to extend credit or enter into other transactions with customers and counterparties, M&I may rely on information provided to it by customers and counterparties, including financial statements and other financial information. M&I may also rely on representations of customers and counterparties as to the accuracy and completeness of that information and, with respect to financial statements, on reports of independent auditors. For example, in deciding whether to extend credit to a business, M&I may assume that the customer's audited financial statements conform with generally accepted accounting principles and present fairly, in all material

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respects, the financial condition, results of operations and cash flows of the customer. M&I may also rely on the audit report covering those financial statements. M&I's financial condition and results of operations could be negatively impacted to the extent it relies on financial statements that do not comply with GAAP or that are materially misleading.

M&I's accounting policies and methods are the basis of how M&I reports its financial condition and results of operations, and they may require management to make estimates about matters that are inherently uncertain.

M&I's accounting policies and methods are fundamental to how M&I records and reports its financial condition and results of operations. M&I's management must exercise judgment in selecting and applying many of these accounting policies and methods in order to ensure that they comply with generally accepted accounting principles and reflect management's judgment as to the most appropriate manner in which to record and report M&I's financial condition and results of operations. In some cases, management must select the accounting policy or method to apply from two or more alternatives, any of which might be reasonable under the circumstances yet might result in M&I's reporting materially different amounts than would have been reported under a different alternative.

M&I has identified four accounting policies as being critical to the presentation of its financial condition and results of operations because they require management to make particularly subjective and/or complex judgments about matters that are inherently uncertain and because of the likelihood that materially different amounts would be reported under different conditions or using different assumptions. These critical accounting policies relate to: (1) the allowance for loan and lease losses; (2) capitalized software and conversion costs; (3) financial asset sales and securitizations; and (4) income taxes. Because of the inherent uncertainty of estimates about these matters, no assurance can be given that the application of alternative policies or methods might not result in M&I's reporting materially different amounts.

More information on M&I's critical accounting policies is contained in Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations.

Changes in accounting standards could adversely affect M&I's reported financial results.

The bodies that set accounting standards for public companies, including the Financial Accounting Standards Board (FASB), the Securities and Exchange Commission and others, periodically change or revise existing interpretations of the accounting and reporting standards that govern the way that M&I reports its financial condition and results of operations. These changes can be difficult to predict and can materially impact M&I's reported financial results. In some cases, M&I could be required to apply a new or revised accounting standard, or a revised interpretation of an accounting standard, retroactively, which could have a negative impact on reported results or result in the restatement of M&I's financial statements for prior periods.

M&I has an active acquisition program, which involves risks related to integration of acquired companies or businesses and the potential for the dilution of the value of M&I stock.

M&I regularly explores opportunities to acquire banking institutions, financial technology providers and other financial services providers. M&I cannot predict the number, size or timing of future acquisitions. M&I typically does not publicly comment on a possible acquisition or business combination until it has signed a definitive agreement for the transaction. Once M&I has signed a definitive agreement, transactions of this type are generally subject to regulatory approvals and other customary conditions. There can be no assurance M&I will receive such regulatory approvals without unexpected delays or conditions or that such conditions will be timely met to M&I's satisfaction, or at all.

Difficulty in integrating an acquired company or business may cause M&I not to realize expected revenue increases, cost savings, increases in geographic or product presence, and/or other projected benefits from the acquisition. Specifically, the integration process could result in higher than expected deposit attrition (run-off), loss of customers and key employees, the disruption of M&I's business or the business of the acquired company, or otherwise adversely affect M&I's ability to maintain existing relationships with clients, employees and suppliers or to enter into new business relationships. M&I may not be able to successfully leverage the combined product

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offerings to the combined customer base. These factors could contribute to M&I not achieving the anticipated benefits of the acquisition within the desired time frames, if at all.

Future acquisitions could require M&I to issue stock, to use substantial cash or liquid assets or to incur debt. In such cases, the value of M&I stock could be diluted and M&I could become more susceptible to economic downturns and competitive pressures.

M&I has in the past and may in the future explore alternatives to separate Metavante from M&I.

