MARSHALL & ILSLEY CORP/WI/
Form 10-Q
May 10, 2005

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SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2005

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 | 39-0968604 |
| (State or other jurisdiction of Incorporation or organization) | (I.R.S. Employer Identification No.) |

| | |
|---|---|
| 770 North Water Street<br>Milwaukee, Wisconsin | 53202 |
| (Address of principal executive offices) | (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 [X] No [ ]

Indicate by check mark whether the registrant is an accelerated filer (as defined by Rule 12b-2 of the Exchange Act).
Yes [X] No [ ]

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

| Class | Outstanding at April 30, 2005 |
|---|---|

Common Stock, $1.00 Par Value 228,957,293

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

| | March 31, 2005 | December 31, 2004 | March 2004 |
|---|---|---|---|
| **Assets** | | | |
| Cash and cash equivalents: | | | |
| Cash and due from banks | $ 873,102 | $ 838,668 | $ 690 |
| Federal funds sold and security resale agreements | 86,822 | 72,515 | 22 |
| Money market funds | 53,594 | 76,955 | 43 |
| Total cash and cash equivalents | 1,013,518 | 988,138 | 757 |
| Investment securities: | | | |
| Trading securities, at market value | 24,379 | 18,418 | 46 |
| Interest bearing deposits at other banks | 17,272 | 23,105 | 69 |
| Available for sale, at market value | 5,459,388 | 5,358,999 | 5,207 |
| Held to maturity, market value $730,046 ($765,101 December 31, and $864,765 March 31, 2004) | 698,826 | 726,386 | 802 |
| Total investment securities | 6,199,865 | 6,126,908 | 6,125 |
| Loans held for sale | 135,006 | 81,662 | 112 |
| Loans and leases: | | | |
| Loans and leases, net of unearned income | 30,447,652 | 29,455,110 | 25,942 |
| Less: Allowance for loan and lease losses | 358,280 | 358,110 | 353 |
| Net loans and leases | 30,089,372 | 29,097,000 | 25,589 |
| Premises and equipment, net | 444,702 | 467,225 | 434 |
| Goodwill and other intangibles | 2,152,116 | 2,126,433 | 1,104 |
| Accrued interest and other assets | 1,605,942 | 1,550,036 | 1,352 |
| Total Assets | $ 41,640,521 | $ 40,437,402 | $ 35,476 |
| **Liabilities and Shareholders' Equity** | | | |
| Deposits: | | | |
| Noninterest bearing | $ 4,789,802 | $ 4,888,426 | $ 4,359 |
| Interest bearing | 20,911,906 | 21,566,661 | 18,791 |
| Total deposits | 25,701,708 | 26,455,087 | 23,151 |
| Federal funds purchased and security repurchase agreements | 1,868,291 | 1,488,855 | 2,791 |
| Other short-term borrowings | 2,588,041 | 2,041,181 | 1,827 |
| Accrued expenses and other liabilities | 1,567,960 | 1,535,866 | 1,083 |
| Long-term borrowings | 5,892,119 | 5,026,599 | 3,221 |

| | | | |
|---|---|---|---|
| Total liabilities | 37,618,119 | 36,547,588 | 32,074 |
| Shareholders' equity: | | | |
| Series A convertible preferred stock, $1.00 par value; 2,000,000 shares authorized | -- | -- | |
| Common stock, $1.00 par value; 244,432,222 shares issued (244,432,222 shares at December 31, 2004 and 240,832,522 shares at March 31, 2004) | 244,432 | 244,432 | 240 |
| Additional paid-in capital | 679,030 | 671,815 | 553 |
| Retained earnings | 3,630,259 | 3,508,477 | 3,167 |
| Accumulated other comprehensive income, net of related taxes | (16,353) | 23,338 | 38 |
| Less: Treasury stock, at cost: 15,689,406 shares (17,091,528 December 31, and 18,768,505 March 31, 2005 | 475,719 | 518,231 | 569 |
| Deferred compensation | 39,247 | 40,017 | 29 |
| Total shareholders' equity | 4,022,402 | 3,889,814 | 3,402 |
| Total Liabilities and Shareholders' Equity | $ 41,640,521 | $ 40,437,402 | $ 35,476 |

See notes to financial statements.

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

| | Three Months Ended March 31, 2005 | 2004 |
|---|---|---|
| **Interest income** | | |
| Loans and leases | $ 416,844 | $ 325,952 |
| Investment securities: | | |
| Taxable | 51,943 | 48,317 |
| Exempt from federal income taxes | 15,407 | 14,171 |
| Trading securities | 69 | 89 |
| Short-term investments | 1,344 | 544 |
| Total interest income | 485,607 | 389,073 |
| **Interest expense** | | |
| Deposits | 103,490 | 55,549 |
| Short-term borrowings | 21,962 | 15,836 |
| Long-term borrowings | 68,374 | 39,052 |
| Total interest expense | 193,826 | 110,437 |
| Net interest income | 291,781 | 278,636 |
| Provision for loan and lease losses | 8,126 | 9,027 |
| Net interest income after provision for loan and lease losses | 283,655 | 269,609 |

| | | |
|---|---|---|
| Other income | | |
| Data processing services | 272,367 | 186,124 |
| Item processing | 10,565 | 11,432 |
| Trust services | 40,346 | 36,250 |
| Service charges on deposits | 23,570 | 25,523 |
| Gains on sale of mortgage loans | 6,937 | 5,199 |
| Other mortgage banking revenue | 1,033 | 1,765 |
| Net investment securities gains (losses) | 5,849 | (529) |
| Life insurance revenue | 6,209 | 6,680 |
| Other | 42,658 | 40,985 |
| Total other income | 409,534 | 313,429 |
| Other expense | | |
| Salaries and employee benefits | 238,532 | 203,928 |
| Net occupancy | 22,364 | 19,195 |
| Equipment | 31,010 | 28,168 |
| Software expenses | 13,352 | 11,225 |
| Processing charges | 14,925 | 13,049 |
| Supplies and printing | 6,496 | 5,706 |
| Professional services | 10,886 | 9,072 |
| Shipping and handling | 19,635 | 16,424 |
| Amortization of intangibles | 8,092 | 5,452 |
| Other | 71,154 | 50,109 |
| Total other expense | 436,446 | 362,328 |
| Income before income taxes | 256,743 | 220,710 |
| Provision for income taxes | 87,163 | 74,601 |
| Net income | $ 169,580 | $ 146,109 |
| Net income per common share | | |
| Basic | $ 0.75 | $ 0.66 |
| Diluted | 0.73 | 0.65 |
| Dividends paid per common share | $ 0.210 | $ 0.180 |
| Weighted average common shares outstanding (000's): | | |
| Basic | 227,557 | 222,301 |
| Diluted | 231,610 | 226,025 |

See notes to financial statements.

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

| | Three Months Ended March 31, 2005 | Three Months Ended March 31, 2004 |
|---|---|---|
| Net Cash Provided by Operating Activities | $ 178,844 | $ 155,723 |

| | | |
|---|---|---|
| Cash Flows From Investing Activities: | | |
| Proceeds from sales of securities available for sale | 16,286 | 4,412 |
| Proceeds from maturities of securities available for sale | 260,792 | 253,449 |
| Proceeds from maturities of securities held to maturity | 27,412 | 18,494 |
| Purchases of securities available for sale | (445,348) | (660,834) |
| Net increase in loans | (1,058,364) | (850,516) |
| Purchases of assets to be leased | (43,929) | (52,302) |
| Principal payments on lease receivables | 48,682 | 76,067 |
| Sales (Purchases) of premises and equipment, net | 4,812 | (12,613) |
| Acquisitions, net of cash and cash equivalents acquired | (12,308) | (6,803) |
| Other | 4,038 | 3,906 |
| Net cash used in investing activities | (1,197,927) | (1,226,740) |
| Cash Flows From Financing Activities: | | |
| Net (decrease) increase in deposits | (733,197) | 871,889 |
| Proceeds from issuance of commercial paper | 1,352,463 | 1,412,913 |
| Principal payments on commercial paper | (1,366,906) | (1,393,722) |
| Net increase (decrease) in other short-term borrowings | 699,661 | (325,207) |
| Proceeds from issuance of long-term borrowings | 1,153,537 | 575,596 |
| Payments of long-term borrowings | (21,832) | (109,247) |
| Dividends paid | (47,798) | (39,888) |
| Purchases of common stock | -- | (98,381) |
| Other | 8,535 | 22,596 |
| Net cash provided by financing activities | 1,044,463 | 916,549 |
| Net increase (decrease) in cash and cash equivalents | 25,380 | (154,468) |
| Cash and cash equivalents, beginning of year | 988,138 | 911,626 |
| Cash and cash equivalents, end of period | $ 1,013,518 | $ 757,158 |
| Supplemental cash flow information: | | |
| Cash paid during the period for: | | |
| Interest | $ 186,011 | $ 112,835 |
| Income taxes | 11,394 | 6,366 |

See notes to financial statements.

