MARSHALL & ILSLEY CORP/WI/
Form 10-K
March 02, 2006
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2005

OR

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

Commission File No. 1-15403

MARSHALL & ILSLEY CORPORATION

(Exact name of registrant as specified in its charter)

Wisconsin	**39-0968604**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
770 North Water Street Milwaukee, Wisconsin	**53202**
(Address of principal executive offices)	**(Zip Code)**

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

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

Title of Each Class:	Name of Each Exchange on Which Registered:
Common Stock - $1.00 par value	**New York Stock Exchange**
6.50% Common SPACES[SM]	**New York Stock Exchange**

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

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

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

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

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

Large accelerated filer x Accelerated filer ¨ Non-accelerated filer ¨

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

The aggregate market value of the voting stock held by nonaffiliates of the registrant as of June 30, 2005 was approximately $10,002,456,000. The number of shares of common stock outstanding as of January 31, 2006 was 235,817,814.

DOCUMENTS INCORPORATED BY REFERENCE

Part III incorporates information by reference from the Proxy Statement for the registrant s Annual Meeting of Shareholders to be held on April 25, 2006.

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MARSHALL & ILSLEY CORPORATION

ANNUAL REPORT ON FORM 10-K

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2005

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PART I

ITEM 1. BUSINESS

General

Marshall & Ilsley Corporation (M&I or the Corporation), incorporated in Wisconsin in 1959, is a registered bank holding company under the Bank Holding Company Act of 1956 (the BHCA) and is certified as a financial holding company under the Gramm-Leach-Bliley Act. As of December 31, 2005, M&I had consolidated total assets of approximately $46.2 billion and consolidated total deposits of approximately $27.7 billion, making M&I the largest bank holding company headquartered in Wisconsin. The executive offices of M&I are located at 770 North Water Street, Milwaukee, Wisconsin 53202 (telephone number (414) 765-7801).

M&I s principal assets are the stock of its bank and nonbank subsidiaries, which, as of February 1, 2006, included Metavante Corporation (Metavante), five bank and trust subsidiaries and a number of companies engaged in businesses that the Board of Governors of the Federal Reserve System (the Federal Reserve Board) has determined to be closely-related or incidental to the business of banking. M&I provides its subsidiaries with financial and managerial assistance in such areas as budgeting, tax planning, auditing, compliance assistance, asset and liability management, investment administration and portfolio planning, business development, advertising and human resources management.

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

Banking Operations

M&I s bank subsidiaries provide a full range of banking services to individuals, businesses and governments throughout Wisconsin, and in the Phoenix and Tucson, Arizona metropolitan areas, the Minneapolis/St. Paul, Minnesota and the St. Louis, Missouri metropolitan areas, Las Vegas, Nevada, Naples and Bonita Springs, Florida and Belleville, Illinois. These subsidiaries offer retail, institutional, business, international and correspondent banking and investment services through the operation of 195 banking offices in Wisconsin, 42 offices in Arizona, 14 offices in Minnesota, seven offices in Missouri, two offices in Florida, one office in Nevada and one office in Illinois, as well as on the Internet. M&I s bank subsidiaries hold a significant portion of their mortgage loan and investment portfolios indirectly through their ownership interests in direct and indirect subsidiaries. M&I Marshall & Ilsley Bank (M&I Bank) is M&I s largest bank subsidiary, with consolidated assets as of December 31, 2005 of approximately $38.9 billion.

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

M&I s lending activities involve credit risk. Credit risk is controlled through active asset quality management and the use of lending standards and thorough review of potential borrowers. M&I evaluates the credit

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risk of each borrower on an individual basis and, where deemed appropriate, collateral is obtained. Collateral varies by individual loan customer but may include accounts receivable, inventory, real estate, equipment, deposits, personal and government guarantees, and general security agreements. Access to collateral is dependent upon the type of collateral obtained. On an on-going basis, M&I monitors its collateral and the collateral value related to the loan balance outstanding.

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

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

Data Services Metavante Operations

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

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

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

consumer-directed health benefits payment platform and a market-leading employee benefits card to electronically access FSAs, HRAs, HSAs, transit/parking accounts and dependent care accounts. Metavante provides medical identification cards, combination eligibility/payment cards, and the ability to access multiple benefits accounts from a single card. Metavante also provides a comprehensive FSA/HSA/HRA platform that provides all the technology a financial institution, health insurance company, third-party administrator, or commercial business needs to offer these accounts. Services include account processing, trustee services, checks and debit cards, online and phone access to account information, investment options, regulatory reporting and related data translation and movement between payers, providers and consumers.

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

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

Other Business Operations

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

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

Residential Mortgage Banking. M&I Mortgage Corp., a subsidiary of M&I Bank FSB, sells and services residential mortgage loans. M&I Mortgage Reinsurance Corporation, a subsidiary of M&I Bank, acts as a reinsurer of private mortgage insurance written in connection with residential mortgage loans originated in the M&I system.

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

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

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

Commercial Mortgage Banking. The Richter-Schroeder Company, Inc. originates and services long-term commercial real estate loans for institutional investors.

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

More information on M&I s business segments is contained in Note 22 of the Notes to the Consolidated Financial Statements contained in Item 8, Consolidated Financial Statements and Supplementary Data.

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Risk Management

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

M&I has established a number of management committees responsible for assessing and evaluating risks associated with the Company s businesses including the Credit Policy Committee, Asset Liability Committee (ALCO) and the Corporate Risk Management Committee. In 2005, M&I established a Risk Management Committee of the Board of Directors for oversight and governance of its risk management function. The Board s Risk Management Committee consists of three non-management directors and has the responsibility of overseeing management s actions with respect to credit, market, liquidity, fiduciary, operational, compliance, legal and reputation risks as well as M&I s overall risk profile. The Chief Risk Officer is responsible for reporting to this committee.

Operational Risk Management

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

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

Corporate Governance Matters

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

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

- Charter for the Audit Committee of the Board of Directors;
- Charter for the Compensation and Human Resources Committee of the Board of Directors;
- Charter for the Nominating and Corporate Governance Committee of the Board of Directors;
- Categorical Standards for Lending, Banking and Other Business Relationships Involving M&I s Directors;

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Corporate Governance Guidelines; and

Code of Business Conduct and Ethics.

Shareholders also may obtain a copy of any of these documents free of charge by calling the M&I Shareholder Information Line at 1-800-318-0208. Information contained on any of M&I s web sites is not deemed to be a part of this Annual Report.

Acquisitions

On January 4, 2006, Marshall & Ilsley Trust Company N. A. completed the acquisition of the assets of FirstTrust Indiana (FirstTrust), a division of First Indiana Bank, N.A. The acquired assets included those related to FirstTrust s provision of asset management, trust administration and estate planning services to high-net-worth individuals and institutional customers.

On January 3, 2006, Metavante completed the acquisition of AdminiSource Corp. (AdminiSource), a Carrollton, Texas provider of health care payment distribution services. The acquisition was part of Metavante s continuing expansion of its consumer-directed health care payments business.

On December 21, 2005, M&I announced its plan to acquire Trustcorp Financial, Inc. (Trustcorp), the St. Louis-based parent company of Missouri State Bank & Trust, which provides banking services in Missouri. The transaction, which is subject to approval by the stockholders of Trustcorp and the receipt of requisite regulatory approvals, is expected to close in the second quarter of 2006.

On November 18, 2005, Metavante completed the acquisition of LINK2GOV Corp. (LINK2GOV) of Nashville, Tennessee. LINK2GOV is a provider of comprehensive, customized online phone and point-of-sale payment processing services, including credit and debit solutions, to many federal, state and local governments and financial intermediaries servicing government entities, including the Internal Revenue Service.

On November 10, 2005, M&I announced its plan to acquire Gold Banc Corporation, Inc. (Gold Banc), the Leawood, Kansas-based parent company of Gold Bank, which provides commercial banking services in Florida, Kansas, Missouri and Oklahoma. The transaction was approved by the Gold Banc stockholders on January 25, 2006, and is expected to be completed promptly following the receipt of the requisite regulatory approvals.

On October 6, 2005, Metavante completed the acquisition of Birmingham, Alabama-based Brasfield Corporation (Brasfield). Brasfield provides core banking, processing, customer service, check and document imaging and check exchange services to community banks, and strengthens Metavante s community banking strategy.

On August 11, 2005, Metavante completed the acquisition of GHR Systems, Inc. (GHR) of Wayne, Pennsylvania. GHR provides loan origination technologies for the residential mortgage and consumer finance industries, offers point of sale products for any channel and comprehensive underwriting, processing and closing technologies.

On August 8, 2005, Metavante completed the acquisition of TREEV LLC (TREEV) of Herndon, Virginia. TREEV provides browser-based document imaging, storage and retrieval products and services for the financial-services industry in both lending and deposit environments. TREEV complements Metavante s check-imaging products and services by providing solutions for document storage and retrieval, including electronic report storage.

On July 22, 2005, Metavante completed the acquisition of Med-i-Bank, Inc. (MBI) of Waltham, Massachusetts. MBI provides electronic payment processing services for employee benefit and consumer-directed healthcare accounts, such as flexible spending accounts, health reimbursement arrangements and health savings account systems.

On February 9, 2005, Metavante completed the acquisition of Clark, New Jersey based Prime Associates, Inc., a leading international provider of software, data and services that address the regulatory and compliance mandate of financial institutions such as anti-money laundering regulations. Prime Associates provides regulatory compliance solutions for the Bank Secrecy Act and the USA PATRIOT Act of 2001 and regulations and policy statements promulgated thereunder, including Office of Foreign Asset Control filtering.

More information on M&I s acquisitions can be found in Note 3 of the Notes to the Consolidated Financial Statements contained in Item 8, Consolidated Financial Statements and Supplementary Data.

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

Principal Sources of Revenue

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

	Interest on Loans and Leases		Fees for Data Processing Services		Interest on Investment Securities		
Years Ended December 31,	**Amount**	**Percent of Total Revenues**	**Amount**	**Percent of Total Revenues**	**Amount**	**Percent of Total Revenues**	**Total Revenues**
2005	$ 1,926,377	48.6%	$ 1,141,371	28.8%	$ 287,339	7.3%	$ 3,962,890
2004	1,404,189	45.1	891,005	28.6	261,330	8.4	3,112,285
2003	1,304,060	47.5	657,827	24.0	225,602	8.2	2,745,721

M&I business segment information is contained in Note 22 of the Notes to the Consolidated Financial Statements contained in Item 8, Consolidated Financial Statements and Supplementary Data.

Competition

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

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

Employees

As of December 31, 2005, M&I and its subsidiaries employed in the aggregate 13,967 employees. M&I considers employee relations to be excellent. None of the employees of M&I or its subsidiaries are represented by a collective bargaining group.

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Supervision and Regulation

As a registered bank holding company, M&I is subject to regulation and examination by the Federal Reserve Board under the BHCA. As of February 1, 2006, M&I owned a total of five bank and trust subsidiaries, including two Wisconsin state banks, a Missouri state bank, a federal savings bank, and a national banking association. M&I s two Wisconsin state bank subsidiaries are subject to regulation and examination by the Wisconsin Department of Financial Institutions, as well as by the Federal Reserve Board. M&I s Missouri state bank subsidiary is subject to regulation and examination by the Missouri Department of Economic Development, Division of Finance, and the Federal Reserve Board. M&I s federal savings bank subsidiary is subject to regulation and examination by the Office of Thrift Supervision. M&I s national bank, through which trust operations are conducted, is subject to regulation and examination by the Office of the Comptroller of the Currency. In addition, all of M&I s bank subsidiaries are subject to examination by the Federal Deposit Insurance Corporation (FDIC).

Under Federal Reserve Board policy, M&I is expected to act as a source of financial strength to each of its bank subsidiaries and to commit resources to support each bank subsidiary in circumstances when it might not do so absent such requirements. In addition, there are numerous federal and state laws and regulations which regulate the activities of M&I and its bank subsidiaries, including requirements and limitations relating to capital and reserve requirements, permissible investments and lines of business, transactions with officers, directors and affiliates, loan limits, consumer protection laws, privacy of financial information, predatory lending, fair lending, mergers and acquisitions, issuances of securities, dividend payments, inter-affiliate liabilities, extensions of credit and branch banking. Information regarding capital requirements for bank holding companies and tables reflecting M&I s regulatory capital position at December 31, 2005 can be found in Note 14 of the Notes to the Consolidated Financial Statements contained in Item 8, Consolidated Financial Statements and Supplementary Data.

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

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

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

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

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

Selected Statistical Information

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

(1) Average Balance Sheets and Analysis of Net Interest Income for each of the last three years is included in Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations.

(2) Analysis of Changes in Interest Income and Interest Expense for each of the last two years is included in Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations.

(3) Nonaccrual, Past Due and Restructured Loans and Leases for each of the last five years is included in Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations.

(4) Summary of Loan and Lease Loss Experience for each of the last five years (including the allocation of the allowance for loans and leases) is included in Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations.

(5) Return on Average Shareholders Equity, Return on Average Assets and other statistical ratios for each of the last five years can be found in Item 6, Selected Financial Data.

(6) Potential Problem Loans and Leases for the last two years can be found in Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations.

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

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Investment Securities

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

	2005	2004	2003
U.S. Treasury and government agencies	$ 4,456,610	$ 4,147,593	$ 3,856,069
States and political subdivisions	1,307,403	1,203,412	1,093,033
Other	612,621	686,590	593,875
Total	$ 6,376,634	$ 6,037,595	$ 5,542,977

The maturities, at amortized cost, and weighted average yields (for tax-exempt obligations on a fully taxable basis assuming a 35% tax rate) of investment securities at December 31, 2005 are ($ in thousands):

	Within One Year		After One But Within Five Years		After Five But Within Ten Years		After Ten Years		Total	
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
U.S. Treasury and government agencies	$ 1,135,435	4.55%	$ 2,301,947	4.58%	$ 895,948	4.58%	$ 123,280	4.58%	$ 4,456,610	4.57%
States and political subdivisions	96,095	7.54	330,149	7.55	292,774	6.86	588,385	6.51	1,307,403	6.93
Other	72,368	5.74	104,157	5.20	43,677	4.83	392,419	4.42	612,621	4.74
Total	$ 1,303,898	4.84%	$ 2,736,253	4.96%	$ 1,232,399	5.13%	$ 1,104,084	5.55%	$ 6,376,634	5.07%

Types of Loans and Leases

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

	2005	2004	2003	2002	2001
Commercial, financial and agricultural	$ 9,491,368	$ 8,396,069	$ 7,013,073	$ 6,791,404	$ 5,656,384
Industrial development revenue bonds	74,107	85,394	97,601	80,110	71,892
Real estate:					
Construction	3,641,942	2,265,227	1,766,697	1,404,414	1,057,691
Mortgage:					
Residential	9,884,283	8,548,029	6,834,360	6,412,380	5,237,148
Commercial	8,825,104	8,164,099	7,149,149	6,586,332	5,099,093
Total mortgage	18,709,387	16,712,128	13,983,509	12,998,712	10,336,241
Personal	1,617,761	1,540,024	1,747,738	1,852,202	1,210,808
Lease financing	632,348	537,930	576,322	782,004	962,356
Total loans and leases	34,166,913	29,536,772	25,184,940	23,908,846	19,295,372
Less:					
Allowance for loan and lease losses	363,769	358,110	349,561	338,409	268,198
Net loans and leases	$ 33,803,144	$ 29,178,662	$ 24,835,379	$ 23,570,437	$ 19,027,174

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Loan and Lease Balances and Maturities

The analysis of selected loan and lease maturities at December 31, 2005 and the rate structure for the categories indicated are ($ in thousands):

	Maturity				Rate Structure of Loans and Leases Due After One Year With		
	One Year Or Less	Over One Year Through Five Years	Over Five Years	Total	With Pre-determined Rate	Floating Rate	Total
Commercial, financial and agricultural	$ 6,243,262	$ 2,881,816	$ 400,176	$ 9,525,254	$ 1,297,173	$ 1,984,819	$ 3,281,992
Industrial development revenue bonds	2,392	25,751	45,964	74,107	38,017	33,698	71,715
Real estate construction	1,430,875	2,197,263	13,804	3,641,942	252,107	1,958,960	2,211,067
Lease Financing	131,644	439,386	61,318	632,348	500,704		500,704
Total	$ 7,808,173	$ 5,544,216	$ 521,262	$ 13,873,651	$ 2,088,001	$ 3,977,477	$ 6,065,478

Notes:

(1) Scheduled repayments are reported in the maturity category in which the payments are due based on the terms of the loan agreements. Demand loans, loans having no stated schedule of repayments and no stated maturity, and overdrafts are reported as due in one year or less.

(2) The estimated effect arising from the use of interest rate swaps as shown in the rate structure of loans and leases is immaterial.

Deposits

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

	2005 Amount	Rate	2004 Amount	Rate	2003 Amount	Rate
Noninterest bearing demand deposits	$ 4,942,803		$ 4,585,628		$ 4,189,724	
Interest bearing demand deposits	2,030,996	0.89%	2,233,297	0.74%	2,111,753	0.90%
Savings deposits	8,118,331	2.23	7,330,492	0.82	7,226,830	0.69
Time deposits	11,009,343	3.14	9,838,518	2.03	8,457,571	1.89
Total deposits	$ 26,101,473		$ 23,987,935		$ 21,985,878	

The maturity distribution of time deposits issued in amounts of $100,000 and over outstanding at December 31, 2005 ($ in thousands) is:

Three months or less	$ 1,727,521
Over three and through six months	315,181
Over six and through twelve months	1,141,096

Over twelve months	2,468,561
Total	$ 5,652,359

At December 31, 2005, time deposits issued by foreign offices totaled $2.6 billion. The majority of foreign deposits were in denominations of $100,000 or more.

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Short-Term Borrowings

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

	2005	2004	2003
Amount outstanding at year end	$ 2,325,863	$ 1,478,103	$ 741,646
Average amount outstanding during the year	2,043,314	2,035,428	2,580,291
Maximum outstanding at any month s end	2,757,845	3,051,606	3,684,044
Weighted average interest rate at year end	4.04%	2.05%	0.73%
Weighted average interest rate during the year	3.21	1.27	1.11

Information relating to the Corporation s short-term borrowings is included in Note 12 of the Notes to the Consolidated Financial Statements contained in Item 8, Consolidated Financial Statements and Supplementary Data.

ITEM 1A. RISK FACTORS

Forward-Looking Statements

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

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

Risk Factors

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

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

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

Acts or threats of war or terrorism, international conflicts, including ongoing military operations in Iraq and Afghanistan, and the actions taken by the U.S. and other governments in response to such events could negatively impact general business and economic conditions in the U.S. If terrorist activity, acts of war or other international hostilities cause an overall economic decline, the financial condition and operating results of M&I could be

materially adversely affected. The potential for future terrorist attacks, the national and international responses to terrorist attacks or perceived threats to national security and other actual or potential conflicts or acts of war, including conflict in the Middle East, have created many economic and political uncertainties that could seriously harm M&I s business and results of operations in ways that cannot presently be predicted.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

In deciding whether to extend credit or enter into other transactions with customers and counterparties, M&I may rely on information provided to it by customers and counterparties, including financial statements and other financial information. M&I may also rely on representations of customers and counterparties as to the accuracy and completeness of that information and, with respect to financial statements, on reports of independent auditors. For example, in deciding whether to extend credit to a business, M&I may assume that the customer s audited financial statements conform with generally accepted accounting principles and present fairly, in all material respects, the financial condition, results of operations and cash flows of the customer. M&I may also rely on the audit report covering those financial statements. M&I s financial condition and results of operations could be negatively impacted to the extent it relies on financial statements that do not comply with GAAP or that are materially misleading.

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

M&I s accounting policies and methods are fundamental to how M&I records and reports its financial condition and results of operations. M&I s management must exercise judgment in selecting and applying many of these accounting policies and methods in order to ensure that they comply with generally accepted accounting

principles and reflect management s judgment as to the most appropriate manner in which to record and report M&I s financial condition and results of operations. In some cases, management must select the accounting policy or method to apply from two or more alternatives, any of which might be reasonable under the circumstances yet might result in M&I s reporting materially different amounts than would have been reported under a different alternative.

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

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

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

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

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

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

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

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

M&I s stock price can be volatile.

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

- actual or anticipated variations in M&I s quarterly results;
- new technology or services by M&I s competitors;

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

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

changes in accounting policies or practices;

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

changes in government regulations.

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

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

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

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

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

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

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

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

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

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

Metavante also depends on the security of its systems. Metavante s networks may be vulnerable to unauthorized access, computer viruses and other disruptive problems. Metavante transmits confidential financial

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

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

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

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

Metavante relies on a combination of contractual rights and copyright, trademark, patent and trade secret laws to establish and protect its proprietary technology. Despite Metavante s efforts to protect its intellectual property, third parties may infringe or misappropriate Metavante s intellectual property or may develop software or technology competitive to Metavante s. Metavante s competitors may independently develop similar technology, duplicate its products or services or design around Metavante s intellectual property rights. Metavante may have to litigate to enforce and protect its intellectual property rights, trade secrets and know-how or to determine their scope, validity or enforceability, which is expensive and could cause a diversion of resources and may not prove successful. The loss of intellectual property protection or the inability to secure or enforce intellectual property protection could harm Metavante s business and ability to compete.

