MARSHALL & ILSLEY CORP
Form 10-Q
November 09, 2009

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2009

OR

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

For the transition period from __________ to __________

Commission file number 1-33488

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

Wisconsin (State or other jurisdiction of incorporation or organization)	20-8995389 (I.R.S. Employer Identification No.)
770 North Water Street Milwaukee, Wisconsin (Address of principal executive offices)	53202 (Zip Code)

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

None
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No [ ]

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

Yes [ ] No [ ]

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

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

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

Class	Outstanding at October 31, 2009
Common Stock, $1.00 Par Value	524,694,757

MARSHALL & ILSLEY CORPORATION
QUARTERLY REPORT ON FORM 10-Q
FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2009

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	September 30, 2009	December 31, 2008	September 30, 2008
Assets:			
Cash and cash equivalents:			
Cash and due from banks	$ 674,747	$ 851,336	$ 982,132
Federal funds sold and security resale agreements	40,739	101,069	68,623
Money market funds	33,666	120,002	59,938
Total cash and cash equivalents	749,152	1,072,407	1,110,693
Interest bearing deposits at other banks	1,531,018	9,684	8,727
Trading assets, at fair value	270,326	518,361	162,767
Investment securities:			
Available for sale, at fair value	6,310,124	7,430,552	7,131,346
Held to maturity, fair value $124,341 ($243,395 at December 31, 2008 and $256,463 at September 30, 2008)	120,054	238,009	251,902
Loans held for sale	271,139	220,391	152,740
Loans and leases	45,835,175	49,764,153	50,264,502
Allowance for loan and lease losses	(1,413,743)	(1,202,167)	(1,031,494)
Net loans and leases	44,421,432	48,561,986	49,233,008
Premises and equipment, net	569,875	564,789	541,799
Goodwill	611,746	605,144	2,097,025
Other intangible assets	139,920	158,305	139,574
Bank-owned life insurance	1,181,564	1,157,612	1,158,392
Other real estate owned (OREO)	351,216	320,908	267,224
Accrued interest and other assets	2,017,757	1,478,270	1,245,700
Total Assets	$ 58,545,323	$ 62,336,418	$ 63,500,897
Liabilities and Equity:			
Deposits:			
Noninterest bearing	$ 8,286,269	$ 6,879,994	$ 6,359,020
Interest bearing	33,434,120	34,143,147	33,680,582
Total deposits	41,720,389	41,023,141	40,039,602
Federal funds purchased and security repurchase agreements	718,106	1,190,000	2,230,421
Other short-term borrowings	822,520	2,868,033	4,036,777
Accrued expenses and other liabilities	1,370,032	1,370,969	977,552
Long-term borrowings	7,511,960	9,613,717	9,714,687
Total Liabilities	52,143,007	56,065,860	56,999,039

Equity:			
Preferred stock, $1.00 par value; 5,000,000 shares authorized; 1,715,000 shares issued and outstanding of Senior Preferred Stock, Series B (liquidation preference of $1,000 per share)	1,715	1,715	-
Common stock, $1.00 par value; 373,764,081 shares issued (272,318,615 shares at December 31, 2008 and 267,455,394 shares at September 30, 2008)	373,764	272,319	267,455
Additional paid-in capital	4,295,403	3,838,867	2,063,165
Retained earnings	1,930,715	2,538,989	4,513,574
Treasury stock, at cost: 5,453,457 shares (6,977,434 shares at December 31, 2008 and 7,434,382 shares at September 30, 2008)	(150,590)	(192,960)	(205,713)
Deferred compensation	(37,355)	(40,797)	(38,736)
Accumulated other comprehensive income, net of related taxes	(22,278)	(157,952)	(107,803)
Total Marshall & Ilsley Corporation shareholders' equity	6,391,374	6,260,181	6,491,942
Noncontrolling interest in subsidiaries	10,942	10,377	9,916
Total Equity	6,402,316	6,270,558	6,501,858
Total Liabilities and Equity	$ 58,545,323	$ 62,336,418	$ 63,500,897

See notes to financial statements.

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

	Three Months Ended September 30, 2009	2008
Interest and fee income		
Loans and leases	$ 547,505	$ 714,099
Investment securities:		
Taxable	43,565	68,959
Exempt from federal income taxes	10,671	13,034
Trading securities	136	368
Short-term investments	1,200	2,191
Total interest and fee income	603,077	798,651
Interest expense		
Deposits	133,633	213,858
Short-term borrowings	1,546	34,645
Long-term borrowings	79,207	109,499
Total interest expense	214,386	358,002
Net interest income	388,691	440,649
Provision for loan and lease losses	578,701	154,962
Net interest income (loss) after provision for loan and lease losses	(190,010)	285,687
Other income		
Wealth management	66,678	71,349
Service charges on deposits	33,564	36,676
Gain on sale of mortgage loans	11,771	4,537
Other mortgage banking revenue	934	961
Net investment securities gains (losses)	(1,517)	987
Bank-owned life insurance revenue	10,347	12,763
Gain on termination of debt	56,148	-
OREO income	4,317	3,965
Other	45,623	52,594
Total other income	227,865	183,832
Other expense		
Salaries and employee benefits	179,175	184,018
Net occupancy and equipment	33,297	31,655
Software expenses	7,704	6,508
Processing charges	33,623	33,202
Supplies, printing, postage and delivery	8,376	9,289
FDIC insurance	17,813	6,005
Professional services	23,541	16,493
Amortization of intangibles	5,889	5,999
OREO expenses	56,445	14,111
Other	43,119	52,520
Total other expense	408,982	359,800
Income (loss) before income taxes	(371,127)	109,719
Provision (benefit) for income taxes	(148,170)	26,378

Net income (loss)		(222,957)		83,341
Less: Net income attributable to noncontrolling interests		(402)		(203)
Net income (loss) attributable to Marshall & Ilsley Corporation		(223,359)		83,138
Preferred dividends		(25,068)		-
Net income (loss) attributable to Marshall & Ilsley Corporation common shareholders	$	(248,427)	$	83,138
Per share attributable to Marshall & Ilsley Corporation common shareholders:				
Basic	$	(0.68)	$	0.32
Diluted	$	(0.68)	$	0.32
Dividends paid per common share	$	0.01	$	0.32
Weighted average common shares outstanding (000's):				
Basic		366,846		258,877
Diluted		366,846		259,224

See notes to financial statements.

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

	Nine Months Ended September 30, 2009	2008
Interest and fee income		
Loans and leases	$ 1,671,002	$ 2,224,248
Investment securities:		
Taxable	164,096	218,212
Exempt from federal income taxes	34,468	41,170
Trading securities	3,574	1,361
Short-term investments	2,228	7,278
Total interest and fee income	1,875,368	2,492,269
Interest expense		
Deposits	409,995	705,837
Short-term borrowings	8,419	126,207
Long-term borrowings	274,693	341,554
Total interest expense	693,107	1,173,598
Net interest income	1,182,261	1,318,671
Provision for loan and lease losses	1,675,617	1,187,264
Net interest income (loss) after provision for loan and lease losses	(493,356)	131,407
Other income		
Wealth management	195,197	217,988
Service charges on deposits	102,932	110,255
Gain on sale of mortgage loans	38,339	18,603
Other mortgage banking revenue	3,219	2,883
Net investment securities gains	81,220	27,155
Bank-owned life insurance revenue	27,625	37,126
Gain on termination of debt	68,446	-
OREO income	9,849	6,788
Other	144,945	161,264
Total other income	671,772	582,062
Other expense		
Salaries and employee benefits	521,601	545,254
Net occupancy and equipment	99,527	94,110
Software expenses	21,317	19,090
Processing charges	101,157	98,992
Supplies, printing, postage and delivery	26,400	32,609
FDIC insurance	82,150	10,022
Professional services	64,719	48,140
Amortization of intangibles	17,526	17,921
OREO expenses	124,846	49,323
Other	109,555	140,084
Total other expense	1,168,798	1,055,545
Loss before income taxes	(990,382)	(342,076)
Benefit for income taxes	(467,295)	(178,272)

Net loss		(523,087)		(163,804)
Less: Net income attributable to noncontrolling interests		(1,193)		(640)
Net loss attributable to Marshall & Ilsley Corporation		(524,280)		(164,444)
Preferred dividends		(75,040)		-
Net loss attributable to Marshall & Ilsley Corporation common shareholders	$	(599,320)	$	(164,444)
Per share attributable to Marshall & Ilsley Corporation common shareholders:				
Basic	$	(1.97)	$	(0.63)
Diluted	$	(1.97)	$	(0.63)
Dividends paid per common share	$	0.03	$	0.95
Weighted average common shares outstanding (000's):				
Basic		304,450		259,146
Diluted		304,450		259,146

See notes to financial statements.

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

	Nine Months Ended September 30, 2009	Nine Months Ended September 30, 2008
Net Cash Provided by Operating Activities	$ 828,767	$ 561,840
Cash Flows from Investing Activities:		
Net increase in short-term investments	(1,521,332)	(13)
Proceeds from sales of securities available for sale	1,245,647	122,524
Proceeds from maturities of securities available for sale	1,228,936	971,069
Proceeds from sales of securities held to maturity	-	1,633
Proceeds from maturities of securities held to maturity	119,040	122,735
Purchases of securities available for sale	(1,097,075)	(624,699)
Net decrease/(increase) in loans and leases	1,989,954	(3,443,587)
Purchases of premises and equipment, net	(42,105)	(71,106)
Cash paid for acquisitions, net of cash and cash equivalents acquired	(479)	(476,625)
Proceeds from divestitures	-	2,460
Net proceeds from sale of OREO	207,193	67,204
Net cash provided by/(used in) investing activities	2,129,779	(3,328,405)
Cash Flows from Financing Activities:		
Net increase in deposits	733,073	3,255,764
Net decrease in short-term borrowings	(2,514,236)	(648,774)
Proceeds from issuance of long-term borrowings	375	1,282,056
Payments of long-term borrowings	(1,989,112)	(1,484,046)
Dividends paid on preferred stock	(64,551)	-
Dividends paid on common stock	(8,953)	(244,990)
Proceeds from the issuance of common stock	561,987	25,606
Purchases of common stock	-	(130,870)
Other	(384)	-
Net cash (used in)/provided by financing activities	(3,281,801)	2,054,746
Net decrease in cash and cash equivalents	(323,255)	(711,819)
Cash and cash equivalents, beginning of year	1,072,407	1,822,512
Cash and cash equivalents, end of period	$ 749,152	$ 1,110,693
Supplemental Cash Flow Information:		
Cash paid/(received) during the period for:		
Interest	$ 770,216	$ 1,240,144
Income taxes	(118,564)	76,742

See notes to financial statements.

