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MARSHALL & ILSLEY CORP/WI/  
Form 10-Q  
November 09, 2004

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SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2004

OR

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

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

Commission file number 1-15403

MARSHALL & ILSLEY CORPORATION

(Exact name of registrant as specified in its charter)

Wisconsin  
(State or other jurisdiction of  
Incorporation or organization)

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

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

53202  
(Zip Code)

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

None

(Former name, former address and former fiscal year,  
if changed since last report)

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

Yes  No

Indicate by check mark whether the registrant is an accelerated filer (as defined by Rule 12b-2 of the Exchange Act).

Yes  No

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

Class Outstanding at  
October 31, 2004

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Common Stock, \$1.00 Par Value

-----  
223,432,418

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

|  | September 30,<br>2004 | December 31,<br>2003 | September<br>2003 |
|--|-----------------------|----------------------|-------------------|
| <hr/>  |                       |                      |                   |
| Assets   |                       |                      |                   |
| <hr/>  |                       |                      |                   |
| Cash and cash equivalents:   |                       |                      |                   |
| Cash and due from banks  | \$ 887,273            | \$ 810,088           | \$ 866,000        |
| Federal funds sold and security resale agreements  | 84,499                | 44,076               | 16,000            |
| Money market funds   | 51,949                | 57,462               | 110,000           |
| Total cash and cash equivalents  | 1,023,721             | 911,626              | 992,000           |
| Investment securities:   |                       |                      |                   |
| Trading securities, at market value  | 35,592                | 16,197               | 40,000            |
| Short-term investments, at cost which approximates market value  | 25,532                | 45,551               | 85,000            |
| Available for sale at market value   | 5,322,536             | 4,786,446            | 4,626,000         |
| Held to maturity at amortized cost, market value \$802,785 (\$873,949 December 31, and \$923,052 September 30, 2003) | 756,649               | 820,886              | 871,000           |
| Total investment securities  | 6,140,309             | 5,669,080            | 5,622,000         |
| Mortgage loans held for sale   | 87,563                | 34,623               | 42,000            |
| Loans and leases   |                       |                      |                   |
| Loans and leases, net of unearned income   | 28,057,336            | 25,150,317           | 24,592,000        |
| Less: Allowance for loan and lease losses  | 358,072               | 349,561              | 348,000           |
| Net loans and leases   | 27,699,264            | 24,800,756           | 24,244,000        |
| Premises and equipment   | 461,208               | 438,485              | 435,000           |
| Goodwill and other intangibles   | 2,041,541             | 1,104,552            | 1,082,000         |
| Accrued interest and other assets  | 1,525,918             | 1,413,521            | 1,327,000         |
| Total Assets   | \$ 38,979,524         | \$ 34,372,643        | \$ 33,749,000     |
| <hr/>  |                       |                      |                   |
| Liabilities and Shareholders' Equity   |                       |                      |                   |
| Deposits:  |                       |                      |                   |
| Noninterest bearing  | \$ 4,753,267          | \$ 4,715,283         | \$ 4,682,000      |
| Interest bearing   | 20,132,514            | 17,554,822           | 17,626,000        |
| Total deposits   | 24,885,781            | 22,270,105           | 22,308,000        |
| Funds purchased and security repurchase agreements   | 1,094,483             | 765,072              | 2,449,000         |
| Other short-term borrowings  | 3,527,748             | 4,167,929            | 1,916,000         |

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|   |               |               |           |
|---|---------------|---------------|-----------|
| Accrued expenses and other liabilities  | 1,396,958     | 1,106,221     | 1,042     |
| Long-term borrowings  | 4,486,258     | 2,734,623     | 2,694     |
|   | -----         | -----         | -----     |
| Total liabilities   | 35,391,228    | 31,043,950    | 30,412    |
| Shareholders' equity:   |               |               |           |
| Series A convertible preferred stock, \$1.00 par value;<br>2,000,000 shares authorized                                    | --            | --            |           |
| Common stock, \$1.00 par value; 240,832,522 shares issued   | 240,833       | 240,833       | 240       |
| Additional paid-in capital  | 513,289       | 564,269       | 558       |
| Retained earnings   | 3,381,436     | 3,061,246     | 2,960     |
| Accumulated other comprehensive income, net of related taxes  | 20,842        | 2,694         | (6        |
| Less: Treasury common stock, at cost: 17,751,447 shares<br>(17,606,489 December 31, and<br>14,766,946 September 30, 2003) | 538,233       | 513,562       | 394       |
| Deferred compensation   | 29,871        | 26,787        | 21        |
|   | -----         | -----         | -----     |
| Total shareholders' equity  | 3,588,296     | 3,328,693     | 3,337     |
|   | -----         | -----         | -----     |
| Total Liabilities and Shareholders' Equity  | \$ 38,979,524 | \$ 34,372,643 | \$ 33,749 |
|   | =====         | =====         | =====     |

See notes to financial statements.

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

|   | Three Months Ended<br>September 30, |            |
|---|-------------------------------------|------------|
|   | 2004                                | 2003       |
|   | -----                               | -----      |
| Interest income   |                                     |            |
| -----   |                                     |            |
| Loans and leases  | \$ 356,694                          | \$ 322,953 |
| Investment securities:  |                                     |            |
| Taxable   | 51,753                              | 33,323     |
| Exempt from federal income taxes                              | 15,042                              | 14,380     |
| Trading securities  | 78                                  | 66         |
| Short-term investments  | 653                                 | 518        |
|   | -----                               | -----      |
| Total interest income   | 424,220                             | 371,240    |
| Interest expense  |                                     |            |
| -----   |                                     |            |
| Deposits  | 73,957                              | 52,276     |
| Short-term borrowings   | 14,352                              | 19,643     |
| Long-term borrowings  | 54,773                              | 40,653     |
|   | -----                               | -----      |
| Total interest expense  | 143,082                             | 112,572    |
| Net interest income   | 281,138                             | 258,668    |
| Provision for loan and lease losses                           | 6,872                               | 7,852      |
|   | -----                               | -----      |
| Net interest income after provision for loan and lease losses | 274,266                             | 250,816    |

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Other income

|                                 |         |         |
|---------------------------------|---------|---------|
| -----                           |         |         |
| Data processing services        | 238,960 | 166,290 |
| Item processing                 | 10,311  | 11,194  |
| Trust services                  | 37,510  | 32,029  |
| Service charges on deposits     | 25,029  | 25,402  |
| Gains on sale of mortgage loans | 6,967   | 19,356  |
| Other mortgage banking revenue  | 1,905   | 4,848   |
| Net investment securities gains | 465     | 16,741  |
| Life insurance revenue          | 6,767   | 7,439   |
| Other                           | 40,014  | 41,739  |
| -----                           | -----   | -----   |
| Total other income              | 367,928 | 325,038 |

Other expense

|                                |         |         |
|--------------------------------|---------|---------|
| -----                          |         |         |
| Salaries and employee benefits | 231,468 | 199,387 |
| Net occupancy                  | 20,306  | 12,298  |
| Equipment                      | 30,456  | 27,978  |
| Software expenses              | 13,468  | 11,693  |
| Processing charges             | 12,478  | 13,239  |
| Supplies and printing          | 5,456   | 5,351   |
| Professional services          | 11,748  | 11,072  |
| Shipping and handling          | 15,840  | 12,495  |
| Amortization of intangibles    | 8,268   | 3,389   |
| Other                          | 58,608  | 113,113 |
| -----                          | -----   | -----   |
| Total other expense            | 408,096 | 410,015 |

|                            |         |         |
|----------------------------|---------|---------|
| Income before income taxes | 234,098 | 165,839 |
| Provision for income taxes | 78,649  | 25,540  |

|            |            |            |
|------------|------------|------------|
| -----      | -----      | -----      |
| Net income | \$ 155,449 | \$ 140,299 |
| =====      | =====      | =====      |

|                             |         |         |
|-----------------------------|---------|---------|
| Net income per common share |         |         |
| Basic                       | \$ 0.70 | \$ 0.62 |
| Diluted                     | 0.69    | 0.61    |

|                                 |          |          |
|---------------------------------|----------|----------|
| Dividends paid per common share | \$ 0.210 | \$ 0.180 |
|---------------------------------|----------|----------|

|  |         |         |
|--|---------|---------|
| Weighted average common shares outstanding (000's) : |         |         |
| Basic  | 222,612 | 226,724 |
| Diluted  | 226,235 | 228,935 |

See notes to financial statements.

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

Nine Months Ended  
September 30,

|       |       |
|-------|-------|
| ----- | ----- |
| 2004  | 2003  |
| ----- | ----- |

Interest income

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|   |              |            |
|---|--------------|------------|
| Loans and leases  | \$ 1,017,171 | \$ 984,147 |
| Investment securities:  |              |            |
| Taxable   | 148,693      | 120,395    |
| Exempt from federal income taxes                              | 43,635       | 43,619     |
| Trading securities  | 222          | 188        |
| Short-term investments  | 1,601        | 1,959      |
|   | -----        | -----      |
| Total interest income   | 1,211,322    | 1,150,308  |
| Interest expense  |              |            |
| Deposits  | 187,505      | 175,377    |
| Short-term borrowings   | 44,448       | 62,667     |
| Long-term borrowings  | 135,587      | 125,168    |
|   | -----        | -----      |
| Total interest expense  | 367,540      | 363,212    |
| Net interest income   | 843,782      | 787,096    |
| Provision for loan and lease losses                           | 25,126       | 53,186     |
|   | -----        | -----      |
| Net interest income after provision for loan and lease losses | 818,656      | 733,910    |
| Other income  |              |            |
| -----   |              |            |
| Data processing services                                      | 622,428      | 481,368    |
| Item processing   | 32,645       | 31,038     |
| Trust services  | 111,682      | 93,252     |
| Service charges on deposits                                   | 75,635       | 76,831     |
| Gains on sale of mortgage loans                               | 21,142       | 49,671     |
| Other mortgage banking revenue                                | 6,395        | 13,824     |
| Net investment securities gains                               | 13           | 15,694     |
| Life insurance revenue  | 20,543       | 23,200     |
| Other   | 120,859      | 125,331    |
|   | -----        | -----      |
| Total other income  | 1,011,342    | 910,209    |
| Other expense   |              |            |
| -----   |              |            |
| Salaries and employee benefits                                | 647,277      | 590,068    |
| Net occupancy   | 57,739       | 49,134     |
| Equipment   | 84,868       | 84,647     |
| Software expenses   | 37,174       | 32,374     |
| Processing charges  | 37,339       | 35,863     |
| Supplies and printing   | 16,968       | 16,491     |
| Professional services   | 31,108       | 32,308     |
| Shipping and handling   | 50,351       | 37,706     |
| Amortization of intangibles                                   | 19,158       | 17,803     |
| Other   | 163,120      | 184,885    |
|   | -----        | -----      |
| Total other expense   | 1,145,102    | 1,081,279  |
| Income before income taxes                                    | 684,896      | 562,840    |
| Provision for income taxes                                    | 231,629      | 159,859    |
|   | -----        | -----      |
| Net income  | \$ 453,267   | \$ 402,981 |
|   | =====        | =====      |
| Net income per common share                                   |              |            |
| Basic   | \$ 2.04      | \$ 1.78    |
| Diluted   | 2.01         | 1.77       |
| Dividends paid per common share                               | \$ 0.600     | \$ 0.520   |
| Weighted average common shares outstanding (000's) :          |              |            |

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|         |         |         |
|---------|---------|---------|
| Basic   | 222,289 | 226,480 |
| Diluted | 225,892 | 228,307 |

See notes to financial statements.

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

|   | Nine Months Ended<br>September 30, |             |
|---|------------------------------------|-------------|
|   | 2004                               | 2003        |
| Net Cash Provided by Operating Activities                 | \$ 679,583                         | \$ 686,639  |
| Cash Flows From Investing Activities:                     |                                    |             |
| Proceeds from sales of securities available for sale      | 11,358                             | 11,905      |
| Proceeds from maturities of securities available for sale | 1,011,633                          | 2,421,686   |
| Proceeds from maturities of securities held to maturity   | 64,512                             | 72,735      |
| Purchases of securities available for sale                | (1,503,844)                        | (2,846,463) |
| Purchases of securities held to maturity                  | --                                 | (1,000)     |
| Net increase in loans                                     | (3,158,085)                        | (1,130,000) |
| Purchases of assets to be leased                          | (148,455)                          | (446,201)   |
| Principal payments on lease receivables                   | 224,034                            | 610,481     |
| Fixed asset purchases, net                                | (54,821)                           | (46,228)    |
| Purchase acquisitions, net of cash equivalents acquired   | (909,689)                          | (3,041)     |
| Other   | 17,056                             | 12,892      |
| Net cash used in investing activities                     | (4,446,301)                        | (1,343,234) |
| Cash Flows From Financing Activities:                     |                                    |             |
| Net increase in deposits                                  | 2,615,409                          | 1,910,688   |
| Proceeds from issuance of commercial paper                | 4,877,029                          | 5,521,502   |
| Payments for maturity of commercial paper                 | (5,005,472)                        | (5,520,344) |
| Net decrease in other short-term borrowings               | (712,411)                          | (1,378,138) |
| Proceeds from issuance of long-term debt                  | 2,739,571                          | 1,226,858   |
| Payments of long-term debt                                | (450,437)                          | (1,108,898) |
| Dividends paid  | (133,076)                          | (117,554)   |
| Purchases of treasury stock                               | (98,382)                           | (52,424)    |
| Other   | 46,582                             | 22,017      |
| Net cash provided by financing activities                 | 3,878,813                          | 503,707     |
| Net increase (decrease) in cash and cash equivalents      | 112,095                            | (152,888)   |
| Cash and cash equivalents, beginning of year              | 911,626                            | 1,146,532   |
| Cash and cash equivalents, end of period                  | \$ 1,023,721                       | \$ 993,644  |
| Supplemental cash flow information:                       |                                    |             |
| Cash paid during the period for:                          |                                    |             |
| Interest  | \$ 330,261                         | \$ 371,074  |
| Income taxes  | 213,466                            | 230,023     |

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See notes to financial statements.

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MARSHALL & ILSLEY CORPORATION  
Notes to Financial Statements  
September 30, 2004 & 2003 (Unaudited)

1. The accompanying unaudited consolidated financial statements should be read in conjunction with Marshall & Ilsley Corporation's ("M&I" or "Corporation") 2003 Annual Report on Form 10-K. The unaudited financial information included in this report reflects all adjustments consisting only of normal recurring accruals and adjustments which are necessary for a fair statement of the financial position and results of operations as of and for the three and nine months ended September 30, 2004 and 2003. The results of operations for the three and nine months ended September 30, 2004 and 2003 are not necessarily indicative of results to be expected for the entire year. Certain amounts in the 2003 consolidated financial statements and analyses have been reclassified to conform with the 2004 presentation.

2. New Accounting Pronouncement

On March 31, 2004, the Financial Accounting Standards Board ("FASB") ratified the consensus reached by the Emerging Issues Task Force ("EITF") in EITF Issue No. 03-1, "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments" ("Issue 03-1"). Issue 03-1 provides guidance that should be used to determine when an investment is considered impaired, whether that impairment is other than temporary, and the measurement of an impairment loss. The guidance also includes accounting considerations subsequent to recognition of an other-than-temporary impairment and requires certain disclosures about unrealized losses that have not been recognized as other-than-temporary impairments.

For equity securities (including cost method investments) and debt securities that can be contractually prepaid or otherwise settled in such a way that the investor would not recover substantially all of its cost, an impairment should be deemed other than temporary unless (a) the investor has the ability and intent to hold an investment for a reasonable period of time sufficient for a forecasted recovery of fair value up to the cost of the investment, and (b) evidence indicating the cost of the investment is recoverable within a reasonable period of time outweighs evidence to the contrary.

For debt securities that can not be contractually prepaid or otherwise settled in such a way that the investor would not recover substantially all of its cost, an impairment should be deemed other than temporary if (a) the investor does not have the ability and intent to hold an investment until a forecasted recovery of fair value up to the cost of the investment, which in certain cases may mean until maturity, or (b) it is probable that the investor will be unable to collect all amounts due according to the contractual terms of the debt security.

Although not presumptive, a pattern of selling investments prior to the forecasted recovery of fair value may call into question the investor's intent.

The guidance for evaluating whether an investment is other-than-temporarily impaired was to be applied to other-than-temporary

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impairment evaluations made in reporting periods beginning after June 15, 2004. On September 30, 2004, the Financial Accounting Standards Board ("FASB") voted unanimously to defer the effective date of certain paragraphs of Issue 03-1 which effectively deferred application of Issue 03-1's guidance on how to evaluate and recognize an impairment loss that is other than temporary which includes debt securities that are impaired solely because of interest rate and/or sector spread increases.

The deferral is not a suspension of the accounting requirements that currently exist. The disclosure requirements were not affected by the deferral. The delay of the effective date of certain paragraphs of Issue 03-1 will be superseded concurrent with the final issuance of a FASB Staff Position that will provide implementation guidance for securities analyzed for impairment under those paragraphs of Issue 03-1.

As shown in Note 6 in Notes to Financial Statements, at September 30, 2004 the Corporation had gross unrealized losses associated with its investment securities portfolios of \$10.1 million. Of that amount, \$5.0 million has been in a continuous unrealized loss position for less than twelve months. By comparison, at June 30, 2004 the Corporation had gross unrealized losses associated with its investment securities portfolios of \$67.4 million. Of that amount, \$60.8 million had been in a continuous unrealized loss position for less than twelve months at June 30, 2004. The Corporation believes that the decline in unrealized losses are the result of increases in market interest rates and it is probable that the Corporation will collect all amounts due according to the contractual terms of the investment securities.