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

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

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

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

Metavante s success depends in large part upon Metavante s ability to attract and retain highly skilled technical, management and sales and marketing personnel. Because the development of Metavante s products and

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services requires knowledge of computer hardware, operating system software, system management software and application software, key technical personnel must be proficient in a number of disciplines. Competition for the best people in particular individuals with technology experience is intense. Metavante may not be able to hire key people or pay them enough to keep them.

ITEM 1B. UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 2. PROPERTIES

M&I and M&I Bank occupy offices on all or portions of 15 floors of a 21-story building located at 770 North Water Street, Milwaukee, Wisconsin. M&I Bank owns the building and its adjacent 10-story parking lot and leases the remaining floors to a professional tenant. In addition, various subsidiaries of M&I lease commercial office space in downtown Milwaukee office buildings near the 770 North Water Street facility. M&I Bank also owns or leases various branch offices throughout Wisconsin, 42 offices in the Phoenix and Tucson, Arizona metropolitan areas, 13 offices in the Minneapolis, Minnesota metropolitan area and one office in Duluth, Minnesota. Southwest Bank of St. Louis owns or leases six offices in the St. Louis, Missouri metropolitan area and one office in Belleville, Illinois. M&I Bank of Mayville, a special limited purpose subsidiary of M&I located in Mayville, Wisconsin, and M&I Bank FSB, a federal savings bank subsidiary of M&I located in Las Vegas, Nevada with branches in Naples and Bonita Springs, Florida and Milwaukee, Wisconsin, occupy modern facilities which are leased. Metavante owns a data processing facility located in Brown Deer, a suburb of Milwaukee, from which Metavante conducts data processing activities, a facility in Milwaukee that houses its software development teams and a card production facility in Romeoville, Illinois. Properties leased by Metavante also include commercial office space in Brown Deer and Milwaukee, a data processing site in Oak Creek, Wisconsin, and processing centers and sales offices in various cities such as Willowbrook, Illinois; Sioux Falls, South Dakota; San Jose, California; Ann Arbor, Michigan; Atlanta, Georgia; and Madison, Wisconsin. In addition, the companies acquired by Metavante own property in Oklahoma City, Oklahoma and lease properties in Berkeley, California; Englewood and Longmont, Colorado; Madison, Connecticut; Orlando and Tampa, Florida; Waltham, Massachusetts; Northern New Jersey; Wayne, Pennsylvania; Nashville, Tennessee; Addison and Carrollton, Texas; Herndon, Virginia; Toronto, Ontario, Canada; and Prague, Czech Republic.

ITEM 3. LEGAL PROCEEDINGS

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

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

Not applicable.

Executive Officers of the Registrant

(Age as of March 1, 2006)

Name of Officer	**Office**
Dennis J. Kuester Age 63	Chairman of the Board since January 2005, Chief Executive Officer since January 2002, President from 1987 to 2005, Director since February 1994 of Marshall & Ilsley Corporation; Chairman of the Board and Chief Executive Officer since October 2001, President from January 1989 to October 2001 and Director since 1989, M&I Marshall & Ilsley Bank; Chairman of the Board and Director, Metavante Corporation; Director of Marshall & Ilsley Trust Company National Association.
Ryan R. Deneen Age 41	Senior Vice President, Director of Corporate Tax of Marshall & Ilsley Corporation since December 2003; Director of M&I Marshall & Ilsley Holdings II, Inc. and Milease, LLC since 2004; Partner with KPMG LLP, a public accounting firm, from 1997 to November 2003.

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Name of Officer	Office
Thomas R. Ellis Age 48	Senior Vice President of Marshall & Ilsley Corporation since February 2005; Executive Vice President since February 2005, Senior Vice President from 1998 to February 2005 of M&I Marshall & Ilsley Bank; Director of M&I Support Services Corp., Marshall & Ilsley Trust Company National Association, M&I Equipment Finance Company, M&I Business Credit, Inc. and M&I Capital Markets Group II, L.L.C.
Randall J. Erickson Age 46	Senior Vice President, General Counsel and Secretary of Marshall & Ilsley Corporation since June 2002; General Counsel and Corporate Secretary of M&I Marshall & Ilsley Bank; Director of Metavante Corporation, M&I Bank FSB, M&I Community Development Corporation, M&I Investment Partners Management, LLC and Milease, LLC; Director, Vice President and Secretary of M&I Capital Markets Group, L.L.C. and M&I Ventures, L.L.C.; Director and Secretary of M&I Capital Markets Group II, L.L.C.; Director and Vice President of SWB Holdings, Inc.; Shareholder at Godfrey & Kahn, S.C., a Milwaukee-based law firm, from September 1990 to June 2002.
Mark F. Furlong Age 48	President since April 2005, Executive Vice President from January 2002 to April 2005, Senior Vice President from April 2001 to January 2002, and Chief Financial Officer from April 2001 to July 2004 of Marshall & Ilsley Corporation; Director and President of M&I Marshall & Ilsley Bank since July 2004; Director, Vice President and Treasurer of M&I Capital Markets Group, L.L.C. and M&I Ventures L.L.C.; Director of Metavante Corporation, Marshall & Ilsley Trust Company National Association, M&I Bank Mayville, M&I Equipment Finance Company and Milease, LLC; Senior Vice President of Southwest Bank of St. Louis; Executive Vice President and Chief Financial Officer of Old Kent Financial Corporation from 1998 to 2001; First Vice President/Director of Corporate Development/Commercial Banking of H.F. Ahmanson & Co. from 1992 to 1998.
Mark R. Hogan Age 51	Senior Vice President and Chief Credit Officer since October 2001, Marshall & Ilsley Corporation; Executive Vice President since February 2005, Chief Credit Officer since November 1995 and Senior Vice President from 1995 to February 2005, M&I Marshall & Ilsley Bank; Director, M&I Equipment Finance Company, M&I Business Credit, Inc., Richter-Schroeder Company and M&I Capital Markets Group II, L.L.C.; Director and Vice President of SWB Holdings, Inc.
Patricia R. Justiliano Age 55	Senior Vice President since 1994 and Corporate Controller since April 1989, Vice President from 1986 to 1994, Marshall & Ilsley Corporation; Vice President since January 1999, Controller since September 1998, M&I Marshall & Ilsley Bank; Director, President and Treasurer of M&I Marshall & Ilsley Holdings, Inc., M&I Marshall & Ilsley Investment II Corporation, M&I Zion Investment II Corporation and M&I Zion Holdings, Inc.; Director, Vice President and Treasurer of M&I Insurance Company of Arizona, Inc.; Director and Treasurer of M&I Mortgage Reinsurance Corporation; Director of M&I Bank FSB, M&I Bank of Mayville, M&I Marshall & Ilsley Investment Corporation, M&I Mortgage Corp., M&I Servicing Corp., M&I Zion Investment Corp., SWB Investment Corporation and SWB Investment II Corporation.
Beth D. Knickerbocker Age 39	Senior Vice President, Chief Risk Officer of Marshall & Ilsley Corporation since January 2005; Vice President, Senior Compliance Counsel of Marshall & Ilsley Corporation from May 2004 to January 2005; Attorney at Sutherland Asbill & Brennan LLP, a Washington, D.C. law firm, from 2000 to May 2004.

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Name of Officer	Office
Kenneth C. Krei Age 56	Senior Vice President of Marshall & Ilsley Corporation since July 2003; Chairman of the Board since January 2005, President and Chief Executive Officer of Marshall & Ilsley Trust Company National Association since July 2003; Chairman of the Board since January 2005 and Chief Executive Officer of M&I Investment Management Corp. since July 2003; Chairman of the Board of M&I Brokerage Services, Inc. and M&I Insurance Services, Inc.; Director and President of M&I Investment Partners Management, LLC; Director of M&I Support Services, M&I Brokerage Services, Inc. and Marshall Funds; Director and Vice President of M&I Realty Advisors, Inc.; Executive Vice President, Investment Advisors at Fifth Third Bancorp from 2001 to 2003; Executive Vice President, Investment and Insurance Services at Old Kent Financial Corporation from 1998 to 2001.
Frank R. Martire Age 58	Senior Vice President since April 2003, Marshall & Ilsley Corporation; Director, President and Chief Executive Officer since March 2003, President, Financial Services Group, Metavante Corporation from January 2003 to March 2003; Manager of Metavante Acquisition Company, LLC; Director of NYCE Corporation; President and Chief Operating Officer of Call Solutions Inc. from 2001 to 2003; President and Chief Operating Officer, Financial Institution Systems and Services Group, of Fiserv, Inc. from 1991 to 2001.
Thomas J. O Neill Age 45	Senior Vice President since April 1997, Marshall & Ilsley Corporation; Executive Vice President since 2000, Senior Vice President from 1997 to 2000, Vice President from 1991 to 1997, M&I Marshall & Ilsley Bank; Senior Vice President of Southwest Bank of St. Louis; Director and President of M&I Bank FSB, M&I Dealer Finance, Inc., M&I Insurance Company of Arizona, Inc., M&I Mortgage Corp. and M&I Mortgage Reinsurance Corporation; Director and Vice President of M&I Community Development Corporation and M&I Realty Advisors, Inc.; Director of M&I Bank of Mayville, M&I Brokerage Services, Inc., Marshall & Ilsley Trust Company National Association, M&I Insurance Services, Inc. and M&I Support Services Corp.; Senior Vice President, Southwest Bank of St. Louis.
John M. Presley Age 45	Senior Vice President and Chief Financial Officer since October 2004, Marshall & Ilsley Corporation; Chief Financial Officer of M&I Marshall & Ilsley Bank since October 2004; Director of Marshall & Ilsley Trust Company National Association, M&I Brokerage Services, Inc., M&I Insurance Services and Metavante Corporation; Chief Financial Officer of National Commerce Financial from 2003 to 2004; President and Chief Executive Officer of First Market Bank from 1996 to 2003; and Chief Financial Officer of National Commerce Bank Services, Inc. from 1990 to 1996.
Paul J. Renard Age 45	Senior Vice President, Director of Human Resources since 2000, Vice President and manager since 1994, Marshall & Ilsley Corporation; Senior Vice President of M&I Marshall & Ilsley Bank.
John L. Roberts Age 53	Senior Vice President of Marshall & Ilsley Corporation since 1994; Senior Vice President since 1994, Vice President and Controller from 1986 to 1995, M&I Marshall & Ilsley Bank; President and Director since 1995, M&I Support Services Corp.; Director, M&I Bank FSB and M&I Mortgage Corp.; President and Director of M&I Bank of Mayville.
Thomas A. Root Age 49	Senior Vice President since 1998, Audit Director since May 1996, Vice President from 1991 to 1998, Marshall & Ilsley Corporation; Vice President since 1993 and Audit Director since 1999, M&I Marshall & Ilsley Bank.
Ronald E. Smith Age 59	Senior Vice President since March 2005, Marshall & Ilsley Corporation; Executive Vice President since March 2005, Senior Vice President from 2001 to March 2005, M&I Marshall & Ilsley Bank; Executive Vice President from 1996 to March 2001 of M&I Bank of Madison; Director, Richter-Schroeder Company, Inc.

Certain Relationships and Related Transactions

A son of Mr. Martire and Ms. Knickerbocker s spouse were employed by M&I or its subsidiaries and received compensation and benefits that exceeded $60,000 in 2005. The compensation and benefits received by each were established by M&I in accordance with its employment and compensation practices applicable to employees holding comparable positions.

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PART II

ITEM 5. MARKET FOR REGISTRANT S COMMON STOCK, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Stock Listing

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

A discussion of the regulatory restrictions on the payment of dividends can be found under Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations, and in Note 14 in Item 8, Consolidated Financial Statements and Supplementary Data.

Holders of Common Equity

At December 31, 2005 M&I had approximately 17,463 record holders of its common stock.

Shares Purchased

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

Period	Total Number of Shares Purchased (1)	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet be Purchased Under the Plans or Programs
October 1 to October 31, 2005	59,097	$ 42.95		12,000,000
November 1 to November 30, 2005	62,525	$ 43.15		12,000,000
December 1 to December 31, 2005	3,639	$ 43.38		12,000,000

(1) Includes shares purchased by rabbi trusts pursuant to nonqualified deferred compensation plans for the three months ended December 31, 2005.

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

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ITEM 6. SELECTED FINANCIAL DATA

Consolidated Summary of Earnings

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

	2005	2004	2003	2002	2001
Interest Income:					
Loans and leases	$ 1,926,377	$ 1,404,189	$ 1,304,060	$ 1,297,166	$ 1,358,802
Investment securities					
Taxable	214,537	200,107	165,075	198,037	270,336
Exempt from federal income taxes	64,127	58,826	57,968	60,637	62,273
Trading securities	229	271	258	328	884
Short-term investments	8,675	2,397	2,559	11,168	16,812
Total interest income	2,213,945	1,665,790	1,529,920	1,567,336	1,709,107
Interest Expense:					
Deposits	544,920	276,102	228,216	283,385	566,899
Short-term borrowings	106,333	61,256	81,070	150,310	188,587
Long-term borrowings	330,144	196,440	163,348	127,343	110,842
Total interest expense	981,397	533,798	472,634	561,038	866,328
Net interest income	1,232,548	1,131,992	1,057,286	1,006,298	842,779
Provision for loan and lease losses	44,795	37,963	62,993	74,416	54,115
Net interest income after provision for loan and lease losses	1,187,753	1,094,029	994,293	931,882	788,664
Other Income:					
Data processing services	1,141,371	891,005	657,827	601,500	559,816
Trust services	165,679	150,917	126,759	120,586	120,827
Net securities gains (losses)	45,414	35,352	21,572	(6,271)	(6,759)
Other	396,481	369,221	409,643	366,873	327,366
Total other income	1,748,945	1,446,495	1,215,801	1,082,688	1,001,250
Other Expense:					
Salaries and benefits	1,042,744	887,279	797,518	745,518	695,405
Other	803,587	708,279	654,189	550,460	593,464
Total other expense	1,846,331	1,595,558	1,451,707	1,295,978	1,288,869
Income before income taxes and cumulative effect of changes in accounting principles	1,090,367	944,966	758,387	718,592	501,045
Provision for income taxes	362,898	317,880	214,282	238,265	163,124
Income before cumulative effect of changes in accounting principles	727,469	627,086	544,105	480,327	337,921
Cumulative effect of changes in accounting principles, net of income taxes					(436)
Net Income	$ 727,469	$ 627,086	$ 544,105	$ 480,327	$ 337,485

Net income per common share:**										
Basic:										
Income before cumulative effect of changes in accounting principles	$	3.15	$	2.81	$	2.41	$	2.24	$	1.60
Cumulative effect of changes in accounting principles, net of income taxes										
Net income	$	3.15	$	2.81	$	2.41	$	2.24	$	1.60
Diluted:										
Income before cumulative effect of changes in accounting principles	$	3.10	$	2.77	$	2.38	$	2.16	$	1.55
Cumulative effect of changes in accounting principles, net of income taxes										
Net income	$	3.10	$	2.77	$	2.38	$	2.16	$	1.55
Other Significant Data:										
Year-End Common Stock Price**	$	43.04	$	44.20	$	38.25	$	27.38	$	31.64
Return on Average Shareholders Equity		16.95%		17.89%		16.79%		17.36%		13.89%
Return on Average Assets		1.68		1.69		1.64		1.64		1.28
Dividend Payout Ratio		30.00		29.24		29.41		28.94		36.65
Average Equity to Average Assets Ratio		9.91		9.43		9.74		9.47		9.21
Ratio of Earnings to Fixed Charges*										
Excluding Interest on Deposits		3.35x		4.36x		3.84x		3.38x		2.56x
Including Interest on Deposits		2.08x		2.70x		2.53x		2.23x		1.56x

* See Exhibit 12 for detailed computation of these ratios.

** Restated for 2-for-1 stock split effective June 17, 2002.

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Consolidated Average Balance Sheets

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

	2005	2004	2003	2002	2001
Assets:					
Cash and due from banks	$ 966,078	$ 835,391	$ 752,215	$ 708,256	$ 651,367
Investment securities:					
Trading securities	26,922	22,297	23,017	15,247	21,284
Short-term investments	237,178	171,057	264,254	717,129	503,857
Other investment securities:					
Taxable	4,847,722	4,672,741	4,038,579	3,325,568	3,926,737
Tax exempt	1,334,793	1,199,139	1,173,466	1,224,737	1,269,175
Total investment securities	6,446,615	6,065,234	5,499,316	5,282,681	5,721,053
Loans and Leases:					
Commercial	8,954,619	7,621,040	6,905,323	6,143,862	5,478,342
Real estate	20,728,918	17,215,467	14,938,082	12,633,208	10,514,536
Personal	1,525,502	1,632,440	1,874,315	1,388,447	1,182,049
Lease financing	567,344	552,551	674,871	862,927	1,026,215
Total loans and leases	31,776,383	27,021,498	24,392,591	21,028,444	18,201,142
Less: Allowance for loan and lease losses	362,886	360,408	347,838	302,664	253,089
Net loans and leases	31,413,497	26,661,090	24,044,753	20,725,780	17,948,053
Premises and equipment, net	458,179	448,134	440,492	418,042	391,633
Accrued interest and other assets	3,999,172	3,152,745	2,531,245	2,067,891	1,658,203
Total Assets	$ 43,283,541	$ 37,162,594	$ 33,268,021	$ 29,202,650	$ 26,370,309
Liabilities and Shareholders Equity:					
Deposits:					
Noninterest bearing	$ 4,942,803	$ 4,585,628	$ 4,189,724	$ 3,509,133	$ 2,895,083
Interest bearing:					
Bank issued deposits:					
Bank issued interest bearing activity deposits	10,027,250	9,960,645	10,084,996	8,996,778	7,833,126
Bank issued time deposits	4,410,456	3,384,120	3,399,734	3,540,124	3,975,253
Total bank issued deposits	14,437,706	13,344,765	13,484,730	12,536,902	11,808,379
Wholesale deposits	6,720,964	6,057,542	4,311,424	2,596,952	2,487,129
Total interest bearing deposits	21,158,670	19,402,307	17,796,154	15,133,854	14,295,508
Total deposits	26,101,473	23,987,935	21,985,878	18,642,987	17,190,591
Short-term borrowings	2,925,642	2,908,168	3,138,752	4,188,339	3,944,160
Long-term borrowings	8,193,001	5,329,571	3,798,851	2,693,447	1,962,801
Accrued expenses and other liabilities	1,772,023	1,432,134	1,103,886	911,187	843,198
Total liabilities	38,992,139	33,657,808	30,027,367	26,435,960	23,940,750
Shareholders Equity	4,291,402	3,504,786	3,240,654	2,766,690	2,429,559

Total Liabilities and Shareholders Equity	$ 43,283,541	$ 37,162,594	$ 33,268,021	$ 29,202,650	$ 26,370,309
Other Significant Data:					
Book Value Per Share at Year End**	$ 19.98	$ 17.24	$ 15.00	$ 13.51	$ 11.65
Average Common Shares Outstanding**	231,300,867	223,123,866	226,342,764	212,799,996	208,587,816
Employees at Year End	13,967	13,345	12,244	12,625	11,657
Credit Quality Ratios:					
Net Loan and Lease Charge-offs to Average Loans and Leases	0.12%	0.11%	0.21%	0.21%	0.22%
Total Nonperforming Loans and Leases* and OREO to End of Period Loans and Leases and OREO	0.44	0.48	0.74	0.85	0.94
Allowance for Loan and Lease Losses to End of Period Loans and Leases	1.06	1.21	1.39	1.42	1.39
Allowance for Loan and Lease Losses to Total Nonperforming Loans and Leases*	259	271	202	174	154

* Loans and leases nonaccrual, restructured, and past due 90 days or more.

** Restated for 2-for-1 stock split effective June 17, 2002.

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Yield & Cost Analysis

Years ended December 31 (Tax equivalent basis)

	2005	2004	2003	2002	2001
Average Rates Earned:					
Loan and Leases	6.07%	5.21%	5.36%	6.18%	7.48%
Investment Securities Taxable	4.41	4.30	4.13	6.11	7.04
Investment Securities Tax-Exempt	7.26	7.53	7.58	7.49	7.28
Trading Securities	0.89	1.26	1.16	2.21	4.21
Short-term Investments	3.66	1.40	0.97	1.56	3.34
Average Rates Paid:					
Interest Bearing Deposits	2.58%	1.42%	1.28%	1.87%	3.97%
Short-term Borrowings	3.63	2.11	2.58	3.59	4.78
Long-term Borrowings	4.03	3.69	4.30	4.73	5.65
M&I Marshall & Ilsley Bank Average Prime Rate	6.19	4.34	4.12	4.67	6.91

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ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview

The Corporation s overall strategy is to drive earnings per share growth by: (1) expanding banking operations into faster growing regions beyond Wisconsin; (2) increasing the number of financial institutions to which the Corporation provides correspondent banking services and products; (3) expanding trust services and other wealth management product and service offerings; and (4) growing Metavante s business through organic growth, cross sales of technology products and acquisitions.