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MARSHALL & ILSLEY CORPORATION
Notes to Financial Statements
September 30, 2009 & 2008 (Unaudited)

1. Basis of Presentation

The accompanying unaudited consolidated financial statements should be read in conjunction with Marshall & Ilsley Corporation's Annual Report on Form 10-K for the year ended December 31, 2008 ("2008 10-K"). In management's opinion, the unaudited financial information included in this report reflects all adjustments consisting of normal recurring accruals which are necessary for a fair statement of the financial position and results of operations as of and for the three and nine months ended September 30, 2009 and 2008. The results of operations for the three and nine months ended September 30, 2009 and 2008 are not necessarily indicative of results to be expected for the entire year. The Corporation issued its consolidated financial statements by filing them with the Securities and Exchange Commission (the "SEC") on November 9, 2009 and has evaluated subsequent events up to the time the consolidated financial statements were filed.

2. New Accounting Pronouncements

In June 2009, the Financial Accounting Standards Board ("FASB") issued the FASB Accounting Standards CodificationTM (the "Codification") to become the single official source of authoritative, nongovernmental U.S. Generally Accepted Accounting Principles ("GAAP"), except for rules and interpretive releases of the SEC, which are also sources of authoritative GAAP for SEC registrants. The Codification is effective for financial statements issued for interim and annual periods ending after September 15, 2009. The Codification did not change GAAP but reorganizes the literature using a consistent structure organized by topic, subtopic, section and paragraph, each of which is identified by a numerical designation. As the Codification was not intended to change or alter existing GAAP, it did not impact the consolidated financial statements. However, the Corporation ceased using prior GAAP references and is using the new Codification when referring to GAAP in these Notes to Consolidated Financial Statements.

New accounting guidance issued after the effective date of the Codification will be issued in the form of Accounting Standards Updates ("ASUs"). ASUs will not be considered authoritative in their own right, but instead will serve to update the Codification.

In September 2009, the FASB issued ASU 2009-12, Investments in Certain Entities that Calculate Net Asset Value per Share (or its Equivalent) ("ASU 2009-12"), which provides additional guidance on how the fair value of alternative investments such as private equity investments should be estimated and requires additional disclosures of the investment's attributes. Under the updated guidance, the fair value of investments within its scope can be determined using the investment's net asset value per share or its equivalent. The Corporation elected to early adopt ASU 2009-12 as of September 30, 2009, as permitted. The impact of adoption was not significant. See Note 3- Fair Value Measurements in the Notes to Financial Statements for more information regarding the attributes of the Corporation's private equity investments.

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

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

In May 2009, the FASB issued the Subsequent Events Topic of the Codification, which sets forth general standards for potential recognition or disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. This topic became effective in the second quarter of 2009 and did not have a material impact on the consolidated financial statements.

In April 2009, the FASB issued additional application guidance and required enhanced disclosures regarding fair value measurements and impairments of investment securities.

Additional application guidance included in the Fair Value Measurements and Disclosures Topic of the Codification relates to estimating fair value, when the volume and level of activity for the asset or liability have decreased significantly and for identifying circumstances that indicate a transaction is not orderly. Application guidance included in the Investments – Debt and Equity Securities Topic of the Codification amended previous other-than-temporary impairment guidance in GAAP for debt securities to make the guidance more operational and to improve the presentation and disclosure of other-than-temporary impairments on debt and equity securities in the financial statements. No amendments were made related to the recognition and measurement guidance related to other-than-temporary impairments of equity securities. As permitted, the Corporation elected to early adopt this application guidance as of January 1, 2009. See Note 7 – Investment Securities in Notes to Financial Statements for information regarding the impact of adopting this application guidance.

Enhanced disclosures related to the Financial Instruments Topic of the Codification require disclosures about the fair value of financial instruments in interim reporting periods of publicly traded companies as well as in annual financial statements. These disclosure provisions were effective for the Corporation's quarter ended June 30, 2009. See Note 3 – Fair Value Measurements and Note 14 – Fair Value of Financial Instruments in Notes to Financial Statements for information regarding the fair value of financial instruments at September 30, 2009.

On January 1, 2009, the Corporation adopted updated accounting and reporting guidance under the Consolidation Topic of the Codification for ownership interests in consolidated subsidiaries held by parties other than the parent, previously known as minority interests and now known as noncontrolling interests, including the accounting treatment upon the deconsolidation of a subsidiary. The updated accounting and reporting guidance clarifies that a noncontrolling interest in a subsidiary is an ownership interest in the consolidated entity that should be reported as a separate component within total equity in the consolidated financial statements. Additionally, consolidated net income is now reported with separate disclosure of the amounts attributable to the parent and to the noncontrolling interests.

The changes to the Consolidation Topic of the Codification were applied prospectively, except for the provisions related to the presentation of noncontrolling interests. As of September 30, 2009, December 31, 2008 and September 30, 2008, noncontrolling interests of $10.9 million, $10.4 million and $9.9 million, respectively, have been reclassified from Accrued Expenses and Other Liabilities to Total Equity in the Consolidated Balance Sheets. For the three months ended September 30, 2009 and 2008, net income attributable to noncontrolling interests of $0.4 million and $0.2 million, respectively, is included in net income. For the nine months ended September 30, 2009 and 2008, net income attributable to noncontrolling interests of $1.2 million and $0.6 million, respectively, is included in net income. Prior to the adoption of Consolidation Topic of the Codification, noncontrolling interests were a deduction to determine net income. Under the updated Consolidation Topic of the Codification, noncontrolling interests are a deduction from net income used to arrive at net income attributable to the Corporation. Earnings per common share was not affected as a result of the adoption of the provisions of the updated Consolidation Topic of the

Codification.

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

3. Fair Value Measurements

The Fair Value Measurements and Disclosures Topic of the Codification generally applies whenever other topics require or permit assets or liabilities to be measured at fair value. Under the topic, fair value refers to the price at the measurement date that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in which the reporting entity is engaged. The topic does not expand the use of fair value in any new circumstances.

Fair-Value Hierarchy

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

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

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

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

Determination of Fair Value

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

Trading Assets and Investment Securities

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

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

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

The Corporation's Private Equity investments generally take the form of investments in private equity funds. The private equity investments are valued using the Corporation's ownership interest in partners' capital to which a proportionate share of net assets is attributed and the valuations provided by the general partners on a quarterly basis. These nonpublic investments are included in Level 3 of the fair value hierarchy because the fair value is not readily determinable and the redemption of the investments will occur via distribution through the sale of the underlying investments of the private equity fund. The private equity fund lives are generally ten years and the majority of the private equity distributions are expected to occur in the next five to ten years. At September 30, 2009, unfunded private equity commitments were approximately $50 million.

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

Derivative Financial Instruments

Fair values for exchange-traded contracts are based on quoted prices and are classified as Level 1. The fair value of over-the-counter interest rate contracts are measured using discounted cash flow analysis that incorporates significant inputs, including LIBOR curve, derivative counterparty spreads and measurements of volatility. Interest rate contracts that are valued using discounted cash flow analysis through use of models, and other observable inputs are considered Level 2.

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

On a quarterly basis, the Corporation performs an analysis using historical and market implied default and recovery rates that also consider certain industry conventions established for operational efficiencies to estimate the potential impact on the reported fair values of these derivative financial assets and liabilities due to counterparty credit risk and the Corporation's own credit risk. Based on this analysis, the Corporation determined that the impact of these factors was insignificant and did not make any additional credit risk adjustments for purposes of determining the reported fair values of these derivative assets and liabilities with dealers at September 30, 2009.

Certain derivative transactions are executed with customers whose counterparty credit risk is similar in nature to the credit risk associated with the Corporation's lending activities. As is the case with a loan, the Corporation evaluates the credit risk of each of these customers on an individual basis and, where deemed appropriate, collateral is obtained. The type of collateral varies and is often the same collateral as the collateral obtained to secure a customer's loan. For purposes of assessing the potential impact of counterparty credit risk on the fair values of derivative assets with customers, the Corporation used a probability analysis to estimate the amount of expected loss exposure due to customer default at some point in the remaining term of the entire portfolio of customer derivative contracts outstanding at September 30, 2009. While not significant, the Corporation did factor the estimated amount of expected loss due to customer default in the reported fair value of its customer derivative assets at September 30, 2009.

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Assets and liabilities measured at fair value on a recurring basis are categorized in the tables below based upon the lowest level of significant input to the valuations as of September 30, 2009 ($000's):

	Quoted Prices in Active Markets for Identical Assets or Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets (1)			
Trading Assets:			
Trading securities	$ -	$ 18,425	$ -
Derivative assets	-	251,901	-
Total trading assets	$ -	$ 270,326	$ -
Investment securities available for sale (2)			
Investment securities	$ 154	$ 5,593,363	$ 201,866
Private equity investments	-	-	68,870
Total investment securities available for sale	$ 154	$ 5,593,363	$ 270,736
Accrued interest and other assets:			
Financial guarantees - credit protection purchased	$ -	$ 14	$ -
Liabilities (1)			
Other short-term borrowings	$ -	$ 6,696	$ -
Accrued expenses and other liabilities:			
Derivative liabilities	$ -	$ 220,228	$ 11,600
Financial guarantees - credit protection sold	-	198	-
Total accrued expenses and other liabilities	-	220,426	11,600

(1) The amounts presented above exclude certain over-the-counter interest rate swaps that are the designated hedging instruments in fair value and cash flow hedges that are used by the Corporation to manage its interest rate risk. These interest rate swaps are measured at fair value on a recurring basis based on significant other observable inputs and are categorized as Level 2. See Note 13 – Derivative Financial Instruments and Hedging Activities in Notes to Financial Statements for further information. Level 3 derivative liabilities represent the fair value of the derivative financial instrument entered into in conjunction with the sale of the Corporation's shares of Visa, Inc. ("Visa") Class B common stock. See Note 17 – Guarantees in Notes to Financial Statements for additional information regarding Visa.

(2)

The investment securities included in Level 3 are primarily senior tranche asset-backed securities. The amounts presented are exclusive of $390,643 of investments in Federal Reserve Bank and FHLB stock, which are bought and sold at par and are carried at cost, and $55,228 in affordable housing partnerships, which are generally carried on the equity method.