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MARSHALL & ILSLEY CORPORATION  
Notes to Financial Statements - Continued  
September 30, 2004 & 2003 (Unaudited)

3. Comprehensive Income

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

|  | Three Months Ended September 30, 2004 |                          |                      |
|--|---------------------------------------|--------------------------|----------------------|
|  | Before-Tax<br>Amount                  | Tax (Expense)<br>Benefit | Net-of-Tax<br>Amount |
| Net income                               |                                       |                          | \$ 155,4             |
| Other comprehensive income:              |                                       |                          |                      |
| Unrealized gains (losses) on securities: |                                       |                          |                      |
| Arising during the period                | \$ 98,391                             | \$ (34,737)              | 63,6                 |
| hedging variability of cash flows:       |                                       |                          |                      |
| transactions included in net income      | (378)                                 | 132                      | (2)                  |
| Unrealized gains (losses)                | 98,013                                | (34,605)                 | 63,4                 |
| Net gains (losses) on derivatives        |                                       |                          |                      |
| hedging variability of cash flows:       |                                       |                          |                      |
| Arising during the period                | 6,090                                 | (2,131)                  | 3,9                  |



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|  |           |            |          |
|--|-----------|------------|----------|
| Reclassification adjustments for hedging activities included in net income | 8,288     | (2,901)    | 5,3      |
| Net gains (losses)   | \$ 14,378 | \$ (5,032) | 9,3      |
| Other comprehensive income (loss)  |           |            | 72,7     |
| Total comprehensive income   |           |            | \$ 228,2 |

|  | Three Months Ended September 30, 2004 |                       |                   |
|--|---------------------------------------|-----------------------|-------------------|
|  | Before-Tax Amount                     | Tax (Expense) Benefit | Net-of-Tax Amount |
| Net income   |                                       |                       | \$ 140,2          |
| Other comprehensive income:  |                                       |                       |                   |
| Unrealized gains (losses) on securities:                                   |                                       |                       |                   |
| Arising during the period  | \$ (22,345)                           | \$ 9,207              | (13,1             |
| Reclassifications for securities transactions included in net income       | --                                    | --                    |                   |
| Unrealized gains (losses)  | (22,345)                              | 9,207                 | (13,1             |
| Net gains (losses) on derivatives hedging variability of cash flows:       |                                       |                       |                   |
| Arising during the period  | 16,256                                | (5,689)               | 10,5              |
| Reclassification adjustments for hedging activities included in net income | 57,182                                | (20,014)              | 37,1              |
| Net gains (losses)   | \$ 73,438                             | \$ (25,703)           | 47,7              |
| Other comprehensive income (loss)  |                                       |                       | 34,5              |
| Total comprehensive income   |                                       |                       | \$ 174,8          |

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MARSHALL & ILSLEY CORPORATION  
Notes to Financial Statements - Continued  
September 30, 2004 & 2003 (Unaudited)

|  | Nine Months Ended September 30, 2004 |                       |                   |
|--|--------------------------------------|-----------------------|-------------------|
|  | Before-Tax Amount                    | Tax (Expense) Benefit | Net-of-Tax Amount |
| Net income                               |                                      |                       | \$ 453,2          |
| Other comprehensive income:              |                                      |                       |                   |
| Unrealized gains (losses) on securities: |                                      |                       |                   |
| Arising during the period                | \$ (2,004)                           | \$ 648                | (1,3              |
| Reclassifications for securities         |                                      |                       |                   |

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|   |           |             |          |
|---|-----------|-------------|----------|
| transactions included in net income   | (368)     | 129         | (2       |
| Unrealized gains (losses)   | (2,372)   | 777         | (1,5     |
| Net gains (losses) on derivatives<br>hedging variability of cash flows:       |           |             |          |
| Arising during the period   | 5,102     | (1,786)     | 3,3      |
| Reclassification adjustments for<br>hedging activities included in net income | 25,273    | (8,846)     | 16,4     |
| Net gains (losses)  | \$ 30,375 | \$ (10,632) | 19,7     |
| Other comprehensive income (loss)   |           |             | 18,1     |
| Total comprehensive income  |           |             | \$ 471,4 |

|   | Nine Months Ended September 30, 200 |                          |                    |
|---|-------------------------------------|--------------------------|--------------------|
|   | Before-Tax<br>Amount                | Tax (Expense)<br>Benefit | Net-of-T<br>Amount |
| Net income  |                                     |                          | \$ 402,9           |
| Other comprehensive income:   |                                     |                          |                    |
| Unrealized gains (losses) on securities:                                      |                                     |                          |                    |
| Arising during the period   | \$ (29,974)                         | \$ 11,886                | (18,0              |
| Reclassifications for securities<br>transactions included in net income       | (1,675)                             | 586                      | (1,0               |
| Unrealized gains (losses)   | (31,649)                            | 12,472                   | (19,1              |
| Net gains (losses) on derivatives<br>hedging variability of cash flows:       |                                     |                          |                    |
| Arising during the period   | (6,597)                             | 2,309                    | (4,2               |
| Reclassification adjustments for<br>hedging activities included in net income | 94,403                              | (33,041)                 | 61,3               |
| Net gains (losses)  | \$ 87,806                           | \$ (30,732)              | 57,0               |
| Other comprehensive income (loss)   |                                     |                          | 37,8               |
| Total comprehensive income  |                                     |                          | \$ 440,8           |

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MARSHALL & ILSLEY CORPORATION  
Notes to Financial Statements - Continued  
September 30, 2004 & 2003 (Unaudited)

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

Three Months Ended September 30, 2004

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|  | Income<br>(Numerator) | Average Shares<br>(Denominator) | Per Share<br>Amount |
|--|-----------------------|---------------------------------|---------------------|
| Basic Earnings Per Share                           |                       |                                 |                     |
| Income Available to Common Shareholders            | \$ 155,449            | 222,612                         | \$ 0.70             |
| Effect of Dilutive Securities                      |                       |                                 |                     |
| Stock Options, Restricted Stock<br>and Other Plans | --                    | 3,623                           |                     |
| Diluted Earnings Per Share                         |                       |                                 |                     |
| Income Available to Common Shareholders            | \$ 155,449            | 226,235                         | \$ 0.69             |

Three Months Ended September 30, 2003

|  | Income<br>(Numerator) | Average Shares<br>(Denominator) | Per Share<br>Amount |
|--|-----------------------|---------------------------------|---------------------|
| Basic Earnings Per Share                           |                       |                                 |                     |
| Income Available to Common Shareholders            | \$ 140,299            | 226,724                         | \$ 0.62             |
| Effect of Dilutive Securities                      |                       |                                 |                     |
| Stock Options, Restricted Stock<br>and Other Plans | --                    | 2,211                           |                     |
| Diluted Earnings Per Share                         |                       |                                 |                     |
| Income Available to Common Shareholders            | \$ 140,299            | 228,935                         | \$ 0.61             |

Nine Months Ended September 30, 2004

|  | Income<br>(Numerator) | Average Shares<br>(Denominator) | Per Share<br>Amount |
|--|-----------------------|---------------------------------|---------------------|
| Basic Earnings Per Share                           |                       |                                 |                     |
| Income Available to Common Shareholders            | \$ 453,267            | 222,289                         | \$ 2.04             |
| Effect of Dilutive Securities                      |                       |                                 |                     |
| Stock Options, Restricted Stock<br>and Other Plans | --                    | 3,603                           |                     |
| Diluted Earnings Per Share                         |                       |                                 |                     |
| Income Available to Common Shareholders            | \$ 453,267            | 225,892                         | \$ 2.01             |

Nine Months Ended September 30, 2003

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|  | Income<br>(Numerator) | Average Shares<br>(Denominator) | Per Share<br>Amount |
|--|-----------------------|---------------------------------|---------------------|
|  | -----                 | -----                           | -----               |
| Basic Earnings Per Share                           |                       |                                 |                     |
| Income Available to Common Shareholders            | \$ 402,981            | 226,480                         | \$ 1.78             |
|  |                       |                                 | =====               |
| Effect of Dilutive Securities                      |                       |                                 |                     |
| Stock Options, Restricted Stock<br>and Other Plans | --                    | 1,827                           |                     |
|  | -----                 | -----                           |                     |
| Diluted Earnings Per Share                         |                       |                                 |                     |
| Income Available to Common Shareholders            | \$ 402,981            | 228,307                         | \$ 1.77             |
|  |                       |                                 | =====               |

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MARSHALL & ILSLEY CORPORATION  
Notes to Financial Statements - Continued  
September 30, 2004 & 2003 (Unaudited)

Options to purchase shares of common stock not included in the computation of diluted net income per share because the exercise prices of the options were greater than the average market price of the common shares are as follows:

|             | Three Months Ended September 30, |                     | Nine Months Ended September 30, |                     |
|-------------|----------------------------------|---------------------|---------------------------------|---------------------|
|             | 2004                             | 2003                | 2004                            | 2003                |
|             | -----                            | -----               | -----                           | -----               |
| Shares      | 56,500                           | 3,465,078           | 162,500                         | 6,366,792           |
| Price Range | \$39.420 - \$41.150              | \$31.510 - \$33.938 | \$39.000 - \$41.150             | \$29.420 - \$33.938 |

Statement of Financial Accounting Standards No. 123 (SFAS 123), "Accounting for Stock-Based Compensation," establishes financial accounting and reporting standards for stock-based employee compensation plans.

SFAS 123 defines a fair value based method of accounting for employee stock options or similar equity instruments. Under the fair value based method, 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 is recognized over the service period, which is usually the vesting period.

Compensation cost can also be measured and accounted for using the intrinsic value based method of accounting prescribed in Accounting Principles Board Opinion No. 25 (APBO 25), "Accounting for Stock Issued to Employees." Under the intrinsic value based method, compensation cost is the excess, if any, of the quoted market price of the stock at grant date or other measurement date over the amount paid to acquire the stock.

The largest difference between SFAS 123 and APBO 25 as they relate

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to the Corporation is the amount of compensation cost attributable to the Corporation's fixed stock option plans and employee stock purchase plan (ESPP). Under APBO 25 no compensation cost is recognized for fixed stock option plans because the exercise price is equal to the quoted market price at the date of grant and therefore there is no intrinsic value. SFAS 123 compensation cost would equal the calculated fair value of the options granted. Under APBO 25 no compensation cost is recognized for the ESPP because the discount (15%) and the plan meets the definition of a qualified plan under the Internal Revenue Code and meets the requirements of APBO 25. Under SFAS 123 the safe-harbor discount threshold is 5% for a plan to be non-compensatory. SFAS 123 compensation cost would equal the initial discount (15% of beginning of plan period price per share) plus the value of a one year call option on 85% of a share of stock for each share purchased.

As permitted by SFAS 123, the Corporation continues to measure compensation cost for such plans using the accounting method prescribed by APBO 25.

Had compensation cost for the Corporation's ESPP and options granted after January 1, 1995 been determined consistent with SFAS 123, the Corporation's net income and earnings per share would have been reduced to the following estimated pro forma amounts:

|   | Three Months Ended<br>September 30, |            | Nine Months Ended<br>September 30, |            |
|---|-------------------------------------|------------|------------------------------------|------------|
|   | 2004                                | 2003       | 2004                               | 2003       |
| Net Income, as reported   | \$ 155,449                          | \$ 140,299 | \$ 453,267                         | \$ 400,000 |
| Add: Stock-based employee compensation expense included in reported net income, net of tax                                | 1,410                               | 984        | 4,264                              |            |
| Less: Total stock-based employee compensation expense determined under fair value based method for all awards, net of tax | (6,486)                             | (5,820)    | (19,400)                           | (10,000)   |
| Pro forma net income  | \$ 150,373                          | \$ 135,463 | \$ 438,131                         | \$ 390,000 |
| Basic earnings per share:   |                                     |            |                                    |            |
| As reported   | \$ 0.70                             | \$ 0.62    | \$ 2.04                            | \$ 1.97    |
| Pro forma   | 0.68                                | 0.60       | 1.97                               |            |
| Diluted earnings per share:   |                                     |            |                                    |            |
| As reported   | \$ 0.69                             | \$ 0.61    | \$ 2.01                            | \$ 1.93    |
| Pro forma   | 0.66                                | 0.59       | 1.93                               |            |

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MARSHALL & ILSLEY CORPORATION  
Notes to Financial Statements - Continued  
September 30, 2004 & 2003 (Unaudited)

5. Business Combinations

The following acquisitions, which were not considered material business combinations, were completed during the third quarter of 2004:

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On July 1, 2004, Metavante completed the acquisition of all of the outstanding common stock of the privately held Advanced Financial Solutions, Inc. and its affiliated companies (collectively "AFS"), of Oklahoma City, Oklahoma for \$140.3 million in cash, subject to adjustment. AFS is a provider of image-based payment, transaction and document software technologies. AFS also operates an electronic check-clearing network through one of its affiliates. It is expected that this acquisition will allow Metavante to expand its current product offerings in payment and transaction processing and image related services, provide the technology and expertise to help banks facilitate the necessary change to comply with the Check Clearing for the 21st Century Act (known as Check 21) and capture another leg in the payments segment—electronic check image exchange. Additional contingent consideration up to \$115.0 million may be paid based on the attainment of certain financial goals each year, beginning on the date of closing and ending December 31, 2004, and each year thereafter through 2007. Contingent payments, if made, would be reflected as adjustments to goodwill. Initial goodwill, subject to the completion of appraisals and valuations of the assets acquired and liabilities assumed, amounted to \$99.6 million. The estimated identifiable intangible asset to be amortized (customer relationships) with an estimated useful life of 12 years amounted to \$22.9 million. The goodwill and intangibles resulting from this transaction are partially deductible for tax purposes.

On July 30, 2004, Metavante completed the acquisition of all of the outstanding common stock of NYCE Corporation ("NYCE"), for \$610.7 million in cash, subject to certain adjustments which may include a return of a portion of the purchase price based on certain future revenue measures. NYCE owns and operates one of the largest electronic funds transfer networks in the United States and provides debit card authorization processing services for automated teller machines (ATMs) and on-line and off-line signature based debit card transactions. It is expected that this acquisition will enable Metavante to expand its electronic funds transfer (EFT) business. Initial goodwill, subject to the completion of appraisals and valuations of the assets acquired and liabilities assumed, amounted to \$453.0 million. The estimated identifiable intangible asset to be amortized (customer relationships) with an estimated useful life of 15 years amounted to \$172.0 million. The goodwill and intangibles resulting from this transaction are not deductible for tax purposes.

On September 8, 2004, Metavante acquired certain assets of Response Data Corp. ("RDC"), for approximately \$35.0 million in cash. RDC is a New Jersey-based provider of credit card balance transfer, bill pay and convenience check processing. It is expected that this acquisition will enable Metavante to expand its payment solutions product offerings by adding credit card balance transfer bill payment. Initial goodwill, subject to the completion of appraisals and valuations of the assets acquired and liabilities assumed, amounted to \$26.8 million. The estimated identifiable intangible asset to be amortized (customer relationships) with an estimated useful life of 10 years amounted to \$6.4 million. The goodwill and intangibles resulting from this transaction are deductible for tax purposes.

### Recently Announced Acquisitions

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On October 15, 2004, Metavante announced the signing of a definitive agreement to acquire all of the outstanding common stock of

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VECTORsgi Holdings, Inc. ("VECTOR"). VECTOR is a provider of banking transaction applications, including electronic check-image processing and image exchange, item processing, dispute resolution and e-commerce for financial institutions and corporations. It is expected that this acquisition will complement the recently completed acquisition of AFS, as both companies specialize in providing electronic check-imaging technology. The transaction is expected to close in the fourth quarter of 2004, pending regulatory approval. The aggregate cash purchase price for VECTOR is \$100.0 million, with up to an additional \$35.0 million to be paid based on meeting certain performance criteria. Upon completion, the transaction is expected to result in intangible assets, including goodwill, of approximately \$91.0 million.

In conjunction with the announcement of the acquisition of VECTOR, the Corporation announced that to finance, in part the acquisition of VECTOR, and for other corporate purposes, it plans to issue and sell approximately \$150 million of common stock in the fourth quarter of 2004 in order to maintain its capital at desired levels. Any such sale of shares of the Corporation's common stock is subject to market conditions and changes in the timing, amount and terms. This Form 10-Q does not constitute an offer of any securities for sale.

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MARSHALL & ILSLEY CORPORATION  
Notes to Financial Statements - Continued  
September 30, 2004 & 2003 (Unaudited)

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

|   | September 30,<br>2004 | December 31,<br>2003 | September 30,<br>2003 |
|---|-----------------------|----------------------|-----------------------|
|   | -----                 | -----                | -----                 |
| Investment securities available for sale: |                       |                      |                       |
| U.S. treasury and government agencies     | \$ 4,171,521          | \$ 3,886,278         | \$ 3,738,303          |
| State and political subdivisions          | 479,822               | 299,321              | 285,201               |
| Mortgage backed securities                | 158,410               | 149,990              | 118,974               |
| Other                                     | 512,783               | 450,857              | 483,928               |
|   | -----                 | -----                | -----                 |
| Total                                     | \$ 5,322,536          | \$ 4,786,446         | \$ 4,626,406          |
|   | =====                 | =====                | =====                 |
| Investment securities held to maturity:   |                       |                      |                       |
| State and political subdivisions          | \$ 754,349            | \$ 818,065           | \$ 868,195            |
| Other                                     | 2,300                 | 2,821                | 2,823                 |
|   | -----                 | -----                | -----                 |
| Total                                     | \$ 756,649            | \$ 820,886           | \$ 871,018            |
|   | =====                 | =====                | =====                 |

The following table provides the gross unrealized losses and fair value, aggregated by investment category and the length of time the individual securities have been in a continuous unrealized loss position, at September 30, 2004 (\$000's):

| Less than 12 Months |            | 12 Months or More |            |       |
|---------------------|------------|-------------------|------------|-------|
| Fair                | Unrealized | Fair              | Unrealized | Fair  |
| -----               |            | -----             |            | ----- |
|                     |            |                   |            |       |

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|                                       | Value      | Losses   | Value      | Losses   | Value      |
|---------------------------------------|------------|----------|------------|----------|------------|
|                                       | -----      | -----    | -----      | -----    | -----      |
| U.S. treasury and government agencies | \$ 497,974 | \$ 3,705 | \$ 450,465 | \$ 4,494 | \$ 948,4   |
| State and political subdivisions      | 66,246     | 928      | 13,437     | 526      | 79,6       |
| Other                                 | 49,429     | 394      | 6,302      | 39       | 55,7       |
|                                       | -----      | -----    | -----      | -----    | -----      |
| Total                                 | \$ 613,649 | \$ 5,027 | \$ 470,204 | \$ 5,059 | \$ 1,083,8 |
|                                       | =====      | =====    | =====      | =====    | =====      |

The Corporation believes that the unrealized losses in the investment securities portfolio resulted from increases in market interest rates and not from deterioration in the creditworthiness of the issuer.

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

|  | September 30,<br>2004 | December 31,<br>2003 | September 30,<br>2003 |
|--|-----------------------|----------------------|-----------------------|
|  | -----                 | -----                | -----                 |
| Commercial, financial and agricultural       | \$ 7,923,699          | \$ 7,104,844         | \$ 6,866,523          |
| Cash flow hedging instruments at fair value  | 7,816                 | 5,830                | 19,784                |
|  | -----                 | -----                | -----                 |
| Total commercial, financial and agricultural | 7,931,515             | 7,110,674            | 6,886,307             |
| Real estate:                                 |                       |                      |                       |
| Construction                                 | 1,505,469             | 1,330,526            | 1,283,880             |
| Residential mortgage                         | 8,649,178             | 7,270,531            | 6,876,820             |
| Commercial mortgage                          | 7,999,229             | 7,149,149            | 7,021,572             |
|  | -----                 | -----                | -----                 |
| Total real estate                            | 18,153,876            | 15,750,206           | 15,182,272            |
| Personal                                     | 1,524,747             | 1,747,738            | 1,954,821             |
| Lease financing                              | 534,761               | 576,322              | 611,896               |
|  | -----                 | -----                | -----                 |
| Total loans and leases                       | \$ 28,144,899         | \$ 25,184,940        | \$ 24,635,296         |
|  | =====                 | =====                | =====                 |

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MARSHALL & ILSLEY CORPORATION  
Notes to Financial Statements - Continued  
September 30, 2004 & 2003 (Unaudited)

8. Sale of Receivables

During the third quarter of 2004, \$103.5 million of automobile loans were sold in securitization transactions. Losses of \$0.7 million were recognized and are reported in Other income in the Consolidated Statements of Income. Other income associated with auto securitizations, primarily servicing fees, amounted to \$1.4 million in the current quarter.

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



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|   |                                     |
|---|-------------------------------------|
| Prepayment speed (CPR)                                | 19-35 %                             |
| Weighted average life (in months)                     | 15.1                                |
| Expected credit losses<br>(based on original balance) | 0.22-0.74 %                         |
| Residual cash flow discount rate                      | 12.0 %                              |
| Variable returns to transferees                       | Forward one month LIBOR yield curve |

At September 30, 2004, securitized automobile loans and other automobile loans managed together with them, along with delinquency and credit loss information consisted of the following (\$000's):

|   | Securitized  | Portfolio  | Total<br>Managed |
|---|--------------|------------|------------------|
|   | -----        | -----      | -----            |
| Loan balances                                   | \$ 1,136,833 | \$ 169,200 | \$ 1,306,033     |
| Principal amounts of loans 60 days or more past | 852          | 168        | 1,020            |
| Net credit losses year to date                  | 1,773        | 79         | 1,852            |

9. Goodwill and Other Intangibles:

The changes in the carrying amount of goodwill for the nine months ended September 30, 2004 are as follows (\$000's):

|  | Banking    | Metavante  | Others   | Total        |
|--|------------|------------|----------|--------------|
|  | -----      | -----      | -----    | -----        |
| Goodwill balance as of<br>January 1, 2004    | \$ 809,772 | \$ 155,329 | \$ 4,687 | \$ 969,788   |
| Goodwill acquired during the period          | 4,986      | 724,333    | --       | 729,319      |
| Purchase accounting adjustments              | --         | 1,114      | --       | 1,114        |
| Goodwill amortization                        | --         | --         | --       | --           |
| Goodwill balance as of<br>September 30, 2004 | \$ 814,758 | \$ 880,776 | \$ 4,687 | \$ 1,700,221 |
|  | =====      | =====      | =====    | =====        |

Goodwill acquired for the Metavante segment includes initial goodwill relating to the acquisitions of AFS, NYCE and RDC in the third quarter of 2004 and the initial goodwill associated with the Kirchman acquisition in the second quarter of 2004.

Goodwill acquired for the Banking segment consists of the initial goodwill associated with the AmerUs Home Lending, Inc. acquisition in the first quarter of 2004.

Purchase accounting adjustments for Metavante in the first quarter of 2004 represent the effect of adjustments made to the initial estimates of fair value associated with the November 2003 acquisition of Printing For Systems, Inc.