The Corporation continues to focus on its key metrics of growing revenues through balance sheet growth, fee-based income growth and strong credit quality. Management believes that the Corporation has demonstrated solid fundamental performance in each of these key areas and as a result, the year ended December 31, 2005 produced strong financial results across all of its segments and reporting units.

Strong sales efforts and an improving economy resulted in solid loan and deposit growth in all of the Corporation s markets. Both noninterest and bank-issued interest bearing deposit growth trends were especially encouraging. These factors resulted in an increase in net interest income in 2005 compared to 2004. The favorable economic conditions in our markets have resulted in net charge-off levels below the Corporation s historical net charge-off levels again in 2005. An active acquisition and cross-sale strategy coupled with successful outsourcing contract renewals enabled Metavante to continue double-digit growth in segment earnings. Continued growth in assets under management and assets under administration resulted in solid growth in fee income for Trust Services. Mortgage loan production was very strong in 2005 compared to 2004. Although an unpredictable source of earnings, the Corporation s Capital Markets Group recognized investment securities gains for the third year in a row. These factors, along with continued expense management, all contributed to the consolidated earnings growth in 2005.

Net income in 2005 amounted to $727.5 million or $3.10 per share on a diluted basis. The return on average assets and return on average equity were 1.68% and 16.95%, respectively. By comparison, 2004 net income was $627.1 million, diluted earnings per share was $2.77, the return on average assets was 1.69% and the return on average equity was 17.89%. For the year ended December 31, 2003, net income was $544.1 million or $2.38 per diluted share and the returns on average assets and average equity were 1.64% and 16.79%, respectively.

With regard to the outlook in 2006 for the Banking Segment, management expects that organic commercial loan growth (as a percentage) will be in the low double digits. Organic personal loan production is expected to increase modestly. However, organic personal loan growth (as a percentage) will depend on the proportion of personal loan production retained versus sold. Management is encouraged by the recent organic growth in bank-issued deposits and will continue to focus on growing this important source of funds in 2006. Net charge-offs in 2006 are expected to range from 15 basis points to 20 basis points of average loans which represents a return to historical levels. Management expects Metavante s revenue in 2006 to be in the range of $1.4 billion to $1.5 billion. Organic revenue growth (as a percentage) and segment income growth are expected to continue to modestly improve.

In November and December of 2005, the Corporation announced the acquisitions of Gold Banc Corporation, Inc. (Gold Banc), the parent company of Gold Bank, and Trustcorp Financial, Inc. (Trustcorp), the parent company of Missouri State Bank & Trust. These transactions are expected to close in the second quarter of 2006. Gold Banc is a financial holding company with consolidated assets of $4.2 billion headquartered in Leawood, Kansas, a part of the Kansas City metropolitan area. Gold Banc provides banking and asset management services in Kansas, Florida, Missouri and Oklahoma through 31 banking locations. Trustcorp, with $746.2 million in assets, has seven bank branches located in the St. Louis, Missouri metropolitan area. Management expects that these transactions in the aggregate will be dilutive to the Corporation s consolidated results of operations in 2006 by approximately $0.05 per diluted share, assuming the transactions are completed in accordance with current expectations.

On January 1, 2006, the Corporation adopted FAS 123(R), the new accounting standard that requires all share-based compensation to be expensed. The amount of the expense is based on the estimated fair value of the award and is recognized over the vesting period. For the Corporation, additional expense will be reported for its

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stock option awards and its employee stock purchase plan. Assuming the same number of awards granted in 2005 and the same fair values, the Corporation estimates that the additional expense for stock options and the employee stock purchase plan will be dilutive to the Corporation s consolidated results of operations in 2006 by approximately $0.10 per diluted share. The Corporation elected the Modified Retrospective Application method to adopt the new accounting standard. Under that method all prior periods will be restated to reflect the effect of expensing stock options and the employee stock purchase plan. Shareholders equity at December 31, 2005 will increase by $67.7 million as a result of the restatement. The Corporation believes the Modified Retrospective Application will provide better comparability and usefulness to users of the Corporation s financial information.

The Corporation s actual results for 2006 could differ materially from those expected by management. See Forward-Looking Statements in Item 1A. of this Form 10-K for a discussion of the various risk factors that could cause actual results to differ materially from expected results.

The results of operations and financial condition for the periods presented include the effects of the acquisitions by Metavante as well as the banking-related acquisition from the dates of consummation of the acquisitions. All transactions were accounted for using the purchase method of accounting. See Note 3 in Notes to Consolidated Financial Statements for a discussion of the Corporation s acquisition activities in 2005, 2004 and 2003.

Significant Transactions

Some of the more significant transactions in 2005, 2004 and 2003 consisted of the following:

During the second and third quarters of 2005, the Corporation realized a gain primarily due to the sale of an entity associated with its investment in an independent private equity and venture capital partnership. The gross pre-tax gain amounted to $29.4 million and is reported in Net Investment Securities Gains in the Consolidated Statements of Income. On an after-tax basis, and net of related compensation expense, the gain amounted to $16.5 million or $0.07 per diluted share for the twelve months ended December 31, 2005.

During the third quarter of 2005, the Corporation realized a gain due to an equity investment that the Corporation liquidated in a cash tender offer. The gross pre-tax gain amounted to $6.6 million and is reported in Net Investment Securities Gains in the Consolidated Statements of Income. On an after-tax basis, the gain amounted to $3.9 million or $0.02 per diluted share for the twelve months ended December 31, 2005.

During the first quarter of 2005, the Corporation s banking segment s investment in certain membership interests of PULSE EFT Associates (PULSE) was liquidated by PULSE due to a change in control. The cash received resulted in a pre-tax gain of $5.6 million and is reported in Net Investment Securities Gains in the Consolidated Statements of Income.

During 2004, net gains associated with the Corporation s Capital Markets Group investments amounted to $34.6 million. Approximately $34.1 million of the net gain in 2004 was from a net unrealized gain recognized in the fourth quarter of 2004 due to the net increase in market value of an investment in an independent private equity and venture capital partnership.

The net unrealized gain recognized in the fourth quarter of 2004 was offset by charitable foundation expense which was higher than historical levels and other accrual adjustments that amounted to approximately $6.8 million.

During 2004, Metavante sold its small business 401k Retirement Plan Services operations. In conjunction with an expanded processing relationship, Metavante also sold the direct customer base of Paytrust.com in 2004. These transactions resulted in an aggregate loss of approximately $7.1 million.

During 2004, the Corporation issued 3.6 million shares of its common stock in a public offering that resulted in net proceeds to the Corporation of approximately $149.9 million. Also during 2004, the Corporation issued $400 million of equity units (referred to as Common SPACES[SM]) that resulted in net proceeds to the Corporation of approximately $389.2 million. Each Common SPACES consists of (i) a stock purchase contract under which the investor agrees to purchase for $25.00, a fraction of a share of the Corporation s common stock on the stock purchase date and (ii) a 1/40, or 2.5%, undivided beneficial interest in a preferred security of M&I Capital Trust B (also referred to as the STACKS[SM]) with each share having an initial liquidation value of $1,000. The stock

purchase date is expected to be August 15, 2007 but could be deferred for quarterly periods until August 15, 2008. On the stock purchase date, the number of shares of common stock the Corporation will issue upon settlement of the stock purchase contracts depends on the applicable market value per share of the Corporation s common stock, which will be determined just prior to the stock purchase date, and other factors. The Corporation currently estimates that it will issue approximately 8.7 million to 10.9 million common shares to settle shares issuable pursuant to the stock purchase contracts. The proceeds from these issuances together with proceeds from the issuance of $600.0 million of senior notes were used for general corporate purposes, including maintaining capital at desired levels and providing long-term financing for the acquisitions completed by Metavante in 2004.

During 2004, the Corporation s banking segment prepaid and retired certain higher cost long-term debt and terminated some related receive floating / pay fixed interest rate swaps designated as cash flow hedges. The total debt retired amounted to $355.0 million and the charge to earnings amounted to a loss of $6.9 million.

During 2003, gains recognized by the Corporation s Capital Markets Group amounted to $20.0 million. Approximately $16.2 million of the gain was from the sale of an investment in the third quarter of 2003.

Also during 2003, several income tax audits covering multiple tax jurisdictions were resolved which positively affected the banking segment by approximately $28.6 million and Metavante by $10.7 million and resulted in a lower provision for income taxes in the Consolidated Statements of Income for the year ended December 31, 2003.

The Corporation used the unanticipated Capital Markets Group gains and the benefits from resolving income tax audits to take advantage of the low interest rate environment in 2003. The Corporation prepaid and retired certain higher cost long-term debt and terminated some related receive floating / pay fixed interest rate swaps designated as cash flow hedges. The total debt retired amounted to $744.6 million and the charge to earnings amounted to $56.7 million.

As a result of a shift in product strategy, Metavante wrote-off certain purchased and internally developed software in 2003 that will no longer be used, resulting in losses of $22.8 million in 2003.

Net Interest Income

Net interest income, which is the difference between interest earned on earning assets and interest owed on interest bearing liabilities, represented approximately 41.3% of the Corporation s source of revenues in 2005.

Net interest income in 2005 amounted to $1,232.5 million compared with net interest income of $1,132.0 million in 2004, an increase of $100.5 million or 8.9%. Loan growth and the growth in noninterest bearing and other bank-issued deposits were the primary contributors to the increase in net interest income. Net interest income in 2005 was negatively affected by lower loan spreads and the interest expense associated with debt issued in the third quarter of 2004 to fund Metavante s acquisitions.

Average earning assets in 2005 amounted to $38.2 billion compared to $33.1 billion in 2004, an increase of $5.1 billion or 15.5%. Increases in average loans and leases accounted for 92.6% of the growth in average earning assets.

Average interest bearing liabilities increased $4.6 billion or 16.8% in 2005 compared to 2004. Approximately $1.8 billion or 37.9% of the growth in average interest bearing liabilities was attributable to interest bearing deposits and the remainder of the growth in average interest bearing liabilities was attributable to long term borrowings.

Average noninterest bearing deposits increased $0.4 billion or 7.8% in 2005 compared to the prior year.

Net interest income in 2004 amounted to $1,132.0 million compared with net interest income of $1,057.3 million in 2003, an increase of $74.7 million or 7.1%. Loan growth and growth in lower cost deposits, increased spreads on certain loan products and the impact of the early retirement of some higher cost long-term borrowings in 2003 and 2004 were positive contributors to the increase in net interest income in 2004. Net interest income in 2004 was negatively affected by the lengthening of liabilities in order to reduce future volatility in net interest income as a result of interest rate movements and cash expenditures for common share buybacks and acquisitions.

Average earning assets in 2004 amounted to $33.1 billion compared to $29.9 billion in 2003, an increase of $3.2 billion or 10.7%. Increases in average loans and leases accounted for the majority of the growth in average earning assets.

Average interest bearing liabilities increased $2.9 billion or 11.8% in 2004 compared to 2003. Approximately $1.6 billion or 55.3% of the growth in average interest bearing liabilities was attributable to interest bearing deposits and the remainder of the growth in average interest bearing liabilities was attributable to long-term borrowings.

Average noninterest bearing deposits increased $0.4 billion or 9.4% in 2004 compared to the prior year.

The growth and composition of the Corporation s average loan and lease portfolio for the current year and prior two years are reflected in the following table ($ in millions):

				Percent Growth	
	2005	2004	2003	2005 vs 2004	2004 vs 2003
Commercial:					
Commercial	$ 8,954.6	$ 7,621.0	$ 6,905.3	17.5%	10.4%
Commercial real estate:					
Commercial mortgages	8,575.8	7,658.2	6,901.0	12.0	11.0
Construction	1,412.8	1,097.4	999.5	28.7	9.8
Total commercial real estate	9,988.6	8,755.6	7,900.5	14.1	10.8
Commercial lease financing	439.4	397.0	390.0	10.7	1.8
Total commercial	19,382.6	16,773.6	15,195.8	15.6	10.4
Personal:					
Residential real estate:					
Residential mortgages	4,239.5	2,855.3	2,335.2	48.5	22.3
Construction	1,513.0	839.8	593.0	80.2	41.6
Total residential real estate	5,752.5	3,695.1	2,928.2	55.7	26.2
Consumer loans:					
Student	79.4	87.2	95.8	(8.9)	(9.0)
Credit card	223.6	224.0	198.0	(0.2)	13.1
Home equity loans and lines	4,987.9	4,764.8	4,109.4	4.7	15.9
Other	1,222.5	1,321.3	1,580.5	(7.5)	(16.4)
Total consumer loans	6,513.4	6,397.3	5,983.7	1.8	6.9
Personal lease financing	127.9	155.5	284.9	(17.7)	(45.4)
Total personal	12,393.8	10,247.9	9,196.8	20.9	11.4
Total consolidated average loans and leases	$ 31,776.4	$ 27,021.5	$ 24,392.6	17.6%	10.8%

Average loans and leases increased $4.8 billion or 17.6% in 2005 compared to 2004. Total average commercial loan growth amounted to $2.6 billion. Total average commercial loan growth in 2005 compared to 2004 consisted of average commercial real estate and commercial real estate construction loan growth which contributed $1.2 billion and average commercial loan growth which contributed $1.4 billion. Total average personal loan growth amounted to $2.2 billion in 2005 compared to 2004. This growth was driven primarily by growth in residential real estate loans that consist primarily of traditional three and five year ARMs (adjustable rate mortgages), balloon mortgage loans and construction loans. Total average residential real estate loans grew by $2.1 billion in 2005 compared to 2004. From a production standpoint, residential mortgage loan closings in 2005 were $1.5 billion or 35.8% higher than residential real estate loan closings in 2004. Average home equity loans and lines increased $0.2 billion in 2005 compared to 2004. Average indirect auto loans and leases declined approximately $0.3 billion in 2005 compared to 2004 which reflects, in part, the effect of the sale and securitization of indirect auto loans in 2005 and 2004.

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Management attributes the strong growth in commercial loans in 2005 compared to 2004 to the strength of the local economies in the markets the Corporation serves, sales success and continued customer satisfaction. Management expects that organic commercial loan growth (as a percentage) will reach the low double digits in 2006. The basis for this expectation includes continued success in attracting new customers in all of the Corporation s markets and continued modest economic growth in the primary markets that the Corporation serves.

Home equity loans and lines, which include M&I s wholesale activity, continue to be the primary consumer loan products. Home equity loan and line production in 2005 continued to be strong. The rate of growth in home equity loans and lines in 2005 compared to 2004 was affected by the amount of loans sold at origination and increased prepayment activity on the Corporation s wholesale home equity products. The proportion of loans sold at origination significantly increased in 2005 compared to 2004 in response to the increased demand for home equity products with higher loan-to-value characteristics. Organic personal loan production is expected to increase modestly. However, organic personal loan growth (as a percentage) in 2006 will depend on the proportion of personal loan production retained versus sold.

The Corporation sells some of its residential real estate loan production (residential real estate and home equity loans) in the secondary market. Selected residential real estate loans with rate and term characteristics that are considered desirable are periodically retained in the portfolio. Residential real estate loans originated and sold to the secondary market amounted to $2.4 billion in 2005 compared to $1.6 billion in 2004. At December 31, 2005, mortgage loans held for sale amounted to $198.7 million. Gains from the sale of mortgage loans amounted to $42.4 million in 2005 compared to $27.2 million in 2004.

Auto loans securitized and sold amounted to $0.5 billion in each of 2005 and 2004. Net losses from the sale and securitization of auto loans, including write-downs of auto loans held for sale, amounted to $2.0 million in 2005 compared to $3.4 million in 2004. The losses incurred were primarily due to lower loan interest rate spreads associated with new auto loan production in a rising interest rate environment. See Note 8 in Notes to Consolidated Financial Statements for further discussion of the Corporation s securitization activities. At December 31, 2005, auto loans held for sale amounted to $79.1 million.

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

Average loans and leases increased $2.6 billion or 10.8% in 2004 compared to 2003. Total average commercial loan growth amounted to $1.6 billion. Total average commercial loan growth in 2004 compared to 2003 consisted of average commercial real estate and commercial real estate construction loan growth which contributed $0.9 billion and average commercial loan growth which contributed $0.7 billion. Total average personal loan growth amounted to $1.1 billion in 2004 compared to 2003. Total average personal loan growth in 2004 compared to 2003 was driven by growth in average home equity loans and lines which increased $0.7 billion and growth in average residential real estate and residential real estate construction loan growth which increased $0.8 billion. From a production standpoint, residential real estate loan closings in 2004 were $1.3 billion or 23.6% lower than residential real estate loan closings in 2003. Average indirect auto loans and leases declined approximately $0.4 billion in 2004 compared to 2003 which reflects, in part, the effect of the sale and securitization of indirect auto loans in 2004 and 2003.

The strong growth in commercial loans in 2004 generally occurred somewhat evenly throughout the year, was experienced in all of the Corporation s markets, and came from both new customers and existing customers across a variety of industries.

Residential real estate loans originated and sold to the secondary market amounted to $1.6 billion in 2004 compared to $3.5 billion in 2003. Approximately $0.3 billion of loans sold in 2004 were attributable to the AmerUs Home Lending, Inc. (AmerUs) acquisition. Gains from the sale of mortgage loans amounted to $27.2 million in 2004 compared to $54.1 million in 2003. Approximately $6.2 million of the gain in 2004 was attributable to the AmerUs acquisition.

Auto loans securitized and sold amounted to $0.5 billion in 2004 compared to $0.8 billion in 2003. Net losses from the sale and securitization of auto loans, including write-downs of auto loans held for sale, amounted to $3.4 million in 2004 compared to gains from the sale and securitization of auto loans of $2.7 million in 2003.

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The growth and composition of the Corporation s consolidated average deposits for the current year and prior two years are reflected below ($ in millions):

	2005	2004	2003	Percent Growth 2005 vs 2004	Percent Growth 2004 vs 2003
Bank issued deposits:					
Noninterest bearing:					
Commercial	$ 3,480.6	$ 3,210.5	$ 2,903.3	8.4%	10.6%
Personal	940.8	897.1	815.9	4.9	10.0
Other	521.4	478.0	470.5	9.1	1.6
Total noninterest bearing	4,942.8	4,585.6	4,189.7	7.8	9.4
Interest bearing:					
Activity accounts:					
Savings and NOW	3,096.2	3,388.4	3,148.7	(8.6)	7.6
Money market	5,980.1	5,675.6	6,115.3	5.4	(7.2)
Foreign activity	951.0	896.7	821.0	6.1	9.2
Total activity accounts	10,027.3	9,960.7	10,085.0	0.7	(1.2)
Time deposits:					
Other CDs and time	3,048.1	2,632.7	2,764.7	15.8	(4.8)
CDs $100,000 and over	1,362.3	751.4	635.1	81.3	18.3
Total time deposits	4,410.4	3,384.1	3,399.8	30.3	(0.5)
Total interest bearing	14,437.7	13,344.8	13,484.8	8.2	(1.0)
Total bank issued deposits	19,380.5	17,930.4	17,674.5	8.1	1.4
Wholesale deposits:					
Money market	1,073.1	499.8	74.6	114.7	569.9
Brokered CDs	4,641.1	4,582.8	2,986.0	1.3	53.5
Foreign time	1,006.8	974.9	1,250.8	3.3	(22.1)
Total wholesale deposits	6,721.0	6,057.5	4,311.4	11.0	40.5
Total consolidated average deposits	$ 26,101.5	$ 23,987.9	$ 21,985.9	8.8%	9.1%

Average total bank issued deposits increased $1.5 billion or 8.1% in 2005 compared with 2004. Average noninterest bearing deposits increased $0.4 billion and average interest bearing deposits increased $1.1 billion. Average time deposits exhibited the greatest growth in bank issued interest bearing deposits in 2005 compared to 2004. Average money market accounts grew $0.3 billion in 2005 compared to 2004. This growth was offset in part by a decline in savings and NOW accounts compared to the prior year.

Noninterest deposit balances tend to exhibit some seasonality with a trend of balances declining somewhat in the early part of the year followed by growth in balances throughout the remainder of the year. A portion of the noninterest balances is sensitive to the interest rate environment. Larger balances tend to be maintained when overall interest rates are low and smaller balances tend to be maintained as overall interest rates increase. Overall, the re-pricing characteristics of the Corporation s assets and liabilities continue to be reasonably matched. As interest rates have risen, the Corporation has increasingly been able to competitively price these deposit products which has contributed to the growth in interest bearing bank issued deposits and resulted in less reliance on wholesale funding sources in 2005. Management expects these trends to continue.