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Level 3 Gains and Losses

The table presented below summarizes the change in balance sheet carrying values associated with financial instruments measured using significant unobservable inputs (Level 3) during the nine months ended September 30, 2009 ($000's):

	Investment Securities (1)	Private Equity Investments (2)	Other Assets	Total	Derivative Liabilities
Balance at December 31, 2008	$ 135,953	$ 65,288	$ 5,903	$ 207,144	$ -
Net payments, purchases and sales	(1,008)	706	(255)	(557)	-
Discount accretion	49	-	160	209	-
Net transfers in and/or out of Level 3	(2,860)	-	-	(2,860)	-
Total gains or losses (realized or unrealized):					
Included in earnings	-	228	52	280	-
Included in other comprehensive income	34,993	-	(606)	34,387	-
Balance at March 31, 2009	$ 167,127	$ 66,222	$ 5,254	$ 238,603	$ -
Net payments, purchases and sales	(1,048)	426	(194)	(816)	-
Discount accretion	41	-	148	189	-
Net transfers in and/or out of Level 3	-	-	-	-	-
Total gains or losses (realized or unrealized):					
Included in earnings	-	3,869	10	3,879	14,743
Included in other comprehensive income	18,439	-	(273)	18,166	-
Balance at June 30, 2009	$ 184,559	$ 70,517	$ 4,945	$ 260,021	$ 14,743
Net payments, purchases and sales	(902)	2,833	(4,624)	(2,693)	(3,143)
Discount accretion	44	-	-	44	-
Net transfers in and/or out of Level 3	31,447	-	-	31,447	-
Total gains or losses (realized or unrealized):					
Included in earnings	-	(4,480)	238	(4,242)	-
Included in other comprehensive income	(13,282)	-	(559)	(13,841)	-
Balance at September 30, 2009	$ 201,866	$ 68,870	$ -	$ 270,736	$ 11,600

Unrealized gains or (losses) for the period included in earnings attributable to unrealized gains or losses for financial instruments still held at September 30, 2009	$ -	$ (671)	$ -	$ (671)	$ (14,743)

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

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

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Assets and liabilities measured at fair value on a recurring basis are categorized in the tables below based upon the lowest level of significant input to the valuations as of September 30, 2008 ($000's):

	Quoted Prices in Active Markets for Identical Assets or Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets (1)			
Trading Assets:			
Trading securities	$ -	$ 69,532	$ -
Derivative assets	214	93,021	-
Total trading assets	$ 214	$ 162,553	$ -
Investment securities available for sale (2)			
Investment securities	$ 244	$ 6,510,832	$ 172,966
Private equity investments	-	-	72,434
Other assets	-	-	5,756
Total investment securities available for sale	$ 244	$ 6,510,832	$ 251,156
Liabilities (1)			
Other short-term borrowings	$ -	$ 6,634	$ -
Accrued expenses and other liabilities:			
Derivative liabilities	$ (1,215)	$ 69,852	$ -

(1) The amounts presented above exclude certain over-the-counter interest rate swaps that are the designated hedging instruments in fair value and cash flow hedges that are used by the Corporation to manage its interest rate risk. These interest rate swaps are measured at fair value on a recurring basis based on significant other observable inputs and are categorized as Level 2. See Note 13 in Notes to Financial Statements for further information.

(2) The amounts presented are exclusive of $327,323 of investments in Federal Reserve Bank and FHLB stock, which are bought and sold at par and are carried at cost, and $41,791 in affordable housing partnerships, which are generally carried on the equity method.

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Level 3 Gains and Losses

The table presented below summarizes the change in balance sheet carrying values associated with financial instruments measured using significant unobservable inputs (Level 3) during the nine months ended September 30, 2008 ($000's):

	Investment Securities (1)	Private Equity Investments (2)	Other Assets	Total
Balance at January 1, 2008	$ 2,066	$ 54,121	$ 9,030	$ 65,217
Net payments, purchases and sales	14,319	2,682	(977)	16,024
Discount accretion	5	-	209	214
Total gains or losses (realized or unrealized):				
Included in earnings	-	1,051	(2,020)	(969)
Included in other comprehensive income	-	-	(29)	(29)
Balance at March 31, 2008	$ 16,390	$ 57,854	$ 6,213	$ 80,457
Net payments, purchases and sales	(3)	3,092	(965)	2,124
Discount accretion/(premium amortization)	(2)	-	183	181
Net transfers in and/or out of Level 3	56,007	-	-	56,007
Total gains or losses (realized or unrealized):				
Included in earnings	-	613	-	613
Included in other comprehensive income	-	-	764	764
Balance at June 30, 2008	$ 72,392	$ 61,559	$ 6,195	$ 140,146
Net payments, purchases and sales	10,746	9,834	(626)	19,954
Discount accretion	31	-	173	204
Net transfers in and/or out of Level 3	129,691	-	-	129,691
Total gains or losses (realized or unrealized):				
Included in earnings	-	1,041	-	1,041
Included in other comprehensive income	(39,894)	-	14	(39,880)
Balance at September 30, 2008	$ 172,966	$ 72,434	$ 5,756	$ 251,156
Unrealized gains or losses for the period included in earnings attributable to unrealized gains or losses for financial instruments still held at September 30, 2008	$ -	$ 165	$ (2,020)	$ (1,855)

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

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

Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis

Loans held for sale are recorded at lower of cost or market and therefore are reported at fair value on a nonrecurring basis. Such fair values are generally based on bids and are considered Level 2 fair values.

Nonaccrual loans greater than an established threshold are individually evaluated for impairment. Impairment is measured based on the fair value of the collateral less estimated selling costs or the fair value of the loan ("collateral value method"). All consumer-related renegotiated loans are evaluated for impairment based on the present value of the estimated cash flows discounted at the loan's original effective interest rate ("discounted cash flow method"). A valuation allowance is recorded for the excess of the loan's recorded investment over the amount determined by either the collateral value method or the discounted cash flow method. This valuation allowance is a component of the Allowance for loan and lease losses. The discounted cash flow method is not a fair value measure. For the collateral value method, the Corporation generally obtains appraisals to support the fair value of collateral underlying loans. Appraisals incorporate measures such as recent sales prices for comparable properties and costs of construction. The Corporation considers these fair values Level 3. For those loans individually evaluated for impairment using the collateral value method, a valuation allowance of $277.2 million and $88.8 million was recorded for loans with a recorded investment of $857.1 million and $375.1 million at September 30, 2009 and September 30, 2008, respectively. See Note 9 – Allowance for Loan and Lease Losses in Notes to Financial Statements for more information.

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OREO is recorded at fair value based on property appraisals, less estimated selling costs, at the date of transfer. Subsequent to transfer, OREO is carried at the lower of cost or fair value, less estimated selling costs. The carrying value of OREO is not re-measured to fair value on a recurring basis but is subject to fair value adjustments when the carrying value exceeds the fair value, less estimated selling costs. At September 30, 2009 and 2008, the estimated fair value of OREO, less estimated selling costs amounted to $351.2 million and $267.2 million, respectively.

On January 1, 2008, the Corporation adopted new guidance under the Financial Instruments Topic of the Codification, which permits entities to choose to measure many financial instruments and certain other items generally on an instrument-by-instrument basis at fair value that are not currently required to be measured at fair value. This guidance is intended to provide entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. The Financial Instruments Topic of the Codification does not change requirements for recognizing and measuring dividend income, interest income, or interest expense. The Corporation did not elect to measure any existing financial instruments at fair value. However, the Corporation may elect to measure newly acquired financial instruments at fair value in the future.

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4. Comprehensive Income

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

	Three Months Ended September 30, 2009		
	Before-Tax Amount	Tax (Expense) Benefit	Net-of-Tax Amount
Net loss			$ (222,957)
Other comprehensive income (loss):			
Unrealized gains (losses) on available for sale investment securities:			
Arising during the period	$ 59,330	$ (21,108)	$ 38,222
Reclassification for securities transactions included in net income	(2,787)	975	(1,812)
Total unrealized gains (losses) on available for sale investment securities	$ 56,543	$ (20,133)	$ 36,410
Unrealized gains (losses) on derivatives hedging variability of cash flows:			
Arising during the period	$ 547	$ (191)	$ 356
Reclassification adjustments for hedging activities included in net income	16,349	(5,722)	10,627
Total net gains (losses) on derivatives hedging variability of cash flows	$ 16,896	$ (5,913)	$ 10,983
Unrealized gains (losses) on funded status of defined benefit postretirement plan:			
Arising during the period	$ -	$ -	$ -
Reclassification for amortization of actuarial loss and prior service credit amortization included in net income	(350)	69	(281)
Total unrealized gains (losses) on funded status of defined benefit postretirement plan	$ (350)	$ 69	$ (281)
Other comprehensive income, net of tax			47,112
Total comprehensive income (loss)			(175,845)
Less: Comprehensive income attributable to the noncontrolling interests			(402)
Comprehensive income (loss) attributable to Marshall & Ilsley Corporation			$ (176,247)

	Three Months Ended September 30, 2008		
	Before-Tax Amount	Tax (Expense) Benefit	Net-of-Tax Amount
Net income			$ 83,341
Other comprehensive income (loss):			
Unrealized gains (losses) on available for sale investment securities:			
Arising during the period	$ (56,128)	$ 19,630	$ (36,498)
Reclassification for securities transactions included in net income	(207)	72	(135)
Total unrealized gains (losses) on available for sale investment securities	$ (56,335)	$ 19,702	$ (36,633)
Unrealized gains (losses) on derivatives hedging variability of cash flows:			
Arising during the period	$ (15,034)	$ 5,262	$ (9,772)
Reclassification adjustments for hedging activities included in net income	11,552	(4,043)	7,509
Total net gains (losses) on derivatives hedging variability of cash flows	$ (3,482)	$ 1,219	$ (2,263)
Unrealized gains (losses) on funded status of defined benefit postretirement plan:			
Arising during the period	$ -	$ -	$ -
Reclassification for amortization of actuarial loss and prior service credit amortization included in net income	(497)	184	(313)
Total unrealized gains (losses) on funded status of defined benefit postretirement plan	$ (497)	$ 184	$ (313)
Other comprehensive income (loss), net of tax			(39,209)
Total comprehensive income			44,132
Less: Comprehensive income attributable to the noncontrolling interests			(203)
Comprehensive income attributable to Marshall & Ilsley Corporation			$ 43,929

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	Nine Months Ended September 30, 2009		
	Before-Tax Amount	Tax (Expense) Benefit	Net-of-Tax Amount
Net loss			$ (523,087)
Other comprehensive income (loss):			
Unrealized gains (losses) on available for sale investment securities:			
Arising during the period	$ 198,132	$ (69,843)	$ 128,289
Reclassification for securities transactions included in net income	(46,655)	16,329	(30,326)
Total unrealized gains (losses) on available for sale investment securities	$ 151,477	$ (53,514)	$ 97,963
Unrealized gains (losses) on derivatives hedging variability of cash flows:			
Arising during the period	$ 11,274	$ (3,945)	$ 7,329
Reclassification adjustments for hedging activities included in net income	47,903	(16,766)	31,137
Total net gains (losses) on derivatives hedging variability of cash flows	$ 59,177	$ (20,711)	$ 38,466
Unrealized gains (losses) on funded status of defined benefit postretirement plan:			
Arising during the period	$ -	$ -	$ -
Reclassification for amortization of actuarial loss and prior service credit amortization included in net income	(1,049)	294	(755)
Total unrealized gains (losses) on funded status of defined benefit postretirement plan	$ (1,049)	$ 294	$ (755)
Other comprehensive income, net of tax			135,674
Total comprehensive income (loss)			(387,413)
Less: Comprehensive income attributable to the noncontrolling interests			(1,193)
Comprehensive income (loss) attributable to Marshall & Ilsley Corporation			$ (388,606)

