MARSHALL & ILSLEY CORP
Form 10-Q
May 11, 2009

UNITED STATES
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, 2009

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 1-33488

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

Wisconsin (State or other jurisdiction of incorporation or organization)	20-8995389 (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 [X] No [ ]

Indicate by check mark whether the registrant has submitted electronically and posted on its Corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or such shorter period that the registrant was required to submit and post such files).

Yes [ ] No [ ]

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.
Large accelerated filer [X] Accelerated filer [ ] Non-accelerated filer [ ] (Do not check if a smaller reporting company) Small reporting company [ ]

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

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, 2009
Common Stock, $1.00 Par Value	265,722,191

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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, 2009	December 31, 2008	March 31, 2008
Assets:			
Cash and cash equivalents:			
Cash and due from banks	$ 744,861	$ 851,336	$ 1,359,808
Federal funds sold and security resale agreements	49,698	101,069	238,913
Money market funds	285,307	120,002	58,443
Total cash and cash equivalents	1,079,866	1,072,407	1,657,164
Interest bearing deposits at other banks	116,353	9,684	9,216
Trading assets, at fair value	686,723	518,361	195,195
Investment securities:			
Available for sale, at fair value	7,540,076	7,430,552	7,530,947
Held to maturity, fair value $192,324 ($243,395 at December 31, 2008 and $331,429 at March 31, 2008)	187,551	238,009	322,466
Loans held for sale	305,082	220,391	192,694
Loans and leases	48,939,572	49,764,153	49,107,698
Allowance for loan and lease losses	(1,352,117)	(1,202,167)	(543,539)
Net loans and leases	47,587,455	48,561,986	48,564,159
Premises and equipment, net	570,303	564,789	513,305
Goodwill	607,954	605,144	2,095,368
Other intangible assets	150,154	158,305	151,100
Bank-owned life insurance	1,165,887	1,157,612	1,141,858
Other real estate owned (OREO)	344,271	320,908	177,806
Accrued interest and other assets	1,448,357	1,478,270	847,070
Total Assets	$ 61,790,032	$ 62,336,418	$ 63,398,348
Liabilities and Equity:			
Deposits:			
Noninterest bearing	$ 6,988,312	$ 6,879,994	$ 6,137,771
Interest bearing	32,576,052	34,143,147	32,589,048
Total deposits	39,564,364	41,023,141	38,726,819
Federal funds purchased and security repurchase agreements	2,513,039	1,190,000	3,614,947

Other short-term borrowings	2,823,244	2,868,033	3,430,483
Accrued expenses and other liabilities	1,100,063	1,370,969	970,055
Long-term borrowings	9,538,664	9,613,717	9,671,977
Total Liabilities	55,539,374	56,065,860	56,414,281
Equity:			
Preferred stock, $1.00 par value; 5,000,000 shares authorized; 1,715,000 shares issued and outstanding of Senior Preferred Stock, Series B (liquidation preference of $1,000 per share)	1,715	1,715	-
Common stock, $1.00 par value; 272,318,615 shares issued (272,318,615 shares at December 31, 2008 and 267,455,394 shares at March 31, 2008)	272,319	272,319	267,455
Additional paid-in capital	3,841,725	3,838,867	2,060,783
Retained earnings	2,419,433	2,538,989	4,989,349
Treasury stock, at cost: 6,617,041 shares (6,977,434 shares at December 31, 2008 and 8,338,022 shares at March 31, 2008)	(182,840)	(192,960)	(231,160)
Deferred compensation	(36,533)	(40,797)	(44,713)
Accumulated other comprehensive income, net of related taxes	(75,606)	(157,952)	(67,558)
Total Marshall & Ilsley Corporation shareholders' equity	6,240,213	6,260,181	6,974,156
Noncontrolling interest in subsidiaries	10,445	10,377	9,911
Total Equity	6,250,658	6,270,558	6,984,067
Total Liabilities and Equity	$ 61,790,032	$ 62,336,418	$ 63,398,348

See notes to financial statements.

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

	Three Months Ended March 31, 2009	2008
Interest and fee income		
Loans and leases	$ 566,334	$ 783,528
Investment securities:		
Taxable	63,117	77,556
Exempt from federal income taxes	12,255	14,403
Trading securities	1,449	607
Short-term investments	628	2,916
Total interest and fee income	643,783	879,010
Interest expense		
Deposits	138,089	272,774
Short-term borrowings	3,992	53,590
Long-term borrowings	99,956	122,262
Total interest expense	242,037	448,626
Net interest income	401,746	430,384
Provision for loan and lease losses	477,924	146,321
Net interest income (loss) after provision for loan and lease losses	(76,178)	284,063
Other income		
Wealth management	62,682	71,886
Service charges on deposits	35,313	35,681
Gain on sale of mortgage loans	9,814	8,452
Other mortgage banking revenue	993	912
Net investment securities gains	72	25,716
Bank-owned life insurance revenue	9,316	12,395
Gain on termination of debt	3,056	-
OREO income	2,568	1,036
Other	52,892	55,155
Total other income	176,706	211,233
Other expense		
Salaries and employee benefits	155,188	174,664
Net occupancy and equipment	33,793	31,202
Software expenses	6,598	6,233
Processing charges	33,722	32,085
Supplies, printing, postage and delivery	9,094	11,768
Professional services	19,181	13,479
Amortization of intangibles	5,794	5,945
OREO expenses	32,623	14,949
Other	49,164	25,240
Total other expense	345,157	315,565
Income (loss) before income taxes	(244,629)	179,731
Provision (benefit) for income taxes	(152,982)	33,300
Net income (loss)	(91,647)	146,431

Less: Net income attributable to noncontrolling interests		(319)		(222)
Net income (loss) attributable to Marshall & Ilsley Corporation	$	(91,966)	$	146,209
Preferred dividends		(24,959)		-
Net income (loss) attributable to Marshall & Ilsley Corporation common shareholders	$	(116,925)	$	146,209
Per share attributable to Marshall & Ilsley Corporation common shareholders:				
Basic	$	(0.44)	$	0.56
Diluted	$	(0.44)	$	0.56
Dividends paid per common share	$	0.01	$	0.31
Weighted average common shares outstanding (000's):				
Basic		264,544		259,973
Diluted		264,544		262,269

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, 2009	2008
Net Cash Provided by/(Used in) Operating Activities	$ (63,732)	$ 84,301
Cash Flows from Investing Activities:		
Proceeds from sales of securities available for sale	46,023	105,759
Proceeds from maturities of securities available for sale	342,246	368,643
Proceeds from maturities of securities held to maturity	50,804	52,798
Purchases of securities available for sale	(488,323)	(305,392)
Net decrease/(increase) in loans and leases	352,247	(1,575,567)
Purchases of premises and equipment, net	(16,890)	(19,214)
Acquisitions, net of cash and cash equivalents acquired	(454)	(476,625)
Net proceeds from sale of OREO	49,684	14,413
Net cash provided by/(used in) investing activities	335,337	(1,835,185)
Cash Flows from Financing Activities:		
Net increase/(decrease) in deposits	(1,460,417)	1,939,958
Net increase in short-term borrowings	1,281,558	132,935
Proceeds from issuance of long-term borrowings	375	809,389
Payments of long-term borrowings	(63,461)	(1,093,401)
Dividends paid on preferred stock	(21,676)	-
Dividends paid on common stock	(2,630)	(79,868)
Purchases of common stock	-	(130,870)
Proceeds from the issuance of common stock	2,105	7,393
Net cash provided by/(used in) financing activities	(264,146)	1,585,536
Net increase/(decrease) in cash and cash equivalents	7,459	(165,348)
Cash and cash equivalents, beginning of year	1,072,407	1,822,512
Cash and cash equivalents, end of period	$ 1,079,866	$ 1,657,164
Supplemental Cash Flow Information:		
Cash paid/(received) during the period for:		
Interest	$ 286,504	$ 488,201
Income taxes	(119,001)	(4,244)

See notes to financial statements.