In commercial banking, the focus remains on developing deeper relationships by capitalizing on cross-sale opportunities and through the sale of treasury management products and services along with incentive plans focused on growing deposits. The retail banking strategy continues to focus on aggressively selling the right products to meet the needs of customers and enhance the Corporation s profitability.

Average wholesale deposits increased $0.7 billion in 2005 compared to 2004. These deposits are funds in the form of deposits generated through distribution channels other than the Corporation s own banking branches. These deposits allow the Corporation s bank subsidiaries to gather funds across a wider geographic base and at

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pricing levels considered attractive. The underlying depositor may be retail or institutional. Access to and use of these funding sources also provide the Corporation added flexibility not to pursue unprofitable single service time deposit relationships.

Average bank issued deposits increased $0.3 billion or 1.4% in 2004 compared with 2003. Average noninterest bearing deposits increased $0.4 billion and average interest bearing activity accounts decreased $0.1 billion. Savings and NOW accounts, especially NOW accounts, exhibited the greatest growth in bank issued interest bearing activity deposits in 2004 compared to 2003. This growth was offset in part by a decline in money market deposits compared to the prior year. Average bank issued time deposits were relatively unchanged in 2004 compared to 2003.

In 2004, average wholesale deposits increased $1.7 billion which reflects the Corporation s greater use of wholesale funding alternatives, especially institutional CDs.

During 2005, the Corporation s lead bank, M&I Marshall & Ilsley Bank (M&I Bank) issued $1,150.0 million of fixed rate senior notes with a weighted average interest rate of 4.21%. In addition, M&I Bank issued $1,225.0 million of floating rate senior notes and issued $350.0 million of fixed rate subordinated notes at an interest rate of 4.85%. New Federal Home Loan Bank (FHLB) floating rate advances in 2005 amounted to $550.0 million. In December 2005, $1.0 billion of existing senior bank notes (puttable reset securities) were remarketed. The interest rates used to determine interest on floating rate senior notes and floating rate FHLB advances are indexed to the London Interbank Offered Rate (LIBOR). During 2005, $100.5 million of the Corporation s Series E notes with a weighted average interest rate of 1.75% and $450.0 million of M&I Bank s FHLB advances with a weighted average interest rate of 1.90% matured.

During 2004, M&I Bank prepaid $300.0 million of floating rate FHLB advances and terminated receive floating / pay fixed interest rate swaps designated as cash flow hedges against the FHLB advances. The termination of the interest rate swaps resulted in a charge to earnings of $2.0 million. Also during 2004, a fixed rate advance from the FHLB aggregating $55.0 million with an annual coupon interest rate of 5.06% was prepaid and retired resulting in a charge to earnings of $4.9 million. The charge to earnings resulting from these transactions is reported in other expense in the Consolidated Statements of Income.

The net interest margin on a fully taxable equivalent basis (FTE) as a percent of average earning assets was 3.31% in 2005 compared to 3.52% in 2004, a decrease of 21 basis points. The Corporation estimates that the additional interest expense associated with the $1.0 billion of debt issued in late July 2004 to finance Metavante s 2004 acquisitions lowered the net interest margin on a FTE basis by approximately 11 basis points in 2005. Unlike a bank acquisition or loan growth, where the primary source of revenue is interest income, the revenue impact of Metavante s acquisitions is reported in other income and is not a component of the net interest margin statistic. The yield on average earning assets was 5.88% in 2005 compared to 5.14% in 2004, an increase of 74 basis points. The cost of interest bearing liabilities was 3.04% in 2005 compared to 1.93% in 2004, an increase of 111 basis points.

The Corporation actively manages the repricing characteristics of its liabilities so as to minimize the long-term impact on net interest income when interest rates begin to rise. Management anticipates that loan spreads will most likely continue to narrow, particularly in a rising interest rate environment, and as the economy improves, the Corporation s capacity to generate loans may exceed its ability to generate appropriately priced deposits. As a result, the net interest margin FTE as a percent of average earning assets could continue to have modest downward pressure in 2006. Net interest income and the net interest margin percentage can vary and continue to be influenced by loan and deposit growth, product spreads, pricing competition in the Corporation s markets, prepayment activity, future interest rate changes and various other factors.

The net interest margin on a FTE basis as a percent of average earning assets was 3.52% in 2004 compared to 3.65% in 2003, a decrease of 13 basis points. The Corporation estimates that the additional interest expense associated with the $1.0 billion of debt issued in late July 2004 to finance Metavante s 2004 acquisitions lowered the net interest margin on a FTE basis by approximately 6 basis points. The yield on average earning assets was 5.14% in 2004 compared to 5.24% in 2003, a decrease of 10 basis points. The cost of interest bearing liabilities was 1.93% in 2004 compared to 1.91% in 2003, an increase of 2 basis points.

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Average Balance Sheets and Analysis of Net Interest Income

The Corporation s consolidated average balance sheets, interest earned and interest paid, and the average interest rates earned and paid for each of the last three years are presented in the following table ($ in thousands):

	2005			2004			2003		
	Average Balance	Interest Earned/Paid	Average Yield or Cost (3)	Average Balance	Interest Earned/Paid	Average Yield or Cost (3)	Average Balance	Interest Earned/Paid	Average Yield or Cost (3)
Loans and leases (1)(2)	$ 31,776,383	$ 1,928,818	6.07%	$ 27,021,498	$ 1,406,825	5.21%	$ 24,392,591	$ 1,306,565	5.36%
Investment securities:									
Taxable	4,847,722	214,537	4.41	4,672,741	200,107	4.30	4,038,579	165,075	4.13
Tax-exempt (1)	1,334,793	95,001	7.26	1,199,139	88,425	7.53	1,173,466	87,194	7.58
Federal funds sold and security resale agreements	153,701	5,347	3.48	53,675	857	1.60	28,692	395	1.38
Trading securities (1)	26,922	240	0.89	22,297	281	1.26	23,017	266	1.16
Other short-term investments	83,477	3,328	3.99	117,382	1,540	1.31	235,562	2,164	0.92
Total interest earning assets	38,222,998	2,247,271	5.88%	33,086,732	1,698,035	5.14%	29,891,907	1,561,659	5.24%
Cash and demand deposits due from banks	966,078			835,391			752,215		
Premises and equipment, net	458,179			448,134			440,492		
Other assets	3,999,172			3,152,745			2,531,245		
Allowance for loan and lease losses	(362,886)			(360,408)			(347,838)		
Total assets	$ 43,283,541			$ 37,162,594			$ 33,268,021		
Interest bearing deposits:									
Bank issued deposits:									
Bank issued interest bearing activity deposits	$ 10,027,250	$ 192,441	1.92%	$ 9,960,645	$ 77,621	0.78%	$ 10,084,996	$ 75,221	0.75%
Bank issued time deposits	4,410,456	141,530	3.21	3,384,120	82,938	2.45	3,399,734	85,472	2.51
Total bank issued deposits	14,437,706	333,971	2.31	13,344,765	160,559	1.20	13,484,730	160,693	1.19
Wholesale deposits	6,720,964	210,949	3.14	6,057,542	115,543	1.91	4,311,424	67,523	1.57
Total interest bearing deposits	21,158,670	544,920	2.58	19,402,307	276,102	1.42	17,796,154	228,216	1.28
Short-term borrowings	2,925,642	106,333	3.63	2,908,168	61,256	2.11	3,138,752	81,070	2.58
Long-term borrowings	8,193,001	330,144	4.03	5,329,571	196,440	3.69	3,798,851	163,348	4.30
Total interest bearing liabilities	32,277,313	981,397	3.04%	27,640,046	533,798	1.93%	24,733,757	472,634	1.91%
Noninterest bearing deposits	4,942,803			4,585,628			4,189,724		
Other liabilities	1,772,023			1,432,134			1,103,886		
Shareholders equity	4,291,402			3,504,786			3,240,654		

Total liabilities and shareholders equity	$ 43,283,541		$ 37,162,594		$ 33,268,021	
Net interest income	$ 1,265,874		$ 1,164,237		$ 1,089,025	
Net yield on interest earning assets		3.31%		3.52%		3.65%

Notes:

(1) Fully taxable equivalent basis, assuming a Federal income tax rate of 35% for all years presented, and excluding disallowed interest expense.

(2) Loans and leases on nonaccrual status have been included in the computation of average balances.

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

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Analysis of Changes in Interest Income and Interest Expense

The effects on interest income and interest expense due to volume and rate changes in 2005 and 2004 are outlined in the following table. Changes not due solely to either volume or rate are allocated to rate ($ in thousands):

	2005 versus 2004 Increase (Decrease) Due to Change in			2004 versus 2003 Increase (Decrease) Due to Change in		
	Average Volume (2)	Average Rate	Increase (Decrease)	Average Volume (2)	Average Rate	Increase (Decrease)
Interest on earning assets:						
Loans and leases (1)	$ 247,730	$ 274,263	$ 521,993	$ 140,909	$ (40,649)	$ 100,260
Investment securities:						
Taxable	9,203	5,227	14,430	27,347	7,685	35,032
Tax-exempt (1)	10,124	(3,548)	6,576	1,751	(520)	1,231
Federal funds sold and security resale agreements	1,600	2,890	4,490	345	117	462
Trading securities (1)	58	(99)	(41)	(8)	23	15
Other short-term investments	(444)	2,232	1,788	(1,087)	463	(624)
Total interest income change	$ 265,950	$ 283,286	$ 549,236	$ 168,741	$ (32,365)	$ 136,376
Expense on interest bearing liabilities:						
Interest bearing deposits:						
Bank issued deposits:						
Bank issued interest bearing activity deposits	$ 520	$ 114,300	$ 114,820	$ (933)	$ 3,333	$ 2,400
Bank issued time deposits	25,145	33,447	58,592	(392)	(2,142)	(2,534)
Total bank issued deposits	13,115	160,297	173,412	(1,666)	1,532	(134)
Wholesale deposits	12,671	82,735	95,406	27,414	20,606	48,020
Total interest bearing deposits	24,940	243,878	268,818	20,559	27,327	47,886
Short-term borrowings	369	44,708	45,077	(5,949)	(13,865)	(19,814)
Long-term borrowings	105,661	28,043	133,704	65,821	(32,729)	33,092
Total interest expense change	$ 89,499	$ 358,100	$ 447,599	$ 55,510	$ 5,654	$ 61,164

Notes:

(1) Fully taxable equivalent basis, assuming a Federal income tax rate of 35% for all years presented, and excluding disallowed interest expense.

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

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Summary of Loan and Lease Loss Experience and Credit Quality

The following tables present comparative credit quality information as of and for the year ended December 31, 2005, as well as selected comparative years:

Consolidated Credit Quality Information

December 31, ($000 s)

	2005	2004	2003	2002	2001
Nonperforming Assets by Type					
Loans and Leases:					
Nonaccrual	$ 134,718	$ 127,722	$ 166,387	$ 188,232	$ 166,434
Renegotiated	143	236	278	326	378
Past Due 90 Days or More	5,725	4,405	6,111	5,934	6,982
Total Nonperforming Loans and Leases	140,586	132,363	172,776	194,492	173,794
Other Real Estate Owned	8,869	8,056	13,235	8,692	6,796
Total Nonperforming Assets	$ 149,455	$ 140,419	$ 186,011	$ 203,184	$ 180,590
Allowance for Loan and Lease Losses	$ 363,769	$ 358,110	$ 349,561	$ 338,409	$ 268,198
Consolidated Statistics					
Net Charge-offs to Average Loans and Leases	0.12%	0.11%	0.21%	0.21%	0.22%
Total Nonperforming Loans and Leases to Total Loans and Leases	0.41	0.45	0.69	0.81	0.90
Total Nonperforming Assets to Total Loans And Leases and Other Real Estate Owned	0.44	0.48	0.74	0.85	0.94
Allowance for Loan and Lease Losses to Total Loans and Leases	1.06	1.21	1.39	1.42	1.39
Allowance for Loan and Lease Losses to Nonperforming Loans and Leases	259	271	202	174	154

Major Categories of Nonaccrual Loans and Leases ($000 s)

	December 31, 2005			December 31, 2004		
	Nonaccrual	% of Loan Type	% of Nonaccrual	Nonaccrual	% of Loan Type	% of Nonaccrual
Commercial and Lease Financing	$ 45,269	0.4%	33.6%	$ 45,510	0.5%	35.6%
Real Estate						
Construction and Land Development	913		0.7	578		0.5
Commercial Real Estate	28,644	0.3	21.3	31,852	0.4	24.9
Residential Real Estate	57,982	0.6	43.0	49,206	0.6	38.5
Total Real Estate	87,539	0.4	65.0	81,636	0.4	63.9
Personal	1,910	0.1	1.4	576		0.5
Total	$ 134,718	0.4%	100.0%	$ 127,722	0.4%	100.0%

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Allocation of the Allowance for Loan and Lease Losses ($000 s)

	December 31, 2005		December 31, 2004		December 31, 2003	
	Amount	Percent of Loans and Leases to Total Loans and Leases	Amount	Percent of Loans and Leases to Total Loans and Leases	Amount	Percent of Loans and Leases to Total Loans and Leases
Balance at end of period applicable to:						
Commercial, Financial & Agricultural	$ 222,078	28.0%	$ 244,042	28.7%	$ 237,510	28.2%
Real Estate						
Residential Mortgage	12,921	34.9	12,311	32.6	28,369	29.9
Commercial Mortgage	63,813	30.5	49,965	31.7	37,013	32.7
Personal	24,153	4.7	14,252	5.2	18,213	6.9
Lease Financing	40,804	1.9	37,540	1.8	28,456	2.3
Total	$ 363,769	100.0%	$ 358,110	100.0%	$ 349,561	100.0%

	December 31, 2002		December 31, 2001	
	Amount	Percent of Loans and Leases to Total Loans and Leases	Amount	Percent of Loans and Leases to Total Loans and Leases
Balance at end of period applicable to:				
Commercial, Financial & Agricultural	$ 234,980	28.7%	$ 190,542	29.7%
Real Estate				
Residential Mortgage	35,518	28.9	26,916	29.5
Commercial Mortgage	22,141	31.3	14,336	29.5
Personal	18,394	7.8	21,468	6.3
Lease Financing	27,376	3.3	14,936	5.0
Total	$ 338,409	100.0%	$ 268,198	100.0%

Reconciliation of Consolidated Allowance for Loan and Lease Losses ($000 s)

	2005	2004	2003	2002	2001
Allowance for Loan and Lease Losses at Beginning of Year	$ 358,110	$ 349,561	$ 338,409	$ 268,198	$ 235,115
Provision for Loan and Lease Losses	44,795	37,963	62,993	74,416	54,115
Allowance of Banks and Loans Acquired		27		39,813	19,151
Loans and Leases Charged-off:					
Commercial	21,540	16,775	17,689	23,003	22,773
Real Estate Construction	68	33	57	94	186
Real Estate Mortgage	21,147	13,259	15,192	10,681	11,795
Personal	15,580	12,821	12,100	12,265	10,965
Leases	1,189	7,967	24,625	9,246	2,890
Total Charge-offs	59,524	50,855	69,663	55,289	48,609

Recoveries on Loans and Leases:					
Commercial	11,758	12,631	8,736	3,819	4,135
Real Estate Construction	1	2	88	96	43
Real Estate Mortgage	2,741	3,887	4,278	2,462	1,419
Personal	3,069	3,327	3,058	3,053	2,567
Leases	2,819	1,567	1,662	1,841	262
Total Recoveries	20,388	21,414	17,822	11,271	8,426
Net Loans and Leases Charged-off	39,136	29,441	51,841	44,018	40,183
Allowance for Loan and Lease Losses at End of Year	$ 363,769	$ 358,110	$ 349,561	$ 338,409	$ 268,198

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Non performing assets consist of nonperforming loans and leases and other real estate owned (OREO). The amount of nonperforming assets is affected by acquisitions accounted for under the purchase method of accounting. The assets and liabilities, including the nonperforming assets, of the acquired entity are included in the Corporation s consolidated balance sheets from the date the business combination is completed, which impacts period-to-period comparisons.

OREO is principally comprised of commercial and residential properties acquired in partial or total satisfaction of problem loans and amounted to $8.9 million, $8.1 million and $13.2 million at December 31, 2005, 2004 and 2003, respectively.

Nonperforming loans and leases consist of nonaccrual, renegotiated or restructured loans, and loans and leases that are delinquent 90 days or more and still accruing interest. The balance of nonperforming loans and leases are affected by acquisitions and may be subject to fluctuation based on the timing of cash collections, renegotiations and renewals.

Generally, loans that are 90 days or more past due as to interest or principal are placed on nonaccrual. Exceptions to these rules are generally only for loans fully collateralized by readily marketable securities or other relatively risk free collateral. In addition, a loan may be placed on nonaccrual when management makes a determination that the facts and circumstances warrant such classification irrespective of the current payment status.

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

At December 31, 2005, nonperforming loans and leases amounted to $140.6 million or 0.41% of consolidated loans and leases compared to $132.4 million or 0.45% at December 31, 2004 and $172.8 million or 0.69% at December 31, 2003. Nonaccrual loans and leases increased $7.0 million or 5.5% at year-end 2005 compared to year-end 2004. The net increase was primarily due to increases in nonaccrual home equity lines of credit that are included in nonaccrual residential real estate in the previously presented table entitled Major Categories of Nonaccrual Loans and Leases.

Delinquency can be an indicator of potential problem loans and leases. At December 31, 2005, loans and leases past due 60-89 days and still accruing interest amounted to $33.0 million or 0.10% of total loans and leases outstanding compared to $19.4 million or 0.07% of total loans and leases outstanding at December 31, 2004 and $41.9 million or 0.17% of total loans and leases outstanding at December 31, 2003.

In addition to its nonperforming loans and leases, the Corporation has loans and leases for which payments are presently current, but which management believes could possibly be classified as nonperforming in the near future. These loans are subject to constant management attention and their classification is reviewed on an ongoing basis. At December 31, 2005, such loans amounted to $61.3 million compared to $72.4 million at December 31, 2004 and $72.8 million at December 31, 2003.

Net charge-offs amounted to $39.1 million or 0.12% of average loans and leases in 2005 compared with $29.4 million or 0.11% of average loans and leases in 2004 and $51.8 million or 0.21% of average loans and leases in 2003. Included in net charge-offs for 2003 was a $19.0 million charge-off related to the carrying value of lease obligations for airplanes leased to a regional airline.

Net charge-offs and nonperforming loans and leases in 2005 and 2004 were better than management had expected. The ratio of net charge-offs to average loans and leases to some extent reflects a higher than normal level of recoveries. The ratio of recoveries to charge-offs was 34.3% in 2005 and 42.1% in 2004 compared to a five year average of 27.9%. Although positive resolutions continue to be achieved on prior charge-offs, recoveries are expected to continue to trend downwards. Management expects net charge-offs and nonperforming loans to trend to historical levels that would indicate net charge-offs as a percent of average loans and leases to be more in the range of 0.15% to 0.20% and nonperforming loans and leases as a percent of total loans and leases to range from current levels to 0.60%. While it is unclear when this will occur, management does not believe that current net charge-off and nonperforming loan and lease levels are sustainable indefinitely. Negative economic events, an adverse development in industry segments within the portfolio or deterioration of a large loan or lease could also have significant adverse impacts on the actual loss levels.

Consistent with the relatively stable credit quality trends noted above, the provision for loan and lease losses amounted to $44.8 million in 2005. By comparison, the provision for loan and lease losses amounted to $38.0 million and $63.0 million in 2004 and 2003, respectively. The provisions for loan and lease losses are the amounts required to establish the allowance for loan and lease losses at the required level after considering charge-offs and recoveries. The ratio of the allowance for loan and lease losses to total loans and leases was 1.06% at December 31, 2005 compared to 1.21% at December 31, 2004 and 1.39% at December 31, 2003.

Other Income

Total other income amounted to $1,748.9 million in 2005 compared to $1,446.5 million in 2004, an increase of $302.4 million or 20.9%. Data processing services revenue accounted for 82.8% of the growth in total other income in 2005 compared to 2004. Trust services revenue, mortgage banking revenue, loan fees and other commissions and fees and investment securities gains also contributed to growth in total other income in 2005 compared to 2004.

Total data processing services external revenue amounted to $1,141.4 million in 2005 compared to $891.0 million in 2004, an increase of $250.4 million or 28.1%. Revenue growth continued throughout this segment driven by revenue associated with acquisitions, higher transaction volumes in core processing activity, payment processing and electronic banking and an increase in healthcare eligibility and payment card production. Revenue associated with the six acquisitions completed in 2005 and a full year of revenue from the six acquisitions completed in 2004 contributed a significant portion of the revenue growth in 2005 compared to 2004. The acquisition-related revenue growth includes cross sales of acquired products to customers across the entire segment. Total buyout revenue, which varies from period to period, amounted to $9.2 million in 2005 compared to $7.9 million in 2004.