M&I regularly reviews whether separating the banking and related businesses from the Metavante business would improve the future prospects of those businesses and, ultimately, the value returned to shareholders. Such separation, should it occur, could take a variety of forms and could result in a corporate structure significantly different from that which currently exists. M&I typically would not comment on any such transaction until definitive agreements had been signed or the transaction had been otherwise approved in final form. There can be no assurance that any such transaction will or will not occur.

M&I is dependent on senior management, and the loss of service of any of M&I's senior executive officers could cause M&I's business to suffer.

M&I's continued success depends to a significant extent upon the continued services of its senior management. The loss of services of any of M&I's senior executive officers could cause M&I's business to suffer. In addition, M&I's success depends in part upon senior management's ability to implement M&I's business strategy.

M&I's stock price can be volatile.

M&I's stock price can fluctuate widely in response to a variety of factors including:

actual or anticipated variations in M&I's quarterly results;

new technology or services by M&I's competitors;

unanticipated losses or gains due to unexpected events, including losses or gains on securities held for investment purposes;

significant acquisitions or business combinations, strategic partnerships, joint ventures or capital commitments by or involving M&I or its competitors;

changes in accounting policies or practices;

failure to integrate M&I's acquisitions or realize anticipated benefits from M&I's acquisitions; or

changes in government regulations.

General market fluctuations, industry factors and general economic and political conditions, such as economic slowdowns or recessions, interest rate changes, credit loss trends or currency fluctuations, also could cause M&I's stock price to decrease regardless of its operating results.

M&I may be a defendant in a variety of litigation and other actions, which may have a material adverse effect on its business, operating results and financial condition.

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M&I and its subsidiaries may be involved from time to time in a variety of litigation arising out of M&I's business. M&I's insurance may not cover all claims that may be asserted against it, and any claims asserted against M&I, regardless of merit or eventual outcome, may harm M&I's reputation. Should the ultimate judgments or settlements in any litigation exceed M&I's insurance coverage, they could have a material adverse effect on M&I's business, operating results and financial condition and cash flows. In addition, M&I may not be able to obtain appropriate types or levels of insurance in the future, nor may M&I be able to obtain adequate replacement policies with acceptable terms, if at all.

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In addition to the factors discussed above, the following factors concerning Metavante's business may cause M&I's results to differ from the results discussed in forward-looking statements:

Unauthorized disclosure of sensitive or confidential client or customer information, whether through a breach of M&I's computer systems or otherwise, could severely harm its business.

As part of M&I's financial and data processing products and services, it collects, processes and retains sensitive and confidential client and customer information on behalf of itself and other third parties, such as Metavante's customers. Despite the security measures M&I has in place, its facilities and systems, and those of its third party service providers, may be vulnerable to security breaches, acts of vandalism, computer viruses, misplaced or lost data, programming and/or human errors, or other similar events. Any security breach involving the misappropriation, loss or other unauthorized disclosure of confidential customer information, whether by M&I or by its vendors, could severely damage its reputation, expose it to the risks of litigation and liability, disrupt its operations and harm its business.

Damage to the data centers on which Metavante relies could harm Metavante's business.

Metavante's data centers are an integral part of its business. Damage to Metavante's data centers due to acts of terrorism, fire, power loss, telecommunications failure and other disasters could have a material adverse effect on Metavante's business, operating results and financial condition. In addition, because Metavante relies on the integrity of the data it processes, if this data is incorrect or somehow tainted, client relations and confidence in Metavante's services could be impaired, which would harm Metavante's business.

Network operational difficulties or security problems could damage Metavante's reputation and business.

Metavante depends on the reliable operation of network connections from its clients and its clients' end users to its systems. Any operational problems or outages in these systems would cause Metavante to be unable to process transactions for its clients and its clients' end users, resulting in decreased revenues. In addition, any system delays, failures or loss of data, whatever the cause, could reduce client satisfaction with Metavante's products and services and harm Metavante's financial results.

Metavante also depends on the security of its systems. Metavante's networks may be vulnerable to unauthorized access, computer viruses and other disruptive problems. Metavante transmits confidential financial information in providing its services. In addition, under agreements with certain customers, Metavante will be financially liable if consumer data is compromised while in Metavante's possession, regardless of the safeguards Metavante may have instituted. A material security problem affecting Metavante could damage its reputation, deter financial services providers from purchasing its products, deter their customers from using its products or result in liability to Metavante. Any material security problem affecting Metavante's competitors could affect the marketplace's perception of Internet banking and electronic commerce service in general and have the same effects.