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MARSHALL & ILSLEY CORPORATION
Notes to Financial Statements
March 31, 2005 & 2004 (Unaudited)

1. The accompanying unaudited consolidated financial statements should be read in conjunction with Marshall & Ilsley Corporation's ("M&I" or "Corporation") 2004 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 months ended March 31, 2005 and 2004. The results of operations for the three months ended March 31, 2005 and 2004 are not necessarily indicative of results to be expected for the entire year. Certain amounts in the 2004 consolidated financial statements and analyses have been reclassified to conform with the 2005 presentation.

2. New Accounting Pronouncement

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

The Corporation was originally required to adopt SFAS 123(R) beginning in the third quarter of 2005. In April 2005, the Securities and Exchange Commission ("SEC") announced the adoption of a new rule that amends the compliance dates for SFAS 123(R). The new rule allows companies to implement SFAS 123(R) at the beginning of their next fiscal year. The Corporation plans to adopt SFAS 123(R) effective January 1, 2006.

On March 29, 2005 the SEC released Staff Accounting Bulletin No. 107, "Share-based Payment" ("SAB 107"). SAB 107 expresses views of the SEC Staff regarding the application of SFAS 123(R). SAB 107 is intended to assist both public entities in applying the provisions of SFAS 123(R) and investors and other users of financial statements in analyzing the information provided under SFAS 123(R).

3. Comprehensive Income

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

| | Three Months Ended March 31, 2005 | | |
|---|---|---|---|
| | Before-Tax Amount | Tax (Expense) Benefit | Net-of-Tax Amount |
| Net income | | | $ 169,580 |
| Other comprehensive income: | | | |
| Unrealized gains (losses) on securities: | | | |
| Arising during the period | $ (75,719) | $ 26,739 | (48,980) |
| Reclassification for securities transactions included in net income | 26 | (9) | 17 |
| Unrealized gains (losses) | (75,693) | 26,730 | (48,963) |
| Net gains (losses) on derivatives hedging variability of cash flows: | | | |
| Arising during the period | 11,191 | (3,917) | 7,274 |
| Reclassification adjustments for hedging activities included in net income | 3,074 | (1,076) | 1,998 |
| Net gains (losses) | $ 14,265 | $ (4,993) | 9,272 |
| Other comprehensive income (loss) | | | (39,691) |
| Total comprehensive income | | | $ 129,889 |

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MARSHALL & ILSLEY CORPORATION
Notes to Financial Statements - Continued
March 31, 2005 & 2004 (Unaudited)

| | Three Months Ended March 31, 2004 | | |
|---|---|---|---|
| | Before-Tax Amount | Tax (Expense) Benefit | Net-of-Tax Amount |
| Net income | | | $ 146,109 |
| Other comprehensive income: | | | |
| Unrealized gains (losses) on securities: | | | |
| Arising during the period | $ 42,444 | $ (14,897) | 27,547 |
| Reclassification for securities transactions included in net income | -- | -- | -- |
| Unrealized gains (losses) | 42,444 | (14,897) | 27,547 |
| Net gains (losses) on derivatives hedging variability of cash flows: | | | |
| Arising during the period | 3,297 | (1,154) | 2,143 |
| Reclassification adjustments for hedging activities included in net income | 8,994 | (3,148) | 5,846 |
| Net gains (losses) | $ 12,291 | $ (4,302) | 7,989 |
| Other comprehensive income (loss) | | | 35,536 |
| Total comprehensive income | | | $ 181,645 |

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 March 31, 2005 | | |
|---|---|---|---|
| | Income (Numerator) | Average Shares (Denominator) | Per Share Amount |
| Basic Earnings Per Share | | | |
| Income Available to Common Shareholders | $ 169,580 | 227,557 | $ 0.75 |
| Effect of Dilutive Securities | | | |
| Stock Options, Restricted Stock and Other Plans | -- | 4,053 | |
| Diluted Earnings Per Share | | | |
| Income Available to Common Shareholders | $ 169,580 | 231,610 | $ 0.73 |

| | Three Months Ended March 31, 2004 | | |
|---|---|---|---|
| | Income (Numerator) | Average Shares (Denominator) | Per Share Amount |
| Basic Earnings Per Share | | | |
| Income Available to Common Shareholders | $ 146,109 | 222,301 | $ 0.66 |
| Effect of Dilutive Securities | | | |
| Stock Options, Restricted Stock and Other Plans | -- | 3,724 | |
| Diluted Earnings Per Share | | | |
| Income Available to Common Shareholders | $ 146,109 | 226,025 | $ 0.65 |

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 (000's except price range data):

| | Three Months Ended March 31, | |
|---|---|---|
| | 2005 | 2004 |
| Shares | 3,358 | 9 |
| Price Range | $41.870 - $44.200 | $39.340 - $40.150 |





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 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. See Note 2.

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 ($000's except per share data):

| | Three Months Ended March 31, | |
|---|---|---|
| | 2005 | 2004 |
| Net Income, as reported | $ 169,580 | $ 146,109 |
| Add: Stock-based employee compensation expense included in reported net income, net of | 1,072 | 1,422 |
| Less: Total stock-based employee compensation expense determined under fair value based method for all awards, net of tax | (5,567) | (6,224) |
| Pro forma net income | $ 165,085 | $ 141,307 |
| Basic earnings per share: | | |
| As reported | $ 0.75 | $ 0.66 |
| Pro forma | 0.73 | 0.64 |
| Diluted earnings per share: | | |
| As reported | $ 0.73 | $ 0.65 |
| Pro forma | 0.71 | 0.62 |

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

MARSHALL & ILSLEY CORPORATION
Notes to Financial Statements - Continued
March 31, 2005 & 2004 (Unaudited)

5. Business Combinations

The following acquisition, which was not considered a material business combination, was completed during the first quarter of 2005:

In February 2005, Metavante completed the acquisition of all of the outstanding stock of Prime Associates, Inc. ("Prime") of Clark, New Jersey, for $24.5 million. Total consideration consisted of 563,114 shares of Marshall & Ilsley Corporation common stock valued at $24.0 million and $0.5 million in cash. Prime is a provider of anti-money laundering and fraud interdiction software and data products for financial institutions, insurance companies and securities firms. Additional consideration up to $4.0 million may be paid based upon attainment of certain earnings levels in the year ending December 31, 2005. 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 $19.9 million. The estimated identifiable intangible asset to be amortized (customer relationships) with an estimated useful life of 10 years amounted to $4.2 million. The goodwill and intangibles resulting from this transaction are not deductible for tax purposes.

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

| | March 31, 2005 | December 31, 2004 | March 31, 2004 |
|---|---|---|---|
| Investment securities available for sale: | | | |
| U.S. treasury and government agencies | $ 4,219,316 | $ 4,157,374 | $ 4,204,236 |
| State and political subdivisions | 571,387 | 504,027 | 357,737 |
| Mortgage backed securities | 142,310 | 150,658 | 142,583 |
| Other | 526,375 | 546,940 | 502,608 |
| Total | $ 5,459,388 | $ 5,358,999 | $ 5,207,164 |
| Investment securities held to maturity: | | | |
| State and political subdivisions | $ 696,526 | $ 724,086 | $ 799,632 |
| Other | 2,300 | 2,300 | 2,820 |
| Total | $ 698,826 | $ 726,386 | $ 802,452 |

The following table provides the gross unrealized losses and fair value, aggregated by investment category and the length of time the individual securities have been in a continuous unrealized loss position, at March 31, 2005 ($000's):

| | Less than 12 months | | 12 months or more | | Total | |
|---|---|---|---|---|---|---|
| | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses | Fair Value | Unreal Loss |
| U.S. treasury and government agencies | $ 3,414,261 | $ 54,543 | $ 140,149 | $ 5,195 | $ 3,554,410 | $ 59 |
| State and political subdivisions | 135,357 | 3,262 | 20,805 | 747 | 156,162 | 4 |
| Mortgage backed securities | 135,109 | 1,996 | -- | -- | 135,109 | 1 |
| Other | 6,999 | 1 | 1,802 | 17 | 8,801 | |
| Total | $ 3,691,726 | $ 59,802 | $ 162,756 | $ 5,959 | $ 3,854,482 | $ 65 |

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.

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MARSHALL & ILSLEY CORPORATION
Notes to Financial Statements - Continued
March 31, 2005 & 2004 (Unaudited)

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

| | March 31, 2005 | December 31, 2004 | March 31, 2004 |
|---|---|---|---|
| Commercial, financial and agricultural | $ 8,708,376 | $ 8,483,046 | $ 7,288,396 |
| Cash flow hedging instruments at fair value | (28,333) | (1,583) | 36,058 |
| Commercial, financial and agricultural | 8,680,043 | 8,481,463 | 7,324,454 |
| Real estate: | | | |
| Construction | 2,565,783 | 2,265,227 | 1,794,206 |
| Residential mortgage | 8,926,430 | 8,548,029 | 7,246,141 |
| Commercial mortgage | 8,412,078 | 8,164,099 | 7,362,506 |
| Total real estate | 19,904,291 | 18,977,355 | 16,402,853 |
| Personal | 1,456,111 | 1,540,024 | 1,761,886 |
| Lease financing | 542,213 | 537,930 | 566,732 |
| Total loans and leases | $ 30,582,658 | $ 29,536,772 | $ 26,055,925 |

8. Sale of Receivables

During the first quarter of 2005, automobile loans with principal balances of $106.5 million were sold in securitization transactions. Net losses of $0.5 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 $1.0 million in the current quarter.