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MARSHALL & ILSLEY CORPORATION
Notes to Financial Statements
March 31, 2009 & 2008 (Unaudited)

1. Basis of Presentation

The accompanying unaudited consolidated financial statements should be read in conjunction with Marshall & Ilsley Corporation's Annual Report on Form 10-K for the year ended December 31, 2008. In management's opinion, the unaudited financial information included in this report reflects all adjustments consisting of normal recurring accruals 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, 2009 and 2008. The results of operations for the three months ended March 31, 2009 and 2008 are not necessarily indicative of results to be expected for the entire year.

2. New Accounting Pronouncements

On January 1, 2009, the Corporation adopted the provisions of Statement of Financial Accounting Standard No. 160, Noncontrolling Interests in Consolidated Financial Statements, an amendment of Accounting Research Bulletin No. 51 ("SFAS 160"). The provisions of SFAS 160 establish accounting and reporting standards for ownership interests in consolidated subsidiaries held by parties other than the parent, previously known as minority interests and now known as noncontrolling interests, including the accounting treatment upon the deconsolidation of a subsidiary. This statement clarifies that a noncontrolling interest in a subsidiary is an ownership interest in the consolidated entity that should be reported as a separate component within total equity in the consolidated financial statements. Additionally, consolidated net income is to be reported with separate disclosure of the amounts attributable to the parent and to the noncontrolling interests.

SFAS 160 is being applied prospectively, except for the provisions related to the presentation of noncontrolling interests. As of March 31, 2009, December 31, 2008 and March 31, 2008, noncontrolling interests of $10,445, $10,377 and $9,911, respectively, have been reclassified from Accrued Expenses and Other Liabilities to Total Equity in the Consolidated Balance Sheets. For the three months ended March 31, 2009 and 2008, net income attributable to noncontrolling interests of $319 and $222, respectively, is included in net income. Prior to the adoption of SFAS 160, noncontrolling interests were a deduction to determine net income. Under SFAS 160, noncontrolling interests are a deduction from net income used to arrive at net income attributable to the Corporation. Earnings per common share has not been affected as a result of the adoption of the provisions of SAS 160.

In April 2009, the Financial Accounting Standards Board ("FASB") issued the following three FASB Staff Positions intended to provide additional application guidance and enhance disclosures regarding fair value measurements and impairments of investment securities:

FASB Staff Position ("FSP") FAS 157-4, Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly ("FSP FAS 157-4"), provides additional guidance for estimating fair value in accordance with SFAS No. 157, Fair Value Measurements, when the volume and level of activity for the asset or liability have decreased significantly. FSP FAS 157-4 also provides guidance on identifying circumstances that indicate a transaction is not orderly.

FSP FAS 115-2 and FAS 124-2, Recognition and Presentation of Other-Than-Temporary Impairments ("FSP FAS 115-2"), amends current other-than-temporary impairment guidance in GAAP for debt securities to make the guidance more operational and to improve the presentation and disclosure of other-than-temporary impairments on debt and equity securities in the financial statements. This FSP does not amend existing recognition and measurement guidance related to other-than-temporary impairments of equity securities.

As permitted, the Corporation elected to early adopt the provisions of FSP FAS 157-4 and FSP FAS 115-2 as of January 1, 2009. See Note 6 – Investment Securities for information regarding the impact of adopting FSP FAS 157-4 and FSP FAS 115-2.

MARSHALL & ILSLEY CORPORATION
Notes to Financial Statements - Continued
March 31, 2009 & 2008 (Unaudited)

FSP FAS 107-1 and Accounting Principles Board (“APB”) 28-1, Interim Disclosures about Fair Value of Financial Instruments (“FSP FAS 107-1 and APB 28-1”), requires disclosures about the fair value of financial instruments in interim reporting periods of publicly traded companies as well as in annual financial statements. The provisions of FSP FAS 107-1 and APB 28-1 are effective for the Corporation’s interim period ending on June 30, 2009. FSP FAS 107-1 and APB 28-1 amends only the Corporation's disclosure requirements.

3. Fair Value Measurements

The Corporation adopted, except as discussed below, Statement of Financial Accounting Standard No. 157, Fair Value Measurements (“SFAS 157”). SFAS 157 provides enhanced guidance for using fair value to measure assets and liabilities. The standard generally applies whenever other standards require or permit assets or liabilities to be measured at fair value. Under the standard, fair value refers to the price at the measurement date that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in which the reporting entity is engaged. The standard does not expand the use of fair value in any new circumstances. As permitted, adoption of SFAS 157 was delayed for certain nonfinancial assets and nonfinancial liabilities to January 1, 2009.

All changes resulting from the application of SFAS 157 were applied prospectively. The effect of adoption has been recognized in either earnings or other comprehensive income, depending on the applicable accounting requirements for the particular asset or liability being measured.

Fair-Value Hierarchy

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

Level 1- Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2- Inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument. Fair values for these instruments are estimated using pricing models, quoted prices of securities with similar characteristics or discounted cash flows.

Level 3- Inputs to the valuation methodology are unobservable and significant to the fair value measurement. Fair values are initially valued based upon transaction price and are adjusted to reflect exit values as evidenced by financing and sale transactions with third parties.

Determination of Fair Value

Following is a description of the valuation methodologies used for instruments measured at fair value on a recurring basis, as well as the general classification of such instruments pursuant to the valuation hierarchy.

Trading Assets and Investment Securities

When available, the Corporation uses quoted market prices to determine the fair value of trading assets and investment securities; such items are classified in Level 1 of the fair value hierarchy.

For the Corporation's investments in government agencies, residential mortgage-backed securities and obligations of states and political subdivisions where quoted prices are not available for identical securities in an active market, the Corporation determines fair value utilizing vendors who apply matrix pricing for similar bonds where no price is observable or may compile prices from various sources. These models are primarily industry-standard models that consider various assumptions, including time value, yield curve, volatility factors, prepayment speeds, default rates, loss severity, current market and contractual prices for the underlying financial instruments, as well as other relevant economic measures. Substantially all of these assumptions are observable in the marketplace, can be derived from observable data or are supported by observable levels at which transactions are executed in the marketplace. Fair values from these models are verified, where possible, against quoted prices for recent trading activity of assets with similar characteristics to the security being valued. Such methods are generally classified as Level 2. However, when prices from independent sources vary, cannot be obtained or cannot be corroborated, a security is generally classified as Level 3.

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Notes to Financial Statements - Continued
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The Corporation's Private Equity investments generally take the form of investments in private equity funds. The private equity investments are valued using the valuations and financial statements provided by the general partners on a quarterly basis. The transaction price is used as the best estimate of fair value at inception. When evidence supports a change to the carrying value from the transaction price, adjustments are made to reflect expected exit values. These nonpublic investments are included in Level 3 of the fair value hierarchy because they trade infrequently and, therefore, the fair value is unobservable.