Lack of system integrity or credit quality related to Metavante funds settlement could result in a financial loss.

Metavante settles funds on behalf of financial institutions, other businesses and consumers and receives funds from clients, card issuers, payment networks and consumers on a daily basis for a variety of transaction types. Transactions facilitated by Metavante include debit card, credit card and electronic bill payment transactions, supporting consumers, financial institutions and other businesses. These payment activities rely upon the technology infrastructure that facilitates the verification of activity with counterparties and the facilitation of the payment. If the continuity of operations or integrity of processing were compromised this could result in a financial loss to Metavante due to a failure in payment facilitation. In addition, Metavante may issue credit to consumers, financial institutions or other businesses as part of the funds settlement. A default on this credit by a counterparty could result in a financial loss to Metavante.

Metavante may not be able to protect its intellectual property, and Metavante may be subject to infringement claims.

Metavante relies on a combination of contractual rights and copyright, trademark, patent and trade secret laws to establish and protect its proprietary technology. Despite Metavante's efforts to protect its intellectual property, third parties may infringe or misappropriate Metavante's intellectual property or may develop software or

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technology competitive to Metavante's. Metavante's competitors may independently develop similar technology, duplicate its products or services or design around Metavante's intellectual property rights. Metavante may have to litigate to enforce and protect its intellectual property rights, trade secrets and know-how or to determine their scope, validity or enforceability, which is expensive and could cause a diversion of resources and may not prove successful. The loss of intellectual property protection or the inability to secure or enforce intellectual property protection could harm Metavante's business and ability to compete.

Metavante also may be subject to costly litigation in the event its products or technology infringe upon another party's proprietary rights. Third parties may have, or may eventually be issued, patents that would be infringed by Metavante's products or technology. Any of these third parties could make a claim of infringement against Metavante with respect to its products or technology. Metavante may also be subject to claims by third parties for breach of copyright, trademark or license usage rights. Any such claims and any resulting litigation could subject Metavante to significant liability for damages. An adverse determination in any litigation of this type could require Metavante to design around a third party's patent or to license alternative technology from another party. In addition, litigation is time consuming and expensive to defend and could result in the diversion of the time and attention of Metavante's management and employees. Any claims from third parties may also result in limitations on Metavante's ability to use the intellectual property subject to these claims.

Changes in the network pricing and transaction routing strategies of NYCE, a subsidiary of Metavante, could adversely affect NYCE's revenue and Metavante's results of operations.

The transaction volume and the corresponding revenues of NYCE, a subsidiary of Metavante, are driven in large measure by NYCE's execution of long-term strategies for network pricing (including interchange and network fees) and transaction routing. As the debit and electronic payments marketplace continues to shift and mature, it may be necessary for NYCE to pursue alternate pricing and/or transaction routing strategies. Any significant changes to NYCE's current pricing and/or transaction routing strategies would likely be implemented over a transitional phase. Such changes could result in reductions of participant card base, reductions in merchant acceptance, and the potential for transaction misrouting during the transitional phase, any of which would adversely affect NYCE's revenue and Metavante's results of operations.

Metavante's business could suffer if it fails to attract and retain key technical people.

Metavante's success depends in large part upon Metavante's ability to attract and retain highly skilled technical, management and sales and marketing personnel. Because the development of Metavante's products and services requires knowledge of computer hardware, operating system software, system management software and application software, key technical personnel must be proficient in a number of disciplines. Competition for the best people in particular individuals with technology experience is intense. Metavante may not be able to hire or retain key people.