	Nine Months Ended September 30, 2008		
	Before-Tax Amount	Tax (Expense) Benefit	Net-of-Tax Amount
Net loss			$ (163,804)
Other comprehensive income (loss):			
Unrealized gains (losses) on available for sale investment securities:			
Arising during the period	$ (87,660)	$ 30,646	$ (57,014)
Reclassification for securities transactions included in net income	(340)	119	(221)
Total unrealized gains (losses) on available for sale investment securities	$ (88,000)	$ 30,765	$ (57,235)
Unrealized gains (losses) on derivatives hedging variability of cash flows:			
Arising during the period	$ (23,197)	$ 8,119	$ (15,078)
Reclassification adjustments for hedging activities included in net income	29,529	(10,335)	19,194
Total net gains (losses) on derivatives hedging variability of cash flows	$ 6,332	$ (2,216)	$ 4,116
Unrealized gains (losses) on funded status of defined benefit postretirement plan:			
Arising during the period	$ -	$ -	$ -
Reclassification for amortization of actuarial loss and prior service credit amortization included in net income	(1,553)	576	(977)
Total unrealized gains (losses) on funded status of defined benefit postretirement plan	$ (1,553)	$ 576	$ (977)
Other comprehensive income (loss), net of tax			(54,096)
Total comprehensive income (loss)			(217,900)
Less: Comprehensive income attributable to the noncontrolling interests			(640)
Comprehensive income (loss) attributable to Marshall & Ilsley Corporation			$ (218,540)

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5. Earnings Per Common Share

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

	Three Months Ended September 30, 2009		
	Income (Numerator)	Average Shares (Denominator)	Per Share Amount
Basic:			
Net loss attributable to Marshall & Ilsley Corporation	$ (223,359)		
Preferred stock dividends	(25,068)		
Net loss attributable to Marshall & Ilsley Corporation common shareholders	$ (248,427)	366,846	$ (0.68)
Effect of dilutive securities:			
Stock option, restricted stock and other plans		-	
Diluted:			
Net loss attributable to Marshall & Ilsley Corporation	$ (223,359)		
Preferred stock dividends	(25,068)		
Net loss attributable to Marshall & Ilsley Corporation common shareholders	$ (248,427)	366,846	$ (0.68)

	Three Months Ended September 30, 2008		
	Income (Numerator)	Average Shares (Denominator)	Per Share Amount
Basic:			
Net income attributable to Marshall & Ilsley Corporation	$ 83,138		
Preferred stock dividends	-		
Net income attributable to Marshall & Ilsley Corporation common shareholders	$ 83,138	258,877	$ 0.32
Effect of dilutive securities:			
Stock option, restricted stock and other plans		347	

Diluted:				
Net income attributable to Marshall & Ilsley Corporation	$	83,138		
Preferred stock dividends		-		
Net income attributable to Marshall & Ilsley Corporation common shareholders	$	83,138	259,224	$ 0.32

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	Nine Months Ended September 30, 2009		
	Income (Numerator)	Average Shares (Denominator)	Per Share Amount
Basic:			
Net loss attributable to Marshall & Ilsley Corporation	$ (524,280)		
Preferred stock dividends	(75,040)		
Net loss attributable to Marshall & Ilsley Corporation common shareholders	$ (599,320)	304,450	$ (1.97)
Effect of dilutive securities:			
Stock option, restricted stock and other plans		-	
Diluted:			
Net loss attributable to Marshall & Ilsley Corporation	$ (524,280)		
Preferred stock dividends	(75,040)		
Net loss attributable to Marshall & Ilsley Corporation common shareholders	$ (599,320)	304,450	$ (1.97)

	Nine Months Ended September 30, 2008		
	Income (Numerator)	Average Shares (Denominator)	Per Share Amount
Basic:			
Net loss attributable to Marshall & Ilsley Corporation	$ (164,444)		
Preferred stock dividends	-		
Net loss attributable to Marshall & Ilsley Corporation common shareholders	$ (164,444)	259,146	$ (0.63)
Effect of dilutive securities:			
Stock option, restricted stock and other plans		-	
Diluted:			
Net loss attributable to Marshall & Ilsley Corporation	$ (164,444)		
Preferred stock dividends	-		

Net loss attributable to Marshall & Ilsley Corporation common shareholders	$	(164,444)	259,146	$	(0.63	)

The table below presents the options to purchase shares of common stock not included in the computation of diluted earnings per common share because the exercise price of the outstanding stock options was greater than the average market price of the common shares for the periods ended 2009 and 2008 (anti-dilutive options). As a result of the Corporation's reported net loss for the quarter and nine months ended September 30, 2009 and for the nine months ended September 30, 2008, all of the stock options outstanding were excluded from the computation of diluted earnings per common share (shares in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Shares	32,289	24,165	32,289	29,272
Price Range	$4.76 - $36.82	$15.36 - $36.82	$4.76 - $36.82	$8.55 - $36.82

An outstanding warrant to purchase 13,815,789 shares of the Corporation's common stock issued in connection with the Corporation's participation in the U.S. Treasury Department's Capital Purchase Program was not included in the computation of diluted earnings per common share for the three and nine months ended September 30, 2009 because of the reported net loss. In addition, the $18.62 per share exercise price of the warrant was greater than the average market price of the common shares for the three and nine month periods ended September 30, 2009.

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Effective January 1, 2009, the Corporation adopted updated guidance in the Earnings Per Share Topic of the Codification. Unvested share-based payment awards that provide nonforfeitable rights to dividends (such as restricted stock units granted by the Corporation) are considered participating securities to be included in the computation of earnings per share pursuant to the "two-class method" described in the Earnings Per Share Topic of the Codification. There was no impact to the Corporation's current or prior periods presented as a result of the adoption of this accounting topic.

6. Business Combinations

On May 27, 2009, the Corporation acquired the investment team and managed accounts of Delta Asset Management ("Delta"), an institutional large-cap core equity money manager based in Los Angeles, California. Delta, an operating division of Berkeley Capital Management LLC, had approximately $1.2 billion in assets under management as of April 30, 2009. Total consideration in this transaction amounted to $5.1 million, consisting of 775,166 shares of the Corporation's common stock valued at $6.52 per common share. This is considered a non-cash transaction for the purposes of the Consolidated Statement of Cash Flows. Initial goodwill, subject to the completion of appraisals and valuation of the assets acquired and liabilities assumed, amounted to $3.8 million. The estimated identifiable intangible assets to be amortized (customer relationships and noncompete agreement), subject to a completed valuation, amounted to $1.2 million. The goodwill and intangibles resulting from this acquisition are deductible for tax purposes.

7. Investment Securities

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

	September 30, 2009		December 31, 2008		September 30, 2008	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Available for sale:						
U.S. treasury and government agencies	$ 4,420,214	$ 4,503,112	$ 5,664,947	$ 5,679,970	$ 5,578,898	$ 5,567,319
States and political subdivisions	849,123	893,314	874,183	880,497	878,675	855,642
Residential mortgage backed securities	238,802	236,381	175,740	165,757	103,544	99,536
Corporate notes	10,000	10,000	133,844	134,295	10,000	10,000
	-	-	121	121	-	-

Cash flow hedge - corporate notes						
Corporate notes	10,000	10,000	133,965	134,416	10,000	10,000
Asset backed securities (1)	209,385	148,664	211,676	110,931	213,368	146,899
Equity	115	154	115	127	115	244
Private Equity investments	68,882	68,870	65,300	65,288	72,446	72,434
Federal Reserve Bank & FHLB stock	390,643	390,643	339,779	339,779	327,323	327,323
Affordable Housing Partnerships	55,228	55,228	43,481	43,481	41,791	41,791
Foreign	3,758	3,758	4,403	4,403	4,402	4,402
Other	-	-	4,465	5,903	4,752	5,756
Total	$ 6,246,150	$ 6,310,124	$ 7,518,054	$ 7,430,552	$ 7,235,314	$ 7,131,346
Held to maturity:						
States and political subdivisions	$ 119,054	$ 123,341	$ 237,009	$ 242,395	$ 250,902	$ 255,463
Foreign	1,000	1,000	1,000	1,000	1,000	1,000
Total	$ 120,054	$ 124,341	$ 238,009	$ 243,395	$ 251,902	$ 256,463

(1) Beginning in 2009, the Corporation incorporated a discounted cash flow valuation methodology, which involves an evaluation of the credit quality of the underlying collateral, cash flow structure and risk adjusted discount rates, with market or broker quotes for certain senior tranche asset backed securities that met the criteria of the new accounting guidance included in the Fair Value Measurements and Disclosures Topic of the Codification, for the use of such a valuation methodology. Primarily as a result of this change, the fair value of these securities increased, however, the amount was not material. This change was accounted for as a change in estimate and included in the unrealized gain included in other comprehensive income for the nine months ended September 30, 2009.

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

	September 30, 2009		December 31, 2008		September 30, 2008	
	Unrealized Gains	Unrealized Losses	Unrealized Gains	Unrealized Losses	Unrealized Gains	Unrealized Losses
Available for sale:						
U.S. treasury and government agencies	$ 107,355	$ 24,457	$ 93,541	$ 78,518	$ 42,824	$ 54,403
States and political subdivisions	46,112	1,921	19,387	13,073	8,437	31,470
Residential mortgage backed securities	2,599	5,020	214	10,197	37	4,045
Corporate notes	-	-	464	13	-	-
Cash flow hedge - corporate notes	-	-	-	-	-	-
Corporate notes	-	-	464	13	-	-
Asset backed securities	6	60,727	-	100,745	35	66,504
Equity	39	-	12	-	129	-
Private Equity investments	52	64	52	64	52	64
Federal Reserve Bank & FHLB stock	-	-	-	-	-	-
Affordable Housing Partnerships	-	-	-	-	-	-
Foreign	-	-	-	-	-	-
Other	-	-	1,438	-	1,004	-
Total	$ 156,163	$ 92,189	$ 115,108	$ 202,610	$ 52,518	$ 156,486
Held to maturity:						
States and political subdivisions	$ 4,481	$ 194	$ 5,562	$ 176	$ 4,724	$ 163
Foreign	-	-	-	-	-	-
Total	$ 4,481	$ 194	$ 5,562	$ 176	$ 4,724	$ 163

The following table provides the gross unrealized losses and fair value, aggregated by investment category and the length of time the individual securities have been in a continuous unrealized loss position, at September 30, 2009 ($000's):

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. treasury and government agencies	$ 45,572	$ 435	$ 1,169,834	$ 24,022	$ 1,215,406	$ 24,457
States and political subdivisions	1,804	86	19,477	2,029	21,281	2,115
Residential mortgage backed securities	48,437	2,589	55,052	2,431	103,489	5,020
Corporate notes	-	-	-	-	-	-
Asset backed securities	-	-	147,466	60,727	147,466	60,727
Equity	-	-	-	-	-	-
Private Equity investments	-	-	-	64	-	64
Federal Reserve Bank & FHLB stock	-	-	-	-	-	-
Affordable Housing Partnerships	-	-	-	-	-	-
Foreign	-	-	-	-	-	-
Other	-	-	-	-	-	-
Total	$ 95,813	$ 3,110	$ 1,391,829	$ 89,273	$ 1,487,642	$ 92,383

The investment securities in the above table were temporarily impaired at September 30, 2009. This temporary impairment represents the amount of loss that would have been realized if the investment securities had been sold on September 30, 2009. The temporary impairment in the investment securities portfolio is the result of market interest rates since the investment securities were acquired and not from deterioration in the creditworthiness of the issuer. At September 30, 2009, the Corporation does not intend to sell these temporarily impaired investment securities until a recovery of recorded investment, which may be at maturity, and it is more likely than not that the Corporation will not have to sell the investment securities prior to recovery of recorded investment.

