MARSHALL & ILSLEY CORP
Form 10-Q
August 10, 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 June 30, 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 July 31, 2009
Common Stock, $1.00 Par Value	368,114,578

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	June 30, 2009	December 31, 2008	June 30, 2008
Assets:			
Cash and cash equivalents:			
Cash and due from banks	$ 796,981	$ 851,336	$ 1,316,397
Federal funds sold and security resale agreements	27,670	101,069	519,819
Money market funds	37,236	120,002	67,084
Total cash and cash equivalents	861,887	1,072,407	1,903,300
Interest bearing deposits at other banks	850,704	9,684	8,944
Trading assets, at fair value	261,117	518,361	133,128
Investment securities:			
Available for sale, at fair value	5,981,003	7,430,552	7,412,592
Held to maturity, fair value $148,029 ($243,395 at December 31, 2008 and $288,401 at June 30, 2008)	144,282	238,009	282,396
Loans held for sale	423,210	220,391	135,923
Loans and leases	47,759,934	49,764,153	50,096,609
Allowance for loan and lease losses	(1,367,782)	(1,202,167)	(1,028,809)
Net loans and leases	46,392,152	48,561,986	49,067,800
Premises and equipment, net	572,720	564,789	524,284
Goodwill	611,728	605,144	2,096,514
Other intangible assets	145,580	158,305	145,299
Bank-owned life insurance	1,173,765	1,157,612	1,147,234
Other real estate owned (OREO)	356,790	320,908	207,102
Accrued interest and other assets	1,918,765	1,478,270	1,195,906
Total Assets	$ 59,693,703	$ 62,336,418	$ 64,260,422
Liabilities and Equity:			
Deposits:			
Noninterest bearing	$ 7,847,624	$ 6,879,994	$ 6,390,374
Interest bearing	33,344,721	34,143,147	34,783,119
Total deposits	41,192,345	41,023,141	41,173,493
Federal funds purchased and security repurchase agreements	631,902	1,190,000	2,175,217
Other short-term borrowings	843,021	2,868,033	3,861,081

Accrued expenses and other liabilities		1,134,451		1,370,969		961,891
Long-term borrowings		9,297,487		9,613,717		9,564,597
Total Liabilities		53,099,206		56,065,860		57,736,279
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; 373,764,081 shares issued (272,318,615 shares at December 31, 2008 and 267,455,394 shares at June 30, 2008)		373,764		272,319		267,455
Additional paid-in capital		4,287,733		3,838,867		2,062,289
Retained earnings		2,182,808		2,538,989		4,513,019
Treasury stock, at cost: 5,644,436 shares (6,977,434 shares at December 31, 2008 and 8,023,398 shares at June 30, 2008)		(155,914)		(192,960)		(222,026)
Deferred compensation		(36,945)		(40,797)		(37,913)
Accumulated other comprehensive income, net of related taxes		(69,390)		(157,952)		(68,594)
Total Marshall & Ilsley Corporation shareholders' equity		6,583,771		6,260,181		6,514,230
Noncontrolling interest in subsidiaries		10,726		10,377		9,913
Total Equity		6,594,497		6,270,558		6,524,143
Total Liabilities and Equity	$	59,693,703	$	62,336,418	$	64,260,422

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 June 30, 2009	2008
Interest and fee income		
Loans and leases	$ 557,163	$ 726,621
Investment securities:		
Taxable	57,414	71,697
Exempt from federal income taxes	11,542	13,733
Trading securities	1,989	386
Short-term investments	400	2,171
Total interest and fee income	628,508	814,608
Interest expense		
Deposits	138,273	219,205
Short-term borrowings	2,881	37,972
Long-term borrowings	95,530	109,793
Total interest expense	236,684	366,970
Net interest income	391,824	447,638
Provision for loan and lease losses	618,992	885,981
Net interest income (loss) after provision for loan and lease losses	(227,168)	(438,343)
Other income		
Wealth management	65,837	74,753
Service charges on deposits	34,055	37,898
Gain on sale of mortgage loans	16,754	5,614
Other mortgage banking revenue	1,292	1,010
Net investment securities gains	82,665	452
Bank-owned life insurance revenue	7,962	11,968
Gain on termination of debt	9,242	-
OREO income	2,964	1,787
Other	46,430	53,515
Total other income	267,201	186,997
Other expense		
Salaries and employee benefits	187,238	186,572
Net occupancy and equipment	32,437	31,253
Software expenses	7,015	6,349
Processing charges	33,812	33,705
Supplies, printing, postage and delivery	8,930	11,552
FDIC insurance	49,233	2,153
Professional services	21,997	18,168
Amortization of intangibles	5,843	5,977
OREO expenses	35,778	20,263
Other	32,376	64,188
Total other expense	414,659	380,180
Loss before income taxes	(374,626)	(631,526)
Benefit for income taxes	(166,143)	(237,950)
Net loss	(208,483)	(393,576)
Less: Net income attributable to noncontrolling interests	(472)	(215)