ITEM 1B. UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 2. PROPERTIES

M&I and M&I Bank occupy offices on all or portions of 15 floors of a 21-story building located at 770 North Water Street, Milwaukee, Wisconsin. M&I Bank owns the building and its adjacent 10-story parking lot and leases the remaining floors to a professional tenant. In addition, various subsidiaries of M&I lease commercial office space in downtown Milwaukee office buildings near the 770 North Water Street facility. M&I Bank also owns or leases various branch offices throughout Wisconsin, as well as 101 branch offices among the Phoenix and Tucson, Arizona metropolitan areas, Kansas City and nearby communities, Florida's west coast, Minneapolis/St. Paul and Duluth, Minnesota and Tulsa, Oklahoma. Southwest Bank of St. Louis owns or leases 16 offices in the St. Louis metropolitan area. M&I Bank of Mayville, a special limited purpose subsidiary of M&I located in Mayville, Wisconsin, and M&I Bank FSB, a federal savings bank subsidiary of M&I located in Las Vegas, Nevada with one office in Milwaukee, Wisconsin, occupy modern facilities which are leased. Metavante owns a data processing facility located in Brown Deer, a suburb of Milwaukee, from which Metavante conducts data processing activities, a facility in Milwaukee that houses its software development teams and a card production facility in Romeoville,

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Illinois. Some of the other larger facilities owned or leased by Metavante include facilities in Oak Creek and Madison, Wisconsin; Oklahoma City, Oklahoma; Secaucus, New Jersey; Sioux Falls, South Dakota; Altamonte Springs, Florida; and Ann Arbor, Michigan.

ITEM 3. LEGAL PROCEEDINGS

M&I is not currently involved in any material pending legal proceedings, other than litigation of a routine nature and various legal matters which are being defended and handled in the ordinary course of business.

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

Not applicable.

Executive Officers of the Registrant

(Age as of March 1, 2007)

Name of Officer	Office
Dennis J. Kuester Age 64	Chairman of the Board since January 2005, Chief Executive Officer since January 2002, President from 1987 to 2005, and Director since February 1994 of Marshall & Ilsley Corporation; Chairman of the Board and Chief Executive Officer since October 2001, President from January 1989 to October 2001 and Director since 1989, M&I Marshall & Ilsley Bank; Chairman of the Board and Director, Metavante Corporation; Director of Marshall & Ilsley Trust Company National Association and Milease, LLC.
Ryan R. Deneen Age 42	Senior Vice President, Director of Corporate Tax of Marshall & Ilsley Corporation since December 2003; Director of M&I MEDC Fund, LLC and Milease, LLC since 2004; Partner with KPMG LLP, a public accounting firm, from 1997 to November 2003.
Thomas R. Ellis Age 49	Senior Vice President of Marshall & Ilsley Corporation since February 2005; Executive Vice President since February 2005, Senior Vice President from 1998 to February 2005 of M&I Marshall & Ilsley Bank; Director of M&I Support Services Corp., Marshall & Ilsley Trust Company National Association, M&I Equipment Finance Company, M&I Business Credit LLC and M&I Capital Markets Group II, L.L.C.
Randall J. Erickson Age 47	Senior Vice President, General Counsel and Secretary of Marshall & Ilsley Corporation since June 2002; General Counsel and Corporate Secretary of M&I Marshall & Ilsley Bank; Director of Metavante Corporation, M&I Bank FSB, M&I Community Development Corporation, M&I Investment Partners Management, LLC and Milease, LLC; Director, Vice President and Secretary of M&I Capital Markets Group, L.L.C. and M&I Ventures, L.L.C.; Director and Secretary of M&I Capital Markets Group II, L.L.C.; Director and Vice President of SWB Holdings, Inc.; Shareholder at Godfrey & Kahn, S.C., a Milwaukee-based law firm, from September 1990 to June 2002.
Mark F. Furlong Age 49	President since April 2005, Executive Vice President from January 2002 to April 2005, Senior Vice President from April 2001 to January 2002, and Chief Financial Officer from April 2001 to October 2004 of Marshall & Ilsley Corporation; Director and President of M&I Marshall & Ilsley Bank since July 2004; Director, Vice President and Treasurer of M&I Capital Markets Group, L.L.C. and M&I Ventures L.L.C.; Director of Metavante Corporation, Marshall & Ilsley Trust Company National Association, M&I Bank Mayville, M&I Equipment Finance Company and Milease, LLC; Senior Vice President of Southwest Bank of St. Louis; Executive Vice President and Chief Financial Officer of Old Kent Financial Corporation from 1998 to 2001; First Vice President/Director of Corporate Development/Commercial Banking of H.F. Ahmanson & Co. from 1992 to 1998.