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September 30, 2004 & 2003 (Unaudited)

At September 30, 2004, the Corporation's other intangible assets consisted of the following (\$000's):

|  | September 30, 2004          |                                       |                          |
|--|-----------------------------|---------------------------------------|--------------------------|
|  | Gross<br>Carrying<br>Amount | Accum-<br>ulated<br>Amort-<br>ization | Net<br>Carrying<br>Value |
| Other intangible assets:                       |                             |                                       |                          |
| Core deposit intangible                        | \$ 159,474                  | \$ 72,881                             | \$ 86,593                |
| Data processing contract rights/customer lists | 261,608                     | 16,490                                | 245,118                  |
| Trust customers                                | 5,475                       | 794                                   | 4,681                    |
| Tradename                                      | 2,775                       | 1,735                                 | 1,040                    |
|  | \$ 429,332                  | \$ 91,900                             | \$ 337,432               |
|  | =====                       | =====                                 | =====                    |
| Mortgage loan servicing rights                 |                             |                                       | \$ 3,888                 |
|  |                             |                                       | =====                    |

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

|                                   | September 30,<br>2004 | December 31,<br>2003 | September 30,<br>2003 |
|-----------------------------------|-----------------------|----------------------|-----------------------|
| Noninterest bearing demand        | \$ 4,753,267          | \$ 4,715,283         | \$ 4,682,267          |
| Savings and NOW                   | 10,081,369            | 9,301,744            | 9,261,984             |
| Cash flow hedge-Brokered MMDA     | (147)                 | --                   | --                    |
| Total Savings and NOW             | 10,081,222            | 9,301,744            | 9,261,984             |
| CD's \$100,000 and over           | 5,988,784             | 4,480,111            | 3,878,947             |
| Cash flow hedge-Institutional CDs | 5,089                 | 13,071               | 16,821                |
| Total CD's \$100,000 and over     | 5,993,873             | 4,493,182            | 3,895,768             |
| Other time deposits               | 2,686,482             | 2,646,639            | 2,701,047             |
| Foreign deposits                  | 1,370,937             | 1,113,257            | 1,767,871             |
| Fair value hedging instruments    | --                    | --                   | --                    |
| Total deposits                    | \$ 24,885,781         | \$ 22,270,105        | \$ 22,308,937         |
|                                   | =====                 | =====                | =====                 |

11. Derivative Financial Instruments and Hedging Activities
- Trading Instruments and Other Free Standing Derivatives
- 

The Corporation enters into various derivative contracts primarily

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to focus on providing derivative products to customers which enable them to manage their exposures to interest rate risk. The Corporation's market risk from unfavorable movements in interest rates is generally economically hedged by concurrently entering into offsetting derivative contracts. The offsetting derivative contracts generally have nearly identical notional values, terms and indices.

Interest rate lock commitments on residential mortgage loans intended to be held for sale are considered free-standing derivative instruments. For purposes of estimating the fair value of the free-standing derivative at the balance sheet date, the Corporation assumes the fair value of the written option at inception is zero and measures the change in market interest rates from the date of commitment to the balance sheet date. The change in market rates and the expected duration of the loan form the basis for estimating fair value, which may result in an asset or liability. 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. Loan commitments accounted for as derivatives are not material to the Corporation and the Corporation does not employ any formal hedging strategies.

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.

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MARSHALL & ILSLEY CORPORATION  
Notes to Financial Statements - Continued  
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At September 30, 2004, free standing interest rate swaps consisted of \$1.1 billion in notional amount of receive fixed/pay floating with an aggregate positive fair value of \$1.4 million and \$1.0 billion in notional amount of pay fixed/receive floating with an aggregate negative fair value of \$2.6 million.

At September 30, 2004, interest rate caps purchased amounted to \$13.8 million in notional amount with a positive fair value of \$0.1 million and interest rate caps sold amounted to \$13.8 million in notional amount with a negative fair value of \$0.1 million.

At September 30, 2004, the notional value of interest rate futures designated as trading was \$2.7 billion with an immaterial fair value.

### Fair Value Hedges

---

The Corporation has fixed rate callable and institutional 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 fair value due to changes in interest rates, the Corporation has entered into receive-fixed / pay-floating interest rate swaps with identical call

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features, thereby creating the effect of floating rate deposits and floating rate long-term debt. The Corporation has determined that the hedges on the long-term debt qualify for the special short-cut accounting prescribed by SFAS 133, resulting in no ineffectiveness.

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

### Fair Value Hedges September 30, 2004

| Hedged<br>Item        | Hedging<br>Instrument | Notional<br>Amount<br>(\$ in mil) | Fair<br>Value<br>(\$ in mil) | Weighted<br>Average<br>Remaining<br>Term (Yrs) |
|-----------------------|-----------------------|-----------------------------------|------------------------------|--|
| Fixed Rate CDs        | Receive Fixed Swap    | \$ 550.0                          | \$ (5.6)                     | 11.1   |
| Medium Term Notes     | Receive Fixed Swap    | 365.3                             | 2.4                          | 8.8  |
| Fixed Rate Bank Notes | Receive Fixed Swap    | 206.8                             | (2.2)                        | 5.4  |
| Institutional CDs     | Receive Fixed Swap    | 5.0                               | (0.2)                        | 14.5   |

The impact from fair value hedges to total net interest income for the three and nine months ended September 30, 2004 was a positive \$11.0 million and \$31.4 million, respectively. The impact to net interest income due to ineffectiveness was immaterial.

### Cash Flow Hedges

The Corporation has variable rate loans, variable rate deposits and variable rate 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.

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MARSHALL & ILSLEY CORPORATION  
Notes to Financial Statements - Continued  
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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.

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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 of each month 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 interest rate swaps change the variable-rate cash flow exposure on the loans, deposits and borrowings to fixed-rate cash flows.

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, variable rate deposits and variable rate 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 September 30, 2004

| Hedged<br>Item       | Hedging<br>Instrument | Notional<br>Amount<br>(\$ in mil) | Fair<br>Value<br>(\$ in mil) | Weighted<br>Average<br>Remaining<br>Term (Yrs) |
|----------------------|-----------------------|-----------------------------------|------------------------------|--|
| Variable Rate Loans  | Receive Fixed Swap    | \$ 1,150.0                        | \$ 7.8                       | 5.1  |
| Institutional CDs    | Pay Fixed Swap        | 2,730.0                           | (5.1)                        | 1.5  |
| Fed Funds Purchased  | Pay Fixed Swap        | 360.0                             | (14.9)                       | 2.3  |
| FHLB Advances        | Pay Fixed Swap        | 670.0                             | 1.4                          | 2.7  |
| Money Market Account | Pay Fixed Swap        | 250.0                             | 0.1                          | 2.8  |

The impact to total net interest income from cash flow hedges, including amortization of terminated cash flow hedges, for the three and nine months ended September 30, 2004 was a negative \$8.3 million and \$25.3 million, respectively. The impact due to ineffectiveness was immaterial.

### 12. Postretirement Health Plan

The Corporation sponsors a defined benefit health plan that provides health care benefits to eligible current and retired employees. Eligibility for retiree benefits is dependent upon age, years of service, and participation in the health plan during active service. The plan is contributory and in 1997 and 2002 the plan was amended. Employees hired or retained from mergers after September 1, 1997 will be granted access to the Corporation's plan upon becoming an

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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.

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MARSHALL & ILSLEY CORPORATION  
Notes to Financial Statements - Continued  
September 30, 2004 & 2003 (Unaudited)

Net periodic postretirement benefit costs for the three and nine month periods ended September 30, 2004 and 2003 includes the following components (\$000's):

|                             | Three Months Ended<br>September 30, |          | Nine Months Ended<br>September 30, |          |
|-----------------------------|-------------------------------------|----------|------------------------------------|----------|
|                             | 2004                                | 2003     | 2004                               | 2003     |
| Service cost                | \$ 630                              | \$ 535   | \$ 1,892                           | \$ 1,605 |
| Interest on APBO            | 1,024                               | 1,335    | 3,756                              | 4,005    |
| Expected return on assets   | (225)                               | --       | (225)                              | --       |
| Prior service amortization  | (1,121)                             | (680)    | (2,481)                            | (2,041)  |
| Actuarial loss amortization | 564                                 | 501      | 1,689                              | 1,504    |
| Other                       | --                                  | 165      | --                                 | 495      |
|                             | -----                               | -----    | -----                              | -----    |
|                             | \$ 872                              | \$ 1,856 | \$ 4,631                           | \$ 5,568 |
|                             | =====                               | =====    | =====                              | =====    |

Benefit payments and expenses, net of participant contributions for the three and nine months ended September 30, 2004 amounted to \$0.8 million and \$2.7 million, respectively. In addition, in the first quarter of 2004, the Corporation made a discretionary contribution to the retirement health benefit trust in the amount of \$7.2 million. The expected benefit payments and expenses, net of participant contributions, and excluding discretionary contributions, for the year ended December 31, 2004 is \$3.4 million.

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.

At December 31, 2003, the Corporation had elected to defer recognition of the effect of the Act in accordance with Financial Accounting Standards Board Staff Position (FSP) 106-1, Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003, until such time as specific authoritative guidance on the accounting for the federal subsidy was issued.

In May 2004, the Financial Accounting Standards Board issued FSP 106-2, "Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003". FSP 106-2 requires companies to account for the effect of the subsidy on benefits attributable to past service as an actuarial experience gain and as a reduction of the service cost component of net postretirement health care costs for amounts attributable to

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current service, if the benefit provided is at least actuarially equivalent to Medicare Part D.

During the third quarter of 2004, the Corporation elected to adopt FSP 106-2 and to retroactively recognize the Act from January 1, 2004. The Corporation and its actuarial advisors determined that benefits provided to certain participants are expected to be at least actuarially equivalent to Medicare Part D, and, accordingly the Corporation will be entitled to some subsidy. The expected subsidy reduces the accumulated postretirement benefit obligation at January 1, 2004 by approximately \$7.0 million and net periodic cost for the nine months ended September 30, 2004 by approximately \$1.0 million as compared with the amount determined without considering the effects of the subsidy.

Assumptions used to develop this reduction include those used in the determination of the annual postretirement health care expense and also include expectations of how the federal program will ultimately operate. There are currently no written regulations that provide this level of detail regarding the ultimate operation of the subsidy program. It is expected that final regulations will be published in early 2005.

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MARSHALL & ILSLEY CORPORATION  
Notes to Financial Statements - Continued  
September 30, 2004 & 2003 (Unaudited)

13. Segments

The following represents the Corporation's operating segments as of and for the three and nine months ended September 30, 2004 and 2003. There have not been any changes to the way the Corporation organizes its segments. Charges for services from the holding company had previously been excluded from segment income. Beginning with the presentation of segment information in the Corporation's Annual Report on Form 10-K for the year ended December 31, 2003, management determined that it was more meaningful to include such charges in evaluating the performance of its segments. Prior year segment information has been restated to include such costs and conform to the current year presentation. Fees - Intercompany represent intercompany revenues charged to other segments for providing certain services. Expenses - Intercompany represent fees charged by other segments for certain services received. For each segment, Expenses - Intercompany are not the costs of that segment's reported intercompany revenues. Intersegment expenses and assets have been eliminated. (\$ in millions):

|                     | Three Months Ended September 30, 2004 |           |        |                       |   |               |
|---------------------|---------------------------------------|-----------|--------|-----------------------|---|---------------|
|                     | Banking                               | Metavante | Others | Corporate<br>Overhead | Reclass-<br>ifications<br>& Elimi-<br>nations | Sub-<br>total |
|                     | -----                                 | -----     | -----  | -----                 | -----   | -----         |
| Revenues:           |                                       |           |        |                       |   |               |
| Net interest income | \$ 284.4                              | \$ (7.7)  | \$ 5.9 | \$ (1.5)              | \$ --   | \$ 281.1      |
| Fees - Other        | 82.1                                  | 239.0     | 45.4   | 1.4                   | --  | 367.9         |
| Fees - Intercompany | 15.1                                  | 20.9      | 5.6    | 17.5                  | (59.1)  | --            |
|                     | -----                                 | -----     | -----  | -----                 | -----   | -----         |

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|                                     |             |            |          |          |              |             |
|-------------------------------------|-------------|------------|----------|----------|--------------|-------------|
| Total revenues                      | 381.6       | 252.2      | 56.9     | 17.4     | (59.1)       | 649.0       |
| <b>Expenses:</b>                    |             |            |          |          |              |             |
| Expenses - Other                    | 153.1       | 206.1      | 31.4     | 18.2     | (0.7)        | 408.1       |
| Expenses - Intercompany             | 38.3        | 11.2       | 11.1     | (2.2)    | (58.4)       | --          |
| Total expenses                      | 191.4       | 217.3      | 42.5     | 16.0     | (59.1)       | 408.1       |
| Provision for loan and lease losses | 6.5         | --         | 0.4      | --       | --           | 6.9         |
| Income before taxes                 | 183.7       | 34.9       | 14.0     | 1.4      | --           | 234.0       |
| Income tax expense                  | 61.5        | 13.6       | 5.5      | (2.0)    | --           | 78.6        |
| Segment income                      | \$ 122.2    | \$ 21.3    | \$ 8.5   | \$ 3.4   | \$ --        | \$ 155.4    |
| Identifiable assets                 | \$ 36,819.1 | \$ 2,154.0 | \$ 607.2 | \$ 850.4 | \$ (1,451.2) | \$ 38,979.5 |
| Return on average equity            | 16.2%       | 19.9%      | 14.7%    |          |              |             |

Three Months Ended September 30, 2003

|                                     | Banking     | Metavante | Others   | Corporate Overhead | Reclassifications & Eliminations | Sub-total   |
|-------------------------------------|-------------|-----------|----------|--------------------|----------------------------------|-------------|
| <b>Revenues:</b>                    |             |           |          |                    |                                  |             |
| Net interest income                 | \$ 255.1    | \$ (0.4)  | \$ 8.0   | \$ (4.0)           | \$ --                            | \$ 258.7    |
| Fees - Other                        | 101.8       | 166.3     | 55.9     | 1.2                | (0.2)                            | 325.0       |
| Fees - Intercompany                 | 14.8        | 17.3      | 9.9      | 15.5               | (57.5)                           | --          |
| Total revenues                      | 371.7       | 183.2     | 73.8     | 12.7               | (57.7)                           | 583.7       |
| <b>Expenses:</b>                    |             |           |          |                    |                                  |             |
| Expenses - Other                    | 197.2       | 157.8     | 27.5     | 26.9               | 0.6                              | 410.0       |
| Expenses - Intercompany             | 39.1        | 11.0      | 10.7     | (2.5)              | (58.3)                           | --          |
| Total expenses                      | 236.3       | 168.8     | 38.2     | 24.4               | (57.7)                           | 410.0       |
| Provision for loan and lease losses | 7.3         | --        | 0.6      | --                 | --                               | 7.9         |
| Income before taxes                 | 128.1       | 14.4      | 35.0     | (11.7)             | --                               | 165.8       |
| Income tax expense                  | 15.9        | 0.9       | 13.9     | (5.2)              | --                               | 25.5        |
| Segment income                      | \$ 112.2    | \$ 13.5   | \$ 21.1  | \$ (6.5)           | \$ --                            | \$ 140.3    |
| Identifiable assets                 | \$ 32,597.0 | \$ 904.1  | \$ 601.0 | \$ 487.4           | \$ (840.2)                       | \$ 33,749.3 |
| Return on average equity            | 15.2%       | 15.1%     | 35.0%    |                    |                                  |             |



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Notes to Financial Statements - Continued  
September 30, 2004 & 2003 (Unaudited)

Nine Months Ended September 30, 2004

|                                     | Banking         | Metavante      | Others         | Corporate Overhead | Reclassifications & Eliminations | Sub-total       |
|-------------------------------------|-----------------|----------------|----------------|--------------------|----------------------------------|-----------------|
| <b>Revenues:</b>                    |                 |                |                |                    |                                  |                 |
| Net interest income                 | \$ 839.5        | \$ (8.8)       | \$ 18.9        | \$ (5.8)           | \$ --                            | \$ 843.8        |
| Fees - Other                        | 250.7           | 622.5          | 134.6          | 3.5                | --                               | 1,011.3         |
| Fees - Intercompany                 | 47.4            | 58.9           | 17.4           | 52.7               | (176.4)                          | --              |
| <b>Total revenues</b>               | <b>1,137.6</b>  | <b>672.6</b>   | <b>170.9</b>   | <b>50.4</b>        | <b>(176.4)</b>                   | <b>1,855.1</b>  |
| <b>Expenses:</b>                    |                 |                |                |                    |                                  |                 |
| Expenses - Other                    | 457.8           | 541.3          | 91.0           | 56.0               | (1.0)                            | 1,145.1         |
| Expenses - Intercompany             | 109.9           | 34.3           | 34.8           | (3.6)              | (175.4)                          | --              |
| <b>Total expenses</b>               | <b>567.7</b>    | <b>575.6</b>   | <b>125.8</b>   | <b>52.4</b>        | <b>(176.4)</b>                   | <b>1,145.1</b>  |
| Provision for loan and lease losses | 23.4            | --             | 1.7            | --                 | --                               | 25.1            |
| Income before taxes                 | 546.5           | 97.0           | 43.4           | (2.0)              | --                               | 684.9           |
| Income tax expense                  | 180.3           | 38.0           | 16.9           | (3.6)              | --                               | 231.6           |
| <b>Segment income</b>               | <b>\$ 366.2</b> | <b>\$ 59.0</b> | <b>\$ 26.5</b> | <b>\$ 1.6</b>      | <b>\$ --</b>                     | <b>\$ 453.3</b> |
| Identifiable assets                 | \$ 36,819.1     | \$ 2,154.0     | \$ 607.2       | \$ 850.4           | \$ (1,451.2)                     | \$ 38,979.5     |
| Return on average equity            | 16.2%           | 19.4%          | 14.4%          |                    |                                  |                 |

Nine Months Ended September 30, 2003

|                                     | Banking        | Metavante    | Others       | Corporate Overhead | Reclassifications & Eliminations | Sub-total      |
|-------------------------------------|----------------|--------------|--------------|--------------------|----------------------------------|----------------|
| <b>Revenues:</b>                    |                |              |              |                    |                                  |                |
| Net interest income                 | \$ 779.5       | \$ (2.0)     | \$ 23.7      | \$ (14.1)          | \$ --                            | \$ 787.1       |
| Fees - Other                        | 287.4          | 481.4        | 137.8        | 3.8                | (0.2)                            | 910.2          |
| Fees - Intercompany                 | 42.9           | 52.3         | 26.4         | 46.6               | (168.2)                          | --             |
| <b>Total revenues</b>               | <b>1,109.8</b> | <b>531.7</b> | <b>187.9</b> | <b>36.3</b>        | <b>(168.4)</b>                   | <b>1,697.3</b> |
| <b>Expenses:</b>                    |                |              |              |                    |                                  |                |
| Expenses - Other                    | 485.4          | 441.9        | 90.0         | 60.9               | 0.6                              | 1,078.8        |
| Expenses - Intercompany             | 110.1          | 30.7         | 31.7         | (3.5)              | (169.0)                          | --             |
| <b>Total expenses</b>               | <b>595.5</b>   | <b>472.6</b> | <b>121.7</b> | <b>57.4</b>        | <b>(168.4)</b>                   | <b>1,078.8</b> |
| Provision for loan and lease losses | 43.9           | --           | 9.3          | --                 | --                               | 53.2           |

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|                          |             |          |          |           |            |             |
|--------------------------|-------------|----------|----------|-----------|------------|-------------|
| Income before taxes      | 470.4       | 59.1     | 56.9     | (21.1)    | --         | 565.3       |
| Income tax expense       | 127.5       | 19.4     | 22.5     | (8.6)     | --         | 160.8       |
| Segment income           | \$ 342.9    | \$ 39.7  | \$ 34.4  | \$ (12.5) | \$ --      | \$ 404.5    |
| Identifiable assets      | \$ 32,597.0 | \$ 904.1 | \$ 601.0 | \$ 487.4  | \$ (840.2) | \$ 33,749.3 |
| Return on average equity | 15.8%       | 15.4%    | 19.6%    |           |            |             |

Metavante's segment income for the nine months ended September 30, 2003 excludes certain transition expenses associated with the integration of the July 2002 acquisition of Paytrust, Inc. Such expenses are included in "Excluded Charges."