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

| | |
|---|---|
| Prepayment speed (CPR) | 15-40 % |
| Weighted average life (in months) | 20.0 |
| Expected credit losses (based on original balances) | 0.22-0.74 % |
| Residual cash flow discount rate | 12.0 % |
| Variable returns to transferees | Forward one month LIBOR yield curve |

At March 31, 2005, securitized automobile loans and other automobile loans managed together with them, along with delinquency and credit loss information consisted of the following ($000's):

| | Securitized | Portfolio | Total Managed |
|---|---|---|---|
| Loan balances | $ 980,433 | $ 249,888 | $ 1,230,321 |
| Principal amounts of loans 60 days or more past due | 735 | 219 | 954 |
| Net credit losses year to date | 588 | 144 | 732 |

9. Goodwill and Other Intangibles

The changes in the carrying amount of goodwill for the three months ended March 31, 2005 are as follows ($000's):

| | Banking | Metavante | Others | Total |
|---|---|---|---|---|
| Goodwill balance as of January 1, 2005 | $ 815,086 | $ 978,418 | $ 5,412 | $ 1,798,916 |
| Goodwill acquired during the period | -- | 19,909 | -- | 19,909 |
| Purchase accounting adjustments | -- | 9,484 | -- | 9,484 |
| Goodwill balance as of March 31, 2005 | $ 815,086 | $ 1,007,811 | $ 5,412 | $ 1,828,309 |

Goodwill acquired for the Metavante segment includes initial goodwill relating to the acquisition of Prime in the first quarter of 2005.

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Purchase accounting adjustments for Metavante in the first quarter of 2005 represent the effect of a contingent payment made as a result of achieving certain revenue and profitability targets for the Printing For Systems, Inc. acquisition along with adjustments made to the initial estimates of fair value associated with the Kirchman Corporation, Advanced Financial Solutions, Inc. and its affiliated companies, NYCE Corporation and Response Data Corp. acquisitions.

At March 31, 2005, the Corporation's other intangible assets consisted of the following ($000's):

| | March 31, 2005 | | |
|---|---|---|---|
| | Gross Carrying Amount | Accumulated Amortization | Net Carrying Value |
| Other intangible assets | | | |
| Core deposit intangible | $ 154,015 | $ 73,174 | $ 80,841 |
| Data processing contract rights/customer lists | 254,448 | 20,367 | 234,081 |
| Trust customers | 4,750 | 901 | 3,849 |
| Tradename | 2,775 | 2,146 | 629 |
| Other Intangibles | 1,250 | 208 | 1,042 |
| | $ 417,238 | $ 96,796 | $ 320,442 |
| Mortgage loan servicing rights | | | $ 3,365 |

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

| | March 31, 2005 | December 31, 2004 | March 31, 2004 |
|---|---|---|---|
| Noninterest bearing demand | $ 4,789,802 | $ 4,888,426 | $ 4,359,686 |
| Savings and NOW | 10,104,075 | 10,118,415 | 9,093,090 |
| Cash flow hedge-Brokered MMDA | (4,774) | (1,445) | -- |
| Total Savings and NOW | 10,099,301 | 10,116,970 | 9,093,090 |
| CD's $100,000 and over | 5,672,869 | 5,592,947 | 5,242,748 |
| Cash flow hedge-Institutional CDs | (23,652) | (8,977) | 22,943 |
| Total CD's $100,000 and over | 5,649,217 | 5,583,970 | 5,265,691 |
| Other time deposits | 2,884,075 | 2,721,214 | 2,591,887 |
| Foreign deposits | 2,279,313 | 3,144,507 | 1,840,657 |
| Total deposits | $ 25,701,708 | $ 26,455,087 | $ 23,151,011 |

11. Derivative Financial Instruments and Hedging Activities

The following is an update of the Corporation's use of derivative financial instruments and its hedging activities as described in its Annual Report on Form 10-K for the year ended December 31, 2004. Generally there were no substantive changes in the types of derivative financial instruments the Corporation employs or its hedging activities in the three months ended March 31, 2005.

Trading Instruments and Other Free Standing Derivatives

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
March 31, 2005 & 2004 (Unaudited)

At March 31, 2005, free standing interest rate swaps consisted of $1.7 billion in notional amount of receive fixed/pay floating with an aggregate negative fair value of $19.3 million and $1.0 billion in notional amount of pay fixed/receive floating with an aggregate positive fair value of $18.1 million.

At March 31, 2005, interest rate caps purchased amounted to $33.8 million in notional amount with a positive fair value of $0.3 million and interest rate caps sold amounted to $33.8 million in notional amount with a negative fair value of $0.3 million.

At March 31, 2005, the notional value of interest rate futures designated as trading was $3.3 billion with a negative fair value of $0.4 million.

Fair Value Hedges

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

Fair Value Hedges
March 31, 2005

| Hedged Item | Hedging Instrument | Notional Amount ($ in mil) | Fair Value ($ in mil) | Weighted Average Remaining Term (Yrs) |
|---|---|---|---|---|
| Fixed Rate CDs | Receive Fixed Swap | $ 682.5 | $ (15.5) | 10.0 |
| Medium Term Notes | Receive Fixed Swap | 366.9 | (4.0) | 8.3 |
| Fixed Rate Bank Notes | Receive Fixed Swap | 838.6 | (18.0) | 8.2 |

| | | | | |
|---|---|---|---|---|
| Institutional CDs | Receive Fixed Swap | 5.0 | (0.2) | 14.0 |

The impact from fair value hedges to total net interest income for the three months ended March 31, 2005 was a positive $7.1 million. The impact to net interest income due to ineffectiveness was immaterial.

Cash Flow Hedges

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

Cash Flow Hedges
March 31, 2005

| Hedged Item | Hedging Instrument | Notional Amount ($ in mil) | Fair Value ($ in mil) | Weighted Average Remaining Term (Yrs) |
|---|---|---|---|---|
| Variable Rate Loans | Receive Fixed Swap | $ 1,150.0 | $ (28.3) | 4.6 |
| Institutional CDs | Pay Fixed Swap | 2,355.0 | 23.7 | 1.3 |
| Federal Funds Purchased | Pay Fixed Swap | 300.0 | (5.0) | 2.1 |
| FHLB Advances | Pay Fixed Swap | 920.0 | 21.6 | 3.2 |
| Money Market Account | Pay Fixed Swap | 250.0 | 4.8 | 2.3 |

The impact to total net interest income from cash flow hedges, including amortization of terminated cash flow hedges, for the three months ended March 31, 2005 was a negative $2.8 million. 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 eligible retiree; however, such retirees must pay 100% of the cost of health care benefits. The plan continues to contain other cost-sharing features such as deductibles and coinsurance.





Net periodic postretirement benefit costs for the three month periods ended March 31, 2005 and 2004 includes the following components ($000's):

Three Months Ended

| | March 31, 2005 | March 31, 2004 |
|---|---|---|
| Service cost | $ 553 | $ 631 |
| Interest on APBO | 1,159 | 1,366 |
| Expected return on assets | (149) | -- |
| Prior service amortization | (681) | (680) |
| Actuarial loss amortization | 264 | 563 |
| Other | -- | -- |
| | $ 1,146 | $ 1,880 |

Benefit payments and expenses, net of participant contributions for the three months ended March 31, 2005 amounted to $1.0 million.

As discussed in the Corporation's Annual Report on Form 10-K for the year ended December 31, 2004 (Note 18 in Notes to the Consolidated Financial Statements contained in Item 8), on January 21, 2005 final regulations establishing how prescription drug benefit programs under Medicare (Medicare Part D) will operate were published. After evaluating the final regulations, the Corporation has determined that the impact of the final regulations on its postretirement costs was not material.