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Name of Officer	Office
<p>Michael D. Hayford</p> <p>Age 47</p>	<p>Senior Vice President of Marshall & Ilsley Corporation since June 2006; Director since September 2004, Chief Operating Officer since May 2006, Senior Executive Vice President since September 2004, Chief Financial Officer and Treasurer since May 2001, Metavante Corporation; Director and Executive Vice President of Advanced Financial Solutions, Inc., MBI Benefits, Inc., Director, Executive Vice President and Treasurer of TREEV LLC; Director of NYCE Payments Network, LLC; Manager of Metavante Acquisition Company II LLC; Manager and Executive Vice President of Endpoint Exchange LLC; Executive Vice President and Treasurer of Metavante Operations Resources Corporation, Link2Gov Corp. and VICOR, Inc.; Executive Vice President of Kirchman Corporation, VECTORsgi, Inc., Prime Associates, Inc. and GHR Systems, Inc.; Vice President of Printing For Systems, Inc.</p>
<p>Mark R. Hogan</p> <p>Age 52</p>	<p>Senior Vice President and Chief Credit Officer since October 2001, Marshall & Ilsley Corporation; Executive Vice President since February 2005, Chief Credit Officer since November 1995 and Senior Vice President from 1995 to February 2005, M&I Marshall & Ilsley Bank; Director, M&I Equipment Finance Company, M&I Business Credit LLC and M&I Capital Markets Group II, L.L.C.; Director and Vice President of SWB Holdings, Inc.</p>
<p>Patricia R. Justiliano</p> <p>Age 56</p>	<p>Senior Vice President since 1994 and Corporate Controller since April 1989, Vice President from 1986 to 1994, Marshall & Ilsley Corporation; Senior Vice President since April 2006, Vice President from January 1999 to April 2006, Controller since September 1998, M&I Marshall & Ilsley Bank; Director, President and Treasurer of M&I Marshall & Ilsley Holdings, Inc., M&I Marshall & Ilsley Investment II Corporation, M&I Zion Investment II Corporation and M&I Zion Holdings, Inc.; Director, Vice President and Treasurer of M&I Insurance Company of Arizona, Inc.; Director and Treasurer of M&I Mortgage Reinsurance Corporation; Director of M&I Bank FSB, M&I Bank of Mayville, M&I Marshall & Ilsley Investment Corporation, M&I Servicing Corp., M&I Zion Investment Corp., M&I Custody of Nevada, Inc., M&I Marshall & Ilsley Holdings II, Inc., SWB Investment Corporation, SWB of St. Louis Holdings I, LLC and SWB of St. Louis Holdings II, LLC; Senior Vice President of Southwest Bank of St. Louis.</p>
<p>Brent J. Kelly</p> <p>Age 45</p>	<p>Senior Vice President and Director of Marketing since January 2006, Marshall & Ilsley Corporation; Senior Vice President, Sales & Marketing, of 1800Flowers.com from June 2002 to December 2005; Senior Vice President, Marketing Communications of Bank One Corporation from May 1998 to May 2002.</p>
<p>Beth D. Knickerbocker</p> <p>Age 40</p>	<p>Senior Vice President, Chief Risk Officer of Marshall & Ilsley Corporation since January 2005; Vice President, Senior Compliance Counsel of Marshall & Ilsley Corporation from May 2004 to January 2005; Attorney at Sutherland Asbill & Brennan LLP, a Washington, D.C. law firm, from 2000 to May 2004.</p>
<p>Kenneth C. Krei</p> <p>Age 57</p>	<p>Senior Vice President of Marshall & Ilsley Corporation since July 2003; Chairman of the Board since January 2005, President and Chief Executive Officer of Marshall & Ilsley Trust Company National Association since July 2003; Chairman of the Board since January 2005 and Chief Executive Officer of M&I Investment Management Corp. since July 2003; Director and President of M&I Investment Partners Management, LLC; Director of M&I Support Services, M&I Brokerage Services, Inc., M&I Insurance Services, Inc. and Marshall Funds; Director and Vice President of M&I Realty Advisors, Inc.; Executive Vice President, Investment Advisors at Fifth Third Bancorp from 2001 to 2003; Executive Vice President, Investment and Insurance Services at Old Kent Financial Corporation from 1998 to 2001.</p>