Net loss attributable to Marshall & Ilsley Corporation		(208,955)		(393,791)
Preferred dividends		(25,013)		-
Net loss attributable to Marshall & Ilsley Corporation common shareholders	$	(233,968)	$	(393,791)
Per share attributable to Marshall & Ilsley Corporation common shareholders:				
Basic	$	(0.83)	$	(1.52)
Diluted	$	(0.83)	$	(1.52)
Dividends paid per common share	$	0.01	$	0.32
Weighted average common shares outstanding (000's):				
Basic		280,836		258,592
Diluted		280,836		258,592

See notes to financial statements.

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

	Six Months Ended June 30, 2009	2008
Interest and fee income		
Loans and leases	$ 1,123,497	$ 1,510,149
Investment securities:		
Taxable	120,531	149,253
Exempt from federal income taxes	23,797	28,136
Trading securities	3,438	993
Short-term investments	1,028	5,087
Total interest and fee income	1,272,291	1,693,618
Interest expense		
Deposits	276,362	491,979
Short-term borrowings	6,873	91,562
Long-term borrowings	195,486	232,055
Total interest expense	478,721	815,596
Net interest income	793,570	878,022
Provision for loan and lease losses	1,096,916	1,032,302
Net interest income (loss) after provision for loan and lease losses	(303,346)	(154,280)
Other income		
Wealth management	128,519	146,639
Service charges on deposits	69,368	73,579
Gain on sale of mortgage loans	26,568	14,066
Other mortgage banking revenue	2,285	1,922
Net investment securities gains	82,737	26,168
Bank-owned life insurance revenue	17,278	24,363
Gain on termination of debt	12,298	-
OREO income	5,532	2,823
Other	99,322	108,670
Total other income	443,907	398,230
Other expense		
Salaries and employee benefits	342,426	361,236
Net occupancy and equipment	66,230	62,455
Software expenses	13,613	12,582
Processing charges	67,534	65,790
Supplies, printing, postage and delivery	18,024	23,320
FDIC insurance	64,337	4,017
Professional services	41,178	31,647
Amortization of intangibles	11,637	11,922
OREO expenses	68,401	35,212
Other	66,436	87,564
Total other expense	759,816	695,745
Loss before income taxes	(619,255)	(451,795)
Benefit for income taxes	(319,125)	(204,650)
Net loss	(300,130)	(247,145)
Less: Net income attributable to noncontrolling interests	(791)	(437)

Net loss attributable to Marshall & Ilsley Corporation		(300,921)		(247,582)
Preferred dividends		(49,972)		-
Net loss attributable to Marshall & Ilsley Corporation common shareholders	$	(350,893)	$	(247,582)
Per share attributable to Marshall & Ilsley Corporation common shareholders:				
Basic	$	(1.29)	$	(0.95)
Diluted	$	(1.29)	$	(0.95)
Dividends paid per common share	$	0.02	$	0.63
Weighted average common shares outstanding (000's):				
Basic		272,735		259,282
Diluted		272,735		259,282

See notes to financial statements.