Management expects Metavante s total revenue (internal and external) in 2006 to be in the range of $1.4 billion to $1.5 billion. Organic revenue growth (as a percentage) and segment income growth are expected to continue to modestly improve. In any given year there is some customer attrition due to banking consolidations. In addition, due to the focus of some of the acquired companies on software sales and the retail marketplace, revenue tends to be more cyclical and seasonal in nature especially in the fourth quarter. Management expects these trends to continue.

Fees from trust services were $165.7 million in 2005 compared to $150.9 million in 2004, an increase of $14.8 million or 9.8%. Revenue growth was experienced across all areas of trust services with approximately 42.2% of the growth in fees from trust services in 2005 compared to 2004 being attributable to commercial trust fees. Assets under management were $18.9 billion at December 31, 2005 compared to $18.3 billion at December 31, 2004, an increase of $0.6 billion or 3.3%. On an average basis, assets under management increased approximately $1.2 billion or 6.9% in 2005 compared to 2004. Assets under administration increased by $6.9 billion or 9.1% and amounted to $82.8 billion at December 31, 2005. Sales activity emphasizing cross-selling, integrated delivery and account retention continued to drive revenue growth in 2005.

Total mortgage banking revenue was $46.0 million in 2005 compared with $35.1 million in 2004, an increase of $10.9 million or 31.2%. The increase in gains from the sale of residential mortgage and home equity loans was the primary contributor to the increase in mortgage banking revenue. During 2005, the Corporation sold $2.4 billion of residential mortgage and home equity loans to the secondary market. Retained interests in the form of mortgage servicing rights amounted to $0.9 million. During 2004, the Corporation sold $1.6 billion of loans to the secondary market. Retained interests in the form of mortgage servicing rights amounted to $1.4 million. As previously discussed, residential mortgage closings in 2005 were $1.5 billion or 35.8% higher than residential real estate loan closings in 2004. At December 31, 2005, the carrying value of mortgage servicing rights was insignificant.

Net investment securities gains amounted to $45.4 million in 2005 compared to $35.4 million in 2004. During 2005, net gains associated with the Corporation s Capital Markets Group investments amounted to $32.3 million. Approximately $29.4 million of the net gain in 2005 was from a net realized gain recognized due to the sale of an entity associated with the investment in an independent private equity and venture capital partnership. The Corporation realized a gain of $6.6 million due to an equity investment that the Corporation liquidated in a cash

tender offer. During the first quarter of 2005, the Corporation s banking segment s investment in certain membership interests of PULSE was liquidated due to a change in control. The cash received resulted in a gain of $5.6 million. During 2004, net gains associated with the Corporation s Capital Markets Group investments amounted to $34.6 million. Approximately $34.1 million of the net gain in 2004 was from a net gain recognized in the fourth quarter of 2004 from an investment in an independent private equity and venture capital partnership.

Other noninterest income amounted to $184.8 million in 2005 compared to $164.0 million in 2004, an increase of $20.8 million or 12.7%. Loan fees, which include prepayment charges especially on wholesale home equity loans and card related fees increased $14.0 million. Other income in 2005 includes gains from the sale of certain trust custody businesses and gains from branch divestitures that aggregated $5.1 million.

Total other income amounted to $1,446.5 million in 2004 compared to $1,215.8 million in 2003, an increase of $230.7 million or 19.0%. The growth in other income was driven by data processing services and trust services revenues and an increase in investment securities gains recognized primarily by the Corporation s Capital Markets Group. Fee income growth in 2004 was offset by a decline in mortgage banking income. Mortgage banking income was very robust in 2003 due in part to the increased refinancing activity in the low interest rate environment.

Total data processing services external revenue amounted to $891.0 million in 2004 compared to $657.8 million in 2003, an increase of $233.2 million or 35.5%. This strong annual revenue growth reflects the effect of Metavante s six acquisitions completed in 2004, a full year of revenue from the acquisition completed in November of 2003 and organic revenue growth. The acquisitions completed in 2004 and a full year of revenue from the acquisition completed in November of 2003 contributed a significant portion of the revenue growth in 2004 compared to 2003. Metavante had a very strong year in 2004 in terms of core outsourcing contract renewals and cross-sale results. Total buyout revenue, which varies from period to period, amounted to $7.9 million in 2004 compared to $6.9 million in 2003.

Fees from trust services were $150.9 million in 2004 compared to $126.8 million in 2003, an increase of $24.1 million or 19.1%. Revenue associated with the segments of the employee benefit plan business purchased from a national banking association located in Missouri contributed approximately $10.0 million to the revenue growth in 2004 compared to 2003. Assets under management were $18.3 billion at December 31, 2004 compared to $15.7 billion at December 31, 2003, an increase of $2.6 billion or 16.5%. Assets under administration increased by $9.0 billion or 13.4% and amounted to $75.9 billion at December 31, 2004.

Total mortgage banking revenue was $35.1 million in 2004 compared with $70.3 million in 2003, a decrease of $35.2 million. The decline in gains from the sale of residential mortgage and home equity loans was the primary contributor to the lower mortgage banking revenue. During 2004, the Corporation sold $1.6 billion of residential mortgage and home equity loans to the secondary market. Retained interests in the form of mortgage servicing rights amounted to $1.4 million. Approximately $0.3 billion of the loans sold and $6.2 million of the gain on sale of mortgage loans recognized in 2004 was attributable to the AmerUs acquisition. During 2003, the Corporation sold $3.5 billion of loans to the secondary market. Retained interests in the form of mortgage servicing rights amounted to $2.1 million. Residential real estate loan closings in 2004 were $1.3 billion or 23.6% lower than residential real estate loan closings in 2003. The increase in residential real estate loan closings and residential real estate loans sold to the secondary market in 2003 was partially the result of a significant increase in refinancing activity due to the low interest rate environment.

Net investment securities gains amounted to $35.4 million in 2004 compared to $21.6 million in 2003. During 2004, net gains associated with the Corporation s Capital Markets Group investments amounted to $34.6 million. Approximately $34.1 million of the net gain in 2004 was from a net unrealized gain recognized in the fourth quarter of 2004 due to the net increase in market value of an investment in an independent private equity and venture capital partnership. During 2003, gains recognized by the Corporation s Capital Markets Group amounted to $20.0 million. Approximately $16.2 million of the gain was from the sale of an investment in the third quarter of 2003. During 2003, the Corporation s banking segment sold $48.0 million of available for sale investment securities and recognized a gain of approximately $4.2 million. Impairment losses associated with retained interests held in the form of interest-only strips associated with its auto securitization activities amounted to $4.1 million in 2003.

Other noninterest income amounted to $164.0 million in 2004 compared to $163.5 million in 2003. Loan fees, which include prepayment charges, and other commissions and fees increased $12.8 million. Losses from the

sale and securitization of auto loans including write-downs of auto loans held for sale amounted to $3.4 million in 2004 compared to gains from the sale and securitization of auto loans of $2.7 million in 2003. The losses incurred in 2004 were primarily due to lower interest rate spreads associated with new auto loan production in a rising interest rate environment. Auto loans securitized and sold amounted to $0.5 billion in 2004 compared to $0.8 billion in 2003. During 2003, the Corporation sold six branches and recognized $5.0 million in gains.

Other Expense

Total other expense amounted to $1,846.3 million in 2005 compared to $1,595.6 million in 2004, an increase of $250.7 million or 15.7%.

The acquisitions by Metavante had a significant impact on the year-to-year comparability of operating expenses in 2005 compared to 2004. Approximately $182.1 million of the 2005 versus 2004 operating expense growth was attributable to the acquisitions. As all acquisitions were accounted for using the purchase method of accounting, the operating expenses of the acquired entities are included in the consolidated operating expenses from the dates the acquisitions were completed. Operating expenses associated with acquisitions completed in 2004 are reflected for the full year in 2005 as opposed to a partial year in 2004. Acquisitions completed in 2005 directly affect the current year but have no impact on the prior year.

Expense control is sometimes measured in the financial services industry by the efficiency ratio statistic. The efficiency ratio is calculated by dividing total other expense by the sum of total other income (including Capital Markets Group-related investment gains but excluding other securities gains and losses) and net interest income on a fully taxable equivalent basis. The Corporation s efficiency ratios for the years ended December 31, 2005, 2004, and 2003 were:

Efficiency Ratios	2005	2004	2003
Consolidated Corporation	61.5%	61.1%	63.0%
Consolidated Corporation Excluding Metavante	48.4	48.4	52.4

The Corporation estimates that its expense growth in 2005 compared to 2004, excluding the effect of the acquisitions and the impact of the 2004 significant transactions previously discussed, was approximately $86.7 million or 5.9%.

Salaries and employee benefits expense amounted to $1,042.7 million in 2005 compared to $887.3 million in 2004, an increase of $155.4 million or 17.5%. Salaries and benefits expense related to the Metavante acquisitions contributed approximately $92.8 million to the expense growth in 2005 compared to 2004. The remainder of the increase was primarily attributable to the banking segment which reflects increased incentive compensation associated with loan and deposit growth and increased personnel to build out product lines in markets outside Wisconsin as well as increased personnel for de novo branch expansion. Management expects these activities will continue in 2006.

Net occupancy and equipment expense amounted to $215.6 million in 2005 compared to $192.9 million in 2004, an increase of $22.7 million. Net occupancy and equipment expense related to the Metavante acquisitions contributed approximately $20.7 million to the expense growth in 2005 compared to 2004.

Software expenses amounted to $58.0 million in 2005 compared to $50.0 million in 2004, an increase of $8.0 million or 15.9%. Software expense related to the Metavante and banking acquisitions contributed approximately $4.5 million to the expense growth in 2005 compared to 2004. The banking segment contributed $2.7 million to the growth in software expenses in 2005 compared to 2004.

Processing charges amounted to $62.6 million in 2005 compared to $52.2 million in 2004, an increase of $10.4 million or 19.9%. Processing charges related to the Metavante acquisitions contributed approximately $11.9 million to the expense growth in 2005 compared to 2004.

Supplies and printing expense, professional services expense and shipping and handling expense amounted to $149.8 million in 2005 compared to $135.1 million in 2004, an increase of $14.7 million or 10.8%. The Metavante acquisitions contributed approximately $11.8 million to the expense growth in 2005 compared to 2004.

Amortization of intangibles amounted to $31.1 million in 2005 compared to $27.9 million in 2004. Amortization and valuation reserves associated with mortgage servicing rights declined $1.3 million. At December 31, 2005, the carrying value of mortgage servicing rights amounted to $2.8 million. Amortization of intangibles increased $6.9 million in 2005 compared to 2004 due to Metavante s acquisitions. For the year ended December 31, 2005, $0.4 million of goodwill was included in the determination of the gains associated with the sale of certain trust custody businesses and the gains from branch divestitures. Goodwill is subject to periodic tests for impairment. The Corporation has elected to perform its annual test for impairment during the second quarter. Accordingly, the Corporation updated the analysis to June 30, 2005 and concluded that there continues to be no impairment with respect to goodwill at any reporting unit. At December 31, 2005, none of the Corporation s other intangible assets were determined to have indefinite lives.

Other noninterest expenses amounted to $286.5 million in 2005 compared to $250.2 million in 2004, an increase of $36.3 million. The Metavante acquisitions contributed approximately $32.5 million to the expense growth in 2005 compared to 2004. Excluding the impact of the Metavante acquisitions, advertising, travel and card related expenses increased by $16.7 million in 2005 compared to 2004. As previously discussed, during 2004 the Corporation prepaid and retired certain higher cost long-term debt and terminated some related receive floating / pay fixed interest rate swaps designated as cash flow hedges resulting in a loss of $6.9 million. During 2004, Metavante sold its small business 401k Retirement Plan Services operations and also sold the direct customer base of Paytrust.com resulting in an aggregate loss of approximately $7.1 million. Charitable foundation expense over and above normal levels amounted to $5.0 million in 2004.

Other expense is affected by the capitalization of costs, net of amortization, associated with software development and data processing conversions. A lower amount of capitalized software development costs and capitalized conversion costs net of their respective amortization, write-offs of software and the amortization associated with the software obtained in the acquisitions resulted in a net decrease in other noninterest expense of $8.3 million in 2005 compared to 2004. During 2004, Metavante determined that certain purchased and internally developed software will no longer be used or was impaired and such software was written off. Capitalized software costs written off as a result of these decisions amounted to $8.7 million in 2004.

Total other expense amounted to $1,595.6 million in 2004 compared to $1,451.7 million in 2003, an increase of $143.9 million or 9.9%.

The acquisitions by both Metavante and the banking segment had an impact on the year-to-year comparability of operating expenses in 2004 compared to 2003. Approximately $148.9 million of the 2004 versus 2003 operating expense growth was attributable to the acquisitions. Operating expenses associated with acquisitions completed in 2003 are reflected for the full year in 2004 as opposed to a partial year in 2003. Acquisitions completed in 2004 directly affect the current year but have no impact on the prior year.

Certain transactions as previously described herein under Significant Transactions also affected the year-to-year comparability of operating expenses in 2004 compared to 2003. For the years ended December 31, 2004 and 2003, those transactions increased other expense by $20.8 million and $82.2 million, respectively.

The Corporation estimates that its expense growth in 2004 compared to 2003, excluding the effect of the acquisitions and the impact of the significant transactions previously discussed, was approximately $56.3 million or 4.1%.

Salaries and employee benefits expense amounted to $887.3 million in 2004 compared to $797.5 million in 2003, an increase of $89.8 million or 11.3%. Salaries and benefits expense related to the Metavante and banking acquisitions contributed approximately $65.1 million to the expense growth in 2004 compared to 2003. The impact of the Paytrust transition costs to salaries and employee benefits expense amounted to $2.7 million in 2003. In 2003, the Corporation restructured certain split dollar life insurance benefits due to a change in tax laws. Of the total net charge from this restructuring, $8.4 million was recorded in salaries and benefits. Also included in salaries and employee benefits expense in 2003 is a reversal of $2.4 million of accrued severance associated with the decision to keep a facility operational that previously had been identified for closure.

Net occupancy and equipment expense amounted to $192.9 million in 2004 compared to $179.0 million in 2003, an increase of $13.9 million. Net occupancy and equipment expense related to the Metavante and banking acquisitions contributed approximately $13.8 million to the expense growth in 2004 compared to 2003. The impact

of the Paytrust transition costs to net occupancy and equipment expense amounted to $0.8 million in 2003. During 2003, $6.1 million of accrued lease termination costs were reversed as a result of the decision to keep a facility operational as previously discussed.

Software expenses amounted to $50.0 million in 2004 compared to $44.7 million in 2003, an increase of $5.3 million or 11.8%. Software expense related to the Metavante and banking acquisitions contributed approximately $2.2 million to the expense growth in 2004 compared to 2003. Excluding the expense growth due to acquisitions, Metavante and the banking segment contributed $1.7 million and $0.9 million, respectively to the growth in software expenses in 2004 compared to 2003.

Processing charges amounted to $52.2 million in 2004 compared to $48.3 million in 2003, an increase of $3.9 million or 8.2%. Processing charges related to the Metavante and banking acquisitions contributed approximately $5.5 million to the expense growth in 2004 compared to 2003. Third-party processing charges associated with wholesale loan activity were lower in 2004 compared to 2003.

Supplies and printing expense, professional services expense and shipping and handling expense amounted to $135.1 million in 2004 compared to $118.3 million in 2003, an increase of $16.8 million or 14.2%. The Metavante and banking acquisitions net of Paytrust integration expenses contributed approximately $13.7 million to the expense growth in 2004 compared to 2003. The remainder of the increase was primarily due to Metavante s increase in these expenses that was offset by the decrease in costs associated with the lower volume of mortgage loan production in 2004 compared to 2003.

Amortization of intangibles amounted to $27.9 million in 2004 compared to $23.8 million in 2003. Amortization and valuation reserves associated with mortgage servicing rights declined $0.7 million. At December 31, 2004, the carrying value of mortgage servicing rights amounted to $3.5 million. Amortization associated with the 2004 acquisitions amounted to $7.6 million in the current year. Goodwill is subject to periodic tests for impairment. Based upon an updated the analysis as of June 30, 2004, the Corporation concluded that there continued to be no impairment with respect to goodwill at any reporting unit. At December 31, 2004, none of the Corporation s other intangible assets were determined to have indefinite lives. For the year ended December 31, 2004, $2.0 million of goodwill and $8.5 million of customer intangibles were included by Metavante in the determination of the loss associated with the sale of the small business 401k Retirement Plan Services operations and the direct customer base of Paytrust.com.

Other noninterest expenses amounted to $250.2 million in 2004 compared to $240.1 million in the prior year, an increase of $10.1 million. The Metavante and banking acquisitions net of Paytrust integration expenses contributed approximately $38.7 million to the expense growth in 2004 compared to 2003. As previously discussed, during 2004 and 2003 the Corporation prepaid and retired certain higher cost long-term debt and terminated some related receive floating / pay fixed interest rate swaps designated as cash flow hedges. The total debt retired in 2004 amounted to $355.0 million and the charge to earnings amounted to $6.9 million. The total debt retired in 2003 amounted to $744.6 million and the charge to earnings amounted to $56.7 million. During 2004, Metavante sold its small business 401k Retirement Plan Services operations and also sold the direct customer base of Paytrust.com in 2004. These transactions resulted in an aggregate loss of approximately $7.1 million. Offsetting the net unrealized securities gain recognized in the fourth quarter of 2004 as previously discussed was charitable foundation expense over and above normal levels that amounted to approximately $5.0 million.

Other expense is affected by the capitalization of costs, net of amortization, associated with software development and data processing conversions. A lower amount of capitalized software development costs and capitalized conversion costs net of their respective amortization, write-offs of software and the amortization associated with the software obtained in the acquisitions resulted in an increase in other noninterest expense and accounted for approximately $8.8 million of the total increase in other operating expense in 2004 compared to 2003. During 2004 and 2003, Metavante determined that certain purchased and internally developed software will no longer be used or was impaired and such software was written off. Capitalized software costs written off as a result of these decisions amounted to $8.7 million in 2004 and $22.8 million in 2003 and are included in other noninterest expense for the respective periods.

Income Tax Provision

The provision for income taxes was $362.9 million in 2005, $317.9 million in 2004, and $214.3 million in 2003. The effective tax rate in 2005 was 33.3% compared to 33.6% in 2004 and 28.3% in 2003.

In the normal course of business, the Corporation and its affiliates are routinely subject to examinations from Federal and state tax authorities. During 2003, several income tax audits covering multiple tax jurisdictions were resolved which positively affected the banking segment by approximately $28.6 million and Metavante by $10.7 million and resulted in a lower provision for income taxes in the Consolidated Statements of Income for the year ended December 31, 2003. Excluding the impact of the income tax audits, the pro forma effective income tax rate for year ended December 31, 2003 would have been 33.4%.

Liquidity and Capital Resources

Shareholders equity was $4.67 billion or 10.1% of total consolidated assets at December 31, 2005, compared to $3.89 billion or 9.6% of total consolidated assets at December 31, 2004. The increase at December 31, 2005 was primarily due to earnings net of dividends paid.

In the second quarter of 2005, the Corporation s Board of Directors authorized an increase in the quarterly cash dividend paid on the Corporation s common stock, from $0.21 per share to $0.24 per share, or 14.3%.

Shareholders equity at December 31, 2005 includes the effect of certain common stock issuances during the current year. During 2005, the Corporation issued 5.3 million shares of its common stock valued at $241.1 million in conjunction with five acquisitions completed by Metavante. In addition, the Corporation issued 0.7 million shares of its common stock valued at $25.1 million to fund its 2004 obligations under its retirement and employee stock ownership plans and its employee stock purchase plan.

During the fourth quarter of 2005, the Corporation entered into an equity distribution agreement whereby the Corporation may offer and sell up to 3.5 million shares of its common stock from time to time through certain designated sales agents. However, the Corporation will not sell more than the number of shares of its common stock necessary for the aggregate gross proceeds from such sales to reach $150.0 million. During the fourth quarter of 2005, the Corporation issued 0.2 million shares of its common stock with net proceeds from the sales of $6.7 million. The proceeds from these issuances were used for general corporate purposes, including maintaining capital at desired levels.

The Corporation has a Stock Repurchase Program under which up to 12 million shares of the Corporation s common stock can be repurchased annually. No shares were acquired under the program in 2005. During 2004, the Corporation repurchased 2.3 million shares at an aggregate cost of $88.5 million. During 2003, the Corporation repurchased 6.0 million shares at an aggregate cost of $210.9 million.

At December 31, 2005 the net loss in accumulated other comprehensive income amounted to $37.3 million which represents a negative change in accumulated other comprehensive income of $60.6 million since December 31, 2004. Net accumulated other comprehensive income associated with available for sale investment securities was a net loss of $36.3 million at December 31, 2005, compared to a net gain of $31.1 million at December 31, 2004, resulting in a net loss of $67.4 million over the twelve month period. The unrealized loss associated with the change in fair value of the Corporation s derivative financial instruments designated as cash flow hedges declined $6.8 million since December 31, 2004, resulting in a net increase in shareholders equity.