Total Revenue by type in Others consists of the following:

|                              | Three Months Ended<br>September 30, |         | Nine Months Ended<br>September 30, |          |
|------------------------------|-------------------------------------|---------|------------------------------------|----------|
|                              | 2004                                | 2003    | 2004                               | 2003     |
| Trust Services               | \$ 36.9                             | \$ 31.8 | \$ 109.6                           | \$ 93.0  |
| Residential Mortgage Banking | 8.3                                 | 13.3    | 23.5                               | 40.9     |
| Capital Markets              | (0.2)                               | 16.2    | (0.5)                              | 18.2     |
| Brokerage and Insurance      | 5.7                                 | 5.9     | 19.2                               | 17.5     |
| Commercial Leasing           | 3.8                                 | 4.0     | 12.0                               | 11.5     |
| Commercial Mortgage Banking  | 1.5                                 | 1.5     | 4.5                                | 4.1      |
| Others                       | 0.9                                 | 1.1     | 2.6                                | 2.7      |
| Total revenue                | \$ 56.9                             | \$ 73.8 | \$ 170.9                           | \$ 187.9 |

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

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

|                              | Three Months Ended<br>September 30, |            |
|------------------------------|-------------------------------------|------------|
|                              | 2004                                | 2003       |
| Assets                       |                                     |            |
| Cash and due from banks      | \$ 853,162                          | \$ 742,287 |
| Investment securities:       |                                     |            |
| Trading securities           | 23,439                              | 26,769     |
| Short-term investments       | 165,125                             | 259,646    |
| Other investment securities: |                                     |            |
| Taxable                      | 4,710,840                           | 3,990,121  |
| Tax-exempt                   | 1,224,094                           | 1,166,772  |

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|  |               |               |
|--|---------------|---------------|
| Total investment securities                        | 6,123,498     | 5,443,308     |
| Loans and leases:                                  |               |               |
| Loans and leases, net of unearned income           | 27,499,589    | 24,596,403    |
| Less: Allowance for loan and lease losses          | 362,296       | 351,514       |
| Net loans and leases                               | 27,137,293    | 24,244,889    |
| Premises and equipment, net                        | 458,070       | 437,404       |
| Accrued interest and other assets                  | 3,443,717     | 2,571,807     |
| Total Assets                                       | \$ 38,015,740 | \$ 33,439,695 |
| Liabilities and Shareholders' Equity               |               |               |
| Deposits:  |               |               |
| Noninterest bearing                                | \$ 4,637,961  | \$ 4,348,872  |
| Interest bearing                                   | 19,996,303    | 17,805,959    |
| Total deposits                                     | 24,634,264    | 22,154,831    |
| Funds purchased and security repurchase agreements | 1,761,838     | 2,660,662     |
| Other short-term borrowings                        | 731,731       | 441,924       |
| Long-term borrowings                               | 5,899,749     | 3,775,716     |
| Accrued expenses and other liabilities             | 1,470,299     | 1,116,672     |
| Total liabilities                                  | 34,497,881    | 30,149,805    |
| Shareholders' equity                               | 3,517,859     | 3,289,890     |
| Total Liabilities and Shareholders' Equity         | \$ 38,015,740 | \$ 33,439,695 |

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

|                              | Nine Months Ended<br>September 30, |            |
|------------------------------|------------------------------------|------------|
|                              | 2004                               | 2003       |
| Assets                       |                                    |            |
| Cash and due from banks      | \$ 808,936                         | \$ 750,837 |
| Investment securities:       |                                    |            |
| Trading securities           | 22,950                             | 23,321     |
| Short-term investments       | 180,716                            | 266,537    |
| Other investment securities: |                                    |            |
| Taxable                      | 4,638,611                          | 3,972,106  |
| Tax-exempt                   | 1,180,816                          | 1,179,967  |
| Total investment securities  | 6,023,093                          | 5,441,931  |

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|  |               |               |
|--|---------------|---------------|
| Loans and leases:                                  |               |               |
| Loans and leases, net of unearned income           | 26,482,061    | 24,301,069    |
| Less: Allowance for loan and lease losses          | 359,443       | 347,291       |
|  | -----         | -----         |
| Net loans and leases                               | 26,122,618    | 23,953,778    |
| Premises and equipment, net                        | 443,834       | 440,886       |
| Accrued interest and other assets                  | 2,951,399     | 2,539,814     |
|  | -----         | -----         |
| Total Assets                                       | \$ 36,349,880 | \$ 33,127,246 |
|  | =====         | =====         |
| Liabilities and Shareholders' Equity               |               |               |
| -----  |               |               |
| Deposits:  |               |               |
| Noninterest bearing                                | \$ 4,489,782  | \$ 4,095,794  |
| Interest bearing                                   | 19,066,853    | 17,722,429    |
|  | -----         | -----         |
| Total deposits                                     | 23,556,635    | 21,818,223    |
| Funds purchased and security repurchase agreements | 2,186,105     | 2,770,397     |
| Other short-term borrowings                        | 872,162       | 533,319       |
| Long-term borrowings                               | 4,952,207     | 3,724,792     |
| Accrued expenses and other liabilities             | 1,349,872     | 1,083,064     |
|  | -----         | -----         |
| Total liabilities                                  | 32,916,981    | 29,929,795    |
| Shareholders' equity                               | 3,432,899     | 3,197,451     |
|  | -----         | -----         |
| Total Liabilities and Shareholders' Equity         | \$ 36,349,880 | \$ 33,127,246 |
|  | =====         | =====         |

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OVERVIEW

Net income for the third quarter of 2004 amounted to \$155.4 million compared to \$140.3 million for the same period in the prior year, an increase of \$15.1 million, or 10.8%. Diluted earnings per share was \$0.69 for the three months ended September 30, 2004, compared with \$0.61 for the three months ended September 30, 2003, an increase of 13.1%. The return on average assets and average equity was 1.63% and 17.58% for the quarter ended September 30, 2004, and 1.66% and 16.92%, respectively, for the quarter ended September 30, 2003.

Net income for the nine months ended September 30, 2004 amounted to \$453.3 million compared to \$403.0 million for the nine months ended September 30, 2003, an increase of \$50.3 million, or 12.5%. Diluted earnings per share was \$2.01 for the nine months ended September 30, 2004, compared with \$1.77 for the nine months ended September 30, 2003, an increase of 13.6%. The return on average assets and average equity was 1.67% and 17.64% for the nine months ended September 30, 2004, and 1.63% and 16.85%, respectively, for the nine months ended September 30, 2003.

Earnings growth for the three and nine months ended September 30, 2004 compared to the three and nine months ended September 30, 2003 was attributable to a number of factors. The increase in net interest income was driven by loan and deposit growth and the impact of refinancing higher cost debt in current and prior periods. Net interest income growth was somewhat mitigated by the financing costs associated with Metavante's acquisitions. The continued improvement in credit quality resulted in

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lower provisions for loan and lease losses. Metavante and the Corporation's trust services reporting unit continued to exhibit growth in revenue and earnings. Metavante's growth in revenue and earnings reflects, in part, the impact of its acquisitions including three acquisitions completed in the third quarter of 2004, one acquisition completed in the second quarter of 2004 and one acquisition completed in the fourth quarter of 2003. For the three and nine months ended September 30, 2004, the Corporation experienced lower revenue from mortgage loan sales compared to the same periods last year which reflects, in part, less refinancing activity. These factors along with continued expense management resulted in double-digit earnings growth in the three and nine months ended September 30, 2004 compared to the three and nine months ended September 30, 2003.

Management continues to believe that low double digit earnings growth in 2004 is achievable. However, with the economy recovering slowly and modest evidence of job growth in the markets the Corporation serves, management remains cautious in its expectations that each positive attribute experienced in the first three quarters of 2004 will continue or improve in future quarters. The Corporation's actual results for the year ended December 31, 2004 could differ materially from those expected by management. See "Forward-Looking Statements" in this Form 10-Q and the Corporation's 2003 Annual Report on Form 10-K for a discussion of the various risk factors that could cause actual results to be different than expected results.

### NOTEWORTHY TRANSACTIONS AND EVENTS

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Some of the more notable transactions and events that occurred in the three and nine months ended September 30, 2004 and 2003 consisted of the following:

#### Third Quarter 2004

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On July 1, 2004, Metavante completed the acquisition of all of the outstanding common stock of the privately held Advanced Financial Solutions, Inc. and its affiliated companies (collectively "AFS"), of Oklahoma City, Oklahoma for \$140.3 million in cash, subject to adjustment. AFS is a provider of image-based payment, transaction and document software technologies. AFS also operates an electronic check-clearing network through one of its affiliates. It is expected that this acquisition will allow Metavante to expand its current product offerings in payment and transaction processing and image related services, provide the technology and expertise to help banks facilitate the necessary change to comply with the Check Clearing for the 21st Century Act (known as Check 21) and capture another leg in the payments segment-electronic check image exchange. See Note 5, Business Combinations in the Notes to Financial Statements.

On July 30, 2004, Metavante completed the acquisition of all of the outstanding common stock of NYCE Corporation ("NYCE"), for \$610.7 million in cash, subject to certain adjustments. NYCE owns and operates one of the largest electronic funds transfer networks in the United States and provides debit card authorization processing services for automated teller machines (ATMs) and on-line and off-line signature based debit card transactions. It is expected that this acquisition will enable Metavante to expand its electronic funds transfer (EFT) business. See Note 5, Business Combinations in the Notes to Financial Statements.

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On July 29, 2004, the Corporation completed two financing transactions aggregating \$1.0 billion. The net proceeds were used for general corporate purposes, including the long-term financing for the recently completed Metavante acquisitions. The financing transactions consisted of the following:

The Corporation issued \$600.0 million of 4.375% Senior Notes due August 1, 2009. Interest is payable semi-annually each February 1st and August 1st with the first payment due February 1, 2005.

The Corporation and M&I Capital Trust B also issued 16,000,000 units of Common SPACSSM. Each unit has a stated value of \$25.00 for an aggregate value of \$400.0 million. Each Common SPACES consists of (i) a stock purchase contract under which the investor agrees to purchase for \$25.00, 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 STACKSSM, with an initial liquidation amount of \$1,000.00. The stock purchase date is expected to be August 15, 2007, but could be deferred for quarterly periods until August 15, 2008. The Common SPACES qualify as tier 1 capital for regulatory capital purposes. See LIQUIDITY AND CAPITAL RESOURCES and OFF-BALANCE SHEET ARRANGEMENTS for further discussion of Common SPACES.

On September 8, 2004, Metavante acquired certain assets of Response Data Corp. ("RDC"), for approximately \$35.0 million in cash. RDC is a New Jersey-based provider of credit card balance transfer, bill pay and convenience check processing. It is expected that this acquisition will enable Metavante to expand its payment solutions product offerings by adding credit card balance transfer bill payment. See Note 5, Business Combinations in the Notes to Financial Statements.

During the third quarter of 2004, the Corporation prepaid \$300 million of floating rate debt. In conjunction with this transaction, the Corporation terminated a related interest rate swap designated as a cash flow hedge that resulted in a charge to earnings of \$2.0 million. The loss is reported in other in Other expense in the Consolidated Statements of Income.

### Second Quarter 2004

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On May 27, 2004, Metavante completed the purchase of certain assets and the assumption of certain liabilities for \$157.4 million in cash of the privately held Kirchman Corporation ("Kirchman") of Orlando, Florida. Kirchman provides automation software and compliance services to the banking industry. The acquisition of Kirchman provides Metavante with core processing software that financial institutions can run in-house, a solution that Metavante previously did not offer.

During the second quarter of 2004, the Corporation filed a shelf registration statement with the Securities and Exchange Commission which will enable the Corporation to issue various securities, including debt securities, common stock, preferred stock, depositary shares, purchase contracts, units, warrants, and trust preferred securities, up to an aggregate amount of \$3.0 billion. At September 30, 2004, approximately \$1.6 billion was available for future securities issuances.

### First Quarter 2004

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During the first quarter of 2004, the Corporation's Banking segment

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completed the purchase for cash of certain assets and the assumption of certain liabilities of AmerUs Home Lending, Inc. ("AmerUs"), an Iowa-based corporation engaged in the business of brokering and servicing mortgage and home equity loans. Although not material to the Corporation, this acquisition enhances the Corporation's wholesale lending activities by expanding its broker network and acquiring technology that enhances the efficiency of the wholesale lending process.

During the first quarter of 2004, the Corporation prepaid and retired \$55.0 million of higher cost fixed rate debt that resulted in a charge to earnings of \$4.9 million. The loss is reported in other in Other expense in the Consolidated Statements of Income.

### Third Quarter 2003

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During the third quarter of 2003, one of the portfolio companies held by the Corporation's Capital Markets group was sold at a gain. The gain of \$16.2 million is reported in net investment securities gains in the Consolidated Statements of Income.

Several income tax audits covering multiple tax jurisdictions were resolved during the third quarter of 2003 which positively affected the banking segment by approximately \$25.0 million and Metavante by \$4.9 million. The impact is reported in the provision for income taxes in the Consolidated Statements of Income.

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In conjunction with previous acquisitions, Metavante had made certain operating decisions with respect to facility and platform consolidations. During the third quarter of 2003, Metavante elected to retain one of the facilities and the related platforms that previously had been set for closure. As a result of these decisions, \$8.5 million of liabilities established for the facility closure, consisting of severance of \$2.4 million and lease costs of \$6.1 million were no longer required. As a result of a change in product strategy, \$15.7 million of related capitalized software costs were determined to have no future value and were written off. The financial statement impact of these decisions is reflected in Salaries and employee benefits expense, Net occupancy expense and Other expense in the Consolidated Statements of Income.

As a result of the financial impact of the previously described transactions and decisions which occurred in the third quarter of 2003 and in consideration of the low interest rate environment, the Corporation acquired and extinguished \$730.3 million in par value of its longer-term and higher cost debt obligations. These debt obligations were replaced with debt obligations that have a lower cost and slightly longer maturities. The cost of acquiring and extinguishing the existing debt obligations amounted to \$54.7 million and is reported as a component of Other expense in the Consolidated Statements of Income.

The aggregate net income impact of these transactions and decisions was approximately \$0.5 million and was not material to reported net income or earnings per share for the three and nine months ended September 30, 2003.

### Second Quarter 2003

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During the second quarter of 2003, the Corporation redeemed all of the Floating Rate Debentures held by its subsidiary, MVBI Capital Trust. MVBI Capital Trust then redeemed all of its currently outstanding Floating Rate Trust Preferred Securities at an aggregate redemption price of \$14.95

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million. In conjunction with the redemption, the Corporation terminated the associated interest rate swap designated as a cash flow hedge. The loss in Accumulated other comprehensive income and unamortized debt issuance costs aggregating \$2.0 million were charged to other in Other expense in the Consolidated Statements of Income during the second quarter of 2003.

During the second quarter of 2003, the Corporation recognized impairment losses on the interest-only strips which represent retained interests associated with its auto securitization activities in the amount of \$4.1 million. The loss is reported in Net investment securities gains (losses) in the Consolidated Statements of Income.

### First Quarter 2003

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During the first quarter of 2003, Metavante completed the integration of its acquisition of Paytrust, Inc. ("Paytrust"). Acquisition-related transition expenses amounted to \$2.5 million and are reported in various line items in Other expense in the Consolidated Statements of Income.

### NET INTEREST INCOME

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Net interest income for the third quarter of 2004 amounted to \$281.1 million compared to \$258.7 million reported for the third quarter of 2003. For the nine months ended September 30, 2004, net interest income amounted to \$843.8 million compared to \$787.1 million for the nine months ended September 30, 2003. Loan growth, slower prepayment activity across all asset classes, growth in noninterest bearing deposits and the impact of prepaying higher cost debt in the latter part of 2003 all contributed to the increase in net interest income. Factors negatively affecting net interest income included the impact of lengthening liabilities in order to reduce future volatility in net interest income due to interest rate increases, cash expenditures for current year acquisitions and cash expenditures for repurchases of common stock and acquisitions in the prior year.

Average earning assets in the third quarter of 2004 amounted to \$33.6 billion compared to \$30.0 billion in the third quarter of 2003, an increase of \$3.6 billion, or 11.9%. Increases in average loans and leases accounted for \$2.9 billion of the quarter over quarter growth. Average investment securities increased \$0.8 billion. Average earning assets for the nine months ended September 30, 2004 amounted to \$32.5 billion compared to \$29.7 billion for the nine months ended September 30, 2003, an increase of \$2.8 billion, or 9.3%. Increases in average loans and leases accounted for \$2.2 billion of the growth over the respective periods. Average investment securities increased \$0.7 billion.

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Average interest bearing liabilities increased \$3.7 billion or 15.0% in the third quarter of 2004 compared to the third quarter of 2003. Average interest bearing deposits increased \$2.2 billion or 12.3% in the third quarter of 2004 compared to the third quarter of last year. Average total borrowings increased \$1.5 billion or 22.0% in the third quarter of 2004 compared to the same period in 2003. For the nine months ended September 30, 2004, average interest bearing liabilities increased \$2.3 billion or 9.4% compared to the same period in 2003. Average interest bearing deposits increased \$1.3 billion or 7.6% in the first nine months of 2004 compared to the first nine months of last year. Average total borrowings increased \$1.0 billion or 14.0% in the first nine months of 2004 compared



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to the same period in 2003.

Average noninterest bearing deposits increased \$0.3 billion or 6.6% in the three months ended September 30, 2004 compared to the same period last year. On a year-to-date basis, average noninterest bearing deposits increased \$0.4 billion or 9.6% in the first nine months of 2004 compared to the first nine months of 2003.

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

### Consolidated Average Loans and Leases

|  | 2004             |                   |                  | 2003              |                  | Growth Pct.  |                 |
|--|------------------|-------------------|------------------|-------------------|------------------|--------------|-----------------|
|  | Third<br>Quarter | Second<br>Quarter | First<br>Quarter | Fourth<br>Quarter | Third<br>Quarter | Annual       | Prior<br>Quarte |
| <b>Commercial Loans and Leases</b>                     |                  |                   |                  |                   |                  |              |                 |
| Commercial   | \$ 7,796         | \$ 7,463          | \$ 7,142         | \$ 6,839          | \$ 6,912         | 12.8%        | 4.5             |
| Commercial real estate                                 |                  |                   |                  |                   |                  |              |                 |
| Commercial mortgages                                   | 7,826            | 7,512             | 7,246            | 7,076             | 6,986            | 12.0         | 4.2             |
| Construction   | 1,100            | 1,071             | 1,075            | 1,071             | 1,014            | 8.5          | 2.7             |
| Total commercial real estate                           | 8,926            | 8,583             | 8,321            | 8,147             | 8,000            | 11.6         | 4.0             |
| Commercial lease financing                             | 395              | 393               | 399              | 384               | 392              | 0.6          | 0.4             |
| <b>Total Commercial<br/>Loans and Leases</b>           | <b>17,117</b>    | <b>16,439</b>     | <b>15,862</b>    | <b>15,370</b>     | <b>15,304</b>    | <b>11.8</b>  | <b>4.1</b>      |
| <b>Personal Loans and Leases</b>                       |                  |                   |                  |                   |                  |              |                 |
| Residential real estate                                |                  |                   |                  |                   |                  |              |                 |
| Residential mortgages                                  | 3,452            | 3,210             | 2,958            | 2,811             | 2,751            | 25.5         | 7.6             |
| Construction   | 342              | 292               | 269              | 246               | 210              | 62.5         | 16.9            |
| Total residential real estate                          | 3,794            | 3,502             | 3,227            | 3,057             | 2,961            | 28.1         | 8.3             |
| Personal loans   |                  |                   |                  |                   |                  |              |                 |
| Student  | 79               | 83                | 102              | 95                | 84               | (5.3)        | (3.5)           |
| Credit card  | 214              | 244               | 230              | 213               | 200              | 6.7          | (12.5)          |
| Home equity loans and lines                            | 4,894            | 4,688             | 4,439            | 4,215             | 4,100            | 19.4         | 4.4             |
| Other  | 1,256            | 1,388             | 1,391            | 1,516             | 1,692            | (25.8)       | (9.5)           |
| Total personal loans                                   | 6,443            | 6,403             | 6,162            | 6,039             | 6,076            | 6.0          | 0.6             |
| Personal lease financing                               | 146              | 164               | 177              | 198               | 255              | (42.8)       | (11.1)          |
| <b>Total Personal Loans and Leases</b>                 | <b>10,383</b>    | <b>10,069</b>     | <b>9,566</b>     | <b>9,294</b>      | <b>9,292</b>     | <b>11.7</b>  | <b>3.1</b>      |
| <b>Total Consolidated Average<br/>Loans and Leases</b> | <b>\$ 27,500</b> | <b>\$ 26,508</b>  | <b>\$ 25,428</b> | <b>\$ 24,664</b>  | <b>\$ 24,596</b> | <b>11.8%</b> | <b>3.7</b>      |

Total consolidated average loans and leases increased \$2.9 billion or 11.8% to \$27.5 billion in the third quarter of 2004 compared to the third

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quarter of 2003. Total average commercial loan and lease growth amounted to \$1.8 billion or 11.8% in the current quarter compared to the third quarter of the prior year. The growth in average commercial loans and leases in the third quarter of 2004 compared to the third quarter of 2003 was evenly split between commercial and industrial loans and commercial real estate loans which each contributed approximately \$0.9 billion, respectively to the quarter over quarter loan growth. Total average personal loans and leases increased \$1.1 billion or 11.7% to \$10.4 billion in the third quarter of 2004 compared to the third quarter of 2003. This growth was driven primarily by growth in home equity loans and lines and residential real estate loans which each increased approximately \$0.8 billion. Average indirect auto loans and leases declined approximately \$0.5 billion in the current quarter compared to the third quarter of the prior year. From a production standpoint, residential real estate loan closings in the third quarter of 2004 were \$0.2 billion or 19.6% lower than loan closings in the second quarter of 2004 and were approximately \$0.6 billion or 35.9% lower in the third quarter of 2004 compared to the third quarter of 2003. Early indications, as measured by application volume, suggest that loan closings in the fourth quarter of 2004 may approximate third quarter production.