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

	Six Months Ended June 30, 2009	2008
Net Cash Provided by Operating Activities	$ 481,863	$ 388,136
Cash Flows from Investing Activities:		
Proceeds from sales of securities available for sale	987,296	118,799
Proceeds from maturities of securities available for sale	873,109	701,106
Proceeds from sales of securities held to maturity	-	1,633
Proceeds from maturities of securities held to maturity	94,491	91,794
Purchases of securities available for sale	(1,317,626)	(591,555)
Net decrease/(increase) in loans and leases	755,822	(3,041,220)
Purchases of premises and equipment, net	(31,530)	(41,626)
Cash paid for acquisitions, net of cash and cash equivalents acquired	(479)	(476,625)
Proceeds from divestitures	-	2,485
Net proceeds from sale of OREO	118,687	41,677
Net cash provided by/(used in) investing activities	1,479,770	(3,193,532)
Cash Flows from Financing Activities:		
Net increase in deposits	169,954	4,387,544
Net decrease in short-term borrowings	(2,579,826)	(876,910)
Proceeds from issuance of long-term borrowings	375	809,389
Payments of long-term borrowings	(274,093)	(1,155,118)
Dividends paid on preferred stock	(43,113)	-
Dividends paid on common stock	(5,288)	(162,406)
Proceeds from the issuance of common stock	560,223	14,555
Purchases of common stock	-	(130,870)
Other	(385)	-
Net cash provided by/(used in) financing activities	(2,172,153)	2,886,184
Net increase/(decrease) in cash and cash equivalents	(210,520)	80,788
Cash and cash equivalents, beginning of year	1,072,407	1,822,512
Cash and cash equivalents, end of period	$ 861,887	$ 1,903,300
Supplemental Cash Flow Information:		
Cash paid/(received) during the period for:		
Interest	$ 492,771	$ 826,763
Income taxes	(118,747)	84,436

See notes to financial statements.

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MARSHALL & ILSLEY CORPORATION
Notes to Financial Statements
June 30, 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 and six months ended June 30, 2009 and 2008. The results of operations for the three and six months ended June 30, 2009 and 2008 are not necessarily indicative of results to be expected for the entire year. The Corporation issued its consolidated financial statements by filing them with the Securities and Exchange Commission (the "SEC") on August 10, 2009 and has evaluated subsequent events up to the time the consolidated financial statements were filed.

2. New Accounting Pronouncements

In June 2009, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 168, The FASB Accounting Standards CodificationTM and the Hierarchy of Generally Accepted Accounting Principles – a replacement of FASB Statement No. 162 ("SFAS 168"). SFAS 168 provides for the FASB Accounting Standards CodificationTM (the "Codification") to become the single official source of authoritative, nongovernmental U.S. Generally Accepted Accounting Principles ("GAAP"), except for rules and interpretive releases of the SEC, which are also sources of authoritative GAAP for SEC registrants. The Codification did not change GAAP but reorganizes the literature using a consistent structure. SFAS 168 is effective for financial statements issued for interim and annual periods ending after September 15, 2009. As the Codification was not intended to change or alter existing GAAP, it is not expected to impact the consolidated financial statements, however the Corporation will cease using prior GAAP references and begin to use the new Codification when referring to GAAP in the Notes to the Consolidated Financial Statements in its quarterly report on Form 10-Q for the third quarter ending September 30, 2009.

In June 2009, the FASB issued SFAS No. 166, Accounting for Transfers of Financial Assets – an amendment of FASB Statement No. 140 ("SFAS 166") and SFAS No. 167, Amendments to FASB Interpretation No. 46(R) ("SFAS 167"). SFAS No. 166 eliminates the concept of a "qualifying special-purpose entity," changes the requirements for derecognizing financial assets, and requires additional disclosures regarding an entity's continuing involvement in and exposure to risks related to transferred financial assets. SFAS 167, which amends FASB Interpretation No. 46 (revised December 2003), replaces the quantitative approach previously required for determining which enterprise should consolidate a variable interest entity with a consolidation approach focused on which enterprise has the power to direct the activities of a variable interest entity and the obligation to absorb losses of the entity or the right to receive benefits from the entity. SFAS 167 also requires ongoing reassessments of whether an enterprise is the primary beneficiary of a variable interest entity, and eliminates an exception indicating a troubled debt restructuring, as defined in paragraph 2 of FASB Statement No. 15, Accounting by Debtors and Creditors for Troubled Debt Restructurings, was not an event that required reconsideration of whether an entity is a variable interest entity and whether an enterprise is the primary beneficiary of a variable interest entity. SFAS No. 166 and 167 are effective for the Corporation on January 1, 2010. The Corporation is evaluating the impact that adoption of SFAS 166 and 167 will have on the consolidated financial statements.

