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MARSHALL & ILSLEY CORP/WI/
Form 10-Q
May 15, 2001

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2001

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 0-1220

MARSHALL & ILSLEY CORPORATION

(Exact name of registrant as specified in its charter)

Wisconsin
(State or other jurisdiction of
Incorporation or organization)

39-0968604
(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 No

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

| Class | Outstanding at April 30, 2001 |
|--------------------------------|----------------------------------|
| ----- | ----- |
| Common Stock, \$1.00 Par Value | 102,956,585 |

MARSHALL & ILSLEY CORPORATION

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CONSOLIDATED BALANCE SHEETS (Unaudited)
(\$000's except share data)

| | March 31, 2001 | December 31, 2000 | March 31, 2000 |
|--|-------------------|----------------------|-------------------|
| Assets | | | |
| ----- | | | |
| Cash and cash equivalents: | | | |
| Cash and due from banks | \$ 639,557 | \$ 760,103 | \$ 674,604 |
| Federal funds sold and security resale agreements | 13,577 | 54,443 | 64,655 |
| Money market funds | 288,161 | 50,147 | 153,652 |
| | ----- | ----- | ----- |
| Total cash and cash equivalents | 941,295 | 864,693 | 892,911 |
| Investment securities: | | | |
| Trading securities, at market value | 45,300 | 15,317 | 43,342 |
| Short-term investments, at cost which approximates market value | 30,668 | 43,528 | 16,382 |
| Available for sale at market value | 4,575,569 | 4,735,722 | 4,306,051 |
| Held to maturity at amortized cost, market value \$1,131,004 (\$1,124,756 December 31, and \$1,130,123 March 31, 2000) | 1,100,398 | 1,112,545 | 1,160,104 |
| | ----- | ----- | ----- |
| Total investment securities | 5,751,935 | 5,907,112 | 5,525,879 |
| Loans and leases | 17,804,471 | 17,587,087 | 16,965,521 |
| Less: Allowance for loan and lease losses | 240,348 | 235,115 | 232,471 |
| | ----- | ----- | ----- |
| Net loans and leases | 17,564,123 | 17,351,972 | 16,733,050 |
| Premises and equipment | 384,174 | 392,995 | 370,663 |
| Goodwill and core deposit intangibles | 304,837 | 310,930 | 333,885 |
| Other intangibles | 33,743 | 34,354 | 24,957 |
| Accrued interest and other assets | 1,174,438 | 1,215,683 | 1,082,393 |
| | ----- | ----- | ----- |
| Total Assets | \$ 26,154,545 | \$ 26,077,739 | \$ 24,963,738 |
| | ===== | ===== | ===== |
| Liabilities and Shareholders' Equity | | | |
| ----- | | | |
| Deposits: | | | |
| Noninterest bearing | \$ 2,737,891 | \$ 3,129,834 | \$ 2,658,348 |
| Interest bearing | 15,035,449 | 16,118,793 | 14,409,973 |
| | ----- | ----- | ----- |
| Total deposits | 17,773,340 | 19,248,627 | 17,068,321 |
| Funds purchased and security repurchase agreements | 2,028,462 | 1,092,723 | 2,125,022 |
| Other short-term borrowings | 2,189,732 | 1,722,008 | 2,044,667 |
| Accrued expenses and other liabilities | 806,981 | 850,916 | 612,829 |
| Long-term borrowings | 1,042,712 | 921,276 | 1,038,184 |
| | ----- | ----- | ----- |
| Total liabilities | 23,841,227 | 23,835,550 | 22,889,023 |
| Shareholders' equity: | | | |
| ----- | | | |
| Series A convertible preferred stock, \$1.00 par value; 336,370 shares issued | 336 | 336 | 336 |
| Common stock, \$1.00 par value; | | | |

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| | | | |
|--|---------------|---------------|---------------|
| 112,757,546 shares issued | 112,757 | 112,757 | 112,757 |
| Additional paid-in capital | 443,213 | 452,212 | 455,217 |
| Retained earnings | 2,174,964 | 2,117,759 | 1,976,667 |
| Accumulated other comprehensive income, net of related taxes | 59,548 | 38,127 | (45,057) |
| Less: Treasury common stock, at cost: | | | |
| 9,839,811 shares (9,910,839 December 31, | | | |
| and 8,752,702 March 31, 2000) | 457,375 | 458,472 | 405,805 |
| Deferred compensation | 20,125 | 20,530 | 19,400 |
| | ----- | ----- | ----- |
| Total shareholders' equity | 2,313,318 | 2,242,189 | 2,074,715 |
| | ----- | ----- | ----- |
| Total Liabilities and Shareholders' Equity | \$ 26,154,545 | \$ 26,077,739 | \$ 24,963,738 |
| | ===== | ===== | ===== |

See notes to financial statements.