Estimated fair values for residual interests in the form of interest only strips from automobile loan securitizations are based on a discounted cash flow analysis and are classified as a Level 3.

Derivative Financial Instruments

Fair values for exchange-traded contracts are based on quoted prices and are classified as Level 1. Fair values for over-the-counter interest rate contracts are provided either by third-party dealers in the contracts or by quotes provided by the Corporation's independent pricing services. The significant inputs, including the LIBOR curve and measures of volatility, used by these third-party dealers or independent pricing services to determine fair values are considered Level 2, observable market inputs.

Certain derivative transactions are executed with counterparties who are large financial institutions ("dealers"). These derivative transactions primarily consist of interest rate swaps that are used for fair value hedges, cash flow hedges and economic hedges of interest rate swaps executed with the Corporation's customers. The Corporation and its subsidiaries maintain risk management policies and procedures to monitor and limit exposure to credit risk to derivative transactions with dealers. Approved dealers for these transactions must have and maintain an investment grade rating on long-term senior debt from at least two nationally recognized statistical rating organizations or have a guarantor with an acceptable rating from such organizations. International Swaps and Derivative Association Master Agreements ("ISDA") and Credit Support Annexes ("CSA") are employed for all contracts with dealers. These agreements contain bilateral collateral arrangements. Notwithstanding its policies and procedures, the Corporation recognizes that unforseen events could result in counterparty failure. The Corporation also recognizes that there could be additional credit exposure due to certain industry conventions established for operational efficiencies.

On a quarterly basis, the Corporation performs an analysis using historical and market implied default and recovery rates that also consider certain industry conventions established for operational efficiencies to estimate the potential impact on the reported fair values of these derivative financial assets and liabilities due to counterparty credit risk and the Corporation's own credit risk. Based on this analysis, the Corporation determined that the impact of these factors was insignificant and did not make any additional credit risk adjustments for purposes of determining the reported fair values of these derivative assets and liabilities with dealers at March 31, 2009.

Certain derivative transactions are executed with customers whose counterparty credit risk is similar in nature to the credit risk associated with the Corporation's lending activities. As is the case with a loan, the Corporation evaluates the credit risk of each of these customers on an individual basis and, where deemed appropriate, collateral is obtained. The type of collateral varies and is often the same collateral as the collateral obtained to secure a customer's loan. For purposes of assessing the potential impact of counterparty credit risk on the fair values of derivative assets with customers, the Corporation used a probability analysis to estimate the amount of expected loss exposure due to customer default at some point in the remaining term of the entire portfolio of customer derivative contracts outstanding at March 31, 2009. While not significant, the Corporation did factor the estimated amount of expected loss due to customer default in the reported fair value of its customer derivative assets at March 31, 2009.

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Assets and liabilities measured at fair value on a recurring basis are categorized in the tables below based upon the lowest level of significant input to the valuations as of March 31, 2009 ($000's):

	Quoted Prices in Active Markets for Identical Assets or Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets (1)			
Trading Assets:			
Trading securities	$ -	$ 385,344	$ -
Derivative assets	85	301,294	-
Total trading assets	$ 85	$ 686,638	$ -
Investment securities available for sale (2)			
Investment securities	$ 46	$ 6,886,438	$ 167,127
Private equity investments	-	-	66,222
Other	-	-	5,254
Total investment securities available for sale	$ 46	$ 6,886,438	$ 238,603
Liabilities (1)			
Other short-term borrowings	$ -	$ 168	$ -
Accrued expenses and other liabilities:			
Derivative liabilities	$ 55	$ 257,223	$ -

(1) The amounts presented above exclude certain over-the-counter interest rate swaps that are the designated hedging instruments in fair value and cash flow hedges that are used by the Corporation to manage its interest rate risk. These interest rate swaps are measured at fair value on a recurring basis based on significant other observable inputs and are categorized as Level 2. See Note 12 – Derivative Financial Instruments and Hedging Activities in Notes to Financial Statements for further information.

(2) The investment securities included in Level 3 are primarily senior tranche asset-backed securities. The amounts presented are exclusive of $362,890 of investments in Federal Reserve Bank and FHLB stock, which are bought and sold at par and are carried at cost, and $52,099 in affordable housing partnerships, which are generally carried on the equity method.

Level 3 Gains and Losses

The table presented below summarizes the change in balance sheet carrying values associated with financial instruments measured using significant unobservable inputs (Level 3) during the three months ended March 31, 2009 ($000's):

	Investment Securities (1)	Private Equity Investments (2)	Other	Total
Balance at December 31, 2008	$ 135,953	$ 65,288	$ 5,903	$ 207,144
Net payments, purchases and sales	(1,008)	706	(255)	(557)
Discount accretion	49	-	160	209
Net transfers in and/or out of Level 3	(2,860)	-	-	(2,860)
Total gains or losses (realized or unrealized):				
Included in earnings	-	228	52	280
Included in other comprehensive income	34,993	-	(606)	34,387
Balance at March 31, 2009	$ 167,127	$ 66,222	$ 5,254	$ 238,603
Unrealized gains or losses for the period included in earnings attributable to unrealized gains or losses for assets still held at March 31, 2009	$ -	$ 191	$ -	$ 191

(1) Unrealized changes in fair value for available-for-sale investments (debt securities) are recorded in other comprehensive income, while gains and losses from sales are recorded in Net investment securities gains in the Consolidated Statements of Income.

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MARSHALL & ILSLEY CORPORATION
Notes to Financial Statements - Continued
March 31, 2009 & 2008 (Unaudited)

(2) Private equity investments are generally recorded at fair value. Accordingly, both unrealized changes in fair value and gains or losses from sales are included in Net investment securities gains in the Consolidated Statements of Income.

Assets and liabilities measured at fair value on a recurring basis are categorized in the tables below based upon the lowest level of significant input to the valuations as of March 31, 2008 ($000's):

	Quoted Prices in Active Markets for Identical Assets or Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets (1)			
Trading Assets:			
Trading securities	$ -	$ 44,608	$ -
Derivative assets	332	150,255	-
Total trading assets	$ 332	$ 194,863	$ -
Investment securities available for sale (2)			
Investment securities	$ 313	$ 7,101,539	$ 16,390
Private equity investments	-	-	57,854
Other	-	-	6,213
Total investment securities available for sale	$ 313	$ 7,101,539	$ 80,457
Liabilities (1)			
Accrued expenses and other liabilities:			
Derivative liabilities	$ 308	$ 124,796	$ -

(1) The amounts presented above exclude certain over-the-counter interest rate swaps that are the designated hedging instruments in fair value and cash flow hedges that are used by the Corporation to manage its interest rate risk. These interest rate swaps are measured at fair value on a recurring basis based on significant other observable inputs and are categorized as Level 2. See Note 12 in Notes to Financial Statements for further information.

(2) The amounts presented are exclusive of $312,155 of investments in Federal Reserve Bank and FHLB stock, which are bought and sold at par and are carried at cost, and $36,483 in affordable housing partnerships, which are generally carried on the equity method.