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Name of Officer	Office
<p>Frank R. Martire</p> <p>Age 59</p>	<p>Senior Vice President since April 2003, Marshall & Ilsley Corporation; Director, President and Chief Executive Officer since March 2003, President, Financial Services Group, Metavante Corporation from January 2003 to March 2003; Manager of Metavante Acquisition Company II LLC; Director of NYCE Payments Network, LLC; President and Chief Operating Officer of Call Solutions Inc. from 2001 to 2003; President and Chief Operating Officer, Financial Institution Systems and Services Group, of Fiserv, Inc. from 1991 to 2001.</p>
<p>Thomas J. O Neill</p> <p>Age 46</p>	<p>Senior Vice President since April 1997, Marshall & Ilsley Corporation; Executive Vice President since 2000, Senior Vice President from 1997 to 2000, Vice President from 1991 to 1997, M&I Marshall & Ilsley Bank; Senior Vice President of Southwest Bank of St. Louis; Director and President of M&I Bank FSB, M&I Dealer Finance, Inc., M&I Insurance Company of Arizona, Inc. and M&I Mortgage Reinsurance Corporation; Director and Vice President of M&I Community Development Corporation; Director of M&I Bank of Mayville, M&I Brokerage Services, Inc., Marshall & Ilsley Trust Company National Association, M&I Insurance Services, Inc., M&I Support Services Corp. and M&I MEDC Fund, LLC.</p>
<p>Paul J. Renard</p> <p>Age 46</p>	<p>Senior Vice President, Director of Human Resources since 2000, Vice President and manager since 1994, Marshall & Ilsley Corporation; Senior Vice President of M&I Marshall & Ilsley Bank.</p>
<p>John L. Roberts</p> <p>Age 54</p>	<p>Senior Vice President of Marshall & Ilsley Corporation since 1994; Senior Vice President since 1994, Vice President and Controller from 1986 to 1995, M&I Marshall & Ilsley Bank; President and Director since 1995, M&I Support Services Corp.; Director of M&I Bank FSB and M&I Mortgage Corp.; President and Director of M&I Bank of Mayville.</p>
<p>Thomas A. Root</p> <p>Age 50</p>	<p>Senior Vice President since 1998, Audit Director since May 1996, Vice President from 1991 to 1998, Marshall & Ilsley Corporation; Senior Vice President since April 2006, Vice President from 1993 to April 2006 and Audit Director since 1999, M&I Marshall & Ilsley Bank.</p>
<p>Gregory A. Smith</p> <p>Age 43</p>	<p>Senior Vice President and Chief Financial Officer, Marshall & Ilsley Corporation, since June 2006; Chief Financial Officer, M&I Marshall & Ilsley Bank, since June 2006; Director of M&I Insurance Services, Inc., Marshall & Ilsley Trust Company National Association, M&I Brokerage Services, Inc., Metavante Corporation; Managing Director, Investment Banking, Credit Suisse from October 2004 to June 2006; Managing Director, Investment Banking, UBS Investment Bank from April 2000 to September 2004.</p>
<p>Michael C. Smith</p> <p>Age 48</p>	<p>Senior Vice President and Corporate Treasurer, Marshall & Ilsley Corporation, since March 2006; Senior Vice President since April 2006, M&I Marshall & Ilsley Bank; Director and President of M&I Northwoods III, L.L.C.; Director of M&I Community Development Corporation, M&I Bank FSB, M&I Custody of Nevada, Inc., M&I Servicing Corp., M&I Marshall & Ilsley Investment Corporation, M&I Marshall & Ilsley Investment II Corporation, M&I Marshall & Ilsley Holdings, Inc., M&I Marshall & Ilsley Holdings II, Inc., M&I Zion Holdings, Inc., M&I Zion Investment II Corporation, SWB Investment Corporation, SWB Investment II Corporation, SWB of St. Louis Holdings I, LLC and SWB of St. Louis Holdings II, LLC; Senior Vice President, Southwest Bank of St. Louis; Treasurer, American International Group (AIG) Consumer Finance Group, from May 2001 to February 2006; Senior Vice President of international treasury for Associates First Capital Corporation, n/k/a CitiFinancial, from July 1995 to May 2001.</p>

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Name of Officer	Office
Ronald E. Smith	Senior Vice President since March 2005, Marshall & Ilsley Corporation; Executive Vice President since March 2005, Senior Vice President from 2001 to March 2005, M&I Marshall & Ilsley Bank; and
Age 60	Executive Vice President from 1996 to March 2001 of M&I Bank of Madison.