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

| | Three Months Ended March 31, | 2001 | 2000 |
|---|------------------------------|---------|------------|
| | ----- | ----- | ----- |
| Interest income | | | |
| ----- | | | |
| Loans and leases | \$ | 353,990 | \$ 326,478 |
| Investment securities: | | | |
| Taxable | | 77,951 | 67,890 |
| Exempt from federal income taxes | | 15,900 | 16,447 |
| Trading securities | | 328 | 527 |
| Short-term investments | | 4,265 | 3,283 |
| | | ----- | ----- |
| Total interest income | | 452,434 | 414,625 |
| Interest expense | | | |
| ----- | | | |
| Deposits | | 187,183 | 172,578 |
| Short-term borrowings | | 54,101 | 57,039 |
| Long-term borrowings | | 25,371 | 15,887 |
| | | ----- | ----- |
| Total interest expense | | 266,655 | 245,504 |
| Net interest income | | 185,779 | 169,121 |
| Provision for loan and lease losses | | 11,063 | 5,819 |
| | | ----- | ----- |
| Net interest income after provision for loan and lease losses | | 174,716 | 163,302 |
| Other income | | | |
| ----- | | | |
| Data processing services: | | | |
| Account processing fees | | 104,788 | 94,665 |
| Professional services fees | | 15,505 | 18,285 |
| Software revenue | | 8,023 | 9,318 |
| Other revenue | | 4,676 | 7,733 |
| | | ----- | ----- |
| Total data processing services | | 132,992 | 130,001 |

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| | | |
|--|-----------|-----------|
| Item processing | 12,457 | 12,444 |
| Internet banking | 981 | 505 |
| Trust services | 30,029 | 27,808 |
| Service charges on deposits | 20,826 | 18,514 |
| Mortgage banking | 6,872 | 2,912 |
| Capital Markets revenue | 6,334 | 15,111 |
| Net investment securities losses | (123) | -- |
| Life insurance revenue | 6,530 | 6,672 |
| Other | 30,063 | 27,459 |
| | ----- | ----- |
| Total other income | 246,961 | 241,426 |
| Other expense | | |
| ----- | | |
| Salaries and employee benefits | 167,922 | 157,318 |
| Net occupancy | 15,897 | 13,327 |
| Equipment | 28,632 | 27,400 |
| Software expenses | 8,070 | 6,865 |
| Processing charges | 8,950 | 7,549 |
| Supplies and printing | 4,950 | 4,857 |
| Professional services | 7,160 | 7,577 |
| Shipping and handling | 11,317 | 11,386 |
| Amortization of intangibles | 8,005 | 7,706 |
| Single charter | 5,980 | -- |
| Other | 23,893 | 24,013 |
| | ----- | ----- |
| Total other expense | 290,776 | 267,998 |
| Income before income taxes and cumulative effect of changes in accounting principles | 130,901 | 136,730 |
| Provision for income taxes | 44,299 | 46,015 |
| | ----- | ----- |
| Income before cumulative effect of changes in accounting principles | 86,602 | 90,715 |
| Cumulative effect of changes in accounting principles, net of income taxes | (436) | (2,279) |
| | ----- | ----- |
| Net income | \$ 86,166 | \$ 88,436 |
| | ===== | ===== |
| Net income per common share | | |
| ----- | | |
| Basic: | | |
| Income before cumulative effect of changes in accounting principles | \$ 0.83 | \$ 0.86 |
| Cumulative effect of changes in accounting principles, net of income taxes | -- | (0.02) |
| | ----- | ----- |
| Net income | \$ 0.83 | 0.84 |
| | ===== | ===== |
| Diluted: | | |
| Income before cumulative effect of changes in accounting principles | \$ 0.80 | \$ 0.83 |
| Cumulative effect of changes in accounting principles, net of income taxes | -- | (0.02) |
| | ----- | ----- |
| Net income | \$ 0.80 | 0.81 |
| | ===== | ===== |
| Dividends paid per common share | \$ 0.265 | \$ 0.240 |

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| | | |
|---|---------|---------|
| Weighted average common shares outstanding: | | |
| Basic | 102,839 | 104,657 |
| Diluted | 107,819 | 109,564 |

See notes to financial statements.