13. Segments

The following represents the Corporation's operating segments as of and for the three months ended March 31, 2005 and 2004. There have not been any changes to the way the Corporation organizes its segments. 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 March 31, 2005 | | | | | |
|---|---|---|---|---|---|---|
| | Banking | Metavante | Others | Corporate Overhead | Reclass-ifications & Elimi-nations | |
| Net interest income | $ 296.6 | $ (8.0) | $ 5.0 | $ (1.8) | $ -- | $ |
| Other income | | | | | | |
| Fees - other | 87.2 | 272.4 | 48.2 | 1.7 | -- | |
| Fees - intercompany | 14.6 | 22.1 | 4.7 | 21.7 | (63.1) | |
| Total other income | 101.8 | 294.5 | 52.9 | 23.4 | (63.1) | |
| Other expense | | | | | | |
| Expenses - other | 153.6 | 229.4 | 31.1 | 21.7 | 0.6 | |

| | | | | | | |
|---|---|---|---|---|---|---|
| Expenses - intercompany | 39.3 | 10.4 | 12.5 | 1.5 | (63.7) | |
| Total other expense | 192.9 | 239.8 | 43.6 | 23.2 | (63.1) | |
| Provision for loan and lease losses | 7.8 | -- | 0.3 | -- | -- | |
| Income (loss) before taxes | 197.7 | 46.7 | 14.0 | (1.6) | -- | |
| Income tax expense (benefit) | 64.6 | 18.5 | 5.4 | (1.3) | -- | |
| Segment income (loss) | $ 133.1 | $ 28.2 | $ 8.6 | $ (0.3) | $ -- | $ |
| Identifiable assets | $ 39,324.7 | $ 2,419.6 | $ 669.2 | $ 824.7 | $ (1,597.7) | $ |
| Return on average equity | 16.3 % | 19.6 % | 14.1 % | | | |



MARSHALL & ILSLEY CORPORATION
Notes to Financial Statements - Continued
March 31, 2005 & 2004 (Unaudited)

| | Three Months Ended March 31, 2004 | | | | | |
|---|---|---|---|---|---|---|
| | Banking | Metavante | Others | Corporate Overhead | Reclass-ifications & Elimi-nations | |
| Net interest income | $ 274.8 | $ (0.2) | $ 6.4 | $ (2.4) | $ -- | $ |
| Other income | | | | | | |
| Fees - other | 83.1 | 186.1 | 43.3 | 0.9 | -- | |
| Fees - intercompany | 15.7 | 18.9 | 4.8 | 17.5 | (56.9) | |
| Total other income | 98.8 | 205.0 | 48.1 | 18.4 | (56.9) | |
| Other expense | | | | | | |
| Expenses - other | 152.2 | 164.0 | 29.8 | 16.8 | (0.5) | |
| Expenses - intercompany | 33.2 | 10.9 | 12.2 | 0.1 | (56.4) | |
| Total other expense | 185.4 | 174.9 | 42.0 | 16.9 | (56.9) | |
| Provision for loan and lease losses | 8.3 | -- | 0.7 | -- | -- | |
| Income (loss) before taxes | 179.9 | 29.9 | 11.8 | (0.9) | -- | |
| Income tax expense (benefit) | 58.9 | 11.8 | 4.5 | (0.6) | -- | |
| Segment income (loss) | $ 121.0 | $ 18.1 | $ 7.3 | $ (0.3) | $ -- | $ |
| Identifiable assets | $ 34,415.8 | $ 979.9 | $ 642.3 | $ 496.2 | $ (1,057.8) | $ |
| Return on average equity | 16.1 % | 18.8 % | 11.6 % | | | |

Total Revenue, net interest income plus other income, by type in

Others consists of the following ($ in millions):

| | Three Months Ended March 31, 2005 | Three Months Ended March 31, 2004 |
|---|---|---|
| Trust Services | $ 39.6 | $ 35.5 |
| Residential Mortgage Banking | 5.0 | 6.2 |
| Capital Markets | 0.7 | (0.7) |
| Brokerage and Insurance | 7.1 | 6.8 |
| Commercial Leasing | 3.4 | 4.0 |
| Commercial Mortgage Banking | 1.2 | 1.6 |
| Others | 0.9 | 1.1 |
| Total revenue | $ 57.9 | $ 54.5 |

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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 March 31, 2005 | Three Months Ended March 31, 2004 |
|---|---|---|
| **Assets** | | |
| Cash and due from banks | $ 918,907 | $ 771,175 |
| Investment securities: | | |
| Trading securities | 23,113 | 23,267 |
| Short-term investments | 186,993 | 212,512 |
| Other investment securities: | | |
| Taxable | 4,822,827 | 4,533,085 |
| Tax-exempt | 1,278,156 | 1,146,670 |
| Total investment securities | 6,311,089 | 5,915,534 |
| Loans and leases: | | |
| Loans and leases, net of unearned income | 29,883,640 | 25,427,518 |
| Less: Allowance for loan and lease losses | 360,948 | 356,146 |
| Net loans and leases | 29,522,692 | 25,071,372 |
| Premises and equipment, net | 450,806 | 438,386 |
| Accrued interest and other assets | 3,837,773 | 2,647,182 |
| Total Assets | $ 41,041,267 | $ 34,843,649 |

| Liabilities and Shareholders' Equity | | |
|---|---|---|
| Deposits: | | |
| Noninterest bearing | $ 4,693,268 | $ 4,316,158 |
| Interest bearing | 20,540,811 | 18,198,398 |
| Total deposits | 25,234,079 | 22,514,556 |
| Federal funds purchased and security repurchase agreements | 1,944,851 | 2,521,642 |
| Other short-term borrowings | 948,080 | 906,913 |
| Long-term borrowings | 7,205,154 | 4,242,589 |
| Accrued expenses and other liabilities | 1,729,543 | 1,283,938 |
| Total liabilities | 37,061,707 | 31,469,638 |
| Shareholders' equity | 3,979,560 | 3,374,011 |
| Total Liabilities and Shareholders' Equity | $ 41,041,267 | $ 34,843,649 |

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## OVERVIEW

Management believes the first quarter of 2005 produced strong financial results. Loan growth continued its strong momentum from 2004, the improvement in credit quality continues to exceed management's expectations and year-over-year growth in noninterest bearing deposits was encouraging as was the continued growth in revenue and earnings by the data processing segment ("Metavante").

Net income for the first quarter of 2005 amounted to $169.6 million compared to $146.1 million for the same period in the prior year, an increase of $23.5 million, or 16.1%. Diluted earnings per share were $0.73 for the three months ended March 31, 2005, compared with $0.65 for the three months ended March 31, 2004, an increase of 12.3%. The return on average assets and average equity was 1.68% and 17.28%, respectively, for the quarter ended March 31, 2005, and 1.69% and 17.42%, respectively, for the quarter ended March 31, 2004.

Earnings growth for the three months ended March 31, 2005 compared to the three months ended March 31, 2004 was attributable to a number of factors. The increase in net interest income was driven by loan and deposit growth. Net interest income growth was somewhat mitigated by the financing costs associated with Metavante's 2004 acquisitions. The continued improvement in credit quality resulted in lower provisions for loan and lease losses. Metavante and the trust services reporting unit continued to exhibit growth in both revenue and earnings. Metavante's growth in revenue and earnings reflects, in part, higher transaction volumes and increased card production and the impact of its acquisition and divestiture activities. These activities included one acquisition completed in the first quarter of 2005 and six acquisitions and two divestitures completed in 2004. For the three months ended March 31, 2005, the Corporation realized a gain due to the change in control of PULSE EFT Associates. These factors along with continued expense management resulted in double-digit earnings growth in the three months ended March 31, 2005 compared to the three months ended March 31, 2004.

Current operating trends and financial results have been positive and are a confirmation of the Corporation's overall strategy of driving earnings per share growth by: (1) expanding banking operations into faster growing regions beyond Wisconsin; (2) increasing the number of financial institutions to which the Corporation provides correspondent banking services; (3) expanding trust services and other wealth management product and service offerings for high net-worth individuals; and (4) growing Metavante's business through organic growth and acquisitions.

Management believes that there are some key factors that could affect future operating trends and financial results. Management believes that credit losses will likely return to historical levels. While it is unclear when this will occur, management does not believe that current net charge-off levels are sustainable indefinitely. The Federal Reserve Board's current tightening cycle will eventually constrain economic growth, which will in turn slow future loan growth. Rapidly shifting and unstable yield curves make balance sheet management vulnerable to potential earnings volatility. While the Corporation has taken what it believes to be a conservative position relative to a generally rising interest rate environment, shifts in customer behavior and re-pricing characteristics present a persistent challenge. Competitive pressures on product pricing for both loans and deposits may result in slower growth in future periods to the extent such pressure results in spreads (profit) on incremental business below levels the Corporation believes to be economically prudent.

Management continues to believe that the 2005 outlook provided in the Corporation's 2004 Annual Report on Form 10-K is still representative of its expectations for the year ended December 31, 2005. The Corporation's actual results for the year ended December 31, 2005 could differ materially from those expected by management. See "Forward-Looking Statements" in this Form 10-Q and the Corporation's 2004 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

Some of the more noteworthy transactions and events that occurred in the three months ended March 31, 2005 and 2004 consisted of the following:

### First quarter 2005

On February 9, 2005, Metavante completed the acquisition of all of the outstanding common stock of Prime Associates, Inc. ("Prime") of Clark, New Jersey for $24.5 million. Total consideration consisted of 563,114 shares of Marshall & Ilsley Corporation common stock valued at $24.0 million and $0.5 million in cash. Prime is a provider of anti-money laundering and fraud interdiction software and data products for financial institutions, insurance companies and securities firms. See Note 5, Business Combinations in the Notes to Financial Statements.