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The following table provides the gross unrealized losses and fair value, aggregated by investment category and the length of time the individual securities have been in a continuous unrealized loss position, at September 30, 2008 ($000's):

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. treasury and government agencies	$ 1,852,361	$ 47,465	$ 428,847	$ 6,938	$ 2,281,208	$ 54,403
States and political subdivisions	394,040	17,162	137,247	14,471	531,287	31,633
Residential mortgage backed securities	35,411	2,390	53,142	1,655	88,553	4,045
Corporate notes	-	-	-	-	-	-
Asset backed securities	145,026	66,504	-	-	145,026	66,504
Equity	-	-	-	-	-	-
Private Equity investments	-	-	-	64	-	64
Federal Reserve Bank & FHLB stock	-	-	-	-	-	-
Affordable Housing Partnerships	-	-	-	-	-	-
Foreign	1,150	-	400	-	1,550	-
Other	-	-	-	-	-	-
Total	$ 2,427,988	$ 133,521	$ 619,636	$ 23,128	$ 3,047,624	$ 156,649

The amortized cost and fair value of investment securities by contractual maturity at September 30, 2009 ($000's):

	Available for Sale		Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Within one year	$ 440,031	$ 448,933	$ 18,620	$ 18,849
From one through five years	3,780,835	3,849,018	46,546	48,329
	790,391	816,720	54,888	57,163

From five through ten years								
After ten years		1,234,893		1,195,453		-		-
Total	$	6,246,150	$	6,310,124	$	120,054	$	124,341

The gross investment securities gains and losses, including Wealth Management transactions, amounted to $3,645 and $5,003 for the three months ended September 30, 2009, respectively and $1,892 and $902 for the three months ended September 30, 2008, respectively. The gross investment securities gains and losses, including Wealth Management transactions, amounted to $89,093 and $7,503 for the nine months ended September 30, 2009, respectively and $31,370 and $4,118 for the nine months ended September 30, 2008, respectively. See the Consolidated Statements of Cash Flows for the proceeds from the sale of investment securities.

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8. Loans and Leases

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

	September 30, 2009	December 31, 2008	September 30, 2008
Commercial, financial and agricultural	$ 13,041,096	$ 14,880,153	$ 15,185,457
Real estate:			
Commercial mortgage	13,884,313	12,541,506	12,114,061
Construction and development	6,314,187	9,043,263	9,759,719
Residential mortgage	5,135,195	5,733,908	5,674,451
Home equity loans and lines of credit	4,812,616	5,082,046	5,053,088
Total real estate	30,146,311	32,400,723	32,601,319
Personal	2,268,122	1,929,374	1,902,123
Lease financing	650,785	774,294	728,343
Total loans and leases	$ 46,106,314	$ 49,984,544	$ 50,417,242

Loans are presented net of unearned income and unamortized deferred fees, which amounted to $108,528, $149,894 and $146,284 at September 30, 2009, December 31, 2008 and September 30, 2008, respectively.

For the nine months ended September 30, 2009 and 2008, loans transferred to OREO amounted to $425,274 and $276,776, respectively. These amounts are considered non-cash transactions for cash flow purposes.

9. Allowance for Loan and Lease Losses

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Balance at beginning of period	$ 1,367,782	$ 1,028,809	$ 1,202,167	$ 496,191
Allowance of banks and loans acquired	-	-	-	32,110
Provision for loan and lease	578,701	154,962	1,675,617	1,187,264

losses				
Charge-offs	(541,593)	(163,295)	(1,494,931)	(707,943)
Recoveries	8,853	11,018	30,890	23,872
Balance at end of period	$ 1,413,743	$ 1,031,494	$ 1,413,743	$ 1,031,494

As of September 30, 2009, December 31, 2008 and September 30, 2008, nonaccrual loans and leases totaled $2,250,061, $1,526,950 and $1,260,642 and renegotiated loans totaled $935,260, $270,357 and $89,486, respectively. Loans past due 90 days or more and still accruing interest amounted to $13,084, $14,528 and $12,070 at September 30, 2009, December 31, 2008 and September 30, 2008, respectively.

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

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At September 30, 2009 and 2008, the Corporation's recorded investment in impaired loans and leases and the related valuation allowance are as follows ($000's):

	September 30, 2009		September 30, 2008	
	Recorded Investment	Valuation Allowance	Recorded Investment	Valuation Allowance
Total nonaccrual and renegotiated loans and leases	$ 3,185,321		$ 1,350,128	
Less: nonaccrual loans held for sale	(128,067)		(34,255)	
Total impaired loans and leases	$ 3,057,254		$ 1,315,873	
Loans and leases excluded from individual evaluation	(733,458)		(606,461)	
Impaired loans evaluated	$ 2,323,796		$ 709,412	
Valuation allowance required	$ 1,437,036	$ 369,463	$ 429,678	$ 111,660
No valuation allowance required	886,760	-	279,734	-
Impaired loans evaluated	$ 2,323,796	$ 369,463	$ 709,412	$ 111,660

The average recorded investment in total impaired loans and leases for the quarters ended September 30, 2009 and 2008 amounted to $3,293,191 and $1,239,674 respectively. For the nine months ended September 30, 2009 and 2008, the average recorded investment in total impaired loans and leases amounted to $2,901,353 and $1,011,239, respectively.

The amount of cumulative net charge-offs recorded on the Corporation's impaired loans outstanding at September 30, 2009 was approximately $765,869.

10. Financial Asset Sales

The Corporation discontinued, on a recurring basis, the sale and securitization of automobile loans into the secondary market.

As a result of clean-up calls and other events, the Corporation acquired the remaining loans from the auto securitization trusts in the third quarter of 2009 and recognized net gains of $5.2 million. The loans were returned as portfolio loans at fair value. The Corporation no longer participates in the securitizations, and therefore no longer has any retained interests or any future obligations. For the nine months ended September 30, 2009, net gains on the securitization of automobile loans amounted to $5.5 million.

11. Goodwill and Other Intangibles

The changes in the carrying amount of goodwill for the nine months ended September 30, 2009 were as follows ($000's):

	Commercial Banking	Wealth Management	Others	Total
Goodwill balance at December 31, 2008	$ 327,246	$ 157,121	$ 120,777	$ 605,144
Goodwill acquired during the period	-	3,789	-	3,789
Purchase accounting adjustments	-	2,813	-	2,813
Goodwill balance at September 30, 2009	$ 327,246	$ 163,723	$ 120,777	$ 611,746

Goodwill acquired during the second quarter of 2009 includes initial goodwill of $3.8 million for the acquisition of Delta. See Note 6 – Business Combinations in Notes to Financial Statements for additional information regarding this acquisition. Purchase accounting adjustments for Wealth Management represent adjustments made to the initial estimates of fair value associated with the December 2008 acquisition of Taplin, Canida & Habacht ("TCH").

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The changes in the carrying amount of goodwill for the nine months ended September 30, 2008 were as follows ($000's):

	Commercial Banking	Community Banking	Wealth Management	Others	Total
Goodwill balance at December 31, 2007	$ 922,264	$ 560,332	$ 114,572	$ 87,777	$ 1,684,945
Goodwill acquired during the period	327,375	81,365	-	-	408,740
Purchase accounting adjustments	-	-	3,340	-	3,340
Reallocation of goodwill	-	(33,000)	-	33,000	-
Goodwill balance at September 30, 2008	$ 1,249,639	$ 608,697	$ 117,912	$ 120,777	$ 2,097,025

Goodwill acquired during 2008 included initial goodwill of $408.7 million for the acquisition of First Indiana Corporation. Purchase accounting adjustments for Wealth Management represent adjustments made to the initial estimates of fair value associated with the acquisition of North Star Financial Corporation and a reduction due to the divestiture of a component of North Star Financial Corporation. During the second quarter of 2008, management consolidated certain lending activities and transferred the assets and the related goodwill from the Community Banking segment to the National Consumer Lending Division reporting unit, which is a component of Others.

At September 30, 2009, the Corporation's other intangible assets consisted of the following ($000's):

	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Other intangible assets:			
Core deposit intangible	$ 216,852	$ (109,615)	$ 107,237
Trust customers	29,354	(6,523)	22,831
Tradename	3,975	(882)	3,093
Other intangibles	7,228	(2,398)	4,830
	$ 257,409	$ (119,418)	$ 137,991
Mortgage loan servicing rights			$ 1,929

At September 30, 2008, the Corporation's other intangible assets consisted of the following ($000's):

	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Other intangible assets			
Core deposit intangible	$ 254,228	$ (128,911)	$ 125,317
Trust customers	11,384	(3,766)	7,618
Tradename	1,335	(386)	949
Other intangibles	4,147	(1,027)	3,120
	$ 271,094	$ (134,090)	$ 137,004
Mortgage loan servicing rights			$ 2,570

Amortization expense of other intangible assets for the three months ended September 30, 2009 and 2008 amounted to $5.6 million and $5.7 million, respectively. For the nine months ended September 30, 2009 and 2008, amortization expense of other intangible assets amounted to $16.7 million and $17.0 million, respectively.

Amortization of mortgage loan servicing rights amounted to $0.3 million for each of the three months ended September 30, 2009 and 2008, respectively. For the nine month periods ended September 30, 2009 and 2008, amortization of mortgage loan servicing rights amounted to $0.8 million and $0.9 million, respectively.

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

2010	$21,032
2011	18,004
2012	15,494
2013	13,313
2014	11,442

The Intangibles – Goodwill and Other Topic of the Codification adopts an aggregate view of goodwill and bases the accounting for goodwill on the units of the combined entity into which an acquired entity is integrated (those units are referred to as reporting units). A reporting unit is an operating segment as defined by the Segment Reporting Topic of the Codification, or one level below an operating segment.

The Intangibles – Goodwill and Other Topic of the Codification provides guidance for impairment testing of goodwill and intangible assets that are not amortized. Goodwill is tested for impairment using a two-step process that begins with an estimation of the fair value of a reporting unit. The first step is a screen for potential impairment and the second step measures the amount of impairment, if any.

The Corporation has elected to perform its annual test for goodwill as of June 30th. Other than goodwill, the Corporation did not have any other intangible assets that are not amortized at September 30, 2009.

As a result of applying the first step of goodwill impairment testing to determine if potential goodwill impairment existed at June 30, 2009, Trust, Private Banking, and Brokerage, the three reporting units that comprise the Wealth Management segment, and the Capital Markets reporting unit "passed" (fair value exceeded the carrying amount) the first step of the goodwill impairment test. The Commercial segment and the National Consumer Banking reporting unit "failed" (the carrying amount exceeded the fair value) the first step of the goodwill impairment test at June 30, 2009 and were subjected to the second step of the goodwill impairment test.