Level 3 Gains and Losses

The table presented below summarizes the change in balance sheet carrying values associated with financial instruments measured using significant unobservable inputs (Level 3) during the three months ended March 31, 2008 ($000's):

	Investment Securities (1)	Private Equity Investments (2)	Other	Total
Balance at January 1, 2008	$ 2,066	$ 54,121	$ 9,030	$ 65,217
Net payments, purchases and sales	14,319	2,682	(977)	16,024
Discount accretion	5	-	209	214
Total gains or losses (realized or unrealized):				
Included in earnings	-	1,051	(2,020)	(969)
Included in other comprehensive income	-	-	(29)	(29)
Balance at March 31, 2008	$ 16,390	$ 57,854	$ 6,213	$ 80,457
Unrealized gains or losses for the period included in earnings attributable to unrealized gains or losses for assets still held at March 31, 2008	$ -	$ (57)	$ (2,020)	$ (2,077)

(1) Unrealized changes in fair value for available-for-sale investments (debt securities) are recorded in other comprehensive income, while gains and losses from sales are recorded in Net investment securities gains in the Consolidated Statements of Income.

(2) Private equity investments are generally recorded at fair value. Accordingly, both unrealized changes in fair value and gains or losses from sales are included in Net investment securities gains in the Consolidated Statements of Income.

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Notes to Financial Statements - Continued
March 31, 2009 & 2008 (Unaudited)

Loans held for sale are recorded at lower of cost or market and therefore are reported at fair value on a nonrecurring basis. Such fair values are generally based on bids and are considered Level 2 fair values. Nonaccrual loans greater than an established threshold are individually evaluated for impairment. Impairment is measured based on the fair value of the collateral less estimated selling costs or the fair value of the loan ("collateral value method"). All renegotiated loans are evaluated for impairment based on the present value of the estimated cash flows discounted at the loan's original effective interest rate ("discounted cash flow method"). A valuation allowance is recorded for the excess of the loan's recorded investment over the amount determined by either the collateral value method or the discounted cash flow method. This valuation allowance is a component of the Allowance for loan and lease losses. The discounted cash flow method is not a fair value measure. For the collateral value method, the Corporation generally obtains appraisals to support the fair value of collateral underlying loans. Appraisals incorporate measures such as recent sales prices for comparable properties and costs of construction. The Corporation considers these fair values Level 3. For those loans individually evaluated for impairment using the collateral value method, a valuation allowance of $163,976 and $47,929 was recorded for loans with a recorded investment of $1,220,396 and $359,013 at March 31, 2009 and March 31, 2008, respectively. See Note 8 – Allowance for Loan and Lease Losses in Notes to Consolidated Financial Statements for more information.

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

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4. Comprehensive Income

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

	Three Months Ended March 31, 2009		
	Before-Tax Amount	Tax (Expense) Benefit	Net-of-Tax Amount
Net loss			$ (91,647)
Other comprehensive income (loss):			
Unrealized gains (losses) on available for sale investment securities:			
Arising during the period	$ 112,266	$ (39,428)	$ 72,838
Reclassification for securities transactions included in net income	(246)	86	(160)
Total unrealized gains (losses) on available for sale investment securities	$ 112,020	$ (39,342)	$ 72,678
Unrealized gains (losses) on derivatives hedging variability of cash flows:			
Arising during the period	$ 614	$ (215)	$ 399
Reclassification adjustments for hedging activities included in net income	14,555	(5,094)	9,461
Total net gains (losses) on derivatives hedging variability of cash flows	$ 15,169	$ (5,309)	$ 9,860
Unrealized gains (losses) on funded status of defined benefit postretirement plan:			
Arising during the period	$ -	$ -	$ -
Reclassification for amortization of actuarial loss and prior service credit amortization included in net income	(350)	158	(192)
Total unrealized gains (losses) on funded status of defined benefit postretirement plan	$ (350)	$ 158	$ (192)
Other comprehensive income, net of tax			82,346
Total comprehensive income (loss)			(9,301)
Less: Comprehensive income attributable to the noncontrolling interest			(319)
Comprehensive income (loss) attributable to Marshall & Ilsley Corporation			$ (9,620)

	Three Months Ended March 31, 2008		
	Before-Tax Amount	Tax (Expense) Benefit	Net-of-Tax Amount

Net income					$	146,431
Other comprehensive income (loss):						
Unrealized gains (losses) on available for sale investment securities:						
Arising during the period	$	31,196	$	(11,233)	$	19,963
Reclassification for securities transactions included in net income		(94)		33		(61)
Total unrealized gains (losses) on available for sale investment securities	$	31,102	$	(11,200)	$	19,902
Unrealized gains (losses) on derivatives hedging variability of cash flows:						
Arising during the period	$	(57,147)	$	20,001	$	(37,146)
Reclassification adjustments for hedging activities included in net income		5,730		(2,005)		3,725
Total net gains (losses) on derivatives hedging variability of cash flows	$	(51,417)	$	17,996	$	(33,421)
Unrealized gains (losses) on funded status of defined benefit postretirement plan:						
Arising during the period	$	-	$	-	$	-
Reclassification for amortization of actuarial loss and prior service credit amortization included in net income		(528)		196		(332)
Total unrealized gains (losses) on funded status of defined benefit postretirement plan	$	(528)	$	196	$	(332)
Other comprehensive income (loss), net of tax						(13,851)
Total comprehensive income						132,580
Less: Comprehensive income attributable to the noncontrolling interest						(222)
Comprehensive income attributable to Marshall & Ilsley Corporation					$	132,358

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5. Earnings Per Common Share

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

	Three Months Ended March 31, 2009		
	Income (Numerator)	Average Shares (Denominator)	Per Share Amount
Basic:			
Net loss attributable to Marshall & Ilsley Corporation	$ (91,966)		
Preferred stock dividends	(24,959)		
Net loss attributable to Marshall & Ilsley Corporation common shareholders	$ (116,925)	264,544	$ (0.44)
Effect of dilutive securities:			
Stock option, restricted stock and other plans		-	
Diluted:			
Net loss attributable to Marshall & Ilsley Corporation	$ (91,966)		
Preferred stock dividends	(24,959)		
Net loss attributable to Marshall & Ilsley Corporation common shareholders	$ (116,925)	264,544	$ (0.44)

	Three Months Ended March 31, 2008		
	Income (Numerator)	Average Shares (Denominator)	Per Share Amount
Basic:			
Net income attributable to Marshall & Ilsley Corporation	$ 146,209		
Preferred stock dividends	-		
Net income attributable to Marshall & Ilsley Corporation common shareholders	$ 146,209	259,973	$ 0.56
Effect of dilutive securities:			
Stock option, restricted stock and other plans		2,296	
Diluted:			
Net income attributable to Marshall & Ilsley Corporation	$ 146,209		

Preferred stock dividends		-			
Net income attributable to Marshall & Ilsley Corporation common shareholders	$	146,209	262,269	$	0.56

The table below presents the options to purchase shares of common stock not included in the computation of diluted earnings per common share because the exercise price of the outstanding stock options was greater than the average market price of the common shares for the periods ended 2009 and 2008 (anti-dilutive options). As a result of the Corporation's reported net loss for the quarter ended March 31, 2009, all of the stock options outstanding were excluded from the computation of diluted earnings per common share (shares in thousands):

	Three Months Ended March 31,	
	2009	2008
Shares	33,162	19,157
Price Range	$8.55 - $36.82	$24.97 - $36.82

At March 31, 2009, outstanding warrants to purchase 13,815,789 shares of the Corporation's common stock were not included in the computation of diluted earnings per common share for the three months ended March 31, 2009 because of the reported net loss, and the exercise price of the warrant issued in connection with the Corporation's participation in the U.S. Treasury Department's Capital Purchase Program of $18.62 per share was greater than the average market price of the common shares for the period ended March 31, 2009.