During the first quarter of 2005, the Corporation's banking segment's investment in certain membership interests of PULSE EFT Associates ("PULSE") was liquidated by PULSE due to a change in control. The cash received resulted in a gain of $5.3 million which is reported in Net investment securities gains (losses) in the Consolidated Statements of Income.

### First Quarter 2004

On January 1, 2004, the Corporation's Banking segment 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.

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.

## NET INTEREST INCOME

Net interest income, which is the difference between interest earned on earning assets and interest owed on interest bearing liabilities represented approximately 41.6% and 47.1% of the Corporation's source of revenues for the three months ended March 31, 2005 and 2004, respectively.

Net interest income for the first quarter of 2005 amounted to $291.8 million compared to $278.6 million reported for the first quarter of 2004, an increase of $13.2 million or 4.7%. Loan growth and the growth in noninterest bearing deposits were the primary contributors to the increase in net interest income. Factors negatively affecting net interest income over the prior quarter included the impact of lengthening liabilities in order to reduce future volatility in net interest income due to interest rate changes and the interest expense associated with the incremental debt issued to fund Metavante's acquisitions in 2004.

Average earning assets in the first quarter of 2005 amounted to $36.2 billion compared to $31.3 billion in the first quarter of 2004, an increase of $4.9 billion or 15.5%. Average loans and leases accounted for $4.5 billion of the growth in average earning assets in the first quarter of 2005 compared to the first quarter of 2004. Average investment securities increased $0.4 billion over the prior quarter.

Average interest bearing liabilities increased $4.8 billion or 18.4% in the first quarter of 2005 compared to the first quarter of 2004. Average interest bearing deposits increased $2.3 billion or 12.9% in the first quarter of 2005 compared to the first quarter of last year. Average total borrowings increased $2.4 billion or 31.6% in the first quarter of 2005 compared to the same period in 2004.

Average noninterest bearing deposits increased $0.4 billion or 8.7% in the three months ended March 31, 2005 compared to the same period last year.



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

| | 2005 | 2004 | | | | Growth Pct. | |
|---|---|---|---|---|---|---|---|
| | First Quarter | Fourth Quarter | Third Quarter | Second Quarter | First Quarter | Annual | Prior Quarte |
| Commercial Loans and Leases | | | | | | | |
| Commercial | $ 8,460 | $ 8,076 | $ 7,796 | $ 7,463 | $ 7,142 | 18.4 % | 4. |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Commercial real estate | | | | | | | |
| Commercial mortgages | 8,275 | 8,042 | 7,826 | 7,512 | 7,246 | 14.2 | 2. |
| Construction | 1,241 | 1,143 | 1,100 | 1,071 | 1,075 | 15.5 | 8. |
| Total commercial real estate | 9,516 | 9,185 | 8,926 | 8,583 | 8,321 | 14.4 | 3. |
| Commercial lease financing | 398 | 402 | 395 | 393 | 399 | (0.1) | (1. |
| Total Commercial Loans and Leases | 18,374 | 17,663 | 17,117 | 16,439 | 15,862 | 15.8 | 4. |
| Personal Loans and Leases | | | | | | | |
| Residential real estate | | | | | | | |
| Residential mortgages | 3,562 | 3,234 | 2,929 | 2,743 | 2,511 | 41.9 | 10. |
| Construction | 1,167 | 1,017 | 865 | 759 | 716 | 62.9 | 14. |
| Total residential real estate | 4,729 | 4,251 | 3,794 | 3,502 | 3,227 | 46.6 | 11. |
| Personal loans | | | | | | | |
| Student | 88 | 85 | 79 | 83 | 102 | (14.3) | 3. |
| Credit card | 217 | 208 | 214 | 244 | 230 | (5.6) | 4. |
| Home equity loans and lines | 5,131 | 5,035 | 4,894 | 4,688 | 4,439 | 15.6 | 1. |
| Other | 1,217 | 1,251 | 1,256 | 1,388 | 1,391 | (12.5) | (2. |
| Total personal loans | 6,653 | 6,579 | 6,443 | 6,403 | 6,162 | 8.0 | 1. |
| Personal lease financing | 128 | 135 | 146 | 164 | 177 | (27.5) | (5. |
| Total Personal Loans and Leases | 11,510 | 10,965 | 10,383 | 10,069 | 9,566 | 20.3 | 5. |
| Total Consolidated Average Loans and Leases | $ 29,884 | $ 28,628 | $ 27,500 | $ 26,508 | $ 25,428 | 17.5 % | 4. |

Total consolidated average loans and leases increased $4.5 billion or 17.5% in the first quarter of 2005 compared to the first quarter of 2004. Total average commercial loan and lease growth was $2.5 billion, a 15.8% increase in the current quarter compared to the first quarter of the prior year. The growth in total average commercial loans and leases was about evenly split between commercial and industrial loans and commercial real estate loans. Total average personal loans and leases increased $1.9 billion or 20.3% in the first quarter of 2005 compared to the first quarter of 2004. This growth was driven primarily by growth in residential real estate loans and home equity loans and lines. Average indirect auto loans and leases declined in the current quarter compared to the first quarter of the prior year which reflects, in part, the effect of the sale and securitization of indirect auto loans. From a production standpoint, residential real estate loan closings in the first quarter of 2005 were $0.3 billion or 42.5% greater than loan closings in the first quarter of 2004 and were relatively unchanged compared to residential real estate loan closings in the fourth quarter of 2004.

Total average commercial loan and lease growth continued to be strong in the first quarter of 2005. This growth was spread relatively evenly throughout the quarter, was experienced in all of the Corporation's markets and came from both relatively new and existing customers across a variety of industries. During the first quarter of 2005, the Corporation began to experience pricing pressure that was driven primarily by competition in the markets that it serves. The Corporation's continued commitment to financially sound pricing discipline in an environment when credit spreads are tightening makes it difficult to project whether loan growth will continue at its current pace. The Corporation continues to believe that low double-digit loan growth is a reasonable expectation for the year ended December 31, 2005.

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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 some of its residential real estate production in the secondary market. Selected residential real estate loans with adjustable rate characteristics that are considered desirable are periodically retained in the portfolio. Residential real estate loans sold to investors amounted to $0.4 billion in the first quarter of 2005 compared to $0.3 billion in the first quarter of the prior year. At March 31, 2005 and 2004, the Corporation had approximately $103.9 million and $113.0 million of mortgage loans held for sale, respectively. Gains from the sale of mortgage loans amounted to $6.9 million in the first quarter of 2005 compared to $5.2 million in the first quarter of 2004.

Auto loans securitized and sold in each of the first quarters of 2005 and 2004 were $0.1 billion. For the three months ended March 31, 2005, net losses from the sale and securitization of auto loans amounted to $0.5 million compared to gains of $0.9 million in the first quarter of 2004. The losses incurred in 2005 were primarily due to lower loan interest spreads associated with new auto loan production in a rising interest rate environment. Auto loans held for sale amounted to $31.1 million at March 31, 2005.

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

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

| | 2005 | 2004 | | | | Growth Pct. | |
|---|---|---|---|---|---|---|---|
| | First Quarter | Fourth Quarter | Third Quarter | Second Quarter | First Quarter | Annual | Prior Quarte |
| Bank issued deposits | | | | | | | |
| Noninterest bearing deposits | | | | | | | |
| Commercial | $ 3,263 | $ 3,427 | $ 3,280 | $ 3,143 | $ 2,988 | 9.2 % | (4. |
| Personal | 930 | 923 | 902 | 908 | 855 | 8.7 | 0. |
| Other | 500 | 521 | 456 | 463 | 473 | 5.9 | (4. |
| Total noninterest bearing deposits | 4,693 | 4,871 | 4,638 | 4,514 | 4,316 | 8.7 | (3. |
| Interest bearing deposits | | | | | | | |
| Savings and NOW | 3,281 | 3,402 | 3,452 | 3,395 | 3,303 | (0.6) | (3. |
| Money market | 5,692 | 5,654 | 5,612 | 5,657 | 5,780 | (1.5) | 0. |
| Foreign activity | 904 | 887 | 849 | 943 | 909 | (0.5) | 1. |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Total interest bearing deposits | 9,877 | 9,943 | 9,913 | 9,995 | 9,992 | (1.2) | (0. |
| Time deposits | | | | | | | |
| Other CDs and time deposits | 2,787 | 2,685 | 2,653 | 2,582 | 2,611 | 6.8 | 3. |
| CDs greater than $100,000 | 1,074 | 906 | 805 | 660 | 632 | 70.0 | 18. |
| Total time deposits | 3,861 | 3,591 | 3,458 | 3,242 | 3,243 | 19.1 | 7. |
| Total bank issued deposits | 18,431 | 18,405 | 18,009 | 17,751 | 17,551 | 5.0 | 0. |
| Wholesale deposits | | | | | | | |
| Money market | 1,073 | 1,096 | 747 | 72 | 75 | 1,326.0 | (2. |
| Brokered CDs | 4,761 | 4,960 | 5,009 | 4,498 | 3,854 | 23.5 | (4. |
| Foreign time | 969 | 811 | 869 | 1,188 | 1,035 | (6.4) | 19. |
| Total wholesale deposits | 6,803 | 6,867 | 6,625 | 5,758 | 4,964 | 37.0 | (0. |
| Total consolidated average deposits | $ 25,234 | $ 25,272 | $ 24,634 | $ 23,509 | $ 22,515 | 12.1 % | (0. |

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Total consolidated average deposits increased $2.7 billion or 12.1% in the first quarter of 2005 compared to the first quarter of 2004. Average noninterest bearing deposits increased $0.4 billion or 8.7% while average bank-issued interest bearing deposits increased $0.5 billion or 3.8% in the current quarter compared to the first quarter of the prior year. The Corporation has recently experienced success in competing for bank issued time deposits without pricing above comparable wholesale levels.