Table of Contents**PART II****ITEM 5. MARKET FOR REGISTRANT'S COMMON STOCK, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES****Stock Listing**

M&I's common stock is traded under the symbol "MI" on the New York Stock Exchange. Common dividends declared and the price range for M&I's common stock for each of the last five years can be found in Item 8, Consolidated Financial Statements and Supplementary Data, Quarterly Financial Information.

A discussion of the regulatory restrictions on the payment of dividends can be found under Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, and in Note 16 in Item 8, Consolidated Financial Statements and Supplementary Data.

Holders of Common Equity

At December 31, 2006 M&I had approximately 17,984 record holders of its common stock.

Shares Purchased

The following table reflects the purchases of M&I common stock for the specified period:

Period	Total Number of Shares Purchased (1)	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet be Purchased Under the Plans or Programs
October 1 to October 31, 2006	15,044	\$ 47.55		11,000,000
November 1 to November 30, 2006	83,334	47.73		11,000,000
December 1 to December 31, 2006	23,720	47.36		11,000,000

(1) Includes shares purchased by rabbi trusts pursuant to nonqualified deferred compensation plans for the three months ended December 31, 2006.

M&I's Share Repurchase Program was publicly reconfirmed in April 2004, 2005 and 2006. The Share Repurchase Program authorizes the purchase of up to 12 million shares annually and renews each year at that level unless changed or terminated by subsequent Board action.

Table of Contents**ITEM 6. SELECTED FINANCIAL DATA****Consolidated Summary of Earnings**

Years Ended December 31 (\$000 s except share data)

	2006	2005	2004	2003	2002
Interest and Fee Income:					
Loans and leases	\$ 2,856,043	\$ 1,959,063	\$ 1,432,754	\$ 1,336,288	\$ 1,318,175
Investment securities:					
Taxable	277,938	214,537	200,107	165,075	198,037
Exempt from federal income taxes	61,769	64,127	58,826	57,968	60,637
Trading securities	614	229	271	258	328
Short-term investments	16,136	8,675	2,397	2,559	11,168
Total interest and fee income	3,212,500	2,246,631	1,694,355	1,562,148	1,588,345
Interest Expense:					
Deposits	1,058,713	544,920	276,102	228,216	283,385
Short-term borrowings	186,863	106,333	61,256	81,070	150,310
Long-term borrowings	476,625	330,144	196,440	163,348	127,343
Total interest expense	1,722,201	981,397	533,798	472,634	561,038
Net interest income	1,490,299	1,265,234	1,160,557	1,089,514	1,027,307
Provision for loan and lease losses	50,551	44,795	37,963	62,993	74,416
Net interest income after provision for loan and lease losses	1,439,748	1,220,439	1,122,594	1,026,521	952,891
Other Income:					
Data processing services	1,382,658	1,185,024	934,128	700,530	640,578
Wealth management	221,554	191,720	175,119	148,348	140,736
Net investment securities gains (losses)	9,701	45,514	35,336	21,572	(6,275)
Other	301,508	294,001	273,347	313,123	286,640
Total other income	1,915,421	1,716,259	1,417,930	1,183,573	1,061,679
Other Expense:					
Salaries and employee benefits	1,210,107	1,074,758	919,431	830,779	779,836
Other	949,430	804,286	709,253	654,808	551,370
Total other expense	2,159,537	1,879,044	1,628,684	1,485,587	1,331,206
Income before income taxes	1,195,632	1,057,654	911,840	724,507	683,364
Provision for income taxes	387,794	351,464	305,987	202,060	225,455
Net Income	\$ 807,838	\$ 706,190	\$ 605,853	\$ 522,447	\$ 457,909
Net income per common share:					
Basic	\$ 3.24	\$ 3.06	\$ 2.72	\$ 2.31	\$ 2.15
Diluted	3.17	2.99	2.66	2.28	2.06
Other Significant Data:					
Year-End Common Stock Price	\$ 48.11	\$ 43.04	\$ 44.20	\$ 38.25	\$ 27.38
Return on Average Shareholders' Equity	14.42%	16.21%	17.00%	15.87%	16.32%