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

| | Three Months Ended March 31, 2001 | 2000 |
|---|--------------------------------------|------------|
| | ----- | ----- |
| Net Cash Provided/(Used) by Operating Activities | \$ (8,828) | \$ 88,892 |
| Cash Flows From Investing Activities: | | |
| ----- | | |
| Proceeds from sales of securities available for sale | 10,875 | 11,498 |
| Proceeds from maturities of securities available for sale | 252,132 | 162,852 |
| Proceeds from maturities of securities held to maturity | 11,978 | 10,534 |
| Purchases of securities available for sale | (23,040) | (136,933) |
| Net increase in loans | (202,724) | (607,295) |
| Purchases of assets to be leased | (124,366) | (102,100) |
| Principal payments on lease receivables | 174,957 | 81,334 |
| Fixed asset purchases, net | (7,147) | (14,571) |
| Acquisitions and investments in joint ventures | -- | (265) |
| Other | 5,534 | 2,396 |
| | ----- | ----- |
| Net cash provided/(used) in investing activities | 98,199 | (592,550) |
| Cash Flows From Financing Activities: | | |
| ----- | | |
| Net increase/(decrease) in deposits | (1,476,456) | 633,140 |
| Proceeds from issuance of commercial paper | 604,163 | 804,280 |
| Payments for maturity of commercial paper | (564,729) | (625,093) |
| Net increase / (decrease) in other short-term borrowings | 867,938 | (534,826) |
| Proceeds from issuance of long-term debt | 625,651 | 378,110 |
| Payments of long-term debt | (32,066) | (19,913) |
| Dividends paid | (28,279) | (25,897) |
| Purchases of treasury stock | (15,520) | (94,756) |
| Other | 6,529 | 1,668 |
| | ----- | ----- |
| Net cash provided/(used) by financing activities | (12,769) | 516,713 |
| | ----- | ----- |
| Net increase in cash and cash equivalents | 76,602 | 13,055 |
| Cash and cash equivalents, beginning of year | 864,693 | 879,856 |
| | ----- | ----- |
| Cash and cash equivalents, end of period | \$ 941,295 | \$ 892,911 |
| | ===== | ===== |
| Supplemental cash flow information: | | |
| ----- | | |
| Cash paid during the period for: | | |
| Interest | \$ 293,851 | \$ 224,574 |
| Income taxes | 6,221 | 930 |

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See notes to financial statements.

MARSHALL & ILSLEY CORPORATION
Notes to Financial Statements
March 31, 2001 & 2000 (Unaudited)

1. The accompanying unaudited consolidated financial statements should be read in conjunction with Marshall & Ilsley Corporation's ("M&I" or "Corporation") 2000 Annual Report on Form 10-K. The unaudited financial information included in this report reflects all adjustments (consisting only of normal recurring accruals) which are necessary for a fair statement of the financial position and results of operations as of and for the three months ended March 31, 2001 and 2000. The results of operations for the three months ended March 31, 2001 and 2000 are not necessarily indicative of results to be expected for the entire year. Certain amounts in the 2000 consolidated financial statements and analyses have been reclassified to conform with the 2001 presentation.

2. Change in Method of Accounting

During the fourth quarter of 2000, the Corporation adopted the Securities and Exchange Commission's Staff Accounting Bulletin No. 101 - REVENUE RECOGNITION IN FINANCIAL STATEMENTS (SAB 101). SAB 101 provides guidance on a variety of revenue recognition matters. The cumulative effect of change in accounting principles was retroactively recorded as of January 1, 2000. The financial position and results of operations as of and for the three months ended March 31, 2000 have been restated to reflect application of the guidance contained in SAB 101. See Note 2 of the Notes to Consolidated Financial Statements of Item 8 of the Corporation's 2000 Annual Report on Form 10-K.