The growth in bank issued deposits, especially noninterest bearing deposits, includes both commercial and retail banking. Noninterest bearing deposits are subject to seasonality and are influenced by the 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.

For the three months ended March 31, 2005, average wholesale deposits increased $1.8 billion, or 37.0% compared to the three months ended March 31, 2004. 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 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 2005, a new floating rate advance from the Federal Home Loan Bank ("FHLB") aggregating $250.0 million was obtained. The FLHB advance matures in 2011 and was converted to a fixed rate through the use of an interest rate swap. During the first quarter of 2005, $900.0 million of senior bank notes with an annual weighted average coupon interest rate of 4.13% were issued. The notes mature at various times beginning in 2008 through 2017. In addition, during the first quarter of 2005, the Corporation issued $4.5 million of MiNotes with an annual weighted average coupon interest rate of 5.02%. The MiNotes mature at various times beginning 2012 through 2023.

During the first quarter of 2004, a fixed rate FHLB advance 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.

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The Corporation's consolidated average interest earning assets and interest bearing liabilities, interest earned and interest paid for the three months ended March 31, 2005 and 2004, are presented in the following tables ($ in millions):

Consolidated Yield and Cost Analysis

| | Three Months Ended March 31, 2005 | | | Three Months Ended March 31, 2004 | | |
|---|---|---|---|---|---|---|
| | Average Balance | Interest | Average Yield or Cost (b) | Average Balance | Interest | Average Yield or Cost (b) |
| Loans and leases: (a) | | | | | | |
| Commercial loans and leases | $ 8,857.6 | $ 118.5 | 5.43 % | $ 7,540.9 | $ 87.4 | 4.67 % |
| Commercial real estate loans | 9,516.4 | 137.3 | 5.85 | 8,321.3 | 111.2 | 5.37 |
| Residential real estate loans | 4,729.0 | 66.6 | 5.71 | 3,226.7 | 44.6 | 5.56 |
| Home equity loans and lines | 5,130.8 | 72.6 | 5.74 | 4,438.2 | 59.1 | 5.35 |
| Personal loans and leases | 1,649.8 | 22.5 | 5.53 | 1,900.4 | 24.3 | 5.14 |
| Total loans and leases | 29,883.6 | 417.5 | 5.67 | 25,427.5 | 326.6 | 5.17 |
| Investment securities (b): | | | | | | |
| Taxable | 4,822.8 | 51.9 | 4.37 | 4,533.1 | 48.3 | 4.34 |
| Tax Exempt (a) | 1,278.2 | 23.0 | 7.48 | 1,146.7 | 21.4 | 7.70 |
| Total investment securities | 6,101.0 | 74.9 | 5.01 | 5,679.8 | 69.7 | 5.01 |
| Trading securities (a) | 23.1 | 0.1 | 1.23 | 23.3 | 0.1 | 1.57 |
| Other short-term investments | 187.0 | 1.3 | 2.91 | 212.5 | 0.5 | 1.03 |
| Total interest earning assets | $ 36,194.7 | $ 493.8 | 5.54 % | $ 31,343.1 | $ 396.9 | 5.11 % |
| Interest bearing deposits: | | | | | | |
| Bank issued deposits: | | | | | | |
| Bank issued interest bearing activity deposits | $ 9,876.8 | $ 33.6 | 1.38 % | $ 9,991.9 | $ 15.5 | 0.63 % |
| Bank issued time deposits | 3,861.0 | 26.1 | 2.74 | 3,242.3 | 19.2 | 2.38 |
| Total bank issued deposits | 13,737.8 | 59.7 | 1.76 | 13,234.2 | 34.7 | 1.06 |
| Wholesale deposits | 6,803.0 | 43.8 | 2.61 | 4,964.2 | 20.8 | 1.69 |
| Total interest bearing deposits | 20,540.8 | 103.5 | 2.04 | 18,198.4 | 55.5 | 1.23 |
| Short-term borrowings | 2,892.9 | 21.9 | 3.08 | 3,428.5 | 15.8 | 1.86 |
| Long-term borrowings | 7,205.2 | 68.4 | 3.85 | 4,242.6 | 39.1 | 3.70 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Total interest bearing liabilities | $ 30,638.9 | $ 193.8 | 2.57 % | $ 25,869.5 | $ 110.4 | 1.72 % |
| Net interest margin (FTE) as a percent of average earning assets | | $ 300.0 | 3.36 % | | $ 286.5 | 3.69 % |
| Net interest spread (FTE) | | | 2.97 % | | | 3.39 % |

(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 33 basis points from 3.69 percent in the first quarter of 2004 to 3.36 percent in the first quarter of 2005. The decrease in net interest margin was offset, in part, by the increase in noninterest bearing deposits as previously discussed. When comparing the net interest margin percentage for the first quarter of 2005 to the first quarter of 2004, 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 acquisitions lowered the net interest margin by approximately 12 basis points in the first quarter of 2005. 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. Compared to the fourth quarter of 2004, the net interest margin, as a percent of average earning assets on a FTE basis, decreased 3 basis points from 3.39 percent in the fourth quarter of 2004 to 3.36 percent in the first quarter of 2005.

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The contraction of the net interest margin as a percent of average earning assets is primarily driven by the continued growth in loan balances beyond the Corporation's capacity to generate deposit growth at or below wholesale costs of funds. Management expects modest downward pressure on the net interest margin percentage to continue. Net interest income and the net interest margin percentage can vary and continue to be influenced by loan and deposit growth, product spreads, pricing competition in the Corporation's markets, prepayment activity, future interest rate changes and various other factors.

## PROVISION FOR LOAN AND LEASE LOSSES AND CREDIT QUALITY

The following tables present comparative consolidated credit quality information as of March 31, 2005, and the prior four quarters:

### Nonperforming Assets

($000's)

| | 2005 | 2004 | | | |
|---|---|---|---|---|---|
| | First Quarter | Fourth Quarter | Third Quarter | Second Quarter | First Quarter |
| Nonaccrual | $ 124,416 | $ 127,722 | $ 139,154 | $ 137,845 | $ 149,550 |

| | | | | | |
|---|---|---|---|---|---|
| Renegotiated | 220 | 236 | 244 | 253 | 261 |
| Past due 90 days or more | 5,314 | 4,405 | 3,148 | 6,902 | 6,296 |
| Total nonperforming loans and leases | 129,950 | 132,363 | 142,546 | 145,000 | 156,107 |
| Other real estate owned | 6,770 | 8,056 | 7,098 | 10,394 | 13,172 |
| Total nonperforming assets | $ 136,720 | $ 140,419 | $ 149,644 | $ 155,394 | $ 169,279 |
| Allowance for loan and lease losses | $ 358,280 | $ 358,110 | $ 358,072 | $ 357,898 | $ 353,687 |

Consolidated Statistics

| | 2005 | 2004 | | | |
|---|---|---|---|---|---|
| | First Quarter | Fourth Quarter | Third Quarter | Second Quarter | First Quarter |
| Net charge-offs to average loans and leases annualized | 0.11 % | 0.18 % | 0.10 % | 0.08 % | 0.08 % |
| Total nonperforming loans and leases to total loans and leases | 0.42 | 0.45 | 0.51 | 0.53 | 0.60 |
| Total nonperforming assets to total loans and leases and other real est | 0.45 | 0.48 | 0.53 | 0.57 | 0.65 |
| Allowance for loan and lease losses to total loans and leases | 1.17 | 1.21 | 1.27 | 1.32 | 1.36 |
| Allowance for loan and lease losses to total nonperforming loans | 276 | 271 | 251 | 247 | 227 |

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Nonaccrual Loans and Leases By Type