During the third quarter of 2004, the Corporation and M&I Capital Trust B issued 16,000,000 units of Common SPACES[SM] that resulted in net proceeds to the Corporation of approximately $389.2 million. Each unit has a stated value of $25.00 for an aggregate value of $400.0 million. Each Common SPACES consists of (i) a stock purchase contract under which the investor agrees to purchase for $25, a fraction of a share of the Corporation s common stock on the stock purchase date and (ii) a 1/40, or 2.5%, undivided beneficial interest in a preferred security of M&I Capital Trust B, also referred to as the STACKS[SM], with each share having an initial liquidation amount of $1,000. The stock purchase date is expected to be August 15, 2007, but could be deferred for quarterly periods until August 15, 2008.

On the stock purchase date, the number of shares of common stock the Corporation will issue upon settlement of the stock purchase contracts depends on the applicable market value per share of the Corporation s

common stock, which will be determined just prior to the stock purchase date, and other factors. The Corporation currently estimates that it will issue approximately 8.7 million to 10.9 million common shares to settle shares issuable pursuant to the stock purchase contracts. Before issuance of the common shares upon settlement of the stock purchase contracts, the stock purchase contracts will be reflected in diluted earnings per share calculations using the treasury stock method. Under the treasury stock method, the Corporation expects there will be some dilutive effect on earnings per share for periods when the average market price of the Corporation s common stock for the reporting period is above $46.28 and that there could be some dilutive effect on earnings per share for periods when the average market price of the Corporation s common stock for the reporting period is above the average market price of the Corporation s common stock for the twenty trading days ending on the third trading day immediately preceding the end of the reporting period. There was no dilutive effect on earnings per share for the years ended December 31, 2005 and 2004.

Federal and state banking laws place certain restrictions on the amount of dividends and loans which a bank may make to its parent company. Such restrictions have not had, and are not expected to have, any material effect on the Corporation s ability to meet its cash obligations.

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

The Corporation s most readily available source of liquidity is its investment portfolio. Investment securities available for sale, which totaled $5.7 billion at December 31, 2005, represent a highly accessible source of liquidity. The Corporation s portfolio of held-to-maturity investment securities, which totaled $0.6 billion at December 31, 2005, provides liquidity from maturities and interest payments. The Corporation s mortgage loans held for sale provide additional liquidity. These loans represent recently funded home mortgage loans that are prepared for delivery to investors, which generally occurs within thirty to ninety days after the loan has been funded.

Depositors within M&I s defined markets are another source of liquidity. Core deposits (demand, savings, money market and consumer time deposits) averaged $17.1 billion in 2005. The Corporation s banking affiliates may also access the Federal funds markets or utilize collateralized borrowings such as treasury demand notes or FHLB advances.

The banking affiliates may use wholesale deposits, which include foreign (Eurodollar) deposits. Wholesale deposits, which averaged $6.7 billion in 2005, are funds in the form of deposits generated through distribution channels other than the Corporation s own banking branches. These deposits allow the Corporation s banking affiliates to gather funds across a national geographic base and at pricing levels considered attractive, where the underlying depositor may be retail or institutional. Access to wholesale deposits also provides the Corporation with the flexibility to not pursue single service time deposit relationships in markets that have experienced some unprofitable pricing levels.

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

M&I Bank has implemented a bank note program which permits it to issue up to $7.0 billion of short-term and medium-term notes which are offered and sold only to institutional investors. This program is intended to enhance liquidity by enabling M&I Bank to sell its debt instruments in private markets in the future without the delays which would otherwise be incurred. As shown and discussed in Note 13 in the Notes to the Consolidated Financial Statements, longer-term bank notes outstanding at December 31, 2005, amounted to $5.8 billion of which $1.3 billion is subordinated and qualifies as supplementary capital for regulatory capital purposes.

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

During the third quarter of 2005, the Corporation amended the shelf registration statement originally filed with the Securities and Exchange Commission during the second quarter of 2004 to describe the equity distribution agreement previously discussed. That shelf registration statement enables the Corporation to issue various securities, including debt securities, common stock, preferred stock, depositary shares, purchase contracts, units, warrants, and trust preferred securities, up to an aggregate amount of $3.0 billion. At December 31, 2005, approximately $1.3 billion was available under the shelf registration statement for future securities issuances.

During the fourth quarter of 2004, the Corporation filed a shelf registration statement with the Securities and Exchange Commission which will enable the Corporation to issue up to 6.0 million shares of its common stock which may be offered and issued from time to time in connection with the acquisition by M&I, Metavante and/or other consolidated subsidiaries of businesses that the Corporation determines to be to its advantage as they become available. At December 31, 2005, there were 3.1 million shares of common stock available under the shelf registration statement for future issuances.

Under another shelf registration statement, the Corporation may issue up to $0.6 billion of medium-term Series F notes with maturities ranging from 9 months to 30 years and at fixed or floating rates. At December 31, 2005, no Series F notes had been issued. The Corporation may issue up to $0.5 billion of medium-term MiNotes with maturities ranging from 9 months to 30 years and at fixed or floating rates. The MiNotes are issued in smaller denominations to attract retail investors. At December 31, 2005, MiNotes issued amounted to $0.2 billion. Additionally, the Corporation has a commercial paper program. At December 31, 2005, commercial paper outstanding amounted to $0.3 billion.

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Contractual Obligations

The following table summarizes the Corporation s more significant contractual obligations at December 31, 2005. Excluded from the following table are a number of obligations to be settled in cash. These items are reflected in the Corporation s consolidated balance sheet and include deposits with no stated maturity, trade payables, accrued interest payable and derivative payables that do not require physical delivery of the underlying instrument.

			Payments Due by Period ($ in millions)			
Contractual Obligations	**Note Ref**	**Total**	**Less than One Year**	**One to Three Years**	**Three to Five Years**	**More than Five Years**
Certificate of Deposit and Other Time Deposit Obligations	(1)	$ 11,705.5	$ 7,812.8	$ 2,653.4	$ 451.8	$ 787.5
Short-term Debt Obligations	(2)	3,020.0	3,020.0			
Long-term Debt Obligations	(3)	11,879.8	2,987.0	2,818.5	1,982.1	4,092.2
Capital Lease Obligations		1.8	1.7	0.1		
Minimum Operating Lease Obligations		178.0	36.7	57.1	36.5	47.7
Obligations to Purchase Foreign Currencies	(4)	338.7	338.7			
Purchase Obligations Facilities (Additions, Repairs and Maintenance)		30.6	20.0	0.9	0.8	8.9
Purchase Obligations Technology		89.8	73.4	10.3	6.1	
Purchase Obligations Other		8.3	6.3	2.0		
Other Obligations:						
Unfunded Investment Obligations	(5)	10.3	6.7	3.1	0.4	0.1
Acquisition Obligations	(6)	21.5	21.5			
Wholesale Loan Purchase Obligations	(7)	400.0	400.0			
Defined Contribution Pension Obligations	(8)	64.2	64.2			
Health and Welfare Benefits	(9)					
Postretirement Benefit Obligations		7.0	7.0			
Total		$ 27,755.5	$ 14,796.0	$ 5,545.4	$ 2,477.7	$ 4,936.4

Notes:

In the banking industry, interest-bearing obligations are principally utilized to fund interest-bearing assets. As such, interest charges on certificate of deposit and other time deposit obligations and short-term debt obligations were excluded from amounts reported, as the potential cash outflows would have corresponding cash inflows from interest-bearing assets. The same, although to a lesser extent, is the case with respect to interest charges on long-term debt obligations. As long-term debt obligations may be used for purposes other than to fund interest-bearing assets, an estimate of interest charges is included in the amounts reported.

(1) Certain retail certificates of deposit and other time deposits give customers rights to early withdrawal. Early withdrawals may be subject to penalties. The penalty amount depends on the remaining time to maturity at the time of early withdrawal. Brokered certificates of deposits may be redeemed early upon the death or adjudication of incompetence of the holder.

(2) See Note 12 in Notes to Consolidated Financial Statements for a description of the Corporation s various short-term borrowings. Many short-term borrowings such as Federal funds purchased and security repurchase agreements and commercial paper are expected to be reissued and, therefore, do not necessarily represent an immediate need for cash.

(3) See Note 13 in Notes to Consolidated Financial Statements for a description of the Corporation s various long-term borrowings. The amounts shown in the table include interest on both fixed and variable rate obligations. The interest associated with variable rate obligations is based upon rates in effect at December 31, 2005. The contractual amounts to be paid on variable rate obligations are affected by changes in market interest rates. Future changes in market interest rates could materially affect the contractual amounts to be paid.

(4) See Note 19 in Notes to Consolidated Financial Statements for a description of the Corporation s foreign exchange activities. The Corporation generally matches commitments to deliver foreign currencies with obligations to purchase foreign currencies which

minimizes the immediate need for cash.

(5) The Corporation also has unfunded obligations for certain investments in investment funds. Under the obligations for certain investments in investment funds the Corporation could be required to invest an additional $47.3 million if the investment funds identify and commit to invest

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in additional qualifying investments. The investment funds have limited lives and defined periods for investing in new qualifying investments or providing additional funds to existing investments. As a result, the timing and amount of the funding requirements for these obligations are uncertain and could expire with no additional funding requirements.

(6) Represents contingent consideration that the Corporation has determined to be owed beyond a reasonable doubt.

(7) Represents an estimate of the minimum purchase obligation amount. The obligation to sell is on a best-efforts basis and may result in no purchases or more purchases than shown in the table in any given period. In addition, the actual purchase price will be determined at the time of purchase.

(8) See Note 17 in Notes to Consolidated Financial Statements for a description of the Corporation s defined contribution program. The amount shown represents the unfunded contribution for the year ended December 31, 2005.

(9) The health and welfare benefit plans are periodically funded throughout each plan year with participant contributions and the Corporation s portion of benefits expected to be paid.

The Corporation has generally financed its growth through the retention of earnings and the issuance of debt. It is expected that future growth can be financed through internal earnings retention, additional debt offerings, or the issuance of additional common or preferred stock or other capital instruments.

OFF-BALANCE SHEET ARRANGEMENTS

The term off-balance sheet arrangement describes the means through which companies typically structure off-balance sheet transactions or otherwise incur risks of loss that are not fully transparent to investors or other users of financial information. For example, in many cases, in order to facilitate transfer of assets or otherwise finance the activities of an unconsolidated entity, a company may be required to provide financial support designed to reduce the risks to the entity or other third parties. That financial support may take many different forms such as financial guarantees, subordinated retained interests, derivative instruments or other contingent arrangements that expose the company to continuing risks or contingent liabilities regardless of whether or not they are recorded on the balance sheet.

Certain guarantees may be a source of potential risk to future liquidity, capital resources and results of operations. Guarantees may be in the form of contracts that contingently require the guarantor to make payments to the guaranteed party based on: (1) changes in an underlying instrument or variable such as a financial standby letter of credit; (2) failure to perform under an obligating agreement such as a performance standby letter of credit; and (3) indemnification agreements that require the indemnifying party to make payments to the indemnified party based on changes in an underlying instrument or variable that is related to an asset, a liability or an equity security of the indemnified party, such as an adverse judgment in a lawsuit. The Corporation, for a fee, regularly enters into standby letters of credit transactions and provides certain indemnifications against loss in conjunction with software sales, merchant credit card processing and securities lending activities which are described in detail in Notes 18 and 23 in Notes to Consolidated Financial Statements.

Companies may structure and facilitate off-balance sheet arrangements by retaining an interest in assets transferred to an unconsolidated entity. Such interests may be in the form of a subordinated retained interest in a pool of receivables transferred to an unconsolidated entity, cash collateral accounts, recourse obligations or other forms of credit, liquidity, or market risk support. These subordinated interests protect the senior interests in the unconsolidated entity in the event a portion of the underlying transferred assets becomes uncollectible or there are insufficient funds to repay senior interest obligations. The Corporation uses such arrangements primarily in conjunction with its indirect automobile lending activities which are described in detail in Note 8 in Notes to Consolidated Financial Statements and in the discussion of critical accounting policies which follows this discussion.

During the third quarter of 2004, the Corporation and M&I Capital Trust B issued 16,000,000 units of Common SPACES[SM] that resulted in net proceeds to the Corporation of approximately $389.2 million. Each unit has a stated value of $25.00 for an aggregate value of $400.0 million. Each Common SPACES consists of (i) a stock purchase contract under which the investor agrees to purchase for $25, a fraction of a share of the Corporation s common stock on the stock purchase date and (ii) a 1/40, or 2.5%, undivided beneficial interest in a preferred security of M&I Capital Trust B, also referred to as the STACKS[SM], with each share having an initial liquidation amount of $1,000. The stock purchase date is expected to be August 15, 2007, but could be deferred for quarterly periods until August 15, 2008.

On the stock purchase date, the number of shares of common stock the Corporation will issue upon settlement of the stock purchase contracts depends on the applicable market value per share of the Corporation s common stock, which will be determined just prior to the stock purchase date, and other factors. The Corporation currently estimates that it will issue approximately 8.7 million to 10.9 million common shares to settle shares issuable pursuant to the stock purchase contracts.

Holders of the STACKS are entitled to receive quarterly cumulative cash distributions through the stock purchase date fixed initially at an annual rate of 3.90% of the liquidation amount of $1,000 per STACKS. In addition, the Corporation will make quarterly contract payments under the stock purchase contract at the annual rate of 2.60% of the stated amount of $25 per stock purchase contract. The Corporation recognized the present value of the quarterly contract payments under the stock purchase contract as a liability with an offsetting reduction in shareholders equity. That liability along with the allocated portion of the fees and expenses incurred for the offering of Common SPACES resulted in a reduction in shareholders equity of $34.0 million.

Also at December 31, 2005, the Corporation did not hold any material variable interests in entities that provide it liquidity, market risk or credit risk support, or engage in leasing, hedging or research and development services with the Corporation. As described in Note 13 in Notes to Consolidated Financial Statements, the Corporation holds all of the common interest in M&I Capital Trust A and M&I Capital Trust B which issued cumulative preferred capital securities which are supported by junior subordinated deferrable interest debentures and a full guarantee issued by the Corporation. The Corporation does not consolidate M&I Capital Trust A or M&I Capital Trust B.

Based on the off-balance sheet arrangements with which it is presently involved, the Corporation does not believe that such off-balance sheet arrangements either have, or are reasonably likely to have, a material impact to its current or future financial condition, results of operations, liquidity or capital.

CRITICAL ACCOUNTING POLICIES

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

Allowance for Loan and Lease Losses

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

Specific Reserve. The Corporation s internal risk rating system is used to identify loans and leases that meet the criteria as being impaired under the definition in SFAS 114. A loan is impaired when, based on current information and events, it is probable that a creditor will be unable to collect all amounts due according to the contractual terms of the loan agreement. For impaired loans, impairment is measured using one of three alternatives: (1) the present value of expected future cash flows discounted at the loan s

effective interest rate; (2) the loan s observable market price, if available; or (3) the fair value of the collateral for collateral dependent loans and loans for which foreclosure is deemed to be probable. In general, these loans have been internally identified as credits requiring management s attention due to underlying problems in the borrower s business or collateral concerns. Subject to a minimum size, a quarterly review of these loans is performed to identify the specific reserve necessary to be allocated to each of these loans. This analysis considers expected future cash flows, the value of collateral and also other factors that may impact the borrower s ability to make payments when due.

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

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

The following factors were taken into consideration in determining the adequacy of the allowance for loan and lease losses at December 31, 2005:

In general, the Corporation s borrowing customers appear to have successfully managed their businesses through the prior economic downturn, the economy is improving and the Corporation s customer base is showing signs of increased business activity as evidenced by the loan growth experienced in 2005 compared to 2004.

At December 31, 2005, allowances for loan and lease losses continue to be carried for exposures to manufacturing, healthcare, production agriculture (including dairy and cropping operations), truck transportation, accommodation, general contracting, motor vehicle and parts dealers and the airline industries. The majority of the commercial charge-offs incurred in recent periods were in these industry segments. While most loans in these categories are still performing, the Corporation continues to believe these sectors have been more adversely affected by the previous economic slowdown. Reduced revenues causing a declining utilization of the industry s capacity levels have impacted manufacturing. As a result, collateral values and the amounts realized through the sale or liquidation of manufacturing plant and equipment have declined accordingly.

During the fourth quarter of 2005, the Corporation s commitments to Shared National Credits were approximately $3.1 billion with usage averaging around 45%. Many of the Corporation s largest charge-offs have come from the Shared National Credit portfolio. Although these factors result in an increased risk profile, as of December 31, 2005, Shared National Credit nonperforming loans amounted to $3.9 million. The Corporation s exposure to Shared National Credits is monitored closely given this lending group s loss experience.

The Corporation s primary lending areas are Wisconsin, Arizona, Minnesota and Missouri. Each of these regions has cultural and environmental factors that are unique to it. The uncertainty regarding the inherent losses in their respective loan portfolios continue to present increased risks which have been mitigated by the implementation of the Corporation s credit underwriting and monitoring processes. At December 31, 2005, total nonperforming loans and leases as a percent of total loans and leases for the Minnesota and Missouri regions combined was somewhat higher than nonperforming loans and leases as a percent of total loans and leases for the other regions and the consolidated total.

At December 31, 2005, nonperforming loans and leases amounted to $140.6 million or 0.41% of consolidated loans and leases compared to $132.4 million or 0.45% at December 31, 2004 and $172.8 million or 0.69% at December 31, 2003. Nonaccrual loans and leases increased $7.0 million or 5.5% at year-end 2005 compared to year-end 2004. The net increase was primarily due to increases in nonaccrual home equity lines of credit.

Net charge-offs amounted to $39.1 million or 0.12% of average loans and leases in 2005 compared to $29.4 million or 0.11% of average loans and leases in 2004 and $51.8 million or 0.21% of average loans and leases in 2003. Included in net charge-offs for 2003 was a $19.0 million charge-off related to the carrying value of lease obligations to a regional airline.

Net charge-offs and nonperforming loans and leases in 2005 and 2004 were better than management had expected. The ratio of net charge-offs to average loans and leases to some extent reflect a higher than normal level of recoveries. The ratio of recoveries to charge-offs was 34.3% in 2005 and 42.1% in 2004 compared to a five year average of 27.9%. Although positive resolutions continue to be achieved on prior charge-offs, recoveries are expected to continue to trend downwards. Management expects net charge-offs and nonperforming loans to trend to historical levels that would indicate net charge-offs as a percent of average loans and leases to be more in the range of 0.15% to 0.20% and nonperforming loans and leases as a percent of total loans and leases to range from current levels to 0.60%.

Based on the above loss estimates, management determined its best estimate of the required allowance for loans and leases. Management s evaluation of the factors described above resulted in an allowance for loan and lease losses of $363.8 million or 1.06% of loans and leases outstanding at December 31, 2005. The allowance for loan and lease losses was $358.1 million or 1.21% of loans and leases outstanding at December 31, 2004. Consistent with the relatively stable credit quality trends noted above, the provision for loan and lease losses amounted to $44.8 million in 2005, compared to $38.0 million and $63.0 million in 2004 and 2003, respectively. The resulting provisions for loan and lease losses are the amounts required to establish the allowance for loan and lease losses at the required level after considering charge-offs and recoveries. Management recognizes there are significant estimates in the process and the ultimate losses could be significantly different from those currently estimated.

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

Capitalized Software and Conversion Costs

Direct costs associated with the production of computer software that will be licensed externally or used in a service bureau environment are capitalized. Capitalization of such costs is subject to strict accounting policy criteria, although the appropriate time to initiate capitalization requires management judgment. Once the specific capitalized project is put into production, the software cost is amortized over its estimated useful life, generally four years. Each quarter, the Corporation performs net realizable value tests to ensure the assets are recoverable. Such tests require management judgment as to the future sales and profitability of a particular product which involves, in some cases, multi-year projections. Technology changes and changes in customer requirements can have a significant impact on the recoverability of these assets and can be difficult to predict. Should significant adverse changes occur, estimates of useful life may have to be revised or write-offs would be required to recognize impairment. For the years ended December 31, 2005 and 2004, the amount of software costs capitalized amounted to $40.8 million and $38.1 million, respectively. Amortization expense of software costs amounted to $57.7 million and $50.4 million for the years ended December 31, 2005 and 2004, respectively.

During 2004, Metavante determined that certain products had limited growth potential. As a result of strategic product reviews and the results of net realizable tests on these products, Metavante determined that the capitalized software and other assets associated with the products were impaired. Total capitalized software costs written off amounted to $8.7 million and are included in other noninterest expense in 2004.

As a result of a change in product strategies, Metavante determined that certain purchased and internally developed software would no longer be used and such software was written off in 2003. Total capitalized software costs written off as a result of these decisions amounted to $22.8 million and is included in other noninterest expense in 2003.