In May 2009, the FASB issued SFAS No. 165, Subsequent Events ("SFAS 165"), which sets forth general standards for potential recognition or disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. SFAS 165 became effective in the second quarter of 2009 and did not have a material impact on the consolidated financial statements.

MARSHALL & ILSLEY CORPORATION
Notes to Financial Statements - Continued
June 30, 2009 & 2008 (Unaudited)

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 7 – Investment Securities in Notes to Financial Statements for information regarding the impact of adopting FSP FAS 157-4 and FSP FAS 115-2.

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. See Note 3 – Fair Value Measurements and Note 14 – Fair Value of Financial Instruments in Notes to Financial Statements for information regarding the fair value of financial instruments at June 30, 2009.

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 was applied prospectively, except for the provisions related to the presentation of noncontrolling interests. As of June 30, 2009, December 31, 2008 and June 30, 2008, noncontrolling interests of $10.7 million, $10.4 million and $9.9 million, respectively, have been reclassified from Accrued Expenses and Other Liabilities to Total Equity in the Consolidated Balance Sheets. For the three months ended June 30, 2009 and 2008, net income attributable to noncontrolling interests of $0.5 million and $0.2 million, respectively, is included in net income. For the six months ended June 30, 2009 and 2008, net income attributable to noncontrolling interests of $0.8 million and

$0.4 million, 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 was not affected as a result of the adoption of the provisions of SAS 160.

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MARSHALL & ILSLEY CORPORATION
Notes to Financial Statements - Continued
June 30, 2009 & 2008 (Unaudited)

3. Fair Value Measurements

The Corporation adopted 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.

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.

MARSHALL & ILSLEY CORPORATION

Notes to Financial Statements - Continued

June 30, 2009 & 2008 (Unaudited)

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 June 30, 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 June 30, 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 June 30, 2009.

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MARSHALL & ILSLEY CORPORATION
Notes to Financial Statements - Continued
June 30, 2009 & 2008 (Unaudited)

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 June 30, 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	$ -	$ 18,484	$ -
Derivative assets	121	242,512	-
Total trading assets	$ 121	$ 260,996	$ -
Investment securities available for sale (2)			
Investment securities	$ 106	$ 5,280,838	$ 184,559
Private equity investments	-	-	70,517
Other assets	-	-	4,945
Total investment securities available for sale	$ 106	$ 5,280,838	$ 260,021
Liabilities (1)			
Other short-term borrowings	$ -	$ 210	$ -
Accrued expenses and other liabilities:			
Derivative liabilities	$ -	$ 200,875	$ 14,743

(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 13 – Derivative Financial Instruments and Hedging Activities in Notes to Financial Statements for further information. Level 3 derivative liabilities represent the fair value of the derivative financial instrument entered into in conjunction with the sale of the Corporation's shares of Visa, Inc. ("Visa") Class B common stock. See Note 17 – Guarantees in Notes to Financial Statements for additional information regarding Visa.

(2) The investment securities included in Level 3 are primarily senior tranche asset-backed securities. The amounts presented are exclusive of $386,036 of investments in Federal Reserve Bank and FHLB stock, which are bought and sold at par and are carried at cost, and $54,002 in affordable housing partnerships, which are generally carried on the equity method.

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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 six months ended June 30, 2009 ($000's):

	Investment Securities (1)	Private Equity Investments (2)	Other Assets	Total	Derivative Liabilities
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	$ -
Net payments, purchases and sales	(1,048)	426	(194)	(816)	-
Discount accretion	41	-	148	189	-
Net transfers in and/or out of Level 3	-	-	-	-	-
Total gains or losses (realized or unrealized):					
Included in earnings	-	3,869	10	3,879	14,743
Included in other comprehensive income	18,439	-	(273)	18,166	-
Balance at June 30, 2009	$ 184,559	$ 70,517	$ 4,945	$ 260,021	$ 14,743
Unrealized gains or (losses) for the period included in earnings attributable to unrealized gains or losses for financial instruments still held at June 30, 2009	$ -	$ 3,865	$ -	$ 3,865	$ (14,743)