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Effective January 1, 2009, the Corporation adopted FSP No. EITF 03-6-1, Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities ("FSP EITF 03-6-1"). Under FSP EITF 03-6-1, unvested share-based payment awards that provide nonforfeitable rights to dividends (such as restricted stock units granted by the Corporation) are considered participating securities to be included in the computation of earnings per share pursuant to the "two-class method" described in FASB Statement No. 128, Earnings per Share. There was no impact to the Corporation's current or prior periods presented as a result of the adoption of FSP EITF 03-6-1.

6. Investment Securities

The amortized cost and fair value of selected investment securities, by major security type, held by the Corporation were as follows ($000's):

	March 31, 2009		December 31, 2008		March 31, 2008	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Investment securities available for sale:						
U.S. treasury and government agencies	$ 5,447,899	$ 5,545,963	$ 5,664,947	$ 5,679,970	$ 5,879,048	$ 5,893,264
States and political subdivisions	911,880	919,900	874,183	880,497	880,542	897,900
Residential mortgage backed securities	301,394	288,500	175,740	165,757	114,608	112,213
Corporate notes	152,980	149,779	133,844	134,295	10,000	10,000
Cash flow hedge - corporate notes	484	484	121	121	-	-
Corporate notes	153,464	150,263	133,965	134,416	10,000	10,000
Asset backed securities (a)	210,755	144,534	211,676	110,931	214,608	200,153
Equity	115	46	115	127	115	313
Private Equity investments	66,234	66,222	65,300	65,288	57,866	57,854
Federal Reserve Bank & FHLB stock	362,890	362,890	339,779	339,779	312,155	312,155
Affordable Housing Partnerships	52,099	52,099	43,481	43,481	36,483	36,483

Foreign		4,405		4,405		4,403		4,403		4,399		4,399
Other		4,423		5,254		4,465		5,903		5,988		6,213
Total	$	7,515,558	$	7,540,076	$	7,518,054	$	7,430,552	$	7,515,812	$	7,530,947
Investment securities held to maturity:												
States and political subdivisions	$	186,551	$	191,324	$	237,009	$	242,395	$	321,466	$	330,429
Foreign		1,000		1,000		1,000		1,000		1,000		1,000
Total	$	187,551	$	192,324	$	238,009	$	243,395	$	322,466	$	331,429

(a) As of March 31, 2009, the Corporation incorporated a discounted cash flow valuation methodology, which involves an evaluation of the credit quality of the underlying collateral, cash flow structure and risk adjusted discount rates, with market or broker quotes for certain senior tranche asset backed securities that met the criteria of FSP FAS 157-4 for the use of such a valuation methodology. Primarily as a result of this change, the fair value of these securities increased, however, the amount was not material. This change was accounted for as a change in estimate and included in the unrealized gain included in other comprehensive income for the three months ended March 31, 2009.

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The unrealized gains and losses of selected securities, by major security type were as follows ($000's):

	March 31, 2009		December 31, 2008		March 31, 2008	
	Unrealized Gains	Unrealized Losses	Unrealized Gains	Unrealized Losses	Unrealized Gains	Unrealized Losses
Investment securities available for sale:						
U.S. treasury and government agencies	$ 131,499	$ 33,435	$ 93,541	$ 78,518	$ 75,165	$ 60,949
States and political subdivisions	20,480	12,460	19,387	13,073	21,966	4,608
Residential mortgage backed securities	935	13,829	214	10,197	133	2,528
Corporate notes	234	3,435	464	13	-	-
Cash flow hedge - corporate notes	-	-	-	-	-	-
Corporate notes	234	3,435	464	13	-	-
Asset backed securities	-	66,221	-	100,745	137	14,592
Equity	-	69	12	-	198	-
Private Equity investments	52	64	52	64	52	64
Federal Reserve Bank & FHLB stock	-	-	-	-	-	-
Affordable Housing Partnerships	-	-	-	-	-	-
Foreign	-	-	-	-	-	-
Other	831	-	1,438	-	225	-
Total	$ 154,031	$ 129,513	$ 115,108	$ 202,610	$ 97,876	$ 82,741
Investment securities held to maturity:						
States and political subdivisions	$ 4,933	$ 160	$ 5,562	$ 176	$ 9,034	$ 71
Foreign	-	-	-	-	-	-
Total	$ 4,933	$ 160	$ 5,562	$ 176	$ 9,034	$ 71

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, 2009 ($000's):

Less than 12 Months	12 Months or More	Total

	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. treasury and government agencies	$ 342,841	$ 5,316	$ 1,058,923	$ 28,119	$ 1,401,764	$ 33,435
States and political subdivisions	91,205	3,083	127,602	9,537	218,807	12,620
Residential mortgage backed securities	141,812	8,573	57,652	5,256	199,464	13,829
Corporate notes	91,239	3,435	-	-	91,239	3,435
Asset backed securities	995	4	143,119	66,217	144,114	66,221
Equity	46	69	-	-	46	69
Private Equity investments	-	-	-	64	-	64
Federal Reserve Bank & FHLB stock	-	-	-	-	-	-
Affordable Housing Partnerships	-	-	-	-	-	-
Foreign	1,150	-	400	-	1,550	-
Other	-	-	-	-	-	-
Total	$ 669,288	$ 20,480	$ 1,387,696	$ 109,193	$ 2,056,984	$ 129,673

The investment securities in the above table were temporarily impaired at March 31, 2009. This temporary impairment represents the amount of loss that would have been realized if the investment securities had been sold on March 31, 2009. The temporary impairment in the investment securities portfolio is the result of increases in market interest rates since the investment securities were acquired and not from deterioration in the creditworthiness of the issuer. At March 31, 2009, the Corporation does not have the intent to sell these temporarily impaired investment securities until a recovery of fair value, which may be maturity, and it is more likely than not that the Corporation will not have to sell the investment securities prior to recovery of fair value.

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7. Loans and Leases

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

	March 31, 2009	December 31, 2008	March 31, 2008
Commercial, financial and agricultural	$ 14,576,302	$ 14,880,153	$ 14,900,926
Cash flow hedge - variable rate loans	-	-	153
Commercial, financial and agricultural	14,576,302	14,880,153	14,901,079
Real estate:			
Commercial mortgage	12,998,926	12,541,506	11,573,266
Residential mortgage	5,711,033	5,733,908	5,357,741
Construction and development	8,251,351	9,043,263	10,367,516
Home equity loans and lines of credit	5,025,092	5,082,046	4,722,121
Total real estate	31,986,402	32,400,723	32,020,644
Personal	1,951,956	1,929,374	1,665,482
Lease financing	729,994	774,294	713,187
Total loans and leases	$ 49,244,654	$ 49,984,544	$ 49,300,392

During the quarter ended March 31, 2009 and 2008, loans transferred to OREO amounted to $128,213 and $86,946, respectively. These amounts are considered non-cash transactions for cash flow purposes.

8. Allowance for Loan and Lease Losses

An analysis of the allowance for loan and lease losses follows ($000's):

	Three Months Ended March 31, 2009	Three Months Ended March 31, 2008
Balance at beginning of period	$ 1,202,167	$ 496,191
Allowance of loans and leases acquired	-	32,110
Provision charged to expense	477,924	146,321
Charge-offs	(340,223)	(135,829)
Recoveries	12,249	4,746
Balance at end of period	$ 1,352,117	$ 543,539

As of March 31, 2009 and 2008, nonaccrual loans and leases totaled $2,074,553 and $774,137 and renegotiated loans totaled $445,995 and $97, respectively.