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

Capitalization only occurs when management is satisfied that such costs are recoverable through future operations or buyout fees in case of early termination. For the years ended December 31, 2005 and 2004, the amount of conversion costs capitalized amounted to $10.5 million and $9.4 million, respectively. Amortization expense of conversion costs amounted to $10.5 million and $13.5 million for the years ended December 31, 2005 and 2004, respectively.

Net unamortized costs, which are included in Accrued Interest and Other Assets in the Consolidated Balance Sheets, at December 31, were ($ in millions):

	2005	2004
Software	$ 154.0	$ 161.1
Conversions	26.7	26.5
Total	$ 180.7	$ 187.6

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

Financial Asset Sales and Securitizations

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

In December 2003, the Corporation adopted Financial Accounting Standards Board Interpretation No. 46 (FIN 46R), ***Consolidation of Variable Interest Entities (revised December 2003)***. This interpretation addresses consolidation by business enterprises of variable interest entities. Transferors to QSPEs and grandfathered QSPEs subject to the reporting requirements of SFAS 140 are outside the scope of FIN 46R and do not consolidate those entities. With respect to the Corporation s securitization activities, the adoption of FIN 46R did not have an impact on its consolidated financial statements because its transfers are generally to QSPEs.

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

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

During 2003, the Corporation recognized impairment losses of $4.1 million that are included in net investment securities gains in the Consolidated Statements of Income. The impairment was a result of the differences between actual prepayments and credit losses experienced compared to the expected prepayments and credit losses used in measuring the initial retained interests. The impairments on the retained interests, held in the form of interest-only strips, were deemed to be other than temporary. No impairment losses were recognized in 2004 or 2005.

The Corporation regularly sells automobile loans to an unconsolidated multi-seller special purpose entity commercial paper conduit in securitization transactions in which servicing responsibilities and subordinated interests are retained. The outstanding balances of automobile loans sold in these securitization transactions were $954.2 million and $1,003.0 million at December 31, 2005 and 2004, respectively. At December 31, 2005 and 2004, the carrying amount of retained interests amounted to $25.9 million and $42.2 million, respectively.

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

At December 31, 2005, highly rated investment securities in the amount of $270.0 million were outstanding in the QSPE to support the outstanding commercial paper.

Income Taxes

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

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

During 2003, several income tax audits covering multiple tax jurisdictions were resolved which positively affected the banking segment by $28.6 million and Metavante by $10.7 million and resulted in a lower provision for income taxes in the Consolidated Statements of Income for the year ended December 31, 2003.

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ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

Interest Rate Risk

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

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

The models used include measures of the expected repricing characteristics of administered rate (NOW, savings and money market accounts) and non-rate related products (demand deposit accounts, other assets and other liabilities). These measures recognize the relative insensitivity of these accounts to changes in market interest rates, as demonstrated through current and historical experiences. However, during the second quarter of 2003, the Corporation increased the proportion of these accounts modeled as rate sensitive, in order to recognize the instability of some of the recent balance growth in these accounts. This modeling treatment will be maintained until the incremental balances can be observed across a more complete interest rate cycle. In addition to contractual payment information for most other assets and liabilities, the models also include estimates of expected prepayment characteristics for those items that are likely to materially change their payment structures in different rate environments, including residential mortgage products, certain commercial and commercial real estate loans and certain mortgage-related securities. Estimates for these sensitivities are based on industry assessments and are substantially driven by the differential between the contractual coupon of the item and current market rates for similar products.

This information is incorporated into a model that allows the projection of future income levels in several different interest rate environments. Earnings at risk are calculated by modeling income in an environment where rates remain constant, and comparing this result to income in a different rate environment, and then dividing this difference by the Corporation s budgeted operating income before taxes for the calendar year. Since future interest rate moves are difficult to predict, the following table presents two potential scenarios a gradual increase of 100bp across the entire yield curve over the course of the year (+25bp per quarter), and a gradual decrease of 100bp across the entire yield curve over the course of the year (-25bp per quarter) for the balance sheet as of December 31, 2005:

Hypothetical Change in Interest Rates	**Impact to 2006 Pretax Income**
100 basis point gradual rise in rates	-0.2%
100 basis point gradual decline in rates	0.0%

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

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

Another component of interest rate risk is measuring the fair value at risk for a given change in market interest rates. The Corporation also uses computer modeling techniques to determine the present value of all asset and liability cash flows (both on- and off-balance sheet), adjusted for prepayment expectations, using a market discount rate. The net change in the present value of the asset and liability cash flows in different market rate environments is the amount of fair value at risk from those rate movements. As of December 31, 2005 the fair value of equity at risk for a gradual 100bp shift in rates was less than 2.0% of the market value of the Corporation.

Equity Risk

In addition to interest rate risk, the Corporation incurs market risk in the form of equity risk. The Corporation invests directly and indirectly through investment funds, in private medium-sized companies to help establish new businesses or recapitalize existing ones. These investments expose the Corporation to the change in equity values for the companies of the portfolio companies. However, fair values are difficult to determine until an actual sale or liquidation transaction actually occurs. At December 31, 2005, the carrying value of total active capital markets investments amounted to approximately $36.9 million.

At December 31, 2005, M&I Trust Services administered $82.8 billion in assets and directly managed $18.9 billion in assets. Exposure exists to changes in equity values due to the fact that fee income is partially based on equity balances. Quantification of this exposure is difficult due to the number of other variables affecting fee income. Interest rate changes can also have an effect on fee income for the above-stated reasons.

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ITEM 8. CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA FOR YEARS ENDED DECEMBER 31, 2005, 2004, AND 2003

Consolidated Balance Sheets

December 31 ($000 s except share data)

	2005	2004
Assets		
Cash and Cash Equivalents:		
Cash and Due from Banks	$ 1,155,263	$ 838,668
Federal Funds Sold and Security Resale Agreements	209,869	72,515
Money Market Funds	49,219	76,955
Total Cash and Cash Equivalents	1,414,351	988,138
Investment Securities:		
Trading Securities, at Market Value	29,779	18,418
Interest Bearing Deposits at Other Banks	40,659	23,105
Available for Sale, at Market Value	5,701,703	5,358,999
Held to Maturity, Market Value $638,135 ($765,101 in 2004)	618,554	726,386
Total Investment Securities	6,390,695	6,126,908
Loans Held for Sale	277,847	81,662
Loans and Leases:		
Loans and Leases, Net of Unearned Income of $107,244 ($85,025 in 2004)	33,889,066	29,455,110
Less: Allowance for Loan and Lease Losses	363,769	358,110
Net Loans and Leases	33,525,297	29,097,000
Premises and Equipment, Net	490,687	467,225
Goodwill and Other Intangibles	2,461,461	2,126,433
Accrued Interest and Other Assets	1,652,379	1,550,036
Total Assets	$ 46,212,717	$ 40,437,402
Liabilities and Shareholders Equity		
Deposits:		
Noninterest Bearing	$ 5,525,019	$ 4,888,426
Interest Bearing	22,149,202	21,566,661
Total Deposits	27,674,221	26,455,087
Short-term Borrowings	5,626,734	3,530,036
Accrued Expenses and Other Liabilities	1,575,282	1,535,866
Long-term Borrowings	6,668,670	5,026,599
Total Liabilities	41,544,907	36,547,588
Shareholders Equity:		
Series A Convertible Preferred Stock, $1.00 par value, 2,000,000 Shares Authorized		
Common Stock, $1.00 par value, 700,000,000 Shares Authorized; 244,587,222 Shares Issued (244,432,222 Shares in 2004)	244,587	244,432
Additional Paid-in Capital	767,328	671,815
Retained Earnings	4,021,158	3,508,477
Accumulated Other Comprehensive Income, Net of Related Taxes	(37,291)	23,338
Less: Treasury Stock, at Cost: 9,148,493 Shares (17,091,528 in 2004)	277,423	518,231

Deferred Compensation	50,549	40,017
Total Shareholders Equity	4,667,810	3,889,814
Total Liabilities and Shareholders Equity	$ 46,212,717	$ 40,437,402

The accompanying notes are an integral part of the Consolidated Financial Statements.

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Consolidated Statements of Income

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

	2005	2004	2003
Interest Income			
Loans and Leases	$ 1,926,377	$ 1,404,189	$ 1,304,060
Investment Securities:			
Taxable	214,537	200,107	165,075
Exempt from Federal Income Taxes	64,127	58,826	57,968
Trading Securities	229	271	258
Short-term Investments	8,675	2,397	2,559
Total Interest Income	2,213,945	1,665,790	1,529,920
Interest Expense			
Deposits	544,920	276,102	228,216
Short-term Borrowings	106,333	61,256	81,070
Long-term Borrowings	330,144	196,440	163,348
Total Interest Expense	981,397	533,798	472,634
Net Interest Income	1,232,548	1,131,992	1,057,286
Provision for Loan and Lease Losses	44,795	37,963	62,993
Net Interest Income After Provision for Loan and Lease Losses	1,187,753	1,094,029	994,293
Other Income			
Data Processing Services	1,141,371	891,005	657,827
Item Processing	43,685	43,148	42,814
Trust Services	165,679	150,917	126,759
Service Charges on Deposits	94,855	99,772	102,528
Gains on Sale of Mortgage Loans	42,396	27,171	54,143
Other Mortgage Banking Revenue	3,645	7,925	16,109
Net Investment Securities Gains	45,414	35,352	21,572
Life Insurance Revenue	27,079	27,254	30,507
Other	184,821	163,951	163,542
Total Other Income	1,748,945	1,446,495	1,215,801
Other Expense			
Salaries and Employee Benefits	1,042,744	887,279	797,518
Net Occupancy	88,656	77,209	67,626
Equipment	126,942	115,650	111,354
Software Expenses	57,987	50,021	44,747
Processing Charges	62,646	52,239	48,295
Supplies and Printing	23,933	23,581	22,118
Professional Services	53,641	43,763	44,429
Shipping and Handling	72,201	67,772	51,765
Amortization of Intangibles	31,103	27,852	23,785
Other	286,478	250,192	240,070
Total Other Expense	1,846,331	1,595,558	1,451,707
Income Before Income Taxes	1,090,367	944,966	758,387

Provision for Income Taxes	362,898	317,880	214,282
Net Income	$ 727,469	$ 627,086	$ 544,105
Net Income Per Common Share			
Basic	$ 3.15	$ 2.81	$ 2.41
Diluted	3.10	2.77	2.38

The accompanying notes are an integral part of the Consolidated Financial Statements.

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Consolidated Statements of Cash Flows

Years ended December 31 ($000 s)

	2005	2004	2003
Cash Flows From Operating Activities:			
Net Income	$ 727,469	$ 627,086	$ 544,105
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:			
Depreciation and Amortization	206,882	195,223	200,085
Provision for Loan and Lease Losses	44,795	37,963	62,993
(Benefit) Provision for Deferred Taxes	(9,219)	9,344	(45,823)
Gains on Sales of Assets	(106,705)	(32,502)	(45,507)
Proceeds from Sales of Trading Securities and Loans Held for Sale	9,175,833	7,721,503	11,637,141
Purchases of Trading Securities and Loans Held for Sale	(9,136,336)	(7,513,518)	(11,240,640)
Other	(257,658)	(37,666)	(78,786)
Total Adjustments	(82,408)	380,347	489,463
Net Cash Provided by Operating Activities	645,061	1,007,433	1,033,568
Cash Flows From Investing Activities:			
Proceeds from Sales of Securities Available for Sale	104,280	12,467	41,838
Proceeds from Maturities of Securities Available for Sale	1,260,242	1,265,998	2,840,754
Proceeds from Maturities of Securities Held to Maturity	108,554	94,907	122,856
Purchases of Securities Available for Sale	(1,792,054)	(1,775,775)	(3,449,841)
Purchases of Securities Held to Maturity			(1,000)
Net Increase in Loans	(4,545,258)	(4,571,125)	(1,857,480)
Purchases of Assets to be Leased	(281,991)	(215,578)	(243,955)
Principal Payments on Lease Receivables	226,504	291,608	450,224
Purchases of Premises and Equipment, Net	(93,624)	(80,428)	(62,125)
Acquisitions, Net of Cash and Cash Equivalents Acquired	(94,399)	(1,012,100)	(29,395)
Other	(15,390)	25,142	18,002
Net Cash Used in Investing Activities	(5,123,136)	(5,964,884)	(2,170,122)
Cash Flows From Financing Activities:			
Net Increase in Deposits	1,295,837	4,200,843	1,886,561
Proceeds from Issuance of Commercial Paper	5,310,137	6,442,232	7,790,467
Principal Payments on Commercial Paper	(5,241,685)	(6,534,320)	(7,737,360)
Net Increase (Decrease) in Other Short-term Borrowings	1,029,234	(1,584,827)	(842,636)
Proceeds from Issuance of Long-term Borrowings	3,279,779	3,040,500	1,278,629
Payment of Long-term Borrowings	(604,735)	(455,829)	(1,164,025)
Dividends Paid	(214,788)	(179,855)	(158,007)
Purchases of Common Stock		(98,385)	(201,044)
Proceeds from the Issuance of Common Stock	60,911	206,666	49,063
Other	(10,402)	(3,062)	
Net Cash Provided by Financing Activities	4,904,288	5,033,963	901,648
Net Increase (Decrease) in Cash and Cash Equivalents	426,213	76,512	(234,906)
Cash and Cash Equivalents, Beginning of Year	988,138	911,626	1,146,532
Cash and Cash Equivalents, End of Year	$ 1,414,351	$ 988,138	$ 911,626

Supplemental Cash Flow Information:			
Cash Paid During the Year for:			
Interest	$ 906,308	$ 506,773	$ 500,698
Income Taxes	366,431	283,588	297,143

The accompanying notes are an integral part of the Consolidated Financial Statements.

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Consolidated Statements of Shareholders Equity

($000 s except share data)

	Compre-hensive Income	Preferred Stock	Common Stock	Additional Paid-in Capital	Retained Earnings	Treasury Common Stock	Deferred Compen-sation	Accumulated Other Compre-hensive Income
Balance, December 31, 2002		$	$ 240,833	$ 569,162	$ 2,675,148	$ (381,878)	$ (22,170)	$ (44,427)
Comprehensive Income:								
Net Income	$ 544,105				544,105			
Unrealized Gains (Losses) on Securities:								
Arising During the Period Net of Taxes of $6,489	(12,016)							
Reclassification for Securities Transactions Included in Net Income Net of Taxes of $2,008	(3,729)							
Total Unrealized Gains (Losses) on Securities	(15,745)							(15,745)
Net Gains (Losses) on Derivatives Hedging Variability of Cash Flows:								
Arising During the Period Net of Taxes of $3,635	(6,748)							
Reclassification Adjustments For Hedging Activities Included in Net Income Net of Taxes of $37,485	69,614							
Net Gains (Losses)	62,866							62,866
Other Comprehensive Income	47,121							
Comprehensive Income	$ 591,226							
Issuance of 2,989,875 Treasury Common Shares Under Stock Option and Restricted Stock Plans				(16,396)		79,908	(5,589)	
Acquisition of 5,996,799 Common Shares				(112)		(211,592)	612	
Dividends Declared on Common Stock $0.700 Per Share					(158,007)			
Net Change in Deferred Compensation							360	
Income Tax Benefit for Compensation Expense for Tax Purposes in Excess of Amounts Recognized for Financial Reporting Purposes				11,905				
Other				(290)				
Balance, December 31, 2003		$	$ 240,833	$ 564,269	$ 3,061,246	$ (513,562)	$ (26,787)	$ 2,694

The accompanying notes are an integral part of the Consolidated Financial Statements.

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Consolidated Statements of Shareholders Equity

($000 s except share data)

	Compre-hensive Income	Preferred Stock	Common Stock	Additional Paid-In Capital	Retained Earnings	Treasury Common Stock	Deferred Compen-sation	Accumulated Other Compre-hensive Income
Balance, December 31, 2003		$	$ 240,833	$ 564,269	$ 3,061,246	$ (513,562)	$ (26,787)	$ 2,694
Comprehensive Income:								
Net Income	$ 627,086				627,086			
Unrealized Gains (Losses) on Securities:								
Arising During the Period Net of Taxes of $5,692	(10,476)							
Reclassification for Securities Transactions Included in Net Income Net of Taxes of $139	(258)							
Total Unrealized Gains (Losses) on Securities	(10,734)							(10,734)
Net Gains (Losses) on Derivatives Hedging Variability of Cash Flows:								
Arising During the Period Net of Taxes of $5,821	10,810							
Reclassification Adjustments For Hedging Activities Included in Net Income Net of Taxes of $11,075	20,568							
Net Gains (Losses)	31,378							31,378
Other Comprehensive Income	20,644							
Comprehensive Income	$ 647,730							
Issuance of 3,599,700 Common Shares			3,599	146,300				
Present Value of Stock Purchase Contract and Allocated Fees and Expenses for Common SPACES^{SM}				(34,039)				
Issuance of 2,825,014 Treasury Common Shares Under Stock Option and Restricted Stock Plans				(20,466)		85,342	(7,167)	
Acquisition of 2,310,053 Common Shares				(41)		(90,011)	197	
Dividends Declared on Common Stock $0.810 Per Share					(179,855)			
Net Change in Deferred Compensation							(6,260)	
Income Tax Benefit for Compensation Expense for Tax Purposes in Excess of				16,064				

Amounts Recognized for Financial Reporting Purposes							
Other			(272)				
Balance, December 31, 2004	$	$ 244,432	$ 671,815	$ 3,508,477	$ (518,231)	$ (40,017)	$ 23,338

The accompanying notes are an integral part of the Consolidated Financial Statements.

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Consolidated Statements of Shareholders Equity

($000 s except share data)

	Compre-hensive Income	Preferred Stock	Common Stock	Additional Paid-In Capital	Retained Earnings	Treasury Common Stock	Deferred Compen-sation	Accumula-ted Other Compre-hensive Income
Balance, December 31, 2004		$	$ 244,432	$ 671,815	$ 3,508,477	$ (518,231)	$ (40,017)	$ 23,338
Comprehensive Income:								
Net Income	$ 727,469				727,469			
Unrealized Gains (Losses) on Securities:								
Arising During the Period Net of Taxes of $36,387	(66,670)							
Reclassification for Securities Transactions Included in Net Income Net of Taxes of $388	(722)							
Total Unrealized Gains (Losses) on Securities	(67,392)							(67,392)
Net Gains (Losses) on Derivatives Hedging Variability of Cash Flows:								
Arising During the Period Net of Taxes of $5,499	10,211							
Reclassification Adjustments For Hedging Activities Included in Net Income Net of Taxes of $1,857	(3,448)							
Net Gains (Losses)	6,763							6,763
Other Comprehensive Income	(60,629)							
Comprehensive Income	$ 666,840							
Issuance of 155,000 Common Shares			155	6,496				
Issuance of 5,254,523 Treasury Common Shares in the 2005 Business Combinations				81,778		159,317		
Issuance of 2,358,561 Treasury Common Shares Under Stock Option and Restricted Stock Plans				(9,605)		71,663	(7,877)	
Issuance of 355,046 Treasury Common Shares for Retirement Plan Funding				3,611		10,765		
Acquisition of 25,095 Common Shares				(66)		(937)	281	
Dividends Declared on Common Stock $0.930 Per Share					(214,788)			
Net Change in Deferred Compensation							(2,936)	
Income Tax Benefit for Compensation Expense for Tax Purposes in Excess of Amounts Recognized for Financial Reporting Purposes				13,581				

Other			(282)				
Balance, December 31, 2005	$	$ 244,587	$ 767,328	$ 4,021,158	$ (277,423)	$ (50,549)	$ (37,291)

The accompanying notes are an integral part of the Consolidated Financial Statements.

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Notes to Consolidated Financial Statements

December 31, 2005, 2004, and 2003 ($000 s except share data)

Marshall & Ilsley Corporation (M&I or the Corporation) is a financial holding company that provides diversified financial services to a wide variety of corporate, institutional, government and individual customers. M&I s largest affiliates and principal operations are in Wisconsin; however, it has activities in other markets, particularly in certain neighboring Midwestern states, and in Arizona, Nevada and Florida. The Corporation s principal activities consist of banking and data processing services. Banking services, lending and accepting deposits from retail and commercial customers are provided through its lead bank, M&I Marshall & Ilsley Bank (M&I Bank), which is headquartered in Wisconsin, one federally chartered thrift headquartered in Nevada, one state chartered bank headquartered in St. Louis, Missouri, and an asset-based lending subsidiary headquartered in Minneapolis, Minnesota. In addition to branches located throughout Wisconsin, banking services are provided in branches located throughout Arizona, the Minneapolis, Minnesota and St. Louis, Missouri metropolitan areas, Duluth, Minnesota, Belleville, Illinois, Las Vegas, Nevada and Naples and Bonita Springs, Florida, as well as on the Internet. Financial and data processing services and software sales are provided through the Corporation s subsidiary Metavante Corporation (Metavante) and its nonbank subsidiaries primarily to financial institutions throughout the United States. Other financial services provided by M&I include: personal property lease financing to consumer and commercial customers; investment management and advisory services; commercial and residential mortgage banking; venture capital and financial advisory services; trust services to residents of Wisconsin, Arizona, Minnesota, Missouri, Florida, Nevada and Indiana; and brokerage and insurance services.