(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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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 June 30, 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	$ -	$ 38,119	$ -
Derivative assets	303	94,706	-
Total trading assets	$ 303	$ 132,825	$ -
Investment securities available for sale (2)			
Investment securities	$ 235	$ 6,905,554	$ 72,392
Private equity investments	-	-	61,559
Other assets	-	-	6,195
Total investment securities available for sale	$ 235	$ 6,905,554	$ 140,146
Liabilities (1)			
Other short-term borrowings	$ -	$ 6,394	$ -
Accrued expenses and other liabilities:			
Derivative liabilities	$ 40	$ 72,082	$ -

(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 13 in Notes to Financial Statements for further information.

(2) The amounts presented are exclusive of $327,815 of investments in Federal Reserve Bank and FHLB stock, which are bought and sold at par and are carried at cost, and $38,842 in affordable housing partnerships, which are generally carried on the equity method.

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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 six months ended June 30, 2008 ($000's):

	Investment Securities (1)	Private Equity Investments (2)	Other Assets	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
Net payments, purchases and sales	(3)	3,092	(965)	2,124
Discount accretion/(premium amortization)	(2)	-	183	181
Net transfers in and/or out of Level 3	56,007	-	-	56,007
Total gains or losses (realized or unrealized):				
Included in earnings	-	613	-	613
Included in other comprehensive income	-	-	764	764
Balance at June 30, 2008	$ 72,392	$ 61,559	$ 6,195	$ 140,146
Unrealized gains or losses for the period included in earnings attributable to unrealized gains or losses for financial instruments still held at June 30, 2008	$ -	$ 293	$ (2,020)	$ (1,727)

(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.

Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis

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 consumer-related 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 $247,958 and $17,426 was recorded for loans with a recorded investment of $980,553 and $102,744 at June 30, 2009 and June 30, 2008, respectively. See Note 9 – Allowance for Loan and Lease Losses in Notes to Financial Statements for more information.

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OREO is recorded at fair value based on property appraisals, less estimated selling costs, at the date of transfer. Subsequent to transfer, OREO is carried at the lower of cost or fair value, less estimated selling costs. The carrying value of OREO is not re-measured to fair value on a recurring basis but is subject to fair value adjustments when the carrying value exceeds the fair value, less estimated selling costs. At June 30, 2009 and 2008, the estimated fair value of OREO, less estimated selling costs amounted to $356,790 and $207,102, respectively.

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 June 30, 2009		
	Before-Tax Amount	Tax (Expense) Benefit	Net-of-Tax Amount
Net loss			$ (208,483)
Other comprehensive income (loss):			
Unrealized gains (losses) on available for sale investment securities:			
Arising during the period	$ 26,536	$ (9,307)	$ 17,229
Reclassification for securities transactions included in net income	(43,622)	15,268	(28,354)
Total unrealized gains (losses) on available for sale investment securities	$ (17,086)	$ 5,961	$ (11,125)
Unrealized gains (losses) on derivatives hedging variability of cash flows:			
Arising during the period	$ 10,112	$ (3,539)	$ 6,573
Reclassification adjustments for hedging activities included in net income	17,000	(5,950)	11,050
Total net gains (losses) on derivatives hedging variability of cash flows	$ 27,112	$ (9,489)	$ 17,623
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)	68	(282)
Total unrealized gains (losses) on funded status of defined benefit postretirement plan	$ (350)	$ 68	$ (282)
Other comprehensive income, net of tax			6,216
Total comprehensive income (loss)			(202,267)
Less: Comprehensive income attributable to the noncontrolling interest			(472)
Comprehensive income (loss) attributable to Marshall & Ilsley Corporation			$ (202,739)

	Three Months Ended June 30, 2008		
	Before-Tax Amount	Tax (Expense) Benefit	Net-of-Tax Amount