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For the nine month period, total consolidated average loans and leases increased \$2.2 billion or 9.0% in the first nine months of 2004 compared to the first nine months of 2003. Total average commercial loan and lease growth amounted to \$1.3 billion or 8.8% in the nine months ended September 30, 2004 compared to the nine months ended September 30, 2003. The growth in average commercial loans and leases in the first nine months of 2004 compared to the same period in 2003 was primarily due to the growth in average commercial real estate loans which increased \$0.8 billion. Total average personal loans and leases increased \$0.8 billion or 9.2% in the first nine months of 2004 compared to the first nine months of 2003. This growth was driven primarily by growth in home equity loans and lines and residential real estate loans which each increased approximately \$0.6 billion. Average indirect auto loans and leases declined approximately \$0.4 billion in the nine months ended September 30, 2004 compared to the nine months ended September 30, 2003. From a production standpoint, residential real estate loan closings declined approximately \$1.5 billion or 33.7% in the first nine months of 2004 compared to the first nine months of 2003.

The growth in average commercial loans in the first nine months of 2004 has been a combination of loans to new customers and increased activity from existing customers whose businesses are in a variety of industries located in Wisconsin and throughout the Corporation's markets outside of the state. When compared to two or three years ago, the business activity in the Corporation's markets has shown some signs of recovery however, the Corporation continues to observe modest capital spending and does not expect that to change in the near term. As a result of customers' improved profitability and stronger cash flows the Corporation has experienced a reduction in nonperforming loans and leases and loan growth. While it may be too early to determine if this is the early stage of more robust and sustainable business loan demand, the Corporation's commercial lending activities have historically fared well as the economy strengthens in its markets. Home equity loans and lines, which includes M&I's wholesale activity, continue to be the primary consumer loan product. The Corporation anticipates these products will continue to drive growth in the consumer side of its banking activities.

The Corporation sells residential real estate production in the secondary market and selected loans with adjustable rate characteristics are periodically retained in the portfolio. Residential real estate loans

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sold to investors amounted to \$0.3 billion in the third quarter of 2004 compared to \$1.1 billion in the third quarter of the prior year. Approximately \$81.1 million of loans sold were attributable to the AmerUs acquisition. For the nine months ended September 30, 2004, residential real estate loans sold to investors amounted to \$1.2 billion compared to \$3.2 billion in the nine months ended September 30, 2003. Approximately \$198.2 million of loans sold in the first nine months of 2004 were attributable to the AmerUs acquisition. At September 30, 2004 and 2003, the Corporation had approximately \$87.6 million and \$42.8 million of mortgage loans held for sale, respectively. Gains from the sale of mortgage loans amounted to \$7.0 million in the third quarter of 2004 compared to \$19.4 million in the third quarter of last year. For the nine months ended September 30, 2004 and 2003, gains from the sale of mortgage loans amounted to \$21.1 million and \$49.7 million, respectively. Approximately \$1.8 million and \$4.5 million of the gain in the third quarter and first nine months of 2004, respectively, were attributable to the AmerUs acquisition.

Auto loans securitized and sold in the third quarter of 2004 amounted to \$0.1 billion compared to \$0.2 billion in the third quarter of last year. For the nine months ended September 30, 2004 and 2003, auto loans securitized and sold amounted to \$0.5 billion, respectively. For the three and nine months ended September 30, 2004, losses from the sale and securitization of auto loans amounted to \$0.6 million and \$2.9 million, respectively. For the three and nine months ended September 30, 2003, gains from the sale and securitization of auto loans amounted to \$0.8 million and \$6.1 million, respectively. The losses incurred in 2004 are primarily due to lower loan interest spreads associated with new auto loan production in a rising interest rate environment.

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

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

Consolidated Average Deposits

|                                    | 2004          |                |               | 2003           |               | Growth Pct. |               |
|------------------------------------|---------------|----------------|---------------|----------------|---------------|-------------|---------------|
|                                    | Third Quarter | Second Quarter | First Quarter | Fourth Quarter | Third Quarter | Annual      | Prior Quarter |
| Bank issued deposits               |               |                |               |                |               |             |               |
| Noninterest bearing deposits       |               |                |               |                |               |             |               |
| Commercial                         | \$ 3,280      | \$ 3,143       | \$ 2,988      | \$ 3,125       | \$ 3,004      | 9.2%        | 4.3           |
| Personal                           | 902           | 908            | 855           | 855            | 828           | 8.9         | (0.6)         |
| Other                              | 456           | 463            | 473           | 489            | 517           | (11.7)      | (1.5)         |
| Total noninterest bearing deposits | 4,638         | 4,514          | 4,316         | 4,469          | 4,349         | 6.6         | 2.8           |
| Interest bearing deposits          |               |                |               |                |               |             |               |
| Savings and NOW                    | 3,452         | 3,395          | 3,303         | 3,282          | 3,273         | 5.5         | 1.7           |
| Money market                       | 5,612         | 5,657          | 5,780         | 6,015          | 6,040         | (7.1)       | (0.8)         |
| Foreign activity                   | 849           | 943            | 909           | 799            | 759           | 11.9        | (9.9)         |
| Total interest                     |               |                |               |                |               |             |               |

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|                                     |           |           |           |           |           |        |        |
|-------------------------------------|-----------|-----------|-----------|-----------|-----------|--------|--------|
| bearing deposits                    | 9,913     | 9,995     | 9,992     | 10,096    | 10,072    | (1.6)  | (0.8)  |
| Time deposits                       |           |           |           |           |           |        |        |
| Other CDs and time deposits         | 2,653     | 2,582     | 2,611     | 2,659     | 2,707     | (2.0)  | 2.7    |
| CDs greater than \$100,000          | 805       | 660       | 632       | 633       | 617       | 30.4   | 22.0   |
| Total time deposits                 | 3,458     | 3,242     | 3,243     | 3,292     | 3,324     | 4.0    | 6.7    |
| Total bank issued deposits          | 18,009    | 17,751    | 17,551    | 17,857    | 17,745    | 1.5    | 1.5    |
| Wholesale deposits                  |           |           |           |           |           |        |        |
| Money market                        | 747       | 72        | 75        | 74        | 73        | 923.1  | 933.5  |
| Brokered CDs                        | 5,009     | 4,498     | 3,854     | 3,270     | 2,938     | 70.5   | 11.4   |
| Foreign time                        | 869       | 1,188     | 1,035     | 1,282     | 1,399     | (37.9) | (26.9) |
| Total wholesale deposits            | 6,625     | 5,758     | 4,964     | 4,626     | 4,410     | 50.3   | 15.1   |
| Total consolidated average deposits | \$ 24,634 | \$ 23,509 | \$ 22,515 | \$ 22,483 | \$ 22,155 | 11.2%  | 4.8    |

Total consolidated average deposits increased \$2.5 billion or 11.2% in the third quarter of 2004 compared to the third quarter of 2003. Average noninterest bearing deposits increased \$0.3 billion or 6.6% while average bank-issued interest bearing activity accounts declined \$0.2 billion or 1.6% in the current quarter compared to the third quarter of the prior year. Average bank-issued time deposits increased \$0.1 billion or 4.0% in the third quarter of 2004 compared to the third quarter of 2003 and increased \$0.2 billion or 6.7% since the second quarter of 2004. The Corporation has experienced success in competing for these deposits without pricing above comparable wholesale levels.

For the nine months ended September 30, 2004, total average consolidated deposits increased \$1.7 billion or 8.0% compared to the nine months ended September 30, 2003. Average noninterest bearing deposits increased \$0.4 billion or 9.6% while average bank-issued interest bearing activity accounts declined \$0.1 billion or 1.1% in the first nine months of 2004 compared to the first nine months of 2003.

The growth in bank issued deposits, especially noninterest bearing deposits, includes both commercial and retail banking and was influenced by the lower interest rate environment. In commercial banking, the focus remains on developing deeper relationships through the sale of treasury management products and services along with revised incentive plans focused on growing deposits. The retail banking strategy continues to focus on aggressively selling the right products to meet the needs of customers and enhance the Corporation's profitability. The Corporation continues to emphasize the sale of checking products. However, management expects the annual growth in noninterest bearing balances in 2004 to be more modest than that experienced in 2003.

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For the three and nine months ended September 30, 2004, average wholesale deposits increased \$2.2 billion and \$1.6 billion, respectively, compared to the three and nine months ended September 30, 2003. The Corporation continues to make greater use of wholesale funding alternatives, especially brokered money market deposits and institutional certificates of deposits. These deposits are funds in the form of deposits generated through distribution channels other than M&I's own banking branches. These deposits allow the Corporation's bank subsidiaries to gather funds across a wider geographic base and at pricing levels considered

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attractive, where the underlying depositor may be retail or institutional. Access to and use of these funding sources also provide the Corporation with the flexibility to not pursue unprofitable single service time deposit relationships.

During the first quarter of 2004, a fixed rate advance from the Federal Home Loan Bank ("FHLB") aggregating \$55.0 million with an annual coupon interest rate of 5.06% was prepaid and retired resulting in a charge to earnings of \$4.9 million. In addition, \$45.0 million of FHLB fixed rate advances with an annual coupon interest rate of 5.48% matured. During the first quarter of 2004, \$225.0 million of senior bank notes with an annual weighted average coupon interest rate of 2.81% were issued. In addition, \$200.0 million of amortizing senior bank notes with a semi-annual coupon interest rate of 2.90% were issued. New FHLB advances amounted to \$150.0 million with an annual coupon interest rate of 2.07% in the first quarter of 2004 and \$500.0 million with an annual weighted average coupon interest rate of 3.29% in the second quarter of 2004. During the second quarter of 2004, the Corporation issued \$100.0 million of Series E medium term notes with an annual coupon rate of 1.72% and \$2.6 million of MiNotes with an annual weighted average coupon interest rate of 4.97%.

As previously discussed, during the third quarter of 2004, the Corporation completed two financing transactions aggregating \$1.0 billion, which consisted of \$600.0 million of 4.375% Senior Notes and 16,000,000 units of Common SPACSSM. Each unit has a stated value of \$25.00 for an aggregate value of \$400.0 million. See LIQUIDITY AND CAPITAL RESOURCES and OFF-BALANCE SHEET ARRANGEMENTS for further discussion of Common SPACES. The net proceeds were used for general corporate purposes, including the long-term financing for the recently completed Metavante acquisitions. In addition to the financing transactions previously discussed, during the third quarter of 2004, the Corporation's lead bank, M&I Marshall & Ilsley Bank ("M&I Bank") issued \$200.0 million of 3.95% senior notes which mature in 2009. New FHLB floating rate advances amounted to \$360.0 million. M&I Bank also prepaid \$300.0 million of floating rate FHLB advances and terminated receive floating pay fixed interest rate swaps designated as cash flow hedges against the FHLB advances. The termination of the interest rate swap resulted in a charge to earnings of \$2.0 million. During the third quarter of 2004, the Corporation issued \$9.5 million of MiNotes with an annual weighted average coupon interest rate of 4.01%. MiNotes in the amount of \$6.7 million with an annual weighted average coupon interest rate of 5.93% were called by or put to the Corporation in accordance with the existing terms of the MiNote agreements.

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The Corporation's consolidated average interest earning assets and interest bearing liabilities, interest earned and interest paid for the three and nine months ended September 30, 2004 and 2003, are presented in the following tables (\$ in millions):

### Consolidated Yield and Cost Analysis

| Three Months Ended<br>September 30, 2004 |          |                                 | Three Months Ended<br>September 30, 2003 |          |                          |
|--|----------|---------------------------------|--|----------|--------------------------|
| Average<br>Balance                       | Interest | Average<br>Yield or<br>Cost (b) | Average<br>Balance                       | Interest | Average<br>Yield<br>Cost |

Loans and leases: (a)

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|  |             |          |        |             |          |       |
|--|-------------|----------|--------|-------------|----------|-------|
| Commercial loans and leases                                      | \$ 8,190.5  | \$ 99.3  | 4.82 % | \$ 7,304.4  | \$ 83.9  | 4.8   |
| Commercial real estate loans                                     | 8,926.4     | 120.8    | 5.38   | 8,000.0     | 110.9    | 5.4   |
| Residential real estate loans                                    | 3,794.1     | 52.2     | 5.48   | 2,961.2     | 42.7     | 5.5   |
| Home equity loans and lines                                      | 4,893.4     | 63.3     | 5.15   | 4,098.6     | 56.7     | 5.3   |
| Personal loans and leases  | 1,695.2     | 21.7     | 5.09   | 2,232.2     | 29.4     | 5.1   |
|  | -----       | -----    | -----  | -----       | -----    | ----- |
| Total loans and leases   | 27,499.6    | 357.3    | 5.17   | 24,596.4    | 323.6    | 5.1   |
| Investment securities (b):                                       |             |          |        |             |          |       |
| Taxable  | 4,710.8     | 51.7     | 4.36   | 3,990.1     | 33.3     | 3.3   |
| Tax Exempt (a)   | 1,224.1     | 22.6     | 7.46   | 1,166.8     | 21.7     | 7.4   |
|  | -----       | -----    | -----  | -----       | -----    | ----- |
| Total investment securities                                      | 5,934.9     | 74.3     | 4.99   | 5,156.9     | 55.0     | 4.9   |
| Trading securities (a)   | 23.5        | 0.1      | 1.38   | 26.8        | 0.1      | 0.1   |
| Other short-term investments                                     | 165.1       | 0.7      | 1.57   | 259.6       | 0.5      | 0.5   |
|  | -----       | -----    | -----  | -----       | -----    | ----- |
| Total interest earning assets                                    | \$ 33,623.1 | \$ 432.4 | 5.12 % | \$ 30,039.7 | \$ 379.2 | 5.1   |
|  | =====       | =====    | =====  | =====       | =====    | ===== |
| Interest bearing deposits:                                       |             |          |        |             |          |       |
| Bank issued deposits:  |             |          |        |             |          |       |
| Bank issued interest bearing activity deposits                   | \$ 9,913.0  | \$ 19.8  | 0.79 % | \$ 10,072.1 | \$ 16.2  | 0.8   |
| Bank issued time deposits  | 3,457.7     | 21.5     | 2.47   | 3,324.3     | 20.3     | 2.5   |
|  | -----       | -----    | -----  | -----       | -----    | ----- |
| Total bank issued deposits                                       | 13,370.7    | 41.3     | 1.23   | 13,396.4    | 36.5     | 1.2   |
| Wholesale deposits   | 6,625.6     | 32.7     | 1.96   | 4,409.6     | 15.8     | 1.9   |
|  | -----       | -----    | -----  | -----       | -----    | ----- |
| Total interest bearing deposits                                  | 19,996.3    | 74.0     | 1.47   | 17,806.0    | 52.3     | 1.4   |
| Short-term borrowings  | 2,493.6     | 14.3     | 2.29   | 3,102.6     | 19.6     | 2.3   |
| Long-term borrowings   | 5,899.7     | 54.8     | 3.69   | 3,775.7     | 40.7     | 4.1   |
|  | -----       | -----    | -----  | -----       | -----    | ----- |
| Total interest bearing liabilities                               | \$ 28,389.6 | \$ 143.1 | 2.01 % | \$ 24,684.3 | \$ 112.6 | 2.0   |
|  | =====       | =====    | =====  | =====       | =====    | ===== |
| Net interest margin (FTE) as a percent of average earning assets |             | \$ 289.3 | 3.42 % |             | \$ 266.6 | 3.4   |
|  |             | =====    | =====  |             | =====    | ===== |
| Net interest spread (FTE)  |             |          | 3.11 % |             |          | 3.1   |
|  |             |          | =====  |             |          | ===== |

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

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

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Consolidated Yield and Cost Analysis

|                       | Nine Months Ended<br>September 30, 2004 |          |                                 | Nine Months Ended<br>September 30, 2003 |          |                          |
|-----------------------|---|----------|---------------------------------|---|----------|--------------------------|
|                       | Average<br>Balance                      | Interest | Average<br>Yield or<br>Cost (b) | Average<br>Balance                      | Interest | Average<br>Yield<br>Cost |
|                       | -----                                   | -----    | -----                           | -----                                   | -----    | -----                    |
| Loans and leases: (a) |   |          |                                 |   |          |                          |

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|  |             |           |        |             |           |       |
|--|-------------|-----------|--------|-------------|-----------|-------|
| Commercial loans and leases                                      | \$ 7,863.6  | \$ 276.4  | 4.70 % | \$ 7,319.6  | \$ 254.2  | 4.4   |
| Commercial real estate loans                                     | 8,611.4     | 345.8     | 5.36   | 7,817.3     | 335.2     | 5.0   |
| Residential real estate loans                                    | 3,508.6     | 144.1     | 5.49   | 2,884.9     | 130.6     | 6.0   |
| Home equity loans and lines                                      | 4,674.2     | 183.5     | 5.24   | 4,074.1     | 175.2     | 5.0   |
| Personal loans and leases  | 1,824.3     | 69.3      | 5.08   | 2,205.2     | 90.8      | 5.0   |
|  | -----       | -----     | -----  | -----       | -----     | ----- |
| Total loans and leases   | 26,482.1    | 1,019.1   | 5.14   | 24,301.1    | 986.0     | 5.0   |
| Investment securities (b):                                       |             |           |        |             |           |       |
| Taxable  | 4,638.6     | 148.7     | 4.30   | 3,972.1     | 120.4     | 4.0   |
| Tax Exempt (a)   | 1,180.8     | 65.7      | 7.58   | 1,180.0     | 65.6      | 7.0   |
|  | -----       | -----     | -----  | -----       | -----     | ----- |
| Total investment securities                                      | 5,819.4     | 214.4     | 4.95   | 5,152.1     | 186.0     | 4.0   |
| Trading securities (a)   | 23.0        | 0.2       | 1.34   | 23.3        | 0.2       | 1.0   |
| Other short-term investments                                     | 180.7       | 1.6       | 1.18   | 266.5       | 1.9       | 0.0   |
|  | -----       | -----     | -----  | -----       | -----     | ----- |
| Total interest earning assets                                    | \$ 32,505.2 | \$1,235.3 | 5.08 % | \$ 29,743.0 | \$1,174.1 | 5.0   |
|  | =====       | =====     | =====  | =====       | =====     | ===== |
| Interest bearing deposits:                                       |             |           |        |             |           |       |
| Bank issued deposits:  |             |           |        |             |           |       |
| Bank issued interest bearing activity deposits                   | \$ 9,966.6  | \$ 51.1   | 0.69 % | \$ 10,081.2 | \$ 59.3   | 0.0   |
| Bank issued time deposits  | 3,314.4     | 59.9      | 2.41   | 3,435.9     | 65.6      | 2.0   |
|  | -----       | -----     | -----  | -----       | -----     | ----- |
| Total bank issued deposits                                       | 13,281.0    | 111.0     | 1.12   | 13,517.1    | 124.9     | 1.0   |
| Wholesale deposits   | 5,785.8     | 76.5      | 1.77   | 4,205.3     | 50.5      | 1.0   |
|  | -----       | -----     | -----  | -----       | -----     | ----- |
| Total interest bearing deposits                                  | 19,066.8    | 187.5     | 1.31   | 17,722.4    | 175.4     | 1.0   |
| Short-term borrowings  | 3,058.3     | 44.4      | 1.94   | 3,303.7     | 62.6      | 2.0   |
| Long-term borrowings   | 4,952.2     | 135.6     | 3.66   | 3,724.8     | 125.2     | 4.0   |
|  | -----       | -----     | -----  | -----       | -----     | ----- |
| Total interest bearing liabilities                               | \$ 27,077.3 | \$ 367.5  | 1.81 % | \$ 24,750.9 | \$ 363.2  | 1.0   |
|  | =====       | =====     | =====  | =====       | =====     | ===== |
| Net interest margin (FTE) as a percent of average earning assets |             | \$ 867.8  | 3.57 % |             | \$ 810.9  | 3.0   |
|  |             | =====     | =====  |             | =====     | ===== |
| Net interest spread (FTE)  |             |           | 3.27 % |             |           | 3.0   |
|  |             |           | =====  |             |           | ===== |

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

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

The net interest margin, as a percent of average earning assets on a fully taxable equivalent basis ("FTE"), decreased 11 basis points from 3.53 percent in the third quarter of 2003 to 3.42 percent in the third quarter of 2004. The cost of bank issued interest bearing deposits in the current quarter increased 15 basis points from the same quarter of the previous year. The increase in noninterest bearing deposits as previously discussed provided a benefit to the net interest margin. The cost of other funding sources (wholesale deposits and total borrowings) increased 3 basis points in the current quarter compared to the third quarter of last year. The Corporation estimates that the additional interest expense associated with the \$1.0 billion of debt issued in late July 2004 to finance Metavante's recent acquisitions lowered the net interest margin as a percent of average earning assets on a FTE basis by approximately 9 basis points in the third quarter of 2004. The Corporation estimates that

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the additional interest expense associated with this debt will lower the net interest margin as a percent of average earning assets on a FTE basis by approximately 13 basis points in the fourth quarter of 2004. Unlike a bank acquisition or loan growth, where the primary source of revenue is interest income, the revenue impact of Metavante's acquisitions is recorded in Other income and is not a component of the net interest margin statistic.