The second step of the goodwill impairment test compares the implied fair value of the reporting unit goodwill with the carrying amount of that goodwill. The implied fair value of goodwill is determined in the same manner as the amount of goodwill recognized in a business combination is determined. The fair value of a reporting unit is allocated to all of the assets and liabilities of that unit (including any unrecognized intangible assets) as if the reporting unit had been acquired in a business combination and the fair value of the reporting unit was the price paid to acquire the reporting unit. The excess of the fair value of the reporting unit over the amounts assigned to its assets and liabilities is the implied fair value of goodwill. The allocation process is performed solely for purposes of testing goodwill for impairment. Recognized assets and liabilities and previously unrecognized intangible assets are not adjusted or recognized as a result of the allocation process.

The Corporation completed the second step of the process and determined that goodwill for the two reporting units that failed step one of the goodwill impairment tests and one reporting unit that marginally passed step one of the goodwill impairment test was not impaired.

The implied fair value of a reporting unit's goodwill will generally increase if the fair value of its loans and leases are less than the carrying value of the reporting unit's loans and leases. The fair value of loans and leases was derived from discounted cash flow analysis as described in Note 14 – Fair Value of Financial Instruments in Notes to Financial Statements.

The stress and deterioration in the national real estate markets, liquidity stress and current economic conditions have depressed prices buyers and sellers are paying and receiving for bank-related assets, especially loans and leases. As a result, the allocation of the fair values to the assets and liabilities assigned to the individual reporting units was less than their reported carrying values. See Fair Value Measurements within Critical Accounting Policies in Management's Discussion and Analysis of Financial Condition and Results of Operations for further discussion about goodwill impairment tests.

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12. Deposits

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

	September 30, 2009	December 31, 2008	September 30, 2008
Noninterest bearing demand	$ 8,286,269	$ 6,879,994	$ 6,359,020
Interest bearing:			
Savings and NOW	6,023,494	3,454,085	3,151,074
Money Market	10,402,907	10,753,000	10,639,554
CD's $100,000 and over:			
CD's $100,000 and over	10,909,210	12,301,142	12,661,354
Cash flow hedge - Institutional CDs	15,828	27,737	13,766
Total CD's $100,000 and over	10,925,038	12,328,879	12,675,120
Other time	5,787,060	5,743,480	5,283,277
Foreign	295,621	1,863,703	1,931,557
Total interest bearing	33,434,120	34,143,147	33,680,582
Total deposits	$ 41,720,389	$ 41,023,141	$ 40,039,602

13. Derivative Financial Instruments and Hedging Activities

The following is an update of the Corporation’s use of derivative financial instruments and its hedging activities as described in its 2008 10-K. There were no significant new hedging strategies employed during the nine months ended September 30, 2009.

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

Trading Instruments and Other Free Standing Derivatives

The Corporation enters into various derivative contracts which are designated as trading and other free standing derivative contracts. These derivative contracts are not linked to specific assets and liabilities on the balance sheet or to forecasted transactions in an accounting hedge relationship and, therefore, do not qualify for hedge accounting under the Derivatives and Hedging Topic of the Codification. They are carried at fair value with changes in fair value recorded as a component of other noninterest income.

Trading and other free standing derivatives are used primarily to focus on providing derivative products to customers which enables them to manage their exposures to interest rate risk. The Corporation’s market risk from unfavorable movements in interest rates is generally economically hedged by concurrently entering into offsetting derivative contracts. The offsetting derivative contracts generally have nearly identical notional values, terms and indices. The Corporation used interest rate futures to economically hedge the exposure to interest rate risk arising from the interest rate swap (designated as trading) entered into in conjunction with its auto securitization activities. See Note 10 – Financial Asset Sales in Notes to Financial Statements.

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As permitted under the by-laws of Visa, during the second quarter of 2009 the Corporation sold its 998,826 shares of Visa Class B common stock for $35.4 million to a qualified purchaser. At the time of the sale, the conversion ratio of Visa Class B common stock to Visa Class A common stock was 0.6296. That exchange ratio can change based on the outcome of certain litigation matters as described in Note 24 - Guarantees in Notes to Consolidated Financial Statements in Item 8 of the 2008 10-K. Concurrently with the sale, the Corporation and the purchaser entered into a derivative transaction whereby the Corporation will make cash payments to the purchaser whenever the conversion ratio of Visa Class B common stock to Visa Class A common stock was reset to an amount less than 0.6296. The purchaser will make cash payments to the Corporation when the litigation is settled and the ultimate settlement results in a return of cash or additional shares of Visa common stock to the purchaser. The Corporation determined that the initial fair value of the derivative was equal to the Corporation's Visa U.S.A membership proportion of the unfunded estimated fair value of the litigation settlement amount, which was determined to be a liability of $14.7 million.

As explained in the 2008 10-K, the Corporation's estimate of the fair value of the litigation settlement amount was based in part on the announced settled litigation and based in part on an estimate of the amount required to settle the unresolved matters. Estimating the amount required to settle the unresolved matters involved a significant amount of judgment that cannot be verified other than by information provided by Visa. As a result, the Corporation has determined that the estimated fair value should be classified in Level 3 of the fair value hierarchy.

On June 30, 2009, Visa announced that it had decided to deposit $700 million into the litigation escrow account previously established under its retrospective responsibility plan. Despite the funding, Visa did not disclose any updates about the litigation matters that would change the Corporation's estimate of the fair value of the litigation settlement amount. As a result of the deposit, the conversion ratio of Visa Class B common stock to Visa Class A common stock was revised to 0.5824 and the Corporation was required to make a $3.1 million payment to the counterparty in the third quarter of 2009.

Financial guarantees are financial instruments whose value is derived from the credit risk associated with the debt of a third-party issuer (the reference entity) and which allow one party (the protection purchaser) to transfer that risk to another party (the protection seller). Financial guarantees expose the protection purchaser to the creditworthiness of the protection seller, as the protection seller is required to make payments under the contract when the reference entity experiences a credit event, such as a bankruptcy, a failure to pay its obligation or a restructuring. The seller of credit protection receives a premium for providing protection but has the risk that the underlying instrument referenced in the contract will be subject to a credit event.

The Corporation is both a purchaser and seller of credit protection in the financial guarantees market. The Corporation primarily uses financial guarantees to mitigate credit risk associated with the derivative receivables associated with loan participations (bought and sold).

Upon a credit event, the seller of protection would typically pay out only a percentage of the full notional amount of net protection sold, as the amount actually required to be paid on the contracts takes into account the recovery value of the reference obligation at the time of settlement. The Corporation does not use notional as the primary measure of risk management for credit derivatives because notional does not take into account the probability of occurrence of a credit event, recovery value of the reference obligation, or related cash instruments and economic hedges.

At September 30, 2009, the maximum potential amount of future payments (undiscounted) that the Corporation, as a seller of protection, could be required to make under the credit derivative amounted to $10.1 million, of which $1.9 million matures within one year and $8.2 million matures in one to five years. The fair value of the credit derivative amounted to a negative $0.2 million at September 30, 2009 and is included in the Accrued expenses and other liabilities category of the Corporation's Consolidated Balance Sheets.

At September 30, 2009, the maximum potential amount of future receivables that the Corporation, as a purchaser of protection, may be eligible to receive under the credit derivative amounted to $3.5 million, of which $0.5 million matures within one year, $1.1 million matures in one to five years, and $1.9 million matures in five to ten years. At September 30, 2009, the fair value of the credit derivative was immaterial and is included in the Accrued interest and other assets category of the Corporation's Consolidated Balance Sheets.

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The following tables summarize the balance sheet category and fair values of trading instruments and other free standing derivatives:

September 30, 2009	Notional Amount ($ in millions)	Balance Sheet Category	Fair Value ($ in millions)
Assets:			
Interest rate contracts - swaps	$ 4,796.2	Trading assets	$ 244.2
Interest rate contracts - options	169.6	Trading assets	1.6
Equity derivative contracts - equity indexed CDs	84.7	Trading assets	6.1
Total assets			$ 251.9
Liabilities:			
Interest rate contracts - swaps	$ 4,388.1	Accrued expenses and other liabilities	$ 212.6
Interest rate contracts - options	151.7	Accrued expenses and other liabilities	1.5
Equity derivative contracts - equity indexed CDs	84.4	Accrued expenses and other liabilities	6.1
Equity derivative contracts - Visa	1.0	Accrued expenses and other liabilities	11.6
Total liabilities			$ 231.8
Net positive fair value impact			$ 20.1

September 30, 2008	Notional Amount ($ in millions)	Balance Sheet Category	Fair Value ($ in millions)
Assets:			
Interest rate contracts - swaps	$ 4,181.7	Trading assets	$ 88.1
Interest rate contracts - options	166.5	Trading assets	1.2
	98.1	Trading assets	3.7

Equity derivative contracts - equity indexed CDs					
Equity derivative contracts - warrants		0.1	Trading assets		0.2
Total assets				$	93.2
Liabilities:					
Interest rate contracts - swaps	$	3,114.1	Accrued expenses and other liabilities	$	64.9
Interest rate contracts - options		166.5	Accrued expenses and other liabilities		1.2
Interest rate contracts - interest rate futures		1,854.0	Accrued expenses and other liabilities		(1.2)
Equity derivative contracts - equity indexed CDs		98.1	Accrued expenses and other liabilities		3.7
Total liabilities				$	68.6
Net positive fair value impact				$	24.6

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The following tables summarize the income statement categories of the gain or (loss) recognized in income on trading instruments and other free standing derivatives for the three and nine months ended September 30, 2009 and 2008:

Contract	Category of Gain or (Loss) Recognized in Income on Derivative	Amount of Gain or (Loss) Recognized in Earnings on Derivative ($ in millions) Three Months Ended September 30, 2009	2008	Nine Months Ended September 30, 2009	2008
Interest Rate Contracts – Swaps	Other income - Other	$ 2.4	$ 3.5	$ 6.0	$ 14.4
Interest Rate Contracts – Options	Other income - Other	(1.0)	0.5	0.2	1.2
Interest Rate Contracts – Options	Other income - Other	0.9	(0.5)	(0.1)	(1.2)
Interest Rate Contracts – Interest Rate Futures	Other income - Other	(0.3)	(0.7)	(1.0)	(3.1)
Equity Derivative Contracts – Equity-Indexed CDs	Other income - Other	0.0	-	0.0	-
Equity Derivative Contracts – Warrants	Other income - Other	(0.1)	(0.1)	(0.1)	(0.3)
Equity Derivative Contracts – Visa	Other income - Other	(0.0)	-	(14.7)	-

Fair Value Hedges and Cash Flow Hedges

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

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

The following tables summarize the balance sheet category and fair values of derivatives designated as hedging instruments under the Derivatives and Hedging Topic of the Codification:

September 30, 2009	Derivative Type	Hedged Item	Notional Amount	Balance Sheet Category	Fair Value ($ in millions)	Weighted Average Remaining