On January 1, 2001, the Corporation adopted the Financial Accounting Standards Board SFAS No. 133, ACCOUNTING FOR DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES. SFAS 133 establishes accounting and reporting standards requiring that every derivative instrument (including certain derivative instruments embedded in other contracts) be recorded in the balance sheet as either an asset or liability measured at its fair value. The Statement requires that changes in the derivatives fair value be recognized currently in earnings unless specific hedge accounting criteria are met. The statement requires that a company must formally document, designate, and assess the effectiveness of transactions that receive hedge accounting. The effects of adopting SFAS 133 are as follows:

| | Consolidated Income Statement | Other Comprehensive Income (Equity) |
|--------------------|-------------------------------------|--|
| | ----- | ----- |
| Fair value hedges | \$ (628) | \$ -- |
| Cash flow hedges | (43) | (15,665) |
| | ----- | ----- |
| | (671) | (15,665) |
| Income tax benefit | 235 | 5,483 |
| | ----- | ----- |

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| | | |
|---|----------|-------------|
| Cumulative effect of change in accounting principles | \$ (436) | \$ (10,182) |
| | ===== | ===== |

See Note 10 for additional information regarding the Corporation's use of derivative financial instruments.

MARSHALL & ILSLEY CORPORATION
Notes to Financial Statements - Continued
March 31, 2001 & 2000 (Unaudited)

3. New Accounting Pronouncements

In September, 2000, the FASB issued SFAS 140, ACCOUNTING FOR TRANSFERS AND SERVICING OF FINANCIAL ASSETS AND EXTINGUISHMENTS OF LIABILITIES. SFAS replaces SFAS 125, ACCOUNTING FOR TRANSFERS AND SERVICING OF FINANCIAL ASSETS AND EXTINGUISHMENTS OF LIABILITIES. It revises the standards for accounting for securitizations and other transfers of financial assets and collateral and requires certain disclosures, but it carries over most of SFAS 125's provisions without reconsideration. SFAS 140 is generally effective for transfers and servicing of financial assets and extinguishments of liabilities occurring after March 31, 2001. The disclosure requirements are effective for financial statements for fiscal years ending after December 15, 2000. The Corporation does not anticipate the adoption of SFAS 140 will materially impact its present securitization activities.

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

| Three Months Ended March 31, 2001 | | | |
|--|-----------------------|---------------------------------|---------------------|
| | Income (Numerator) | Average Shares (Denominator) | Per Share Amount |
| ----- | | | |
| Net Income | \$ 86,166 | | |
| Convertible Preferred Dividends | (1,019) | | |
| ----- | | | |
| Basic Earnings Per Share | | | |
| Income Available to Common Shareholders | \$ 85,147 | 102,839 | \$ 0.83 |
| | | | ===== |
| Effect of Dilutive Securities | | | |
| Convertible Preferred Stock | 1,019 | 3,844 | |
| Stock Options and Restricted Stock Plans | -- | 1,136 | |
| ----- | | | |
| Diluted Earnings Per Share | | | |
| Income Available to Common Shareholders Plus Assumed Conversions | \$ 86,166 | 107,819 | \$ 0.80 |
| | | | ===== |

Three Months Ended March 31, 2000

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| | Income (Numerator) | Average Shares (Denominator) | Per Share Amount |
|--|-----------------------|---------------------------------|---------------------|
| | ----- | ----- | ----- |
| Net Income | \$ 88,436 | | |
| Convertible Preferred Dividends | (923) | | |
| | ----- | | |
| Basic Earnings Per Share | | | |
| Income Available to Common Shareholders | \$ 87,513 | 104,657 | \$ 0.84 |
| | | | ===== |
| Effect of Dilutive Securities | | | |
| Convertible Preferred Stock | 923 | 3,844 | |
| Stock Options and Restricted Stock Plans | -- | 1,063 | |
| | ----- | ----- | |
| Diluted Earnings Per Share | | | |
| Income Available to Common Shareholders Plus Assumed Conversions | \$ 88,436 | 109,564 | \$ 0.81 |
| | | | ===== |