($000's)

| | 2005 | 2004 | | | |
|---|---|---|---|---|---|
| | First Quarter | Fourth Quarter | Third Quarter | Second Quarter | First Quarter |
| Commercial | | | | | |
| Commercial, financial and agricultural | $ 37,587 | $ 41,047 | $ 49,714 | $ 39,473 | $ 45,714 |
| Lease financing receivables | 4,882 | 4,463 | 5,476 | 6,398 | 7,381 |
| Total commercial | 42,469 | 45,510 | 55,190 | 45,871 | 53,095 |
| Real estate | | | | | |
| Construction and land development | 785 | 578 | 207 | 1,724 | 78 |
| Commercial mortgage | 28,115 | 31,852 | 33,817 | 38,561 | 46,172 |

| | | | | | |
|---|---|---|---|---|---|
| Residential mortgage | 52,056 | 49,206 | 48,715 | 50,776 | 49,528 |
| Total real estate | 80,956 | 81,636 | 82,739 | 91,061 | 95,778 |
| Personal | 991 | 576 | 1,225 | 913 | 677 |
| Total nonaccrual loans and leases | $ 124,416 | $ 127,722 | $ 139,154 | $ 137,845 | $ 149,550 |

Reconciliation of Allowance for Loan and Lease Losses

($000's)

| | 2005 | 2004 | | | |
|---|---|---|---|---|---|
| | First Quarter | Fourth Quarter | Third Quarter | Second Quarter | First Quarter |
| Beginning balance | $ 358,110 | $ 358,072 | $ 357,898 | $ 353,687 | $ 349,561 |
| Provision for loan and lease losses | 8,126 | 12,837 | 6,872 | 9,227 | 9,027 |
| Allowance of banks and loans acquired | -- | -- | -- | -- | 27 |
| Loans and leases charged-off | | | | | |
| Commercial | 6,036 | 5,453 | 4,403 | 4,015 | 2,904 |
| Real estate | 3,339 | 4,342 | 3,047 | 2,765 | 3,138 |
| Personal | 3,416 | 3,345 | 3,207 | 2,616 | 3,653 |
| Leases | 246 | 6,178 | 252 | 536 | 1,001 |
| Total charge-offs | 13,037 | 19,318 | 10,909 | 9,932 | 10,696 |
| Recoveries on loans and leases | | | | | |
| Commercial | 2,604 | 5,100 | 2,366 | 2,279 | 2,886 |
| Real estate | 1,380 | 387 | 611 | 1,336 | 1,555 |
| Personal | 719 | 765 | 900 | 906 | 756 |
| Leases | 378 | 267 | 334 | 395 | 571 |
| Total recoveries | 5,081 | 6,519 | 4,211 | 4,916 | 5,768 |
| Net loans and leases charge-offs | 7,956 | 12,799 | 6,698 | 5,016 | 4,928 |
| Ending balance | $ 358,280 | $ 358,110 | $ 358,072 | $ 357,898 | $ 353,687 |

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 $6.8 million at March 31, 2005, compared to $8.1 million at December 31, 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.

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

At March 31, 2005, nonperforming loans and leases amounted to $130.0 million or 0.42% of consolidated loans and leases compared to $132.4 million or 0.45% of consolidated loans and leases at December 31, 2004, and $156.1 million or 0.60% of consolidated loans and leases at March 31, 2004. Both in terms of absolute dollars and percent of total loans and leases outstanding, the quarter ended March 31, 2005 represented the eighth 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, 2004. 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 $8.0 million or 0.11% of average loans and leases in the first quarter of 2005 compared to $12.8 million or 0.18% of average loans and leases in the fourth quarter of 2004 and $4.9 million or 0.08% of average loans and leases in the first quarter of 2004. The lower level of net charge-offs experienced throughout 2004 and the first quarter of 2005 has to some extent been the result of higher than normal recoveries. Based on the status of some of the larger charge-offs recognized in recent quarters, management expects recoveries will likely return to lower levels in future periods. Recoveries in the first quarter of 2005 were $1.4 million lower than recoveries in the fourth quarter of 2004 and $0.7 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 which were lower than expected. Management expects the longer term level of nonperforming loans and leases to be in the range of 50-60 basis points and expects credit quality to trend to historical levels. While it is unclear when this will occur, management does not believe that current net charge-off levels are sustainable indefinitely.

The provision for loan and lease losses amounted to $8.1 million for the three months ended March 31, 2005 compared to $12.8 million for the three months ended December 31, 2004 and $9.0 million for the three months ended March 31, 2004. The allowance for loan and lease losses as a percent of total loans and leases outstanding was 1.17% at March 31, 2005, 1.21% at December 31, 2004 and 1.36% at March 31, 2004.

## OTHER INCOME

Other income or noninterest sources of revenue represented approximately 58.4% and 52.9% of the Corporation's total sources of revenues for the three months ended March 31, 2005 and 2004, respectively. Total other income in the first quarter of 2005 amounted to $409.5 million compared to

$313.4 million in the same period last year, an increase of $96.1 million or 30.7%. The increase in other income was primarily due to growth in data processing services and trust services revenue.

Data processing services revenue amounted to $272.4 million in the first quarter of 2005 compared to $186.1 million in the first quarter of 2004, an increase of $86.3 million or 46.3%. Overall, revenue growth was generally stronger than expected throughout all aspects of this segment and was driven by higher transaction volumes in core processing and payment processing, an increase in healthcare eligibility and payment card production and revenue associated with acquisitions. Revenue associated with Metavante's acquisitions completed in 2005 and 2004 net of revenue lost from the 2004 divestitures, contributed approximately $81.0 million to the revenue growth in the three months ended March 31, 2005, over the comparable three months ended March 31, 2004. Total buyout revenue, which varies from period to period, increased $2.8 million in the current quarter compared to the first quarter of last year.

For the three months ended March 31, 2005, item processing revenue amounted to $10.6 million compared to $11.4 million for the three months ended March 31, 2004, a decrease of $0.8 million or 7.6%. Total buyout revenue, which varies from period to period, increased $0.3 million in the current quarter compared to the first quarter of last year. Lower volumes and some lost business all contributed to the quarter over quarter decline.



Trust services revenue amounted to $40.3 million in the first quarter of 2005 compared to $36.3 million in the first quarter of 2004, an increase of $4.0 million or 11.3%. The increase in revenue was due to sales efforts that continue to emphasize cross-selling and integrated delivery. Assets under management were approximately $18.1 billion at March 31, 2005, compared to $18.3 billion at December 31, 2004, and $16.6 billion at March 31, 2004. Service charges on deposits amounted to $23.6 million in the first quarter of 2005 compared to $25.5 million in the first quarter of 2004, a decrease of $1.9 million. A portion of this source of fee income is sensitive to changes in interest rates. In a rising interest rate environment customers receive a higher credit for maintaining balances which results in lower fee income. Service charges on deposits associated with commercial demand deposit accounts accounted for $1.7 million of the decline in revenue in the first quarter of 2005 compared to the first quarter of 2004.

Total mortgage banking revenue was $8.0 million in the first quarter of 2005 compared with $7.0 million in the first quarter of 2004, an increase of $1.0 million. For the three months ended March 31, 2005, the Corporation sold $0.4 billion of residential mortgage loans to the secondary market. Retained interests in the form of mortgage servicing rights amounted to $0.2 million for the three months ended March 31, 2005. For the three months ended March 31, 2004, the Corporation sold $0.3 billion of residential mortgage loans to the secondary market. Retained interests in the form of mortgage servicing rights amounted to $0.4 million for the three months ended March 31, 2004.

Net Investment securities gains in the first quarter of 2005 amounted to $5.8 million. As previously discussed, during the first quarter of 2005, the Corporation's banking segment's investment in certain membership interests of PULSE was liquidated by PULSE. The cash received resulted in a gain of $5.3 million. Net investment securities activities for the three months ended March 31, 2004 were not significant.

Other income in the first quarter of 2005 amounted to $42.7 million compared to $41.0 million in the first quarter of 2004, an increase of $1.7 million or 4.1%. During the first quarter of 2005, the Corporation completed the required sale of a facility and realized a gain of $0.8 million. Lower auto securitization income, as previously discussed, and lower trading income was offset by increases in card related fees and other sources of income in the three months ended March 31, 2005 compared to the three months ended March 31, 2004.

## OTHER EXPENSE

Total other expense for the three months ended March 31, 2005 amounted to $436.4 million compared to $362.3 million for the three months ended March 31, 2004, an increase of $74.1 million or 20.5%.

Total other expense for the three months ended March 31, 2005 included the operating expenses associated with Metavante's acquisitions of Kirchman Corporation in May 2004, Advanced Financial Solutions, Inc. and its affiliated companies in July 2004, the NYCE Corporation in July 2004, Response Data Corp. in September 2004, NuEdge Systems LLC in October 2004, VECTOR sgi Holdings, Inc. in November 2004 and Prime Associates, Inc. on February 9, 2005. Total other expense for the three months ended March 31, 2005 excluded the operating expenses associated with the 401k Retirement Plan Services operations and the direct customer base of Paytrust.com that were sold in the fourth quarter of 2004.