On a year to date basis, the net interest margin, as a percent of average earning assets on a FTE basis, decreased 8 basis points from 3.65 percent in the nine months ended September 30, 2003 to 3.57 percent in the nine months ended September 30, 2004. The yield on average interest earning assets decreased 21 basis points in the first nine months of 2004 compared to the first nine months of the prior year. The cost of bank issued interest bearing deposits decreased 12 basis points in the nine months ended September 30, 2004 compared to the same period of the previous year. As previously discussed, the increase in noninterest bearing deposits provided a benefit to the net interest margin. The cost of other funding sources (wholesale deposits and total borrowings) decreased 36 basis points in the nine months ended September 30, 2004, compared to the nine months ended September 30, 2003. The Corporation estimates that the additional interest expense associated with the \$1.0 billion of debt issued in late July 2004 to finance Metavante's recent acquisitions lowered the net interest margin as a percent of average earning assets on a FTE basis by approximately 3 basis points in the nine months ended September 30, 2004.

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Net interest income for the quarter and first nine months of 2004 was affected by a number of factors. Loan growth, the early retirement of higher cost debt primarily in the latter part of 2003, and lower levels of prepayment activity were beneficial to net interest income in 2004. The low absolute level of interest rates and increased level of prepayments experienced in the first three quarters of 2003 shortened the expected life of many of the Corporation's financial assets. Lower reinvestment rates and a conscious slowing in deposit repricing resulting from selectively lowering deposit rates and the additional interest expense associated with the \$1.0 billion of debt issued in late July 2004 to finance Metavante's recent acquisitions, has adversely impacted net interest income.

Management expects the net interest margin as a percent of average earning assets will likely trend down 6 to 8 basis points in the fourth quarter of 2004 compared to the third quarter of 2004 as a result of the following: loan spreads tend to be more narrow, particularly as interest rates increase; as the economy improves, the Corporation's capacity to generate loans will likely exceed its ability to generate appropriately priced deposits; and the impact of a full quarter of interest expense, compared to two months of interest expense in the third quarter of 2004, from the financing of Metavante's recent acquisitions. Net interest income and the net interest margin can vary and continue to be influenced by loan and deposit growth, product spreads, pricing competition in the Corporation's markets, prepayment activity, future interest rate changes and various other factors.

### PROVISION FOR LOAN AND LEASE LOSSES AND CREDIT QUALITY

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The following tables present comparative consolidated credit quality information as of September 30, 2004, and as of the end of the prior four quarters.



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Nonperforming Assets

(\$000's)

|                                      | 2004          |                |               | 2003           |               |
|--------------------------------------|---------------|----------------|---------------|----------------|---------------|
|                                      | Third Quarter | Second Quarter | First Quarter | Fourth Quarter | Third Quarter |
| Nonaccrual                           | \$ 139,154    | \$ 137,845     | \$ 149,550    | \$ 166,387     | \$ 180,535    |
| Renegotiated                         | 244           | 253            | 261           | 278            | 286           |
| Past due 90 days or more             | 3,148         | 6,902          | 6,296         | 6,111          | 6,479         |
| Total nonperforming loans and leases | 142,546       | 145,000        | 156,107       | 172,776        | 187,300       |
| Other real estate owned              | 7,098         | 10,394         | 13,172        | 13,235         | 13,642        |
| Total nonperforming assets           | \$ 149,644    | \$ 155,394     | \$ 169,279    | \$ 186,011     | \$ 200,942    |
| Allowance for loan and lease losses  | \$ 358,072    | \$ 357,898     | \$ 353,687    | \$ 349,561     | \$ 348,100    |

Consolidated Statistics

|  | 2004          |                |               | 2003           |               |
|--|---------------|----------------|---------------|----------------|---------------|
|  | Third Quarter | Second Quarter | First Quarter | Fourth Quarter | Third Quarter |
| Net charge-offs to average loans and leases annualized                           | 0.10 %        | 0.08 %         | 0.08 %        | 0.13 %         | 0.13 %        |
| Total nonperforming loans and leases to total loans and leases                   | 0.51          | 0.53           | 0.60          | 0.69           | 0.76          |
| Total nonperforming assets to total loans and leases and other real estate owned | 0.53          | 0.57           | 0.65          | 0.74           | 0.82          |
| Allowance for loan and lease losses to total loans and leases                    | 1.27          | 1.32           | 1.36          | 1.39           | 1.41          |
| Allowance for loan and lease losses to total nonperforming loans and leases      | 251           | 247            | 227           | 202            | 186           |

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Nonaccrual Loans and Leases By Type

(\$000's)

|  | 2004  |        |       | 2003   |       |
|--|-------|--------|-------|--------|-------|
|  | Third | Second | First | Fourth | Third |

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|  | Quarter            | Quarter            | Quarter            | Quarter             | Quarter            |
|--|--------------------|--------------------|--------------------|---------------------|--------------------|
|  | -----              | -----              | -----              | -----               | -----              |
| Commercial   |                    |                    |                    |                     |                    |
| Commercial, financial<br>and agricultural<br>Lease financing receivables | \$ 49,714<br>5,476 | \$ 39,473<br>6,398 | \$ 45,714<br>7,381 | \$ 56,096<br>13,308 | \$ 66,571<br>4,538 |
|  | -----              | -----              | -----              | -----               | -----              |
| Total commercial   | 55,190             | 45,871             | 53,095             | 69,404              | 71,109             |
| Real estate  |                    |                    |                    |                     |                    |
| Construction and land development  | 207                | 1,724              | 78                 | 800                 | 353                |
| Commercial mortgage  | 33,817             | 38,561             | 46,172             | 42,857              | 47,012             |
| Residential mortgage   | 48,715             | 50,776             | 49,528             | 52,098              | 60,287             |
|  | -----              | -----              | -----              | -----               | -----              |
| Total real estate  | 82,739             | 91,061             | 95,778             | 95,755              | 107,652            |
| Personal   | 1,225              | 913                | 677                | 1,228               | 1,774              |
|  | -----              | -----              | -----              | -----               | -----              |
| Total nonaccrual loans and leases  | \$ 139,154         | \$ 137,845         | \$ 149,550         | \$ 166,387          | \$ 180,535         |
|  | =====              | =====              | =====              | =====               | =====              |

Reconciliation of Allowance for Loan and Lease Losses

|                                       | (\$000's)        |                   |                  |                   |                  |
|---------------------------------------|------------------|-------------------|------------------|-------------------|------------------|
|                                       | 2004             |                   |                  | 2003              |                  |
|                                       | Third<br>Quarter | Second<br>Quarter | First<br>Quarter | Fourth<br>Quarter | Third<br>Quarter |
|                                       | -----            | -----             | -----            | -----             | -----            |
| Beginning balance                     | \$ 357,898       | \$ 353,687        | \$ 349,561       | \$ 348,100        | \$ 348,100       |
| Provision for loan and lease losses   | 6,872            | 9,227             | 9,027            | 9,807             | 7,852            |
| Allowance of banks and loans acquired | --               | --                | 27               | --                | --               |
| Loans and leases charged-off          |                  |                   |                  |                   |                  |
| Commercial                            | 4,403            | 4,015             | 2,904            | 4,497             | 4,317            |
| Real estate                           | 3,047            | 2,765             | 3,138            | 5,142             | 3,238            |
| Personal                              | 3,207            | 2,616             | 3,653            | 3,661             | 2,528            |
| Leases                                | 252              | 536               | 1,001            | 2,494             | 880              |
|                                       | -----            | -----             | -----            | -----             | -----            |
| Total charge-offs                     | 10,909           | 9,932             | 10,696           | 15,794            | 10,963           |
| Recoveries on loans and leases        |                  |                   |                  |                   |                  |
| Commercial                            | 2,366            | 2,279             | 2,886            | 3,810             | 1,400            |
| Real estate                           | 611              | 1,336             | 1,555            | 2,508             | 591              |
| Personal                              | 900              | 906               | 756              | 762               | 831              |
| Leases                                | 334              | 395               | 571              | 368               | 289              |
|                                       | -----            | -----             | -----            | -----             | -----            |
| Total recoveries                      | 4,211            | 4,916             | 5,768            | 7,448             | 3,111            |
| Net loans and leases charge-offs      | 6,698            | 5,016             | 4,928            | 8,346             | 7,852            |
|                                       | -----            | -----             | -----            | -----             | -----            |
| Ending balance                        | \$ 358,072       | \$ 357,898        | \$ 353,687       | \$ 349,561        | \$ 348,100       |
|                                       | =====            | =====             | =====            | =====             | =====            |

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

OREO is principally comprised of commercial and residential properties acquired in partial or total satisfaction of problem loans and amounted to \$7.1 million at September 30, 2004, compared to \$10.4 million at June 30, 2004 and \$13.2 million at March 31, 2004.

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

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

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At September 30, 2004, nonperforming loans and leases amounted to \$142.5 million or 0.51% of consolidated loans and leases compared to \$145.0 million or 0.53% of consolidated loans and leases at June 30, 2004, \$156.1 million or 0.60% of consolidated loans and leases at March 31, 2004 and \$172.8 million or 0.69% of consolidated loans and leases at December 31, 2003. Both in terms of absolute dollars and percent of total loans and leases outstanding, nonperforming loans at September 30, 2004 is the sixth consecutive quarter-end in which there was a decline in nonperforming loans. Nonaccrual loans and leases have been the primary source of the decrease in nonperforming loans and leases since December 31, 2003. The net decrease was primarily due to continued reductions and positive resolutions in several portfolio segments and improving credit conditions throughout the loan and lease portfolios.

Net charge-offs amounted to \$6.7 million or 0.10% of average loans and leases in the third quarter of 2004 compared to \$5.0 million or 0.08% of average loans and leases in the second quarter of 2004, \$4.9 million or 0.08% of average loans and leases in the first quarter of 2004 and \$8.3 million or 0.13% of average loans and leases in the fourth quarter of 2003. The net charge-off activity experienced in the first and second quarters of 2004 are the lowest levels experienced in any individual quarter since the second quarter of 2000. This lower level of net charge-offs has to some extent been the result of higher than normal recoveries. Based on the status of some of the larger charge-offs recognized in recent quarters, management expects recoveries will likely return to a lower level in future periods. Recoveries in the third quarter of 2004 were \$0.7 million lower than recoveries in the second quarter of 2004 and \$1.6 million lower than recoveries in the first quarter of 2004.

Credit quality continued to show improvement as evidenced by the decline in nonperforming loans and leases and net charge-offs. At year-end 2003, the Corporation disclosed that it expects net charge-offs in 2004 to range from 0.15% to 0.20% for the year and nonperforming loans and leases as a percent of total loans and leases outstanding to be in the range of 70-80 basis points. Based on its experience in the first nine months of 2004, the Corporation expects credit quality ratios will be below these ranges in the near term. Management continues to believe that the long-term

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impact of the recent recession may still provide some unanticipated results within the loan and lease portfolio and some degree of stress and uncertainty continues to exist.

The provision for loan and lease losses amounted to \$6.9 million for the three months ended September 30, 2004 compared to \$9.2 million for the three months ended June 30, 2004 and \$7.9 million for the three months ended September 30, 2003. The allowance for loan and lease losses as a percent of total loans and leases outstanding was 1.27% at September 30, 2004, 1.32% at June 30, 2004 and 1.39% at December 31, 2003.

### OTHER INCOME

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Total other income in the third quarter of 2004 amounted to \$367.9 million compared to \$325.0 million in the same period last year, an increase of \$42.9 million or 13.2%. For the nine months ended September 30, 2004, total other income amounted to \$1,011.3 million compared to \$910.2 million for the nine months ended September 30, 2003, an increase of \$101.1 million or 11.1%. The increase in other income was primarily due to growth in data processing services and trust services revenue (primarily the Metavante acquisitions described below) and was partially offset by lower mortgage banking revenue and lower net investment securities gains.

Data processing services revenue amounted to \$239.0 million in the third quarter of 2004 compared to \$166.3 million in the third quarter of 2003, an increase of \$72.7 million or 43.7%. For the nine months ended September 30, 2004, data processing services revenue amounted to \$622.4 million compared to \$481.4 million for the nine months ended September 30, 2003, an increase of \$141.0 million or 29.3%. Revenue associated with Metavante's acquisitions completed in the third quarter of 2004 (AFS, NYCE and RDC) along with the May 2004 acquisition of Kirchman and the November 2003 acquisition of Printing For Systems, Inc. contributed approximately \$64.5 million and \$91.4 million to the revenue growth in the three and nine months ended September 30, 2004, over the comparable three and nine months ended September 30, 2003. Overall, revenue growth was generally strong throughout all aspects of this segment. Buyout revenue, which varies from period to period, was not significant to data processing services revenue for the three and nine months ended September 30, 2004 and 2003, respectively. By way of an update to the outlook previously provided in prior filings, management anticipates Metavante's total revenue (internal and external) to range from \$945 million to \$955 million and segment income to range from \$79 million to \$82 million for the year ended December 31, 2004. See Note 5, Business Combinations in Notes to Financial Statements for an update on Metavante's recently announced acquisition.

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For the three months ended September 30, 2004, item processing revenue amounted to \$10.3 million compared to \$11.2 million for the three months ended September 30, 2003, a decrease of \$0.9 million or 7.9%. Lower volumes, some lost business and lower buyout fees, which vary period to period, all contributed to the quarter over quarter decline. For the nine months ended September 30, 2004, item processing revenue amounted to \$32.6 million compared to \$31.0 million for the nine months ended September 30, 2003, an increase of \$1.6 million or 5.2%. The increase in revenues is due to volumes processed.

Trust services revenue amounted to \$37.5 million in the third quarter of 2004 compared to \$32.0 million in the third quarter of 2003, an increase of \$5.5 million or 17.1%. For the nine months ended September 30, 2004, trust services revenue amounted to \$111.7 million compared to \$93.3

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million for the nine months ended September 30, 2003, an increase of \$18.4 million or 19.8%. Revenue associated with the employee benefit plan business purchased from a national banking association located in Missouri contributed approximately \$2.7 million and \$7.1 million to the revenue growth in the three and nine months ended September 30, 2004 compared to the same periods in the prior year. The remainder of the increase in revenue was due to sales efforts, positive equity market performance and some shifting of funds into equities. Assets under management were approximately \$17.4 billion at September 30, 2004, compared to \$15.7 billion at December 31, 2003, and \$14.5 billion at September 30, 2003.

Total mortgage banking revenue was \$8.9 million in the third quarter of 2004 compared with \$24.2 million in the third quarter of 2003, a decrease of \$15.3 million. For the nine months ended September 30, 2004, total mortgage banking revenue was \$27.5 million compared with \$63.5 million for the nine months ended September 30, 2003, a decrease of \$36.0 million. For the three and nine months ended September 30, 2004, the Corporation sold \$0.3 billion and \$1.2 billion of residential mortgage loans to the secondary market. Retained interests in the form of mortgage servicing rights amounted to \$1.1 million for the nine months ended September 30, 2004. By comparison, for the three and nine months ended September 30, 2003, the Corporation sold \$1.1 billion and \$3.2 billion of residential mortgage loans to the secondary market. Retained interests in the form of mortgage servicing rights amounted to \$1.7 million for the nine months ended September 30, 2003. Approximately \$81.1 million of the residential mortgage loans sold and \$1.8 million of the reported gain recognized in the third quarter of 2004 and \$198.2 million of the residential mortgage loans sold and \$4.5 million of the reported gain recognized in the first nine months of 2004 was attributable to the AmerUs acquisition.

Net investment securities activities for the three and nine months ended September 30, 2004 were not significant. For the three months ended September 30, 2003, net investment securities gains amounted to \$16.7 million. As previously discussed, \$16.2 million represents the gain from the sale of one of the portfolio companies held by the Corporation's Capital Markets group. For the nine months ended September 30, 2003, net investment securities gains amounted to \$15.7 million. Gains recognized by the Corporation's Capital Markets group amounted to \$17.9 million, including the transaction previously discussed. These gains were offset by \$4.1 million of impairment losses recognized in the second quarter of 2003 on the interest-only strips which represent retained interests associated with auto loan securitization activity.

Other income in the third quarter of 2004 amounted to \$40.0 million compared to \$41.7 million in the third quarter of 2003, a decrease of \$1.7 million. For the nine months ended September 30, 2004, other income amounted to \$120.9 million compared to \$125.3 million for the nine months ended September 30, 2003, a decrease of \$4.4 million. Gains from the sale of branches in the three and nine months ended September 30, 2003 amounted to \$1.6 million and \$2.5 million, respectively. Lower trading income and lower auto securitization income, as previously discussed, was offset by increases in card related fees and other sources of income in the three and nine months ended September 30, 2004 compared to the three and nine months ended September 30, 2003.

### OTHER EXPENSE

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Total other expense for the three months ended September 30, 2004 amounted to \$408.1 million compared to \$410.0 million for the three months ended September 30, 2003, a decrease of \$1.9 million. For the nine months ended September 30, 2004, total other expense amounted to \$1,145.1 million

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compared to \$1,081.3 million for the nine months ended September 30, 2003, an increase of \$63.8 million or 5.9%.

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Total other expense for the three and nine months ended September 30, 2004 include the operating expenses associated with Metavante's acquisition of Printing For Systems, Inc. in November 2003, Kirchman in May 2004, the employee benefit plan business purchased by the Trust Services reporting unit beginning in the third quarter of 2003 and the purchase of AmerUs by the Banking segment on January 1, 2004. Also included in total other expense for part of the three and nine months ended September 30, 2004 are the operating expenses associated with Metavante's acquisitions of AFS on July 1, 2004, NYCE on July 30, 2004 and RDC on September 8, 2004. Such operating expenses have all been included in the Corporation's consolidated operating expenses since the acquisitions were completed. In addition, total other expense for the three and nine months ended September 30, 2004 include losses from prepaying debt and terminating the related interest rate swaps designated as hedges. For the three and nine months ended September 30, 2004, such losses amounted to \$2.0 million and \$6.9 million, respectively. Salaries and employee benefits expense for the three and nine months ended September 30, 2004 include a \$1.0 million benefit for the retroactive recognition of the effect of the Medicare Prescription Drug, Improvement and Modernization Act of 2003 ("Medicare Act"). Other expense for the nine months ended September 30, 2004 include Metavante's \$4.9 million write-down of capitalized software costs associated with a product that was impaired due to limited growth potential and the decision to discontinue marketing the product to new customers.