Net loss							$	(393,576)
Other comprehensive income (loss):								
Unrealized gains (losses) on available for sale investment securities:								
Arising during the period	$	(62,728)		$	22,249		$	(40,479)
Reclassification for securities transactions included in net income		(39)			14			(25)
Total unrealized gains (losses) on available for sale investment securities	$	(62,767)		$	22,263		$	(40,504)
Unrealized gains (losses) on derivatives hedging variability of cash flows:								
Arising during the period	$	48,984		$	(17,144)		$	31,840
Reclassification adjustments for hedging activities included in net income		12,247			(4,287)			7,960
Total net gains (losses) on derivatives hedging variability of cash flows	$	61,231		$	(21,431)		$	39,800
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								(1,036)
Total comprehensive income (loss)								(394,612)
Less: Comprehensive income attributable to the noncontrolling interest								(215)
Comprehensive income (loss) attributable to Marshall & Ilsley Corporation							$	(394,827)

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MARSHALL & ILSLEY CORPORATION
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	Six Months Ended June 30, 2009		
	Before-Tax Amount	Tax (Expense) Benefit	Net-of-Tax Amount
Net loss			$ (300,130)
Other comprehensive income (loss):			
Unrealized gains (losses) on available for sale investment securities:			
Arising during the period	$ 138,802	$ (48,735)	$ 90,067
Reclassification for securities transactions included in net income	(43,868)	15,354	(28,514)
Total unrealized gains (losses) on available for sale investment securities	$ 94,934	$ (33,381)	$ 61,553
Unrealized gains (losses) on derivatives hedging variability of cash flows:			
Arising during the period	$ 10,726	$ (3,754)	$ 6,972
Reclassification adjustments for hedging activities included in net income	31,555	(11,044)	20,511
Total net gains (losses) on derivatives hedging variability of cash flows	$ 42,281	$ (14,798)	$ 27,483
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	(700)	226	(474)
Total net gains (losses) on funded status of defined benefit postretirement plan	$ (700)	$ 226	$ (474)
Other comprehensive income, net of tax			88,562
Total comprehensive income (loss)			(211,568)
Less: Comprehensive income attributable to the noncontrolling interest			(791)
Comprehensive income (loss) attributable to Marshall & Ilsley Corporation			$ (212,359)

	Six Months Ended June 30, 2008		
	Before-Tax Amount	Tax (Expense) Benefit	Net-of-Tax Amount
Net loss			$ (247,145)
Other comprehensive income (loss):			

Unrealized gains (losses) on available for sale investment securities:								
Arising during the period	$	(31,532	)	$	11,016	$	(20,516	)
Reclassification for securities transactions included in net income		(133	)		47		(86	)
Total unrealized gains (losses) on available for sale investment securities	$	(31,665	)	$	11,063	$	(20,602	)
Unrealized gains (losses) on derivatives hedging variability of cash flows:								
Arising during the period	$	(8,163	)	$	2,857	$	(5,306	)
Reclassification adjustments for hedging activities included in net income		17,977			(6,292)		11,685	
Total net gains (losses) on derivatives hedging variability of cash flows	$	9,814		$	(3,435)	$	6,379	
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		(1,056	)		392		(664	)
Total net gains (losses) on funded status of defined benefit postretirement plan	$	(1,056	)	$	392	$	(664	)
Other comprehensive income (loss), net of tax							(14,887	)
Total comprehensive income (loss)							(262,032	)
Less: Comprehensive income attributable to the noncontrolling interest							(437	)
Comprehensive income (loss) attributable to Marshall & Ilsley Corporation						$	(262,469	)

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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 June 30, 2009		
	Income (Numerator)	Average Shares (Denominator)	Per Share Amount
Basic:			
Net loss attributable to Marshall & Ilsley Corporation	$ (208,955)		
Preferred stock dividends	(25,013)		
Net loss attributable to Marshall & Ilsley Corporation common shareholders	$ (233,968)	280,836	$ (0.83)
Effect of dilutive securities:			
Stock option, restricted stock and other plans		-	
Diluted:			
Net loss attributable to Marshall & Ilsley Corporation	$ (208,955)		
Preferred stock dividends	(25,013)		
Net loss attributable to Marshall & Ilsley Corporation common shareholders	$ (233,968)	280,836	$ (0.83)

	Three Months Ended June 30, 2008		
	Income (Numerator)	Average Shares (Denominator)	Per Share Amount
Basic:			