MARSHALL & ILSLEY CORPORATION
Notes to Financial Statements - Continued
March 31, 2001 & 2000 (Unaudited)

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

| | March 31, 2001 | December 31, 2000 | March 31, 2000 |
|---|-------------------|----------------------|-------------------|
| | ----- | ----- | ----- |
| Investment securities available for sale: | | | |
| U.S. treasury and government agencies | \$ 3,194,030 | \$ 3,342,952 | \$ 3,760,161 |
| State and political subdivisions | 153,356 | 151,041 | 145,993 |
| Mortgage backed securities | 329,044 | 342,171 | 170,812 |
| Other | 891,990 | 899,558 | 229,085 |
| Fair value hedging instruments | 7,149 | -- | -- |
| | ----- | ----- | ----- |
| Total | \$ 4,575,569 | \$ 4,735,722 | \$ 4,306,051 |
| | ===== | ===== | ===== |

| | March 31, 2001 | December 31, 2000 | March 31, 2000 |
|---|-------------------|----------------------|-------------------|
| | ----- | ----- | ----- |
| Investment securities held to maturity: | | | |
| U.S. treasury and government agencies | \$ -- | \$ -- | \$ 5 |
| State and political subdivisions | 1,095,239 | 1,107,476 | 1,154,905 |
| Other | 5,159 | 5,069 | 5,194 |
| | ----- | ----- | ----- |
| Total | \$ 1,100,398 | \$ 1,112,545 | \$ 1,160,104 |
| | ===== | ===== | ===== |

6. The Corporation's loan and lease portfolio consists of the following

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(\$000's):

| | March 31, 2001 | December 31, 2000 | March 31, 2000 |
|--|-------------------|----------------------|-------------------|
| | ----- | ----- | ----- |
| Commercial, financial & agricultural Real estate: | \$ 5,329,597 | \$ 5,289,537 | \$ 5,031,736 |
| Construction | 636,429 | 619,281 | 515,502 |
| Residential mortgage | 5,083,629 | 5,049,557 | 5,154,388 |
| Commercial mortgage | 4,497,606 | 4,359,812 | 4,095,617 |
| | ----- | ----- | ----- |
| Total real estate | 10,217,664 | 10,028,650 | 9,765,507 |
| Personal | 1,180,833 | 1,174,248 | 1,320,014 |
| Lease financing | 1,064,813 | 1,094,652 | 848,264 |
| Cash flow hedging instruments at fair value | 11,564 | -- | -- |
| | ----- | ----- | ----- |
| Total | \$ 17,804,471 | \$ 17,587,087 | \$ 16,965,521 |
| | ===== | ===== | ===== |

7. Sale of Receivables

During the first quarter of 2001, \$67.7 million of automobile loans were sold in securitization transactions and gains of \$2.0 million were recognized. Other income associated with auto securitizations amounted to \$3.8 million.

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

| | |
|-----------------------------------|-------------------------------------|
| Prepayment speed | 25.0 % |
| Weighted average life (in months) | 21.8 |
| Expected credit losses | 0.18 % |
| Residual cash flow discount rate | 12.0 % |
| Variable returns to transferees | Forward one month LIBOR yield curve |

MARSHALL & ILSLEY CORPORATION
Notes to Financial Statements - Continued
March 31, 2001 & 2000 (Unaudited)

At March 31, 2001, securitized automobile loans and other automobile loans managed together with them along with delinquency and credit loss information consisted of the following:

| | Securitized | Portfolio | Total Managed |
|----------------------------|-------------|------------|------------------|
| | ----- | ----- | ----- |
| Loan balances | \$ 241,883 | \$ 295,502 | \$ 537,385 |
| Principal amounts of loans | | | |
| 60 days or more past due | 90 | 671 | 761 |
| Net credit losses | 49 | 287 | 336 |