Metavante's acquisitions and divestitures had a significant impact on the period-to-period comparability of operating expenses in 2005 compared to 2004. Approximately $61.4 million of the operating expense growth in the first quarter of 2005 compared to the first quarter of 2004 was attributable to the acquisitions and divestitures. The operating expenses of the acquired and divested entities have been included in or excluded from the Corporation's consolidated operating expenses from the dates the transactions were completed.

As previously discussed, 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 Corporation estimates that its expense growth in the first quarter of 2005 compared to the first quarter of 2004, excluding the effect of the acquisitions and divestitures and the effect of the debt prepayment, was approximately $17.6 million or 4.9%.



Expense control is sometimes measured in the financial services industry by the efficiency ratio statistic. The efficiency ratio is calculated by taking total other expense divided by the sum of total other income (including Capital Markets revenue but excluding investment securities gains or losses) and net interest income on a fully taxable equivalent basis. The Corporation's efficiency ratios for the three months ended March 31, 2005, and prior four quarters were:

## Efficiency Ratios

| Three Months Ended | | | | |
|---|---|---|---|---|
| March 31, 2005 | December 31, 2004 | September 30, 2004 | June 30, 2004 | March 31, 2004 |

| | | | | | |
|---|---|---|---|---|---|
| Consolidated Corporation | 62.0 % | 61.6 % | 62.2 % | 60.2 % | 60.4 % |
| Consolidated Corporation Excluding Metavante | 48.8 % | 47.0 % | 49.0 % | 48.8 % | 49.2 % |

Salaries and employee benefits expense amounted to $238.5 million in the first quarter of 2005 compared to $203.9 million in the first quarter of 2004, an increase of $34.6 million or 17.0%. Salaries and benefits associated with acquisitions and divestitures previously discussed accounted for approximately $28.5 million of the increase in salaries and employee benefits expense in the first quarter of 2005 compared to the first quarter of 2004.

For the first quarter of 2005, occupancy and equipment expense amounted to $53.4 million compared to $47.4 million in the first quarter of 2004, an increase of $6.0 million or 12.7%. The acquisitions and divestitures accounted for approximately all of the increase in occupancy and equipment expense in the first quarter of 2005 compared to the first quarter of 2004.

Software expenses, processing charges, supplies and printing, professional services and shipping and handling expenses totaled $65.3 million in the first quarter of 2005 compared to $55.5 million in the first quarter of 2004, an increase of $9.8 million or 17.7%. The acquisitions and divestitures accounted for approximately $7.5 million of the increase in these expense items in the first quarter of 2005 compared to the first quarter of 2004.

Amortization of intangibles amounted to $8.1 million in the first quarter of 2005 compared to $5.5 million in the first quarter of 2004, an increase of $2.6 million. Amortization and valuation reserve adjustments associated with mortgage servicing rights decreased amortization expense $0.6 million in the first quarter of 2005 compared to the first quarter of 2004. The carrying value of the Corporation's mortgage servicing rights was $3.4 million at March 31, 2005. Amortization of core deposit intangibles, which is based on a declining balance method, decreased $0.5 million in the first quarter of 2005 compared to the first quarter of the prior year. For the three months ended March 31, 2005 compared to the three months ended March 31, 2004, the acquisitions and divestitures contributed approximately $3.9 million to the increase in intangibles amortization expense in the respective periods.

Other expense amounted to $71.2 million in the first quarter of 2005 compared to $50.1 million in the first quarter of 2004, an increase of $21.1 million or 42.0%. The acquisitions and divestitures accounted for approximately $12.9 million of the increase in other expense in the first quarter of 2005 compared to the first quarter of 2004. As previously discussed, 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.

Other expense is affected by the capitalization of costs, net of amortization associated with software development and customer data processing conversions. Net software and conversion amortization was $5.8 million in the first quarter of 2005 compared to $3.0 million in the first quarter of 2004, resulting in an increase to other expense over the comparative quarters of $2.8 million. Approximately $1.7 million of that increase was attributable to the acquisitions and divestitures.

Higher expenses associated with credit cards, travel, charitable contributions and various other expenses and accruals accounted for the remaining increase in other expense in the first quarter of 2005 compared to the first quarter of 2004.



## INCOME TAXES

The provision for income taxes for the three months ended March 31, 2005 amounted to $87.2 million or 33.9% of pre-tax income compared to $74.6 million or 33.8% of pre-tax income for the three months ended March 31, 2004.

## LIQUIDITY AND CAPITAL RESOURCES

Shareholders' equity was $4.0 billion or 9.7% of total consolidated assets at March 31, 2005, compared to $3.9 billion or 9.6% of total consolidated assets at December 31, 2004, and $3.4 billion or 9.6% of total consolidated assets at March 31, 2004. The increase in shareholders' equity at March 31, 2005 was primarily due to earnings net of dividends paid. During the first quarter of 2005, the Corporation issued 563,114 shares of its common stock valued at $24.0 million in conjunction with Metavante's acquisition of Prime Associates, Inc. Also during the first quarter of 2005, the Corporation issued 355,046 shares of its common stock valued at $14.4 million to fund its 2004 obligations under its retirement and employee stock ownership plans.

At March 31, 2005, the net loss in accumulated other comprehensive income amounted to $16.3 million which represented a negative change in accumulated other comprehensive income of $39.7 million since December 31, 2004. Net accumulated other comprehensive income associated with available for sale investment securities was a net loss of $17.9 million at March 31, 2005, compared to a net gain of $31.1 million at December 31, 2004, resulting in a net loss of $49.0 million over the three month period. Net accumulated other comprehensive income associated with the change in fair value of the Corporation's derivative financial instruments designated as cash flow hedges was a net gain of $9.3 million over the three month period.

The Corporation has a Stock Repurchase Program under which up to 12 million shares can be repurchased annually. No common shares were acquired under the program in the first quarter of 2005. For the three months ended March 31, 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.

On April 26, 2005, the Corporation announced that its Board of Directors increased the quarterly cash dividend on its common stock 14.3%, from $0.21 per share to $0.24 per 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)

| | March 31, 2005 | December 31, 2004 |
|---|---|---|

| | Amount | Ratio | Amount | Ratio |
|---|---|---|---|---|
| Tier 1 Capital | $ 2,662 | 7.56 % | $ 2,520 | 7.42 % |
| Tier 1 Capital Minimum Requirement | 1,408 | 4.00 | 1,358 | 4.00 |
| Excess | $ 1,254 | 3.56 % | $ 1,162 | 3.42 % |
| Total Capital | $ 3,938 | 11.19 % | $ 3,802 | 11.20 % |
| Total Capital Minimum Requirement | 2,817 | 8.00 | 2,716 | 8.00 |
| Excess | $ 1,121 | 3.19 % | $ 1,086 | 3.20 % |
| Risk-Adjusted Assets | $ 35,210 | | $ 33,948 | |

LEVERAGE RATIOS

($ in millions)

| | March 31, 2005 | | December 31, 2004 | |
|---|---|---|---|---|
| | Amount | Ratio | Amount | Ratio |
| Tier 1 Capital | $ 2,662 | 6.82 % | $ 2,520 | 6.72 % |
| Minimum Leverage Requirement | 1,170 - 1,951 | 3.00 - 5.00 | 1,126 - 1,876 | 3.00 - 5.00 |
| Excess | $ 1,492 - 711 | 3.82 - 1.82 % | $ 1,394 - 644 | 3.72 - 1.72 % |
| Adjusted Average Total Assets | $ 39,011 | | $ 37,509 | |

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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 $5.5 billion at March 31, 2005, represent a highly accessible source of liquidity. The Corporation's portfolio of held-to-maturity investment securities, which totaled $0.7 billion at March 31, 2005, provides liquidity from maturities and amortization payments. The Corporation's loans held-for-sale provide additional liquidity. These loans represent recently funded loans that are prepared for delivery to investors, which generally occurs within thirty to ninety days after the loan has been funded.

Depositors within M&I's defined markets are another source of liquidity. Core deposits (demand, savings, money market and consumer time deposits) averaged $16.5 billion in the first quarter of 2005. 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 $6.8 billion in the first quarter of 2005.

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 first quarter of 2005.

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 March 31, 2005, amounted to $4.0 billion of which $0.9 billion is subordinated and qualifies as supplementary capital for regulatory capital purposes. Bank notes issued during the first quarter of 2005 amounted to $900.0 million.

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

During the 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 March 31, 2005, approximately $1.45 billion was available for future securities issuances.

During the fourth quarter of 2004, the Corporation filed a shelf registration statement with the Securities and Exchange Commission which will enable the Corporation to issue up to 6.0 million shares of its common stock which may be offered and issued from time to time in connection with the acquisition by M&I, Metavante and/or other consolidated subsidiaries of businesses that the Corporation determines to be to its advantage as they become available. At March 31, 2005, 5.4 million shares of common stock were available for future issuances.

Under other shelf registration statements, the Corporation may issue up to $0.6 billion of medium-term Series F notes with maturities ranging from 9 months to 30 years and at fixed or floating rates. At March 31, 2005, no Series F note