For purposes of impairment testing, nonaccrual loans greater than one million dollars and all renegotiated loans were individually assessed for impairment. Renegotiated loans are evaluated at the present value of expected future cash flows discounted at the loan's effective interest rate. Nonaccrual loans below the threshold were collectively evaluated as homogeneous pools. The required valuation allowance is included in the allowance for loan and lease losses in the Consolidated Balance Sheets.

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At March 31, 2009 and 2008, the Corporation's recorded investment in impaired loans and leases and the related valuation allowance are as follows ($000's):

	March 31, 2009		March 31, 2008	
	Recorded Investment	Valuation Allowance	Recorded Investment	Valuation Allowance
Total nonaccrual and renegotiated loans and leases	$ 2,520,548		$ 774,234	
Less: nonaccrual loans held for sale	(113,737)		(1,288)	
Total impaired loans and leases	$ 2,406,811		$ 772,946	
Loans and leases excluded from individual evaluation	(838,941)		(413,933)	
Impaired loans evaluated	$ 1,567,870		$ 359,013	
Valuation allowance required	$ 1,026,947	$ 222,827	$ 251,583	$ 47,929
No valuation allowance required	540,923	-	107,430	-
Impaired loans evaluated	$ 1,567,870	$ 222,827	$ 359,013	$ 47,929

The average recorded investment in total impaired loans and leases for the quarters ended March 31, 2009 and2008 amounted to $2,271,378 and $817,146, respectively.

The amount of cumulative charge-offs recorded on the Corporation's nonaccrual loans outstanding at March 31,2009 was approximately $665.1 million.

9. Financial Asset Sales

The Corporation discontinued, on a recurring basis, the sale and securitization of automobile loans into the secondary market. The carrying values of the remaining retained interests associated with the securitizations are reviewed on a monthly basis to determine if there is a decline in value that is other than temporary. 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 are reviewed periodically. The Corporation believes that its estimates result in a reasonable carrying value of the retained interests.

Retained interests and other assets consisted of the following ($000's):

	March 31, 2009
Interest-only strips	$ 5,254
Cash collateral accounts	35,271
Servicing advances	68
	$ 40,593

Total retained
interests

There were no impairment losses associated with the remaining retained interests held in the form of interest-only strips and cash collateral accounts in the first quarter of 2009. For the three months ended March 31, 2008, impairment losses amounted to $2.3 million. The impairment in the first quarter of 2008 was primarily the result of the differences between the actual credit losses experienced compared to the expected credit losses used in measuring the retained interests.

Net trading gains associated with the auto securitization-related interest rate swap amounted to $0.4 million and $0.8 million for the three months ended March 31, 2009 and 2008, respectively.

At March 31, 2009, 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	$ 286,743	$ 668,054	$ 954,797
Principal amounts of loans 60 days or more past due	2,155	1,110	3,265
Net credit losses year to date	1,681	669	2,350

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10. Goodwill and Other Intangibles

The changes in the carrying amount of goodwill for the three months ended March 31, 2009 were as follows ($000's):

	Commercial Banking	Wealth Management	Others	Total
Goodwill balance at December 31, 2008	$ 327,246	$ 157,121	$ 120,777	$ 605,144
Purchase accounting adjustments	-	2,810	-	2,810
Goodwill balance at March 31, 2009	$ 327,246	$ 159,931	$ 120,777	$ 607,954

Purchase accounting adjustments for Wealth Management represent adjustments made to the initial estimates of fair value associated with the acquisition of Taplin, Canida & Habacht ("TCH").

The changes in the carrying amount of goodwill for the three months ended March 31, 2008 were as follows ($000's):

	Commercial Banking	Community Banking	Wealth Management	Others	Total
Goodwill balance at December 31, 2007	$ 922,264	$ 560,332	$ 114,572	$ 87,777	$ 1,684,945
Goodwill acquired during the period	327,257	81,335	-	-	408,592
Purchase accounting adjustments	-	-	1,831	-	1,831
Goodwill balance at March 31, 2008	$ 1,249,521	$ 641,667	$ 116,403	$ 87,777	$ 2,095,368

Goodwill acquired during the first quarter of 2008 included initial goodwill of $408.6 million for the acquisition of First Indiana. Purchase accounting adjustments for Wealth Management represent adjustments made to the initial estimates of fair value associated with the acquisition of North Star Financial Corporation.

At March 31, 2009, the Corporation's other intangible assets consisted of the following ($000's):

	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Other intangible assets			
Core deposit intangible	$ 254,229	$ (138,336)	$ 115,893
Trust customers	28,424	(5,015)	23,409
Tradename	3,975	(617)	3,358
Other intangibles	6,787	(1,647)	5,140

	$ 293,415	$ (145,615)	$ 147,800
Mortgage loan servicing rights			$ 2,354

At March 31, 2008, the Corporation's other intangible assets consisted of the following ($000's):

	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Other intangible assets			
Core deposit intangible	$ 254,229	$ (118,709)	$ 135,520
Trust customers	11,479	(3,209)	8,270
Tradename	1,360	(257)	1,103
Other intangibles	4,155	(620)	3,535
	$ 271,223	$ (122,795)	$ 148,428
Mortgage loan servicing rights			$ 2,672

Amortization expense of other intangible assets for the three months ended March 31, 2009 and 2008 amounted to $5.5 million and $5.6 million, respectively.

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Amortization of mortgage loan servicing rights amounted to $0.3 million for the three months ended March 31, 2009 and 2008, respectively.

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

2010	$ 22,444
2011	19,023
2012	16,586
2013	14,164
2014	12,225

11. Deposits

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

	March 31, 2009	December 31, 2008	March 31, 2008
Noninterest bearing demand	$ 6,988,312	$ 6,879,994	$ 6,137,771
Interest bearing:			
Savings and NOW	3,628,284	3,454,085	3,186,623
Money Market	10,613,915	10,753,000	11,673,038
CD's $100,000 and over:			
CD's $100,000 and over	11,757,126	12,301,142	10,207,200
Cash flow hedge - Institutional CDs	22,933	27,737	30,510
Total CD's $100,000 and over	11,780,059	12,328,879	10,237,710
Other time	5,945,355	5,743,480	4,616,596
Foreign	608,439	1,863,703	2,875,081
Total interest bearing	32,576,052	34,143,147	32,589,048
Total deposits	$ 39,564,364	$ 41,023,141	$ 38,726,819

12. Derivative Financial Instruments and Hedging Activities

The following is an update of the Corporation's use of derivative financial instruments and its hedging activities as described in its Annual Report on Form 10-K for the year ended December 31, 2008. There were no significant new hedging strategies employed during the three months ended March 31, 2009.

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

Trading Instruments and Other Free Standing Derivatives

The Corporation enters into various derivative contracts which are designated as trading and other free standing derivative contracts. These 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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Trading and other free standing derivatives are used primarily to focus on providing derivative products to customers which enables them to manage their exposures to interest rate risk. The Corporation's market risk from unfavorable movements in interest rates is generally economically hedged by concurrently entering into offsetting derivative contracts. The offsetting derivative contracts generally have nearly identical notional values, terms and indices. The Corporation uses interest rate futures to economically hedge the exposure to interest rate risk arising from the interest rate swap (designated as trading) entered into in conjunction with its auto securitization activities.