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

| | March 31, 2001 | December 31, 2000 | March 31, 2000 |
|--------------------------------|----------------------|----------------------|----------------------|
| Noninterest bearing demand | \$ 2,737,891 | \$ 3,129,834 | \$ 2,658,348 |
| Savings and NOW | 7,758,708 | 7,486,094 | 7,033,134 |
| CD's \$100,000 and over | 2,459,240 | 2,663,050 | 1,993,954 |
| Other time deposits | 3,307,283 | 3,532,310 | 3,456,666 |
| Foreign deposits | 1,513,822 | 2,437,339 | 1,926,219 |
| Fair value hedging instruments | (3,604) | -- | -- |
| | <u>\$ 17,773,340</u> | <u>\$ 19,248,627</u> | <u>\$ 17,068,321</u> |

9. Comprehensive Income

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

| | Three Months Ended March 31, 2001 | | |
|--|-----------------------------------|--------------------------|----------------------|
| | Before-Tax Amount | Tax (Expense) Benefit | Net-of-Tax Amount |
| Net income | | | \$ 86,166 |
| Other comprehensive income: | | | |
| Unrealized gains (losses) on securities: | | | |
| Arising during the period | \$ 54,370 | \$ (20,006) | 34,364 |
| Reclassification for securities transactions included in net income | -- | -- | -- |
| Unrealized gains (losses) | <u>54,370</u> | <u>(20,006)</u> | <u>34,364</u> |
| Net gains (losses) on derivatives hedging variability of cash flows: | | | |
| Adoption of SFAS 133 | (15,665) | 5,483 | (10,182) |
| Arising during the period | (5,294) | 1,853 | (3,441) |
| Reclassification adjustments for hedging activities included in net income | 1,047 | (367) | 680 |
| Net gains (losses) | <u>\$ (19,912)</u> | <u>\$ 6,969</u> | <u>(12,943)</u> |
| Other comprehensive income | | | 21,421 |
| Total comprehensive income | | | <u>\$ 107,587</u> |

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Notes to Financial Statements - Continued
 March 31, 2001 & 2000 (Unaudited)

| | Three Months Ended March 31, 2000 | | |
|--|-----------------------------------|--------------------------|----------------------|
| | Before-Tax Amount | Tax (Expense) Benefit | Net-of-Tax Amount |
| Net income | | | \$ 88,436 |
| Other comprehensive income: | | | |
| Unrealized gains (losses) on securities: | | | |
| Arising during the period | \$ (30,919) | \$ 10,833 | (20,086) |
| Reclassification for securities transactions included in net income | 11,966 | (4,188) | 7,778 |
| Unrealized gains (losses) | (18,953) | 6,645 | (12,308) |
| Net gains (losses) on derivatives hedging variability of cash flows: | | | |
| Arising during the period | N/A | N/A | N/A |
| Reclassification adjustments for hedging activities included in net income | N/A | N/A | N/A |
| Net gains (losses) | N/A | N/A | N/A |
| Other comprehensive income | | | (12,308) |
| Total comprehensive income | | | \$ 76,128 |

10. Derivative Financial Instruments and Hedging Activities

Interest rate risk, the exposure of the Corporation's net interest income and net fair value of its assets and liabilities, to adverse movements in interest rates, is a significant market risk exposure that can have a material effect on the Corporation's financial position, results of operations and cash flows. The Corporation has policies to ensure that neither earnings nor fair value at risk exceed established guidelines and assesses these risks by continually identifying and monitoring changes in interest rates that may adversely impact expected future earnings and fair values.

The Corporation has designed strategies to confine these risks within the established limits and indentify 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

The Corporation enters into interest rate swaps as part of its trading activities which enable its customers to manage their exposures to interest rate risk. The Corporation's market risk from unfavorable movements in interest rates is generally minimized by concurrently entering into offsetting positions with nearly identical notional

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values, terms and indices.

At March 31, 2001, interest rate swaps designated as trading consisted of \$268.8 million in notional amount of receive-fixed / pay-floating with an aggregate positive fair value of \$1.4 million and \$268.8 million in notional amount of pay fixed receive floating with an aggregate negative fair value of \$1.3 million.

Interest rate swaps designated as trading are recorded at fair value. Gains and losses arising from changes in fair value are recorded in other income.

MARSHALL & ILSLEY CORPORATION
Notes to Financial Statements - Continued
March 31, 2001 & 2000 (Unaudited)

Fair Value Hedges

The Corporation has fixed rate callable CDs, equity indexed CDs and fixed rate long-term debt which expose the Corporation to variability in fair values due to changes in market interest rates and, in the case of the equity indexed CDs, to changes in the S&P 500 index.