			($ in millions)				Term (Years)
Liabilities							
Interest rate contracts:							
Pay fixed rate swaps	Cash Flow	Institutional CDs	$ 250.0	Deposits	$ 15.8		1.6
Receive fixed rate swaps	Fair Value	Brokered Bullet CDs	209.3	Deposits	(11.0	)	3.7
Receive fixed rate swaps	Fair Value	Callable CDs	5,990.4	Deposits	(37.2	)	13.9
Receive fixed rate swaps	Fair Value	Institutional CDs	25.0	Deposits	(1.1	)	26.7
Pay fixed rate swaps	Cash Flow	FHLB advances	1,060.0	Long-term borrowings	69.3		2.3
Pay fixed rate swaps	Cash Flow	Floating rate bank notes	192.1	Long-term borrowings	12.9		1.7
Receive fixed rate swaps	Fair Value	FHLB advances	280.0	Long-term borrowings	(4.8	)	2.9
Receive fixed rate swaps	Fair Value	Fixed rate bank notes	630.0	Long-term borrowings	(33.9	)	5.7
Receive fixed rate swaps	Fair Value	Medium term notes	6.6	Long-term borrowings	(0.0	)	18.4
Total liabilities					$ 10.0		
Net negative fair value impact					$ (10.0	)	

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September 30, 2008	Derivative Type	Hedged Item	Notional Amount ($ in millions)	Balance Sheet Category	Fair Value ($ in millions)	Weighted Average Remaining Term (Years)
Liabilities						
Interest rate contracts:						
Pay fixed rate swaps	Cash Flow	Institutional CDs	$ 550.0	Deposits	$ 13.8	1.6
Receive fixed rate swaps	Fair Value	Brokered Bullet CDs	210.1	Deposits	3.1	4.7
Receive fixed rate swaps	Fair Value	Callable CDs	5,954.4	Deposits	94.2	13.6
Receive fixed rate swaps	Fair Value	Institutional CDs	25.0	Deposits	(0.9)	27.7
Pay fixed rate swaps	Cash Flow	FHLB advances	1,060.0	Long-term borrowings	38.4	3.3
Pay fixed rate swaps	Cash Flow	Floating rate bank notes	500.0	Long-term borrowings	12.1	2.5
Receive fixed rate swaps	Fair Value	Fixed rate bank notes	100.0	Long-term borrowings	1.2	7.6
Receive fixed rate swaps	Fair Value	Fixed rate bank notes	336.4	Long-term borrowings	(7.7)	7.5
Receive fixed rate swaps	Fair Value	Medium term notes	7.0	Long-term borrowings	0.0	19.4
Total liabilities					$ 154.2	
Net negative fair value impact					$ (154.2)	

The effect of fair value hedges under the Derivatives and Hedging Topic of the Codification on the Consolidated Statements of Income for the three and nine months ended September 30, 2009 and 2008 ($ in millions):

Interest rate contracts	Category of Gain (Loss) Recognized in Income on Derivative	Amount of Gain (Loss) Recognized in Income on Derivative		Category of Gain (Loss) Recognized in Income on Hedged Item	Amount of Gain (Loss) Recognized in Income on Hedged Item	
		Three Months Ended September 30,			Three Months Ended September 30,	
		2009	2008		2009	2008

	Interest expense:							Interest expense:					
	Deposits:							Deposits:					
Receive fixed rate swaps	Institutional CDs	$	(0.9	)	$	1.0		Institutional CDs	$	1.3		$	(0.7	)
Receive fixed rate swaps	Callable CDs		284.3			72.5		Callable CDs		(217.7	)		(35.4	)
Receive fixed rate swaps	Brokered Bullet CDs		4.5			2.6		Brokered Bullet CDs		(2.7	)		(1.9	)
	Long-term borrowings:							Long-term borrowings:					
Receive fixed rate swaps	FHLB advances		5.8			-		FHLB advances		(4.8	)		-
Receive fixed rate swaps	Fixed rate bank notes		15.2			5.9		Fixed rate bank notes		(10.3	)		(4.3	)
Receive fixed rate swaps	Medium term notes		0.1			0.2		Medium term notes		0.1			(0.1	)
Receive fixed rate swaps	Other		-			-		Other		(0.1	)		(0.1	)
	Total	$	309.0		$	82.2		Total	$	(234.2	)	$	(42.5	)

Interest rate contracts	Category of Gain (Loss) Recognized in Income on Derivative	Amount of Gain (Loss) Recognized in Income on Derivative Nine Months Ended September 30,						Category of Gain (Loss) Recognized in Income on Hedged Item	Amount of Gain (Loss) Recognized in Income on Hedged Item Nine Months Ended September 30,					
			2009			2008				2009			2008	
	Interest expense:							Interest expense:						
	Deposits:							Deposits:						
Receive fixed rate swaps	Institutional CDs	$	(0.4	)	$	1.6		Institutional CDs	$	1.4		$	(0.6	)
Receive fixed rate swaps	Callable CDs		125.9			(30.1	)	Callable CDs		63.2			92.2	
Receive fixed rate swaps	Brokered Bullet CDs		1.5			(1.9	)	Bullet CDs		3.6			3.2	
	Long-term borrowings:							Long-term borrowings:						
Receive fixed rate swaps	FHLB advances		5.8			-		FHLB advances		(4.8	)		-	
Receive fixed rate swaps	Fixed rate bank notes		(9.9	)		9.1		Fixed rate bank notes		20.0			(5.3	)
Receive fixed rate swaps	Medium term notes		0.0			0.1		Medium term notes		0.2			-	
Receive fixed rate swaps	Other		-			-		Other		0.1			0.1	
	Total	$	122.9		$	(21.2	)	Total	$	83.7		$	89.6	

For the three and nine months ended September 30, 2009 and 2008, respectively, the impact to net interest income due to ineffectiveness was not material.

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Three Months Ended September 30, 2009	Amount of Gain (Loss) Recognized in OCI on Derivative (Effective Portion)			Category of Amount Reclassified from Accumulated OCI into Earnings (Effective Portion)	Amount Reclassified from Accumulated OCI into Earnings (Effective Portion)		
	Gross	Tax	Net		Gross	Tax	Net
Interest rate contracts				Interest and fee income			
Investment securities - Corporate notes AFS	$ (0.4)	$ 0.1	$ (0.3)	Investment securities - Corporate notes AFS	$ (0.2)	$ 0.1	$ (0.1)
Interest rate contracts				Interest expense			
Deposits:				Deposits:			
Institutional CDs	(0.5)	0.2	(0.3)	Institutional CDs	3.1	(1.0)	2.1
Long-term borrowings:				Long-term borrowings:			
FHLB advances	(7.3)	2.5	(4.8)	FHLB advances	10.3	(3.6)	6.7
Floating rate bank notes	8.8	(3.1)	5.7	Floating rate bank notes	3.0	(1.0)	2.0
Other	-	-	-	Other (1)	0.1	(0.1)	0.0
	$ 0.6	$ (0.3)	$ 0.3		$ 16.3	$ (5.6)	$ 10.7

(1) Represents amortization for the three months ended September 30, 2009 from the termination of swaps.

Three Months Ended September 30, 2008	Amount of Gain (Loss) Recognized in OCI on Derivative (Effective Portion)			Category of Amount Reclassified from Accumulated OCI into Earnings (Effective Portion)	Amount Reclassified from Accumulated OCI into Earnings (Effective Portion)		
	Gross	Tax	Net		Gross	Tax	Net

Interest rate contracts				Interest and fee income			
Loans and leases - Variable rate loans	$ -	$ -	$ -	Loans and leases - Variable rate loans	$ -	$ -	$ -
Interest rate contracts				Interest expense			
Deposits:				Deposits:			
Institutional CDs	(1.5)	0.6	(0.9)	Institutional CDs	3.4	(1.2)	2.2
Brokered Money Market	(0.1)	-	(0.1)	Brokered Money Market	-	-	-
Long-term borrowings:				Long-term borrowings:			
FHLB advances	(9.1)	3.1	(6.0)	FHLB advances	4.9	(1.7)	3.2
Floating rate bank notes	(4.4)	1.5	(2.9)	Floating rate bank notes	3.0	(1.0)	2.0
Other (1)	0.1	-	0.1	Other (1)	0.2	(0.1)	0.1
	$ (15.0)	$ 5.2	$ (9.8)		$ 11.5	$ (4.0)	$ 7.5

(1) Represents amortization for the three months ended September 30, 2008 from the termination of swaps.

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The effect of cash flow hedges under the Derivatives and Hedging Topic of the Codification for the nine months ended September 30, 2009 and 2008 ($ in millions):

Nine Months Ended September 30, 2009	Amount of Gain (Loss) Recognized in OCI on Derivative (Effective Portion)			Category of Amount Reclassified from Accumulated OCI into Earnings (Effective Portion)	Amount Reclassified from Accumulated OCI into Earnings (Effective Portion)		
	Gross	Tax	Net		Gross	Tax	Net
Interest rate contracts				Interest and fee income			
Investment securities - Corporate notes AFS	$ 0.2	$ (0.1)	$ 0.1	Investment securities - Corporate notes AFS	$ (0.3)	$ 0.1	$ (0.2)
Interest rate contracts				Interest expense			
Deposits:				Deposits:			
Institutional CDs	(0.8)	0.3	(0.5)	Institutional CDs	12.7	(4.4)	8.3
Long-term borrowings:				Long-term borrowings:			
FHLB advances	2.0	(0.7)	1.3	FHLB advances	27.2	(9.5)	17.7
Floating rate bank notes	9.9	(3.5)	6.4	Floating rate bank notes	7.8	(2.7)	5.1
Other	-	-	-	Other (1)	0.5	(0.2)	0.3
	$ 11.3	$ (4.0)	$ 7.3		$ 47.9	$ (16.7)	$ 31.2

(1) Represents amortization for the nine months ended September 30, 2009 from the termination of swaps.

Nine Months Ended September 30, 2008	Amount of Gain (Loss) Recognized in OCI on Derivative (Effective Portion)			Category of Amount Reclassified from Accumulated OCI into Earnings (Effective Portion)	Amount Reclassified from Accumulated OCI into Earnings (Effective Portion)		
	Gross	Tax	Net		Gross	Tax	Net

Interest rate contracts				Interest and fee income			
Loans and leases - Variable rate loans	$ 0.5	$ (0.2)	$ 0.3	Loans and leases - Variable rate loans	$ 0.2	$ (0.1)	$ 0.1
Interest rate contracts				Interest expense			
Deposits:				Deposits:			
Institutional CDs	(5.8)	2.1	(3.7)	Institutional CDs	10.0	(3.5)	6.5
Brokered Money Market	-	-	-	Brokered Money Market	-	-	-
Long-term borrowings:				Long-term borrowings:			
FHLB advances	(12.1)	4.2	(7.9)	FHLB advances	12.0	(4.2)	7.8
Floating rate bank notes	(5.8)	2.0	(3.8)	Floating rate bank notes	6.7	(2.3)	4.4
Other	-	-	-	Other (1)	0.6	(0.2)	0.4
	$ (23.2)	$ 8.1	$ (15.1)		$ 29.5	$ (10.3)	$ 19.2

(1) Represents amortization for the nine months ended September 30, 2008 from the termination of swaps.