1. Summary of Significant Accounting Policies

Estimates The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported periods. Actual results could differ from those estimates.

Consolidation principles The Consolidated Financial Statements include the accounts of the Corporation, its subsidiaries that are wholly or majority owned and/or over which it exercises substantive control and significant variable interest entities for which the Corporation has determined that, based on the variable interests it holds, it is the primary beneficiary in accordance with Financial Accounting Standards Board (FASB) Interpretation No. 46 (FIN 46R), ***Consolidation of Variable Interest Entities an interpretation of Accounting Research Board (ARB) No. 51 (revised December 2003)***. The primary beneficiary of a variable interest entity is the party that absorbs a majority of an entity s expected losses, receives a majority of an entity s expected residual returns, or both, as a result of holding variable interests. Variable interests are the ownership, contractual or other pecuniary interests in an entity. Investments in unconsolidated affiliates, in which the Corporation has 20 percent or more ownership interest and has the ability to exercise significant influence, but not substantive control, over the affiliates operating and financial policies, are accounted for using the equity method of accounting, unless the investment has been determined to be temporary. All significant intercompany balances and transactions are eliminated in consolidation.

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

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Notes to Consolidated Financial Statements

December 31, 2005, 2004, and 2003 ($000 s except share data)

Certain amounts in the 2004 and 2003 Consolidated Financial Statements have been reclassified to conform to the 2005 presentation.

Cash and cash equivalents For purposes of the Consolidated Financial Statements, the Corporation defines cash and cash equivalents as short-term investments, which have an original maturity of three months or less and are readily convertible into cash.

Securities Securities, when purchased, are designated as Trading, Investment Securities Held to Maturity, or Investment Securities Available for Sale and remain in that category until they are sold or mature. The specific identification method is used in determining the cost of securities sold.

Trading Securities are carried at fair value, with adjustments to the carrying value reflected in the Consolidated Statements of Income. Investment Securities Held to Maturity are carried at cost, adjusted for amortization of premiums and accretion of discounts. The Corporation designates investment securities as held to maturity only when it has the positive intent and ability to hold them to maturity. All other securities are classified as Investment Securities Available for Sale and are carried at fair value with fair value adjustments net of the related income tax effects reported as a component of Accumulated Other Comprehensive Income in the Consolidated Balance Sheets.

Loans held for sale Loans held for sale are carried at the lower of cost or market, determined on an aggregate basis, based on outstanding firm commitments received for such loans or on current market prices.

Loans and leases Interest on loans, other than direct financing leases, is recognized as income based on the loan principal outstanding during the period. Unearned income on financing leases is recognized over the lease term on a basis that results in an approximate level rate of return on the lease investment. Loans are generally placed on nonaccrual status when they are past due 90 days as to either interest or principal. When a loan is placed on nonaccrual status, previously accrued and uncollected interest is charged to interest income on loans. A nonaccrual loan may be restored to an accrual basis when interest and principal payments are brought current and collectibility of future payments is not in doubt.

The Corporation defers and amortizes fees and certain incremental direct costs, primarily salary and employee benefit expenses, over the contractual term of the loan or lease as an adjustment to the yield. The unamortized net fees and costs are reported as part of the loan or lease balance outstanding.

The Corporation periodically reviews the residual values associated with its leasing portfolios. Declines in residual values that are judged to be other than temporary are recognized as a loss resulting in a reduction in the net investment in the lease.

Allowance for loan and lease losses The allowance for loan and lease losses is maintained at a level believed adequate by management to absorb estimated losses inherent in the loan and lease portfolio including loans that have been determined to be impaired. For impaired loans, impairment is measured using one of three alternatives: (1) the present value of expected future cash flows discounted at the loan s effective interest rate; (2) the loan s observable market price, if available; or (3) the fair value of the collateral for collateral dependent loans and loans for which foreclosure is deemed to be probable. Management s determination of the adequacy of the allowance is based on a continual review of the loan and lease portfolio, loan and lease loss experience, economic conditions, growth and composition of the portfolio, and other relevant factors. As a result of management s continual review, the allowance is adjusted through provisions for loan and lease losses charged against income.

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

Notes to Consolidated Financial Statements

December 31, 2005, 2004, and 2003 ($000 s except share data)

Premises and equipment Land is recorded at cost. Premises and equipment are recorded at cost and depreciated principally on the straight-line method with annual rates varying from 10 to 50 years for buildings and 3 to 10 years for equipment. Long-lived assets which are impaired are carried at fair value and long-lived assets to be disposed of are carried at the lower of the carrying amount or fair value less cost to sell. Maintenance and repairs are charged to expense and betterments are capitalized.

Other real estate owned Other real estate owned consists primarily of assets that have been acquired in satisfaction of debts. Other real estate owned is recorded at fair value, less estimated selling costs, at the date of transfer. Valuation adjustments required at the date of transfer for assets acquired in satisfaction of debts are charged to the allowance for loan and lease losses. Subsequent to transfer, other real estate owned is carried at the lower of cost or fair value, less estimated selling costs, based upon periodic evaluations. Rental income from properties and gains on sales are included in other income, and property expenses, which include carrying costs, required valuation adjustments and losses on sales, are recorded in other expense. At December 31, 2005 and 2004, total other real estate owned amounted to $8,869 and $8,056, respectively.

Data processing services Data processing and related revenues are recognized as services are performed based on amounts billable under the contracts. Processing services performed that have not been billed to customers are accrued. Revenue includes shipping and handling costs associated with such income producing activities.

Revenues attributable to the licensing of software are generally recognized upon delivery and performance of certain contractual obligations, provided that no significant vendor obligations remain and collection of the resulting receivable is deemed probable. Service revenues from customer maintenance fees for ongoing customer support and product updates are recognized ratably over the term of the maintenance period. Service revenues from training and consulting are recognized when the services are performed. Conversion revenues associated with the conversion of customers processing systems to Metavante s processing systems are deferred and amortized over the period of the related processing contract, which on average is approximately five years. Deferred revenues, which are included in Accrued Expenses and Other Liabilities in the Consolidated Balance Sheets, amounted to $111,900 and $97,434 at December 31, 2005 and 2004, respectively.

Capitalized software and conversions Direct costs associated with the production of computer software which will be licensed externally or used in a service bureau environment are capitalized and amortized on the straight-line method over the estimated economic life of the product, generally four years. Such capitalized costs are periodically evaluated for impairment and adjusted to net realizable value when impairment is indicated. Direct costs associated with customer system conversions to the data services operations are capitalized and amortized on the straight-line method over the terms of the related servicing contract. Routine maintenance of software products, design costs and development costs incurred prior to establishment of a product s technological feasibility for software to be sold, are expensed as incurred.

Net unamortized costs, which are included in Accrued Interest and Other Assets in the Consolidated Balance Sheets, at December 31 were:

	2005	2004
Software	$ 154,058	$ 161,078
Conversions	26,666	26,524
Total	$ 180,724	$ 187,602

Amortization expense, which includes software write-downs, was $68,170, $72,527 and $82,076, for 2005, 2004 and 2003, respectively. During 2004, Metavante determined that certain products had limited growth potential. Based on strategic product reviews and the results of net realizable tests performed on these products, it was determined that the capitalized software and other assets associated with those products were impaired. Total capitalized software costs written off amounted to $8,662 for the year ended December 31, 2004. As a result of a shift in product strategy, Metavante determined that certain internally developed software would no longer be used and wrote-off $21,236 of such software in 2003.

The Corporation annually tests goodwill for impairment using a two-step process that begins with an estimation of the fair value of a reporting unit. For purposes of the test, the Corporation s reporting units are the operating segments as defined in Statement of Financial Accounting Standards No. 131, ***Disclosures about***

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Notes to Consolidated Financial Statements

December 31, 2005, 2004, and 2003 ($000 s except share data)

Segments of an Enterprise and Related Information. The first step is a screen for potential impairment and the second step measures the amount of impairment, if any. See Note 10 for additional information.

Identifiable intangibles arising from purchase acquisitions with a finite useful life are amortized over their useful lives and consist of core deposit intangibles, contract rights, tradenames and customer lists.

Identifiable intangibles that have been determined to have an indefinite useful life are not amortized but are subject to periodic tests for impairment. At December 31, 2005, the Corporation did not have any identifiable intangibles that have been determined to have an indefinite useful life.

Derivative financial instruments Derivative financial instruments, including certain derivative instruments embedded in other contracts, are carried in the Consolidated Balance Sheets as either an asset or liability measured at its fair value. The fair value of the Corporation s derivative financial instruments is determined based on quoted market prices for comparable transactions, if available, or a valuation model that calculates the present value of expected future cash flows.

Changes in the fair value of derivative financial instruments are recognized currently in earnings unless specific hedge accounting criteria are met. For derivative financial instruments designated as hedging the exposure to changes in the fair value of a recognized asset or liability (fair value hedge), the gain or loss is recognized in earnings in the period of change together with the offsetting loss or gain on the hedged item attributable to the risk being hedged. For derivative financial instruments designated as hedging the exposure to variable cash flows of a forecasted transaction (cash flow hedge), the effective portion of the derivative financial instrument s gain or loss is initially reported as a component of accumulated other comprehensive income and is subsequently reclassified into earnings when the forecasted transaction affects earnings. The ineffective portion of the gain or loss is reported in earnings immediately.

At inception of a hedge, the Corporation formally documents the hedging relationship as well as the Corporation s risk management objective and strategy for undertaking the hedge, including identification of the hedging instrument, the hedged transaction, the nature of the risk being hedged, and how the hedging instrument s effectiveness in hedging the exposure will be assessed.

The adjustment of the carrying amount of an interest bearing hedged asset or liability in a fair value hedge is amortized into earnings when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged.

If a cash flow hedge is discontinued because it is probable that the original forecasted transaction will not occur, the net gain or loss in accumulated other comprehensive income is immediately reclassified into earnings. If the cash flow hedge is sold, terminated, expires or the designation of the cash flow hedge is removed, the net gain or loss in accumulated other comprehensive income is reclassified into earnings in the same period or periods during which the hedged forecasted transaction affects earnings.

Cash flows from derivative financial instruments are reported in the Consolidated Statements of Cash Flows as operating activities.

Foreign exchange contracts Foreign exchange contracts include such commitments as foreign currency spot, forward, future and option contracts. Foreign exchange contracts and the premiums on options written or sold are carried at market value with changes in market value included in other income.

Treasury stock Treasury stock acquired is recorded at cost and is carried as a reduction of shareholders equity in the Consolidated Balance Sheets. Treasury stock issued is valued based on average cost. The difference between the consideration received upon issuance and the average cost is charged or credited to additional paid-in capital.

New accounting pronouncements In May 2005, the FASB issued Statement of Financial Accounting Standards No. 154, ***Accounting Changes and Error Corrections*** (SFAS 154). This statement is effective for accounting changes and corrections of errors made after January 1, 2006. SFAS 154 generally requires retrospective application of prior periods financial statements of a voluntary change in accounting principle. However, this statement does not change the transition provisions of any existing accounting pronouncement, including those that are in a

transition phase as of the effective date of SFAS 154.

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

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

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

The following FASB Staff positions (FSP) were issued to provide guidance in implementing SFAS 123(R). The guidance in these FSPs should be applied in accordance with the effective date and transition provisions of SFAS 123(R).

In May 2005, the FASB issued FSP EITF 00-19-1, ***Application of EITF Issue No. 00-19 to Freestanding Financial Instruments Originally Issued as Employee Compensation.*** This FSP clarifies that a requirement to deliver registered shares, in and of itself, will not result in liability classification for freestanding financial instruments originally issued as employee compensation.

In August 2005, the FASB issued FSP FAS 123(R)-1, ***Classification and Measurement of Freestanding Financial Instruments Originally Issued in Exchange for Employee Services under SFAS 123(R).*** This FSP defers the requirements under SFAS 123(R) that make a freestanding financial instrument subject to the recognition and measurement requirements of other generally accepted accounting principles when the rights conveyed by the instrument are no longer dependent on the holder being an employee.

In October 2005, the FASB issued FSP FAS 123(R)-2, ***Practical Accommodation to the Application of Grant Date as defined in FASB Statement 123(R)***. One of the criteria for determining that a share-based payment award has been granted under SFAS 123(R) is a mutual understanding by the employer and employee of the key terms and conditions of a share-based payment award. Considering the practical difficulties of personally communicating the key terms and conditions of a share-based payment award, this FSP establishes criteria such that a mutual understanding of the key terms of an award to an individual employee shall be presumed to exist at the date the award is approved in accordance with the relevant corporate governance requirements if certain criteria are met.

In November 2005, the FASB issued FSP FAS 123(R)-3, ***Transition Election Related to Accounting for the Tax Effects of Share-Based Payment Awards.*** Some entities do not have, and may not be able to re-create, information about the net excess tax benefits that would have qualified as such had those entities adopted SFAS 123 for recognition purposes. This FSP provides a practical elective alternative transition method that is comprised of (a) a computational component that establishes the beginning balance of the Additional Paid-In Capital (APIC) pool related to employee compensation and (b) a simplified method to determine the subsequent impact on the APIC pool of employee awards that are fully vested and outstanding upon the adoption of SFAS 123(R). An entity that adopts SFAS 123(R) using either the modified retrospective application or modified prospective application may make a one-time election to adopt the transition method described in this FSP and may take up to one year from the later of its initial adoption of SFAS 123(R) or the effective date of this FSP to evaluate its available transition alternatives and make its one-time election.

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In February 2006, the FASB issued FSP FAS 123(R)-4, ***Classification of Options and Similar Instruments Issued as Employee Compensation That Allow for Cash Settlement upon the Occurrence of a Contingent Event***. Certain provisions in some share-based payment plans may require an entity to settle outstanding options in cash upon the occurrence of certain contingent events. Under SFAS 123(R), options or similar instruments were required to be classified as liabilities if the entity can be required under any circumstances to settle the option or similar instruments by transferring cash or other assets. This FSP amends SFAS 123(R) such that a cash settlement feature that can be exercised only upon the occurrence of a contingent event that is outside the employee s control is not classified as a liability until it becomes probable that the event will occur.

As permitted under SFAS 123, the Corporation elected to measure and account for share-based compensation cost using the intrinsic value based method of accounting prescribed in APBO 25 and provide the required pro forma disclosures. Under the intrinsic value based method, compensation cost is the excess, if any, of the quoted market price of the stock at grant date or other measurement date over the amount paid to acquire the stock.

The largest differences between SFAS 123(R) and APBO 25 as it relates to the Corporation is the amount of compensation cost attributable to the Corporation s fixed stock option plans and employee stock purchase plan (ESPP). Under APBO 25 no compensation cost is recognized for fixed stock option plans because the exercise price is equal to the quoted market price at the date of grant and therefore there is no intrinsic value. SFAS 123(R) compensation cost would equal the calculated fair value of the options granted. Under APBO 25 no compensation cost is recognized for the ESPP because the discount and the plan meets the definition of a qualified plan of the Internal Revenue Code and meets the requirements of APBO 25. Under SFAS 123(R) the Corporation s ESPP is compensatory because the plan has a provision that establishes the purchase price as an amount based on the lesser of the Corporation s common stock price at date of grant or at date of purchase. SFAS 123(R) compensation cost would be approximately equal to the sum of: the initial discount (15% of beginning of plan period price per share) plus; the value of a one year call option on 85% of a share of common stock and; the value of a one year put option on 15% of a share of common stock for each share purchased.

In contemplation of the adoption of SFAS 123(R) the Corporation, with the assistance of an independent valuation firm, reviewed the various permitted methods of determining the estimated fair value of its fixed stock option plans and concluded that a form of lattice stock option pricing model produces the most representative estimate of fair value for its fixed stock option plans. For purposes of providing the required pro forma disclosures under SFAS 123 and recording compensation cost under SFAS 123(R), all fixed stock options granted after September 30, 2004 were valued using the form of lattice stock option pricing model. Fixed stock options granted before September 30, 2004 were valued using a Black-Scholes closed form option-pricing model.

The Corporation adopted SFAS 123(R) on January 1, 2006 and has elected the Modified Retrospective Application to implement the new standard. Under this method all prior periods will be restated to reflect the effect of expensing stock options and the employee stock purchase plan.

See Note 16 for a description of the Corporation s plans and the pro forma effect of the fair-value-based method of accounting for awards granted, modified, or settled in cash in fiscal years beginning after December 15, 1994. In addition to the effect on net income and earnings per share as shown in Note 16, the Corporation estimates that the impact to Shareholders Equity at December 31, 2005 as a result of applying the Modified Retrospective Application method to adopt SFAS 123(R) is as follows:

	December 31, 2005
Decrease to Retained Earnings	$ (149,544)
Increase to Additional Paid-in Capital	217,205
Net Increase to Shareholders Equity	$ 67,661

The net increase to Shareholders Equity represents the deferred income tax benefit outstanding at December 31, 2005 associated with the cumulative effect on net income from 1995 to 2005 from recognizing share-based compensation previously not reported.

In November 2005, the FASB issued FSP FAS 115-1 and FAS 124-1, ***The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments***. The guidance in this FSP amends SFAS No.

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115, ***Accounting for Certain Investments in Debt and Equity Securities***, SFAS 124, ***Accounting for Certain Investments Held by Not-for-Profit Organizations*** and APBO No. 18, ***The Equity Method of Accounting for Investments in Common Stock.*** The guidance in this FSP also nullifies certain requirements of Emerging Issues Task Force (EITF) Issue No. 03-1, ***The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments*** and supersedes EITF Topic No. D-44, ***Recognition of Other-than Temporary Impairment upon the Planned Sale of a Security Whose Cost Exceeds Fair Value.*** This FSP addresses the determination as to when an investment is considered impaired, whether that impairment is other than temporary, and the measurement of an impairment loss. This FSP also includes accounting considerations subsequent to the recognition of an other-than-temporary impairment and requires certain disclosures about unrealized losses that have not been recognized as other-than temporary impairments. See Note 5 in Notes to Consolidated Financial Statements.

In December 2005, the FASB issued FSP SOP 94-6-1, ***Terms of Loan Products That May Give Rise to a Concentration of Credit Risk***. This FSP was issued to emphasize the requirement to assess the adequacy of disclosures for all lending products especially loan products whose contractual features may increase the exposure of the originator, holder, investor, guarantor, or servicer to risk of nonpayment or realization. See Note 6 in Notes to Consolidated Financial Statements.

2. Earnings Per Share

The following presents a reconciliation of the numerators and denominators of the basic and diluted per share computations (dollars and shares in thousands, except per share data):

	Year Ended December 31, 2005		
	Income (Numerator)	Average Shares (Denominator)	Per Share Amount
Basic earnings per share:			
Income available to common shareholders	$ 727,469	230,849	$ 3.15
Effect of dilutive securities:			
Stock option, restricted stock and other plans		4,033	
Diluted earnings per share:			
Income available to common shareholders	$ 727,469	234,882	$ 3.10

	Year Ended December 31, 2004		
	Income (Numerator)	Average Shares (Denominator)	Per Share Amount
Basic earnings per share:			
Income available to common shareholders	$ 627,086	222,801	$ 2.81
Effect of dilutive securities:			
Stock option, restricted stock and other plans		3,750	
Diluted earnings per share:			
Income available to common shareholders	$ 627,086	226,551	$ 2.77

	Year Ended December 31, 2003		
	Income (Numerator)	Average Shares (Denominator)	Per Share Amount
Basic earnings per share:			
Income available to common shareholders	$ 544,105	226,139	$ 2.41
Effect of dilutive securities:			
Stock option, restricted stock and other plans		2,146	
Diluted earnings per share:			
Income available to common shareholders	$ 544,105	228,285	$ 2.38

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Options to purchase shares of common stock not included in the computation of diluted net income per share because the options exercise price was greater than the average market price of the common shares for the years ended December 31, are as follows:

Year Ended December 31,	Price Range		Shares
2005	$43.310	$47.020	62
2004	39.910	44.200	3,474
2003	31.045	38.250	7,021

3. Business Combinations

The following acquisitions, which are not considered to be material business combinations, were announced during the fourth quarter of 2005:

In December 2005, the Corporation announced the signing of a definitive agreement to acquire Trustcorp Financial, Inc. (Trustcorp), a bank holding company headquartered in St. Louis, Missouri. Trustcorp, with consolidated assets of $746.2 million at December 31, 2005, is the parent company of Missouri State Bank & Trust, a bank with seven offices in the St. Louis metropolitan area. Missouri State Bank & Trust offices will become offices of M&I s affiliate Southwest Bank of St. Louis. Under the terms of the definitive agreement, Trustcorp shareholders will receive 0.7011 of a share of M&I common stock and $7.70 in cash for each Trustcorp share. Based on the price of M&I s shares when the agreeme