The following tables summarize the balance sheet category and fair values of trading derivatives not designated as hedging instruments under SFAS 133:

March 31, 2009	Notional Amount ($ in millions)	Balance Sheet Category	Fair Value ($ in millions)
Assets:			
Interest rate contracts - swaps	$ 4,844.8	Trading assets	$ 297.9
Interest rate contracts - purchased interest rate caps	184.0	Trading assets	1.2
Equity derivative contracts - equity indexed CDs	49.2	Trading assets	2.2
Equity derivative contracts - warrants	0.1	Trading assets	0.1
Total assets			301.4
Liabilities:			
Interest rate contracts - swaps	$ 4,690.0	Accrued expenses and other liabilities	$ 253.8
Interest rate contracts - sold interest rate caps	203.8	Accrued expenses and other liabilities	1.2
Interest rate contracts - interest rate futures	1,427.0	Accrued expenses and other liabilities	0.1
Equity derivative contracts - equity indexed CDs	49.1	Accrued expenses and other liabilities	2.2
Total liabilities			257.3
Net positive fair value impact			$ 44.1

March 31, 2008	Notional Amount ($ in millions)	Balance Sheet Category	Fair Value ($ in millions)
Assets:			
Interest rate contracts - swaps	$ 3,194.3	Trading assets	$ 149.3
Interest rate contracts - purchased interest rate caps	93.7	Trading assets	1.0
Equity derivative contracts - equity indexed CDs	3.1	Trading assets	-

Equity derivative contracts - warrants		0.1	Trading assets		0.3
Total assets					150.6
Liabilities:					
Interest rate contracts - swaps	$	2,821.9	Accrued expenses and other liabilities	$	123.8
Interest rate contracts - sold interest rate caps		93.7	Accrued expenses and other liabilities		1.0
Interest rate contracts - interest rate futures		2,221.0	Accrued expenses and other liabilities		0.3
Total liabilities					125.1
Net positive fair value impact				$	25.5

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The following tables summarize the income statement categories of the gain or (loss) recognized in income on trading derivatives not designated as hedging instruments under SFAS 133:

Three Months Ended March 31, 2009	Category of Gain or (Loss) Recognized in Income on Derivative		Amount of Gain or (Loss) Recognized in Income on Derivative ($ in millions)
Interest Rate Contracts – Swaps	Other income - Other	$	3.2
Interest Rate Contracts – Purchased Interest Rate Caps	Other income - Other		1.0
Interest Rate Contracts – Sold Interest Rate Caps	Other income - Other		(1.0)
Interest Rate Contracts – Interest Rate Futures	Other income - Other		(0.5)
Equity Derivative Contracts – Equity-Indexed CDs	Other income - Other		-
Equity Derivative Contracts – Warrants	Other income - Other		(0.0)

Three Months Ended March 31, 2008	Category of Gain or (Loss) Recognized in Income on Derivative		Amount of Gain or (Loss) Recognized in Income on Derivative ($ in millions)
Interest Rate Contracts – Swaps	Other income - Other	$	11.3
Interest Rate Contracts – Purchased Interest Rate Caps	Other income - Other		1.0
Interest Rate Contracts – Sold Interest Rate Caps	Other income - Other		(1.0)
Interest Rate Contracts – Interest Rate Futures	Other income - Other		(6.5)
Equity Derivative Contracts – Warrants	Other income - Other		(0.2)

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Fair Value Hedges and Cash Flow Hedges

The Corporation uses various derivative instruments that qualify as hedging relationships under SFAS 133. These instruments are designated as either fair value hedges or cash flow hedges. The Corporation recognizes these derivative instruments as either assets or liabilities at fair value in the statement of financial position.

The Corporation employs certain over-the-counter interest rate swaps that are the designated hedging instruments in fair value and cash flow hedges that are used by the Corporation to manage its interest rate risk. These interest rate swaps are measured at fair value on a recurring basis based on significant other observable inputs and are categorized as Level 2. See Note 3 – Fair Value Measurements in Notes to Financial Statements for additional information.

The following tables summarize the balance sheet category and fair values of derivatives designated as hedging instruments under SFAS 133:

March 31, 2009	Derivative Type	Hedged Item	Notional Amount ($ in millions)	Balance Sheet Category	Fair Value ($ in millions)	Weighted Average Remaining Term (Years)
Assets						
Interest rate contracts:						
Receive fixed rate swaps	Cash Flow	Corporate notes - AFS	$ 57.4	Investment securities	$ 0.5	1.3
Total assets					0.5	
Liabilities						
Interest rate contracts:						
Receive fixed rate swaps	Fair Value	Institutional CDs	$ 25.0	Deposits	$ (2.6)	27.2
Receive fixed rate swaps	Fair Value	Callable CDs	5,746.5	Deposits	3.0	13.6
Receive fixed rate swaps	Fair Value	Brokered Bullet CDs	209.3	Deposits	(13.4)	4.2
Pay fixed rate swaps	Cash Flow	Institutional CDs	550.0	Deposits	22.9	1.1
Receive fixed rate swaps	Fair Value	Fixed rate bank notes	428.2	Long-term borrowings	(43.3)	7.4
Pay fixed rate swaps	Cash Flow	FHLB advances	1,060.0	Long-term borrowings	91.5	2.8
Pay fixed rate swaps	Cash Flow	Floating rate bank notes	429.6	Long-term borrowings	27.8	2.0
Receive fixed rate swaps	Fair Value	Medium term notes	6.9	Long-term borrowings	(0.1)	18.9

Total liabilities							85.8	
Net negative fair value impact						$	(85.3)	

March 31, 2008	Derivative Type	Hedged Item		Notional Amount ($ in millions)	Balance Sheet Category		Fair Value ($ in millions)	Weighted Average Remaining Term (Years)
Assets								
Interest rate contracts:								
Receive fixed rate swaps	Cash Flow	Variable rate loans	$	100.0	Loans and leases	$	0.2	0.3
Total assets							0.2	
Liabilities								
Interest rate contracts:								
Receive fixed rate swaps	Fair Value	Institutional CDs	$	50.0	Deposits	$	(1.3)	28.2
Receive fixed rate swaps	Fair Value	Callable CDs		2,232.9	Deposits		5.2	12.2
Receive fixed rate swaps	Fair Value	Brokered Bullet CDs		210.8	Deposits		(3.1)	5.2
Pay fixed rate swaps	Cash Flow	Institutional CDs		800.0	Deposits		30.5	1.5
Receive fixed rate swaps	Fair Value	Fixed rate bank notes		100.0	Long-term borrowings		(0.1)	8.1
Receive fixed rate swaps	Fair Value	Fixed rate bank notes		354.5	Long-term borrowings		(18.6)	7.7
Pay fixed rate swaps	Cash Flow	FHLB advances		800.0	Long-term borrowings		68.0	4.3
Pay fixed rate swaps	Cash Flow	Floating rate bank notes		550.0	Long-term borrowings		23.3	1.7
Receive fixed rate swaps	Fair Value	Medium term notes		7.0	Long-term borrowings		-	19.9
Total liabilities							103.9	
Net negative fair value impact						$	(103.7)	