The gain recognized in income representing the ineffective portion of the hedging relationships and excluded from the assessment of hedge effectiveness was not material for the three and nine months ended September 30, 2009 and 2008, respectively. The estimated reclassification from accumulated other comprehensive income related to cash flow hedges in the next twelve months is approximately $67.5 million.

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14. Fair Value of Financial Instruments

The carrying amount and estimated fair values for on and off-balance sheet financial instruments as of September 30, 2009 are presented in the following table. Derivative financial instruments designated as hedging instruments are included in the book values and fair values presented for the related hedged items. Derivative financial instruments designated as trading and other free standing derivatives are included in Trading assets and Derivative liabilities. See Note 3 – Fair Value Measurements and Note 13 – Derivative Financial Instruments and Hedging Activities in Notes to Financial Statements for additional information regarding trading and other free standing derivatives.

	September 30, 2009	
	Carrying Amount	Fair Value
	($ in millions)	
Financial assets:		
Cash and short term investments	$ 2,280.2	$ 2,280.2
Trading assets	270.3	270.3
Investment securities available for sale	6,310.1	6,310.1
Investment securities held to maturity	120.1	124.3
Net loans and leases	44,692.6	40,847.8
Interest receivable	176.2	176.2
Financial liabilities:		
Deposits	$ 41,720.4	$ 42,216.9
Short-term borrowings	1,540.6	1,546.4
Long-term borrowings	7,512.0	7,140.6
Derivative liabilities	232.0	232.0
Interest payable	163.0	163.0

Where readily available, quoted market prices are utilized by the Corporation. If quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. These techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. The calculated fair value estimates, therefore, cannot be substantiated by comparison to independent markets and, in many cases, could not be realized upon immediate settlement of the instrument. The current reporting requirements exclude certain financial instruments and all nonfinancial assets and liabilities from its disclosure requirements. Accordingly, the aggregate fair value amounts presented do not represent the underlying value of the entire Corporation.

The following methods and assumptions are used in estimating the fair value for financial instruments.

Cash and short-term investments

The carrying amounts reported for cash and short-term investments approximate the fair values for those assets.

Trading assets and investment securities

Fair value is based on market prices where available. The fair value of trading assets and investment securities are categorized as Level 1, Level 2 and Level 3, based on the inputs to the valuations. See Note 3 – Fair Value Measurements in Notes to Financial Statements for additional information.

Net loans and leases

The fair value of loans and leases was derived from discounted cash flow analyses. Loans and leases as of September 30, 2009 were grouped into 1,929 pools based on similar characteristics such as maturity, payment type and payment frequency, rate type and underlying index, recent loan-to-value (LTV) measures and various types of credit indicators such as recent FICO scores and the Corporation's internal loan rating system. Credit spreads were

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derived from observable information wherever possible. In cases where observable information was not available because of inactive markets or the change in the loan characteristics such as declining collateral values, certain adjustments were judgmentally made to estimate credit spreads consistent with the manner the Corporation believes market participants would assess the fair value of the loan pool. The Corporation has estimated that increasing or decreasing the credit spreads by the equivalent of a 2 credit rating adjustment could affect the aggregate fair value of the loans and leases by approximately $0.6 billion or 1.4% of the net carrying value of total loans and leases at September 30, 2009. The fair value of loans held for sale is based on the expected sales price. At September 30, 2009, the fair value of net loans and leases is considered Level 2 and Level 3 in the fair value hierarchy.

Deposits

The fair value for demand deposits or any interest bearing deposits with no fixed maturity date is considered to approximate the carrying value. Time deposits with defined maturity dates are considered to have a fair value which approximates the book value if the maturity date was within three months of the measurement date. The remaining time deposits are assigned fair values based on a discounted cash flow analysis using discount rates that approximate interest rates currently being offered on time deposits with comparable maturities. At September 30, 2009, the fair value of deposits is considered Level 2 in the Fair Value Hierarchy.

Borrowings

Short-term borrowings are generally carried at cost that approximates fair value. Long-term debt is valued using discounted cash flow analysis with discount curves developed using several methods. Wherever possible, the Corporation uses pricing from industry accepted services or recently observed transactions in the Corporation's long-term debt to develop the discounting curves. The observed transactions are between unaffiliated parties where there has been sufficient transaction volume to conclude that the observed pricing is representative of the fair value of the long-term debt obligation. In the absence of representative observed transactions, the Corporation develops discount curves based on current incremental borrowing rates for similar types of arrangements. The fair value of borrowings is considered Level 2 in the Fair Value Hierarchy.

Off-Balance Sheet Financial Instruments

Fair values of off-balance sheet financial instruments have been estimated based on the equivalent fees, net of expenses, that would be charged for similar contracts and customers at September 30, 2009 ($ in millions):

	September 30, 2009
Loan commitments	$ 13.2
Commercial letters of credit	0.2
Capital support agreement	3.2
Standby letters of credit	9.5

15. Postretirement Health Plan

The Corporation sponsors a defined benefit health plan that provides health care benefits to eligible current and retired employees. Eligibility for retiree benefits is dependent upon age, years of service, and participation in the health plan during active service. The plan is contributory and in 1997 and 2002 the plan was amended. Employees hired after September 1, 1997, including employees hired following business combinations, will be granted access to the Corporation's plan upon becoming an eligible retiree; however, such retirees must pay 100% of the cost of health care benefits. The plan continues to contain other cost-sharing features such as deductibles and coinsurance.

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Net periodic postretirement benefit cost for the three and nine months ended September 30, 2009 and 2008 included the following components ($000's):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Service cost	$ 235	$ 238	$ 704	$ 714
Interest cost on APBO	980	983	2,939	2,951
Expected return on plan assets	(396)	(435)	(1,187)	(1,305)
Prior service amortization	(560)	(593)	(1,678)	(1,779)
Actuarial loss amortization	210	76	629	226
Net periodic postretirement benefit cost	$ 469	$ 269	$ 1,407	$ 807

Benefit payments and expenses, net of participant contributions, for the three and nine months ended September 30, 2009 amounted to $1.2 million and $3.6 million, respectively.

The funded status, which is the accumulated postretirement benefit obligation net of fair value of plan assets, as of September 30, 2009 is as follows ($000's):

Total funded status, December 31, 2008	$ (36,576)
Service cost	(704)
Interest cost on APBO	(2,939)
Expected return on plan assets	1,187
Employer contributions/payments	3,593
Subsidy (Medicare Part D)	(585)
Total funded status, September 30, 2009	$ (36,024)

16. Business Segments

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

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

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

	Three Months Ended September 30, 2009	Three Months Ended September 30, 2008	Nine Months Ended September 30, 2009	Nine Months Ended September 30, 2008
Capital Markets Division	$ 13.1	$ 9.6	$ 39.3	$ 36.0
National Consumer Banking Division	45.3	36.7	125.4	97.4
Administrative & Other	13.7	5.5	62.7	59.3
Other	59.9	65.3	196.2	202.5
Total	$ 132.0	$ 117.1	$ 423.6	$ 395.2

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September 30, 2009 & 2008 (Unaudited)

Three Months Ended September 30, 2009 ($ in millions)

	Commercial Banking	Community Banking	Wealth Management	Treasury	Others	Corporate Overhead	Eliminations, Reclassifications & Adjustments	Consolidated
Net interest income	$234.1	$181.4	$18.4	$(82.6)	$55.2	$(12.0)	$(5.8)	$388.7
Provision for loan and lease losses	304.2	158.7	14.0	-	101.8	-	-	578.7
Net interest income after provision for loan and lease losses	(70.1)	22.7	4.4	(82.6)	(46.6)	(12.0)	(5.8)	(190.0)
Other income	11.2	49.4	68.6	69.6	76.8	37.6	(85.3)	227.9
Other expense	77.0	211.0	66.7	10.5	100.2	29.3	(85.7)	409.0
Income before income taxes	(135.9)	(138.9)	6.3	(23.5)	(70.0)	(3.7)	(5.4)	(371.1)
Provision (benefit) for income taxes	(54.3)	(55.6)	2.4	(9.4)	(24.4)	(1.0)	(5.8)	(148.1)
Net income	(81.6)	(83.3)	3.9	(14.1)	(45.6)	(2.7)	0.4	(223.0)
Less: Noncontrolling interest	-	-	-	-	-	-	(0.4)	(0.4)
Segment income	$(81.6)	$(83.3)	$3.9	$(14.1)	$(45.6)	$(2.7)	$-	$(223.4)
Identifiable assets	$23,764.4	$16,855.2	$1,704.9	$8,804.6	$7,666.4	$1,196.1	$(1,446.3)	$58,545.3

Three Months Ended September 30, 2008 ($ in millions)

	Commercial Banking	Community Banking	Wealth Management	Treasury	Others	Corporate Overhead	Eliminations, Reclassifications & Adjustments	Consolidated
Net interest income	$191.2	$194.2	$15.4	$21.6	$39.4	$(14.4)	$(6.7)	$440.7
Provision for loan and lease losses	97.2	62.3	1.7	-	(6.2)	-	-	155.0
Net interest income after provision for loan and lease losses	94.0	131.9	13.7	21.6	45.6	(14.4)	(6.7)	285.7
Other income	28.2	47.4	73.2	12.0	77.7	29.3	(84.0)	183.8
Other expense	64.7	173.8	79.6	5.0	92.6	28.3	(84.2)	359.8
Income before income taxes	57.5	5.5	7.3	28.6	30.7	(13.4)	(6.5)	109.7
Provision (benefit) for income taxes	23.0	2.2	2.9	11.4	(1.2)	(5.2)	(6.7)	26.4
Net income	34.5	3.3	4.4	17.2	31.9	(8.2)	0.2	83.3
Less: Noncontrolling interest	-	-	-	-	-	-	(0.2)	(0.2)

Segment income	$34.5	$3.3	$4.4	$17.2	$31.9	$(8.2)	$-	$83.1
Identifiable assets	$25,948.9	$18,826.5	$1,544.2	$8,476.2	$8,892.4	$1,418.7	$(1,606.0)	$63,500.9

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Nine Months Ended September 30, 2009 ($ in millions)

	Commercial Banking	Community Banking	Wealth Management	Treasury	Others	Corporate Overhead	Eliminations, Reclassifications & Adjustments	Consolidated
Net interest income	$ 648.4	$ 521.0	$ 48.3	$ (130.8)	$ 166.0	$ (51.0)	$ (19.6)	$ 1,182.3
Provision for loan and lease losses	652.0	609.1	30.5	-	384.0	-	-	1,675.6
Net interest income after provision for loan and lease losses	(3.6)	(88.1)	17.8	(130.8)	(218.0)	(51.0)	(19.6)	(493.3)
Other income	52.6	153.0	202.0	141.0	257.6	123.5	(258.0)	671.7
Other expense	204.2	601.2	192.3	39.6	301.1	89.6		