Total other expense for the three and nine months ended September 30, 2003 also includes losses from prepaying debt and terminating the related interest rate swaps designated as hedges. For the three and nine months ended September 30, 2003, such losses amounted to \$54.7 million and \$56.7 million, respectively. During the third quarter of 2003, Metavante reversed \$8.5 million of liabilities established for a facility closure, consisting of severance of \$2.4 million and lease costs of \$6.1 million, as a result of a decision to retain one of the facilities and the related platforms that previously had been set for closure. Also during the third quarter of 2003, \$15.7 million of related capitalized software costs were determined to have no future value and were written off due to a change in product strategy. Total other expense for the nine months ended September 30, 2003 includes \$2.5 million of transition costs associated with the completion of Metavante's integration of Paytrust.

For the three months ended September 30, 2004, the estimated aggregate impact of these items was a decrease to total other expense over the comparative period of approximately \$9.7 million. For the nine months ended September 30, 2004, the estimated aggregate impact of these items was an increase to total other expense over the nine months ended September 30, 2003 of approximately \$24.3 million. Excluding the impact of these items, total other expense growth in the third quarter of 2004 compared to the third quarter of 2003 was approximately \$7.8 million or 2.2% and for the nine months ended September 30, 2004 compared to the nine months ended September 30, 2003, was approximately \$39.5 million or 3.9%.

The Corporation estimates that including the operating expenses of Metavante's acquisitions completed during the third quarter of 2004 for a full quarter compared to a partial quarter will increase operating expenses in the fourth quarter of 2004 by approximately \$14 million.

Expense control is sometimes measured in the financial services industry by the efficiency ratio statistic. The efficiency ratio is calculated by

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taking total other expense divided by the sum of total other income (including Capital Markets revenue but excluding investment securities gains or losses) and net interest income on a fully taxable equivalent basis. The Corporation's efficiency ratios for the three months ended September 30, 2004, and prior four quarters were:

### Efficiency Ratios

|   | Three Months Ended    |                  |                   |                      |                       |
|---|-----------------------|------------------|-------------------|----------------------|-----------------------|
|   | September 30,<br>2004 | June 30,<br>2004 | March 31,<br>2004 | December 31,<br>2003 | September 30,<br>2003 |
| Consolidated Corporation                        | 62.2 %                | 60.2 %           | 60.4 %            | 63.9 %               | 69.4 %                |
| Consolidated Corporation<br>Excluding Metavante | 49.0 %                | 48.8 %           | 49.2 %            | 52.1 %               | 60.6 %                |

Salaries and employee benefits expense amounted to \$231.5 million in the third quarter of 2004 compared to \$199.4 million in the third quarter of 2003, an increase of \$32.1 million or 16.1%. For the nine months ended September 30, 2004, salaries and employee benefits expense amounted to \$647.3 compared to \$590.1 million for the nine months ended September 30, 2003, an increase of \$57.2 million or 9.7%. Salaries and benefits associated with acquisitions and increases in performance-based incentive compensation were the primary drivers of the growth in salaries and employee benefits expense in the third quarter and first nine months of 2004 compared to the respective periods in 2003. Salaries and expense growth for the nine months ended September 30, 2004 compared to the nine months ended September 30, 2003 was offset by the salaries and benefits expense associated with the Paytrust integration activities in the first quarter of 2003 and the benefit associated with the retroactive recognition of the effect of the Medicare Act in the third quarter of 2004.

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For the third quarter of 2004, occupancy and equipment expense amounted to \$50.8 million compared to \$40.3 million in the third quarter of 2003, an increase of \$10.5 million or 26.0%. For the nine months ended September 30, 2004, occupancy and equipment expense amounted to \$142.6 million compared to \$133.8 million for the nine months ended September 30, 2003, an increase of \$8.8 million or 6.6%. Included in equipment expense for the three and nine months ended September 30, 2004, was approximately \$0.4 million of charges associated with a product impairment as previously discussed. Occupancy and equipment expense for the three and nine months ended September 30, 2003 include a \$6.1 million reversal of lease costs due to the decision to retain a facility previously identified for closure and \$0.8 million of expense associated with the Paytrust integration activities in the first quarter of the 2003. For the three and nine months ended September 30, 2004, the Corporation estimates that the acquisitions contributed approximately \$5.7 million and \$6.6 million to occupancy and equipment expense in the respective periods.

Software expenses, processing charges, supplies and printing, professional services and shipping and handling expenses totaled \$59.0 million in the third quarter of 2004 compared to \$53.9 million in the third quarter of 2003, an increase of \$5.1 million or 9.5%. For the nine months ended September 30, 2004, software expenses, processing charges, supplies and

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printing, professional services and shipping and handling expenses totaled \$172.9 million compared to \$154.7 million for the nine months ended September 30, 2003, an increase of \$18.2 million or 11.8%. For the three and nine months ended September 30, 2004 compared to the three and nine months ended September 30, 2003, Metavante contributed approximately \$8.0 million and \$21.1 million to the expense growth in these expense items respectively. A significant part of that expense growth was due to its acquisitions. Expense growth in these areas by other segments and the holding company were offset by lower expenses associated with residential mortgage loan production which were approximately \$1.8 million less in the third quarter of 2004 compared to the third quarter of the prior year. Expenses associated with residential mortgage loan production were approximately \$5.6 million less in the nine month ended September 30, 2004 compared to the nine months ended September 30, 2003.

Amortization of intangibles amounted to \$8.3 million in the third quarter of 2004 compared to \$3.4 million in the third quarter of 2003, an increase of \$4.9 million. For the nine months ended September 30, 2004, amortization of intangibles amounted to \$19.2 million compared to \$17.8 million for the nine months ended September 30, 2003, an increase of \$1.4 million. Amortization and valuation reserve adjustments associated with mortgage servicing rights increased amortization expense \$2.3 million in the third quarter of 2004 compared to the third quarter of 2003 and decreased amortization expense \$0.4 million in the first nine months of 2004 compared to the first nine months of 2003. The carrying value of the Corporation's mortgage servicing rights was \$3.9 million at September 30, 2004. Amortization of core deposit intangibles, which is based on a declining balance method, decreased \$0.6 million in the third quarter of 2004 compared to the third quarter of the prior year and decreased \$2.4 million in the nine months ended September 30, 2004 compared to the nine months ended September 30, 2003. Included in amortization of intangibles for the nine months ended September 30, 2004 is Metavante's \$0.2 million write-off of a customer-related intangible associated with an impaired product as previously discussed. For the three and nine months ended September 30, 2004, the Corporation estimates that the acquisitions contributed approximately \$3.4 million and \$4.1 million to intangibles amortization expense in the respective periods.

Other expense amounted to \$58.6 million in the third quarter of 2004 compared to \$113.1 million in the third quarter of 2003, a decrease of \$54.5 million. Losses recognized for the prepayment and termination of interest rate swaps on long-term borrowings amounted to \$2.0 million in the third quarter of 2004 compared to \$54.7 million in the third quarter of 2003. The Corporation estimates that the acquisitions contributed approximately \$13.3 million to other expense in the third quarter of 2004 compared to the third quarter of 2003. For the nine months ended September 30, 2004, other expense amounted to \$163.1 million compared to \$184.9 million for the nine months ended September 30, 2003, a decrease of \$21.8 million. Losses recognized for the prepayment and termination of interest rate swaps on long-term borrowings amounted to \$6.9 million in the first nine months of 2004 compared to \$56.7 million in the first nine months of 2003. The Corporation estimates that the acquisitions contributed approximately \$24.0 million to other expense growth in the nine months ended September 30, 2004 compared to the nine months ended September 30, 2003.

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Other expense is affected by the capitalization of costs, net of amortization and write-downs associated with software development and customer data processing conversions. Net software and conversion amortization was \$3.5 million in the third quarter of 2004 compared to \$16.2 million in the third quarter of 2003, resulting in a decrease to



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other expense over the comparative quarters of \$12.7 million. As previously discussed, during the third quarter of 2003, \$15.7 million of capitalized software costs were determined to have no future value and were written off due to a change in product strategy. The Corporation estimates that the Metavante acquisitions contributed approximately \$0.4 million to net capitalized software development amortization in the third quarter of 2004 compared to the third quarter of 2003. For the nine months ended September 30, 2004 net software and conversion amortization was \$13.3 million compared to \$7.8 million for the nine months ended September 30, 2003, an increase of \$5.5 million. As previously discussed, net capitalized software development amortization for the nine months ended September 30, 2004 includes the \$4.9 million write-down of capitalized software costs associated with a product that was impaired due to limited growth potential and the decision to discontinue marketing the product to new customers. The Corporation estimates that the acquisitions contributed approximately \$2.2 million to the growth in net capitalized software development amortization in the nine months ended September 30, 2004 compared to the nine months ended September 30, 2003.

### INCOME TAXES

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The provision for income taxes for the three months ended September 30, 2004 amounted to \$78.6 million or 33.6% of pre-tax income compared to \$25.5 million or 15.4% of pre-tax income for the three months ended September 30, 2003. For the nine months ended September 30, 2004, the provision for income taxes amounted to \$231.6 million or 33.8% of pre-tax income compared to \$159.9 million or 28.4% of pre-tax income for the nine months ended September 30, 2003.

In the normal course of business, the Corporation and its affiliates are routinely subject to examinations from federal and state tax authorities. During the third quarter of 2003, several income tax audits covering multiple tax jurisdictions were resolved which positively affected the banking segment by approximately \$25.0 million and Metavante by \$4.9 million and resulted in a lower provision for income taxes in the Consolidated Statements of Income for the three and nine months ended September 30, 2003. Excluding the impact of the income tax audits, the pro forma effective income tax rate for both the three and nine months ended September 30, 2003 would have been 33.8%.

### LIQUIDITY AND CAPITAL RESOURCES

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Shareholders' equity was \$3.59 billion or 9.2% of total consolidated assets at September 30, 2004, compared to \$3.33 billion or 9.7% of total consolidated assets at December 31, 2003, and \$3.34 billion or 9.9% of total consolidated assets at September 30, 2003. The increase in shareholders' equity at September 30, 2004 was primarily due to earnings net of dividends paid.

During the third quarter of 2004, the Corporation and M&I Capital Trust B issued 16,000,000 units of Common SPACESM. Each unit has a stated value of \$25.00 for an aggregate value of \$400.0 million. Each Common SPACES consists of (i) a stock purchase contract under which the investor agrees 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 STACKSSM, with each share having an initial liquidation amount of \$1,000. The stock purchase date is expected to be August 15, 2007, but could be deferred for quarterly periods until August 15, 2008. The net proceeds were used for general corporate purposes, including the

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long-term financing for the recently completed Metavante acquisitions.

On the stock purchase date, the number of shares of common stock the Corporation will issue upon settlement of the stock purchase contracts depends on the applicable market value per share of the Corporation's common stock, which will be determined just prior to the stock purchase date, and other factors. The Corporation currently estimates that it will issue approximately 8.8 million to 10.9 million common shares to settle shares issuable pursuant to the stock purchase contracts. Before issuance of the common shares upon settlement of the stock purchase contracts, the stock purchase contracts will be reflected in diluted earnings per share calculations using the treasury stock method. Under the treasury stock method, the Corporation expects there will be some dilutive effect on earnings per share for periods when the average market price of the Corporation's common stock for the reporting period is above \$46.28 and that there could be some dilutive effect on earnings per share for periods when the average market price of the Corporation's common stock for the reporting period is above the average market price of the Corporation's common stock for the twenty trading days ending on the third trading day immediately preceding the end of the reporting period. There was no dilutive effect on earnings per share for the three and nine months ended September 30, 2004.

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The Common SPACES qualify as tier 1 capital for regulatory capital purposes.

Holders of the STACKS are 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 will 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. The Corporation recognized the present value of the quarterly contract payments under the stock purchase contract as a liability with an offsetting reduction in shareholders' equity. That liability along with the allocated portion of the fees and expenses incurred for the offering of Common SPACES resulted in a reduction in shareholders' equity of \$34.0 million.

At September 30, 2004, the net gain in accumulated other comprehensive income amounted to \$20.8 million which represents a positive change in accumulated other comprehensive income of \$18.1 million since December 31, 2003. Net accumulated other comprehensive income associated with available for sale investment securities was a net gain of \$41.8 million at December 31, 2003, compared to a net gain of \$40.2 million at September 30, 2004, resulting in a net loss of \$1.6 million over the nine month period. The unrealized loss associated with the change in fair value of the Corporation's derivative financial instruments designated as cash flow hedges declined \$19.7 million since December 31, 2003, resulting in the net increase in shareholders' equity.

The Corporation has a Stock Repurchase Program under which up to 12 million shares can be repurchased annually. During the second and third quarters of 2004, no common shares were acquired under the program. For the nine months ended September 30, 2004, 2.3 million common shares were acquired at an aggregate cost of \$88.5 million or an average price of \$38.98 per common share. As a result of the Metavante acquisitions, the Corporation does not expect that it will acquire common shares under the Stock Repurchase Program in the near term. See Item 2 in Part II of this Form 10-Q for the monthly purchase activity relating to the Corporation's Stock Repurchase Program in 2004. For the three months ended September 30, 2003, 1.6 million common shares were acquired at an aggregate cost of

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\$50.2 million or \$31.33 per common share. For the nine months ended September 30, 2003, 1.7 million common shares were acquired at an aggregate cost of \$54.5 million or \$31.19 per common share.

The Corporation continues to have a strong capital base and its regulatory capital ratios are significantly above the minimum requirements as shown in the following tables.

### RISK-BASED CAPITAL RATIOS

(\$ in millions)

|                                       | September 30, 2004 |         | December 31, 2003 |         |
|---------------------------------------|--------------------|---------|-------------------|---------|
|                                       | Amount             | Ratio   | Amount            | Ratio   |
| Tier 1 Capital                        | \$ 2,310           | 7.25 %  | \$ 2,538          | 8.87 %  |
| Tier 1 Capital<br>Minimum Requirement | 1,274              | 4.00    | 1,144             | 4.00    |
| Excess                                | \$ 1,036           | 3.25 %  | \$ 1,394          | 4.87 %  |
| <br>                                  |                    |         |                   |         |
| Total Capital                         | \$ 3,293           | 10.34 % | \$ 3,511          | 12.28 % |
| Total Capital<br>Minimum Requirement  | 2,547              | 8.00    | 2,288             | 8.00    |
| Excess                                | \$ 746             | 2.34 %  | \$ 1,223          | 4.28 %  |
| <br>                                  |                    |         |                   |         |
| Risk-Adjusted Assets                  | \$ 31,836          |         | \$ 28,601         |         |

### LEVERAGE RATIOS

(\$ in millions)

|                                  | September 30, 2004 |               | December 31, 2003 |               |
|----------------------------------|--------------------|---------------|-------------------|---------------|
|                                  | Amount             | Ratio         | Amount            | Ratio         |
| Tier 1 Capital                   | \$ 2,310           | 6.40 %        | \$ 2,538          | 7.80 %        |
| Minimum Leverage<br>Requirement  | 1,083 - 1,804      | 3.00 - 5.00   | 977 - 1,628       | 3.00 - 5.00   |
| Excess                           | \$ 1,227 - 506     | 3.40 - 1.40 % | \$ 1,561 - 910    | 4.80 - 2.80 % |
| <br>                             |                    |               |                   |               |
| Adjusted Average<br>Total Assets | \$ 36,078          |               | \$ 32,553         |               |

In conjunction with the recently announced acquisition of VECTORsgi Holdings, Inc. ("VECTOR") by Metavante, the Corporation announced that in part, for the acquisition of VECTOR and for other corporate purposes, it

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plans to issue and sell approximately \$150 million of common stock in the fourth quarter of 2004 in order to maintain its capital at desired levels. Any such sale of shares of the Corporation's common stock is subject to market conditions and changes in the timing, amount and terms. This Form 10-Q does not constitute an offer of any securities for sale.

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

The Corporation's most readily available source of liquidity is its investment portfolio. Investment securities available for sale, which totaled \$5.3 billion at September 30, 2004, represent a highly accessible source of liquidity. The Corporation's portfolio of held-to-maturity investment securities, which totaled \$0.8 billion at September 30, 2004, provides liquidity from maturities and amortization payments. The Corporation's mortgage loans held-for-sale provide additional liquidity. These loans represent recently funded home mortgage loans that are prepared for delivery to investors, which generally occurs within thirty to ninety days after the loan has been funded.

Depositors within M&I's defined markets are another source of liquidity. Core deposits (demand, savings, money market and consumer time deposits) averaged \$16.4 billion in the third quarter of 2004. The Corporation's banking affiliates may also access the federal funds markets or utilize collateralized borrowings such as treasury demand notes or FHLB advances.

The banking affiliates may use wholesale deposits. Wholesale deposits are funds in the form of deposits generated through distribution channels other than the Corporation's own banking branches. These deposits allow the Corporation's banking subsidiaries to gather funds across a national geographic base and at pricing levels considered attractive, where the underlying depositor may be retail or institutional. Access to wholesale deposits also provides the Corporation with the flexibility to not pursue single service time deposit relationships in markets that have experienced some unprofitable pricing levels. Wholesale deposits averaged \$6.6 billion in the third quarter of 2004.

The Corporation utilizes certain financing arrangements to meet its balance sheet management, funding, liquidity, and market or credit risk management needs. The majority of these activities are basic term or revolving securitization vehicles. These vehicles are generally funded through term-amortizing debt structures or with short-term commercial paper designed to be paid off based on the underlying cash flows of the assets securitized. These vehicles provide access to funding sources substantially separate from the general credit risk of the Corporation and its subsidiaries. See Note 8 to the Consolidated Financial Statements for an update of the Corporation's securitization activities in the third quarter of 2004.

The Corporation's lead bank, M&I Marshall & Ilsley Bank ("the Bank"), has implemented a bank note program which permits it to issue up to \$7.0 billion of short-term and medium-term notes which are offered and sold only to institutional investors. This program is intended to enhance liquidity by enabling the Bank to sell its debt instruments in private markets in the future without the delays which would otherwise be incurred. Bank notes outstanding at September 30, 2004, amounted to \$2.8 billion of which \$0.6 billion is subordinated and qualifies as supplementary capital for regulatory capital purposes. Bank notes issued during the third quarter of 2004 amounted to \$200.0 million.

The national capital markets represent a further source of liquidity to M&I. M&I has filed a shelf registration statement which is intended to permit M&I to raise funds through sales of corporate debt securities with a relatively short lead time. Under the shelf registration statement, the Corporation may issue up to \$0.5 billion of Series E medium-term notes with maturities ranging from 9 months to 30 years and at fixed or floating rates. At September 30, 2004, Series E notes issued amounted to \$0.4 billion. The Corporation may issue up to \$0.5 billion of medium-term MiNotes with maturities ranging from 9 months to 30 years and at fixed or floating rates. The MiNotes are issued in smaller denominations to attract retail investors. At September 30, 2004, MiNotes issued amounted to \$0.1 billion. Approximately \$9.5 million of MiNotes were issued during the third quarter of 2004. Additionally, the Corporation has a commercial paper program. At September 30, 2004, commercial paper outstanding amounted to \$0.3 billion.

During the second quarter of 2004, the Corporation filed a shelf registration statement with the Securities and Exchange Commission which will enable the Corporation to issue various securities, including debt securities, common stock, preferred stock, depositary shares, purchase contracts, units, warrants, and trust preferred securities, up to an aggregate amount of \$3.0 billion. On July 29, 2004, the Corporation issued \$600 million of senior notes and \$400 million of Common SPACES under the shelf registration statement. At September 30, 2004, approximately \$1.6 billion was available for future securities issuances.

Short-term borrowings represent contractual debt obligations with maturities of one year or less and amounted to \$2.8 billion at September 30, 2004. Long-term borrowings amounted to \$6.3 billion at September 30, 2004. The scheduled maturities of long-term borrowings at September 30, 2004 are as follows: \$1.8 billion is due in less than one year; \$2.2 billion is due in one to three years; \$1.1 billion is due in three to five years; and \$1.2 billion is due in more than five years. There have been no other substantive changes to the Corporation's contractual obligations as reported in the Corporation's Annual Report on Form 10-K for the year ended December 31, 2003.

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OFF-BALANCE SHEET ARRANGEMENTS

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During the third quarter of 2004, the Corporation formed M&I Capital Trust B ("Trust"). Concurrently, the Corporation and the Trust issued 16,000,000 units of Common SPACSSM. Each unit has a stated value of \$25.00 for an aggregate value of \$400.0 million. Each Common SPACES consists of (i) a stock purchase contract under which the investor agrees 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 the Trust, also referred to as the STACKSSM, with each share having an initial liquidation amount of \$1,000. The stock purchase date is expected to be August 15, 2007, but could be deferred for quarterly periods until August 15, 2008. The net proceeds were used for general corporate purposes, including the long-term financing for the recently completed Metavante acquisitions.