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The effect of fair value hedges under SFAS 133 on the Consolidated Statements of Income for the three months ended March 31, 2009 and 2008 ($ in millions):

Three Months Ended March 31, 2009

Derivatives Designated as Hedging Instruments under SFAS 133	Category of Gain (Loss) Recognized in Income on Derivative		Amount of Gain (Loss) Recognized in Income on Derivative	Category of Gain (Loss) Recognized in Income on Hedged Item		Amount of Gain (Loss) Recognized in Income on Hedged Item
Interest rate contracts						
	Interest expense:			Interest expense:		
	Deposits:			Deposits:		
Receive fixed rate swaps	Institutional CDs	$	0.4	Institutional CDs	$	(0.1)
Receive fixed rate swaps	Callable CDs		(40.1)	Callable CDs		103.4
Receive fixed rate swaps	Brokered Bullet CDs		0.5	Brokered Bullet CDs		1.1
	Long-term borrowings:			Long-term borrowings:		
Receive fixed rate swaps	Fixed rate bank notes		(8.4)	Fixed rate bank notes		10.6
Receive fixed rate swaps	Medium term notes		(0.1)	Medium term notes		0.1
Receive fixed rate swaps	Other		-	Other		0.1
	Total	$	(47.7)	Total	$	115.2

Three Months Ended March 31, 2008

Derivatives Designated as Hedging Instruments	Category of Gain (Loss) Recognized in Income	Amount of Gain (Loss) Recognized in Income	Category of Gain (Loss) Recognized in Income	Amount of Gain (Loss) Recognized in Income

under SFAS 133	on Derivative		on Derivative	on Hedged Item		on Hedged Item
Interest rate contracts						
	Interest expense:			Interest expense:		
	Deposits:			Deposits:		
Receive fixed rate swaps	Institutional CDs	$	1.3	Institutional CDs	$	(1.0)
Receive fixed rate swaps	Callable CDs		1.0	Callable CDs		3.2
Receive fixed rate swaps	Brokered Bullet CDs		3.2	Brokered Bullet CDs		(3.1)
	Long-term borrowings:			Long-term borrowings:		
Receive fixed rate swaps	Fixed rate bank notes		17.9	Fixed rate bank notes		(17.4)
Receive fixed rate swaps	Medium term notes		-	Medium term notes		(0.1)
Receive fixed rate swaps	Other		-	Other		0.1
	Total	$	23.4	Total	$	(18.3)

For the three months ended March 31, 2009 and 2008, respectively, the impact to net interest income due to ineffectiveness was not material.

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The effect of cash flow hedges under SFAS 133 for the three months ended March 31, 2009 and 2008 ($ in millions):

March 31, 2009

Derivatives in SFAS 133 Cash Flow Hedging Relationships	Amount of Gain (Loss) Recognized in OCI on Derivative (Effective Portion)			Category of Amount Reclassified from Accumulated OCI into Earnings (Effective Portion)	Amount Reclassified from Accumulated OCI into Earnings (Effective Portion)		
	Gross	Tax	Net		Gross	Tax	Net
Interest rate contracts				Interest and fee income			
Investment securities - Corporate notes AFS	$ 0.4	$ (0.1)	$ 0.3	Investment securities - Corporate notes AFS	$ -	$ -	$ -
Interest rate contracts				Interest expense			
Deposits:				Deposits:			
Institutional CDs	0.2	(0.1)	0.1	Institutional CDs	4.6	(1.6)	3.0
Long-term borrowings:				Long-term borrowings:			
FHLB advances	(0.7)	0.3	(0.4)	FHLB advances	7.6	(2.7)	4.9
Floating rate bank notes	0.7	(0.3)	0.4	Floating rate bank notes	2.2	(0.7)	1.5
Other	-	-	-	Other (1)	0.2	(0.1)	0.1
	$ 0.6	$ (0.2)	$ 0.4		$ 14.6	$ (5.1)	$ 9.5

(1) Represents amortization for the three months ended March 31, 2009 from the termination of swaps.

March 31, 2008

Derivatives in SFAS 133	Amount of Gain (Loss) Recognized in OCI on Derivative	Category of Amount Reclassified from Accumulated OCI into Earnings	Amount Reclassified from Accumulated OCI into Earnings

Cash Flow Hedging Relationships	(Effective Portion)			(Effective Portion)	(Effective Portion)		
	Gross	Tax	Net		Gross	Tax	Net
Interest rate contracts				Interest and fee income			
Loans and leases - Variable rate loans	$ 0.5	$ (0.2)	$ 0.3	Loans and leases - Variable rate loans	$ 0.3	$ (0.1)	$ 0.2
Interest rate contracts				Interest expense			
Deposits:				Deposits:			
Institutional CDs	(14.5)	5.1	(9.4)	Institutional CDs	2.0	(0.7)	1.3
Long-term borrowings:				Long-term borrowings:			
FHLB advances	(32.2)	11.3	(20.9)	FHLB advances	2.5	(0.9)	1.6
Floating rate bank notes	(10.9)	3.8	(7.1)	Floating rate bank notes	0.7	(0.2)	0.5
Other	-	-	-	Other (1)	0.2	(0.1)	0.1
	$ (57.1)	$ 20.0	$ (37.1)		$ 5.7	$ (2.0)	$ 3.7

(1) Represents amortization for the three months ended March 31, 2008 from the termination of swaps.

The gain recognized in income representing the ineffective portion of the hedging relationships and excluded from the assessment of hedge effectiveness was not material for the three months ended March 31, 2009 and 2008. The estimated reclassification from accumulated other comprehensive income related to cash flow hedges in the next twelve months is approximately $57.8 million.

13. Postretirement Health Plan

The Corporation sponsors a defined benefit health plan that provides health care benefits to eligible current and retired employees. Eligibility for retiree benefits is dependent upon age, years of service, and participation in the health plan during active service. The plan is contributory and in 1997 and 2002 the plan was amended. Employees hired after September 1, 1997, including employees hired following business combinations, 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.

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Net periodic postretirement benefit cost for the three months ended March 31, 2009 and 2008 included the following components ($000's):

	Three Months Ended March 31, 2009	Three Months Ended March 31, 2008
Service cost	$ 235	$ 238
Interest cost on APBO	980	984
Expected return on plan assets	(396)	(435)
Prior service amortization	(560)	(593)
Actuarial loss amortization	210	75
Net periodic postretirement benefit cost	$ 469	$ 269

Benefit payments and expenses, net of participant contributions, for the three months ended March 31, 2009 amounted to $1.2 million.

The funded status, which is the accumulated postretirement benefit obligation net of fair value of plan assets, as of March 31, 2009 is as follows ($000’s):

Total funded status, December 31, 2008	$ (36,576)
Service cost	(235)
Interest cost on APBO	(980)
Expected return on plan assets	396
Employer contributions/payments	1,212
Subsidy (Medicare Part D)	(195)
Total funded status, March 31, 2009	$ (36,378)

14. Business Segments

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

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

During the second quarter of 2008, management consolidated certain lending activities and transferred the related assets and goodwill from the Community Banking segment to the National Consumer Lending Division reporting unit, which is a component of Others. Prior period segment information has been adjusted to reflect the transfer.

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

	Three Months Ended March 31, 2009	2008
Capital Markets Division	$ 13.0	$ 14.5
National Consumer Banking Division	40.0	27.5
Administrative & Other	13.7	42.0
Other	66.9	72.3
Total	$ 133.6	$ 156.3

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