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Return on Average Assets	1.53	1.63	1.63	1.57	1.57
Dividend Payout Ratio	33.12	31.10	30.45	30.70	30.34
Average Equity to Average Assets Ratio	10.64	10.07	9.59	9.89	9.61
Ratio of Earnings to Fixed Charges*					
Excluding Interest on Deposits	2.73 x	3.28 x	4.24 x	3.71 x	3.27 x
Including Interest on Deposits	1.68 x	2.05 x	2.64 x	2.46 x	2.17 x

* See Exhibit 12 for detailed computation of these ratios.

Table of Contents**Consolidated Average Balance Sheets**

Years ended December 31 (\$000 s except share data)

	2006	2005	2004	2003	2002
Assets:					
Cash and due from banks	\$ 1,023,782	\$ 966,078	\$ 835,391	\$ 752,215	\$ 708,256
Investment securities:					
Trading securities	45,559	26,922	22,297	23,017	15,247
Short-term investments	303,631	237,178	171,057	264,254	717,129
Other investment securities:					
Taxable	5,687,763	4,847,722	4,672,741	4,038,579	3,325,568
Tax exempt	1,303,872	1,334,793	1,199,139	1,173,466	1,224,737
Total investment securities	7,340,825	6,446,615	6,065,234	5,499,316	5,282,681
Loans and Leases:					
Commercial	11,175,436	8,954,619	7,621,040	6,905,323	6,143,862
Real estate	25,808,422	20,728,918	17,215,467	14,938,082	12,633,208
Personal	1,483,094	1,525,502	1,632,440	1,874,315	1,388,447
Lease financing	661,466	567,344	552,551	674,871	862,927
Total loans and leases	39,128,418	31,776,383	27,021,498	24,392,591	21,028,444
Less: Allowance for loan and lease losses	406,390	362,886	360,408	347,838	302,664
Net loans and leases	38,722,028	31,413,497	26,661,090	24,044,753	20,725,780
Premises and equipment, net	550,514	458,179	448,134	440,492	418,042
Accrued interest and other assets	5,013,949	3,999,172	3,152,745	2,531,245	2,067,891
Total Assets	\$ 52,651,098	\$ 43,283,541	\$ 37,162,594	\$ 33,268,021	\$ 29,202,650
Liabilities and Shareholders Equity:					
Deposits:					
Noninterest bearing	\$ 5,335,539	\$ 4,942,803	\$ 4,585,628	\$ 4,189,724	\$ 3,509,133
Interest bearing:					
Bank issued deposits:					
Bank issued interest bearing activity deposits	11,668,328	10,027,250	9,960,645	10,084,996	8,996,778
Bank issued time deposits	7,329,307	4,410,456	3,384,120	3,399,734	3,540,124
Total bank issued deposits	18,997,635	14,437,706	13,344,765	13,484,730	12,536,902
Wholesale deposits	7,255,647	6,720,964	6,057,542	4,311,424	2,596,952
Total interest bearing deposits	26,253,282	21,158,670	19,402,307	17,796,154	15,133,854
Total deposits	31,588,821	26,101,473	23,987,935	21,985,878	18,642,987
Short-term borrowings	3,638,180	2,925,642	2,908,168	3,138,752	4,188,339
Long-term borrowings	10,071,717	8,193,001	5,329,571	3,798,851	2,693,447
Accrued expenses and other liabilities	1,751,474	1,706,111	1,372,677	1,052,713	871,222
Total liabilities	47,050,192	38,926,227	33,598,351	29,976,194	26,395,995
Shareholders Equity	5,600,906	4,357,314	3,564,243	3,291,827	2,806,655
Total Liabilities and Shareholders Equity	\$ 52,651,098	\$ 43,283,541			