On the stock purchase date, the number of shares of common stock the Corporation will issue upon settlement of the stock purchase contracts depends on the applicable market value per share of the Corporation's common stock, which will be determined just prior to the stock purchase date, and other factors. The Corporation currently estimates that it will issue approximately 8.8 million to 10.9 million common shares to settle

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the stock purchase contracts. The Corporation will 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. The Corporation recognized the present value of the quarterly contract payments under the stock purchase contract as a liability with an offsetting reduction in shareholders' equity. That liability along with the allocated portion of the fees and expenses incurred for the offering of Common SPACES resulted in a reduction in shareholders' equity of \$34.0 million.

The Trust is not consolidated in the Corporation's financial statements, however, the aggregate principal amount of the subordinated debt securities the Corporation issued to the Trust, which is the sole asset of the Trust, is reported in long-term borrowings in the Corporation's consolidated balance sheet. The interest paid on the subordinated debt securities, initially at an annual rate of 3.90%, is reported as interest expense on long-term borrowings in the consolidated statement of income.

In conjunction with this transaction, the Corporation has irrevocably guaranteed, on a junior subordinated basis, the payment in full of the following: any accumulated and unpaid distributions required to be paid on the STACKS, to the extent the Trust has funds available to make the payment; the redemption price for any STACKS called for redemption, to the extent the Trust has funds available to make the payment; and upon a voluntary or involuntary dissolution, winding-up or liquidation of the Trust, other than in connection with a distribution of the subordinated debt securities to the holders of the STACKS, the lesser of: (1) the aggregate of the accreted liquidation amount and all accumulated and unpaid distributions on the STACKS to the date of payment, to the extent the Trust has funds available to make the payment; and (2) the amount of assets of the Trust remaining available for distribution to holders of the STACKS upon liquidation of the Trust.

At September 30, 2004, there have been no other substantive changes with respect to the Corporation's off-balance sheet activities. See Note 8 to the Consolidated Financial Statements for an update of the Corporation's securitization activities in the third quarter of 2004. Based on the off-balance sheet arrangements with which it is presently involved, the Corporation does not believe that such off-balance sheet arrangements either have, or are reasonably likely to have, a material impact on its current or future financial condition, results of operations, liquidity or capital resources.

### CRITICAL ACCOUNTING POLICIES

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

accounting policies that require significant judgments and assumptions:

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Allowance for Loan and Lease Losses

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

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

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

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

The following factors were taken into consideration in determining the

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adequacy of the allowance for loan and lease losses at September 30, 2004:

In general, the Corporation's borrowing customers appear to be successfully managing their businesses through the slower economic conditions. While there appear to be some signs of improvement in the economy and the Corporation's customer base is beginning to see some signs of increased business activity, the customers remain cautious of there being any substantive increase in revenues until future periods. As a result, the recession's lagging impact may continue to affect the operating performance of M&I's customers in the near term.

At September 30, 2004, special reserves continue to be carried for exposures to manufacturing, healthcare, production agriculture (including dairy and cropping operations), truck transportation, and the airline industries. The majority of the commercial charge-offs incurred during the past two years were in these industry segments. While most loans in these categories are still performing, the Corporation continues to believe these sectors have been more adversely affected by the economic slowdown. Reduced revenues causing a declining utilization of the industry's capacity levels have impacted manufacturing. As a result, collateral values and the amounts realized through the sale or liquidation of manufacturing plants and equipment have declined.

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During the third quarter of 2004, the Corporation's commitments to Shared National Credits were approximately \$2.6 billion with usage averaging around 38%. Many of these borrowers are in industries impacted by the recent months' economic climate. In addition, many of the Corporation's largest charge-offs have come from Shared National Credits. Approximately \$3.1 million of the net charge-offs in 2003 came from Shared National Credits. Although these factors result in an increased risk profile, as of September 30, 2004, Shared National Credit nonperforming loans were approximately 0.23% and 0.27% of this segment's total commitments and outstandings, respectively. The Corporation's exposure to Shared National Credits is monitored closely given the economic uncertainty as well as this segment's loss experience.

The Corporation's primary lending areas are Wisconsin, Arizona, Minnesota and Missouri. The acquisitions in Minnesota and Missouri continue to represent relatively new geographic regions for the Corporation. Each of the regions has cultural and environmental factors that are unique to them. Although mitigated by the implementation of the Corporation's credit underwriting and monitoring processes, the uncertainty regarding the inherent losses in their respective loan and lease portfolios continues to present increased risks.

At September 30, 2004, nonperforming loans and leases amounted to \$142.5 million or 0.51% of consolidated loans and leases compared to \$145.0 million or 0.53% of consolidated loans and leases at June 30, 2004, \$156.1 million or 0.60% of consolidated loans and leases at March 31, 2004 and \$172.8 million or 0.69% of consolidated loans and leases at December 31, 2003. Both in terms of absolute dollars and percent of total loans and leases outstanding, nonperforming loans at September 30, 2004 represents the sixth consecutive quarter-end in which there was a decline in nonperforming loans.



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Nonaccrual loans and leases have been the primary source of the decrease in nonperforming loans and leases since December 31, 2003. The net decrease was primarily due to continued reductions and positive resolutions in several portfolio segments and improving credit conditions throughout the loan and lease portfolios.

Net charge-offs amounted to \$6.7 million or 0.10% of average loans and leases in the third quarter of 2004 compared to \$5.0 million or 0.08% of average loans and leases in the second quarter of 2004, \$4.9 million or 0.08% of average loans and leases in the first quarter of 2004 and \$8.3 million or 0.13% of average loans and leases in the fourth quarter of 2003. The net charge-off activity experienced in the first and second quarters of 2004 are the lowest levels experienced in any individual quarter since the second quarter of 2000. This lower level of net charge-offs has to some extent been the result of higher than normal recoveries. Based on the status of some of the larger charge-offs recognized in recent quarters, management expects recoveries will likely return to a lower level in future periods. Recoveries in the third quarter of 2004 were \$0.7 million lower than recoveries in the second quarter of 2004 and \$1.6 million lower than recoveries in the first quarter of 2004.

Credit quality continued to show improvement as evidenced by the decline in nonperforming loans and leases and net charge-offs. In the 2003 Annual Report on Form 10-K, the Corporation disclosed that it expects net charge-offs in 2004 to range from 0.15% to 0.20% for the year and nonperforming loans and leases as a percent of total loans and leases outstanding to be in the range of 70-80 basis points. Based on the first nine months' experience, the Corporation's expects that credit quality ratios will be below these ranges in the near term. At the present time, there is no specific industry that is of immediate concern; however, management continues to believe that the long-term impact of the recent recession may still provide some unanticipated results within the loan and lease portfolio and some degree of stress and uncertainty continues to exist.

Based on the above loss estimates, senior lending and financial management determine their best estimate of the required reserve. Management's evaluation of the factors described above resulted in an allowance for loan and lease losses of \$358.1 million or 1.27% of loans and leases outstanding at September 30, 2004 compared to \$357.9 million or 1.32% of loans and leases outstanding at June 30, 2004. The resulting provision for loan and lease losses was the amount required to establish the allowance for loan and lease losses to the required level after considering charge-offs and recoveries. Management recognizes there are significant estimates in the process and the ultimate losses could be significantly different from those currently estimated.

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

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### Capitalized Software and Conversion Costs

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Direct costs associated with the production of computer software that will be licensed externally or used in a service bureau environment are capitalized. Capitalization of such costs is subject to strict accounting policy criteria, although the appropriate time to initiate capitalization requires management judgment. Once the specific capitalized project is put into production, the software cost is amortized over its estimated useful life, generally four years. Each quarter, the Corporation performs net realizable value tests to ensure the assets are recoverable. Such tests require management judgment as to the future sales and profitability of a particular product which involves, in some cases, multi-year projections. Technology changes and changes in customer requirements can have a significant impact on the recoverability of these assets and can be difficult to predict. Should significant adverse changes occur, estimates of useful life may have to be revised or write-offs would be required to recognize impairment. For the three months ended September 30, 2004 and 2003, the amount of software costs capitalized amounted to \$10.3 million and \$11.8 million, respectively. Amortization expense of software costs amounted to \$13.4 million for the three months ended September 30, 2004 compared to \$26.8 million for the three months ended September 30, 2003. For the nine months ended September 30, 2004 and 2003, the amount of software costs capitalized amounted to \$30.7 million and \$43.8 million, respectively. Amortization expense of software costs amounted to \$41.5 million for the nine months ended September 30, 2004 compared to \$48.3 million for the nine months ended September 30, 2003.

Based on a strategic product review performed during the second quarter of 2004, Metavante determined that a certain product had limited growth potential and that future marketing of the product to new customers should be discontinued. As a result of the strategic product review and net realizable value test on this product, Metavante determined that the capitalized software associated with the product was impaired and recorded a write-down. Amortization expense of software costs for the nine months ended September 30, 2004 includes \$4.9 million for the write-down of the capitalized software costs associated with the impaired product.

In conjunction with previous acquisitions, Metavante had made certain operating decisions with respect to platform consolidations. Amortization expense of software costs for the three and nine months ended September 30, 2003 includes \$15.7 million for the write-off of capitalized software costs that were deemed to have no future value due to a change in product strategy.

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

Capitalization only occurs when management is satisfied that such costs are recoverable through future operations or penalties (buyout fees) in case of early termination. For the three months ended September 30, 2004 and 2003, the amount of conversion costs capitalized amounted to \$2.8 million and \$3.2 million, respectively. Amortization expense of conversion costs amounted to \$3.2 million and \$4.4 million for the three months ended September 30, 2004 and 2003, respectively. For the nine months ended September 30, 2004 and 2003, the amount of conversion costs capitalized amounted to \$7.2 million and \$9.4 million, respectively. Amortization expense of conversion costs amounted to \$9.7 million and \$12.7 million for the nine months ended September 30, 2004 and 2003, respectively.

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Net unamortized costs were (\$ in millions):

|             | September 30,          |                        |
|-------------|------------------------|------------------------|
|             | -----<br>2004<br>----- | -----<br>2003<br>----- |
| Software    | \$ 160.8               | \$ 137.7               |
| Conversions | 28.2                   | 32.6                   |
| Total       | \$ 189.0<br>=====      | \$ 170.3<br>=====      |

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

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### Financial Asset Sales and Securitizations

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

In December 2003, the Corporation adopted FASB Interpretation No. 46 ("FIN 46R"), Consolidation of Variable Interest Entities (revised December 2003). This interpretation addresses consolidation by business enterprises of variable interest entities and explains how to identify variable interest entities and how an entity assesses its interests in a variable interest entity to decide whether to consolidate that entity. FIN 46R requires existing unconsolidated variable interest entities to be consolidated by their primary beneficiaries if the entities do not effectively disperse risks among parties involved. Variable interest entities that effectively disperse risks will not be consolidated unless a single party holds an interest or combination of interests that effectively recombines risks that were previously dispersed. Transferors to QSPEs and "grandfathered" QSPEs subject to the reporting requirements of SFAS 140 are outside the scope of FIN 46R and do not consolidate those

entities.

With respect to its existing securitization activities, the Corporation does not believe FIN 46R impacts its consolidated financial statements because its transfers are generally to QSPEs.

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

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

During the second quarter of 2003, the Corporation recognized an impairment loss of \$4.1 million, which is included in net investment securities gains in the Consolidated Statements of Income for the nine months ended September 30, 2003. The difference between revised assumptions based on actual and projected experience compared to the initial expected assumptions were deemed to be other than temporary.

The Corporation periodically sells automobile loans to an unconsolidated multi-seller special purpose entity commercial paper conduit in securitization transactions in which servicing responsibilities and subordinated interests are retained. The outstanding balances of automobile loans sold in these securitization transactions were \$1,136.8 million at September 30, 2004. At September 30, 2004, the carrying amount of retained interests amounted to \$46.5 million.

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

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Under the terms of the Administration Agreement, the Bank, as administrator of the QSPE, is required to sell interests in the securities funded by the QSPE to the Bank as the liquidity purchaser under the liquidity agreements, if at any time (after giving effect to any issuance of new commercial paper notes and the receipt of payments under any swap agreement) the QSPE has insufficient funds to repay any maturing commercial paper note and the Bank, as liquidity agent, has received a

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notice of such deficiency. The Bank, as the liquidity provider, will be obligated to purchase interests in such securities under the terms of the liquidity agreement to repay the maturing commercial paper notes unless (i) after giving effect to such purchase, the aggregate of securities purchased under the relevant liquidity agreement would exceed the aggregate maximum liquidity purchase amount under such liquidity agreement or (ii) certain bankruptcy events with respect to the QSPE have occurred; provided that the Bank is not required to purchase any defaulted security. For this purpose, a defaulted security is any security that is rated below "Caa2" by Moody's and below "CCC" by Standard & Poors. To date, the Bank has never acquired interests in any securities under the terms of the liquidity agreements.

A subsidiary of the Bank has entered into interest rate swaps with the QSPE designed to counteract the interest rate risk associated with third party beneficial interests (commercial paper) and the transferred assets. The beneficial interests in the form of commercial paper have been issued by the QSPE to parties other than the Bank and its subsidiary or any other affiliates. The notional amounts do not exceed the amount of beneficial interests. The swap agreements do not provide the QSPE or its administrative agent any decision-making authority other than those specified in the standard ISDA Master Agreement.

At September 30, 2004, highly rated investment securities in the amount of \$297.6 million were outstanding in the QSPE to support the outstanding commercial paper.

### Income Taxes

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

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

During the third quarter of 2003, several income tax audits covering multiple tax jurisdictions were resolved which positively affected the banking segment by approximately \$25.0 million and Metavante by \$4.9 million and resulted in a lower provision for income taxes in the Consolidated Statements of Income for the three and nine months ended September 30, 2003.

### FORWARD-LOOKING STATEMENTS

Items 2 and 3 of this Form 10-Q, "Management's Discussion and Analysis of Financial Position and Results of Operations" and "Quantitative and Qualitative Disclosures about Market Risk," respectively, contain forward-looking statements within the meaning of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements include, without limitation, statements regarding expected financial and operating activities and results which are preceded by words such as "expects", "anticipates" or "believes". Such statements are subject to important factors that could cause the Corporation's actual results to differ materially from those anticipated by the forward-looking statements. These factors include those referenced in Item 1, Business, of the Corporation's Annual Report on Form 10-K for the period ending December 31, 2003 under the heading "Forward-Looking Statements" and as may be described from time to time in the Corporation's subsequent SEC filings, and such factors are incorporated herein by reference.

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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The following updated information should be read in conjunction with the Corporation's 2003 Annual Report on Form 10-K. Updated information regarding the Corporation's use of derivative financial instruments is contained in Note 11, Notes to Financial Statements contained in Item 1 herein.

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

Interest Rate Risk

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

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

The models used include measures of the expected repricing characteristics of administered rate (NOW, savings and money market accounts) and non-rate related products (demand deposit accounts, other assets and other liabilities). These measures recognize the relative insensitivity of these accounts to changes in market interest rates, as demonstrated through current and historical experiences. However, during the second quarter of 2003, the Corporation increased the proportion of these

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accounts modeled as rate sensitive, in order to recognize the instability of some of the recent growth in balances in these accounts. This modeling treatment will be maintained until the incremental balances can be observed across a more complete interest rate cycle. In addition to contractual payment information for most other assets and liabilities, the models also include estimates of expected prepayment characteristics for those items that are likely to materially change their payment structures in different rate environments, including residential mortgage products, certain commercial and commercial real estate loans and certain mortgage-related securities. Estimates for these sensitivities are based on industry assessments and are substantially driven by the differential between the contractual coupon of the item and current market rates for similar products.

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

|   | Impact to Annual Pretax Income as of |                  |                   |                      |                       |
|---|--------------------------------------|------------------|-------------------|----------------------|-----------------------|
|   | September 30,<br>2004                | June 30,<br>2004 | March 31,<br>2004 | December 31,<br>2003 | September 30,<br>2003 |
| <b>Hypothetical Change in Interest Rate</b> |                                      |                  |                   |                      |                       |
| 100 basis point gradual:                    |                                      |                  |                   |                      |                       |
| Rise in rates                               | 0.4 %                                | (0.6)%           | (0.7)%            | (0.6)%               | (1.1)%                |
| Decline in rates                            | (0.4)%                               | 0.6 %            | (2.1)%            | (1.8)%               | (1.6)%                |

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

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

Another component of interest rate risk is measuring the fair value at risk for a given change in market interest rates. The Corporation also uses computer modeling techniques to determine the present value of all

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asset and liability cash flows (both on- and off-balance sheet), adjusted for prepayment expectations, using a market discount rate. The net change in the present value of the asset and liability cash flows in different market rate environments is the amount of fair value at risk from those rate movements. As of September 30, 2004, the fair value of equity at risk for a gradual 100bp shift in rates was no more than 2.0% of the market value of the Corporation.

### Equity Risk

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In addition to interest rate risk, the Corporation incurs market risk in the form of equity risk. M&I's Capital Markets Group invests in private, medium-sized companies to help establish new businesses or recapitalize existing ones. Exposure to the change in equity values for the companies that are held in their portfolio exists, however, fair values are difficult to determine until an actual sale or liquidation transaction actually occurs.

As of September 30, 2004, M&I Trust Services administered \$71.5 billion in assets and directly managed a portfolio of \$17.4 billion. Exposure exists to changes in equity values due to the fact that fee income is partially based on equity balances. While this exposure is present, quantification remains difficult due to the number of other variables affecting fee income. Interest rate changes can also have an effect on fee income for the above stated reasons.

#### ITEM 4. CONTROLS AND PROCEDURES

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

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

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#### PART II - OTHER INFORMATION

#### ITEM 2. CHANGES IN SECURITIES, USE OF PROCEEDS AND ISSUER PURCHASES OF EQUITY SECURITIES

##### E. Shares Purchased

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



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| Period                               | Total Number of Shares Purchased(1) | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs |
|--------------------------------------|-------------------------------------|------------------------------|--|--|
| January 1 to<br>January 31, 2004     | 634,313                             | \$ 38.54                     | 625,900  | 11,374,100   |
| February 1 to<br>February 29, 2004   | 1,319,864                           | \$ 39.03                     | 1,317,200  | 10,056,900   |
| March 1 to<br>March 31, 2004         | 326,900                             | \$ 39.67                     | 326,900  | 9,730,000  |
| April 1 to<br>April 30, 2004         | 1,214                               | \$ 36.68                     | --   | 9,730,000  |
| May 1 to<br>May 31, 2004             | --                                  | \$ --                        | --   | 9,730,000  |
| June 1 to<br>June 30, 2004           | --                                  | \$ --                        | --   | 9,730,000  |
| July 1 to<br>July 31, 2004           | 2,080                               | \$ 34.54                     | --   | 9,730,000  |
| August 1 to<br>August 31, 2004       | 2,876                               | \$ 38.46                     | --   | 9,730,000  |
| September 1 to<br>September 30, 2004 | 6,710                               | \$ 39.08                     | --   | 9,730,000  |

The Corporation's Share Repurchase Program was publicly reconfirmed in April 2003 and again in April 2004. 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.

- (1) Does not include 25,918 shares purchased by rabbi trusts, at an average price paid per share of \$38.42, pursuant to nonqualified deferred compensation plans for the nine months ended September 30, 2004.

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ITEM 6. EXHIBITS

- Exhibit 10(a) - Change of Control Agreement dated January 10, 2001 between M&I and Thomas R. Ellis.
- Exhibit 10(b) - Form of Amendment to Change of Control Agreements dated October 18, 2001 between M&I and Ms. Justiliano and Messrs. Ellis, Hogan, O'Neill, Renard, Roberts, Root, Williams and Wilson.
- Exhibit 11 - Statement Regarding Computation of Earnings Per Share, Incorporated by Reference to NOTE 4 of Notes to Financial Statements contained in Item 1 - Financial Statements (unaudited) of Part 1 - Financial Information herein.

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

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SIGNATURES

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

MARSHALL & ILSLEY CORPORATION  
(Registrant)

/s/ Patricia R. Justiliano

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

/s/ James E. Sandy

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James E. Sandy  
Vice President

November 9, 2004

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EXHIBIT INDEX

| Exhibit Number | Description of Exhibit  |
|----------------|---|
| (10) (a)       | Change of Control Agreement dated January 10, 2001 between M&I and Thomas R. Ellis. |
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