To limit the Corporation's exposure to changes in fair value due to changes in interest rates and the equity index, the Corporation has entered into receive-fixed / pay-floating interest rate swaps with identical call features, thereby creating the effect of floating rate deposits and floating rate long-term debt. The Corporation has determined that the hedges on the long-term debt qualify for the special short-cut accounting prescribed by SFAS 133, resulting in no ineffectiveness.

The Corporation also has Agency collateralized mortgage backed investment securities designated as available for sale. The embedded prepayment options in the underlying mortgages expose the Corporation to variability in fair value in a changing interest rate environment. To limit its exposure to changes in fair value, the Corporation has designated purchased interest rate floors as a hedge against changes in fair value attributable to the embedded prepayment option.

During the first quarter of 2001, the Corporation sold a portion of the floors (\$100 million in notional amount). The adjustment to the carrying amount of the hedged investment securities of \$3.2 million is being accreted into earnings over the remaining life of the security using the interest method.

The following table presents additional information with respect to the Corporation's fair value hedges.

FAIR VALUE HEDGES - March 31, 2001

| Hedged Item | Hedging Instrument | Notional Amount (\$ in mil) | Fair Value (\$ in mil) | Wt. Avg. Remaining Term (Yrs) | Impact to Net Interest Income First Quarter 2001 (\$000) | | |
|-------------|--------------------|--------------------------------|---------------------------|-------------------------------|---|--|----------------|
| | | | | | Ineffec- tiveness | Components Excluded from Ineffec- tiveness | Net Settlement |
| ----- | ----- | ----- | ----- | ----- | ----- | ----- | ----- |

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| | | | | | | | |
|----------------------|---------------------|----------|---------|------|---------|-------|---------|
| Callable CDs | Receive Fixed Swap | \$ 540.9 | \$ 4.9 | 6.5 | \$ 146 | \$ -- | \$1,187 |
| Equity Index CDs | Receive Fixed Swap | 14.9 | (1.3) | 4.0 | -- | -- | (224) |
| Long-term Borrowings | Receive Fixed Swap | 200.0 | 21.6 | 25.7 | -- | -- | 1,216 |
| CMOs (Prepay Option) | Interest Rate Floor | 150.0 | 7.1 | 5.6 | (222) | -- | 283 |
| | | ----- | ----- | | ----- | ----- | ----- |
| | | \$ 905.8 | \$ 32.3 | | \$ (76) | \$ -- | \$2,462 |
| | | ===== | ===== | | ===== | ===== | ===== |

Cash Flow Hedges

The Corporation has variable rate loans and variable rate short-term borrowings which expose the Corporation to variability in interest payments due to changes in interest rates. The Corporation believes it is prudent to limit the variability of a portion of its interest receipts and payments. To meet this objective, the Corporation enters into various types of derivative financial instruments to manage fluctuations in cash flows resulting from interest rate risk. At March 31, 2001, these instruments include interest rate swaps and an interest rate floor.

The interest rate swaps change the variable-rate cash flow exposure on the loans and short-term borrowings to fixed-rate cash flows through the interest rate swaps.

MARSHALL & ILSLEY CORPORATION
Notes to Financial Statements - Continued
March 31, 2001 & 2000 (Unaudited)

The purchased interest rate floor also protects the Corporation from decreases in interest rates that would result in decreased cash interest receipts from the variable rate loans. Under the agreement, the Corporation has the right to receive cash if interest rates decrease below a specified level.

Ineffectiveness arising from differences between the critical terms of the hedging instrument and hedged item are recorded in interest income or expense based on the transaction that gave rise to the ineffectiveness.

Changes in the fair value of the interest rate swaps or floor designated as cash flow hedges are reported in accumulated other comprehensive income (AOCI). These amounts subsequently are reclassified to interest income or interest expense as a yield adjustment in the same period in which the related interest on the variable rate loans and short-term borrowings affects earnings.

The following table summarizes the Corporation's cash flow hedges at March 31, 2001.

CASH FLOW HEDGES - March 31, 2001

Impact to Net Interest Income-
First Quarter 2001 (\$000's)

Components

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| Hedged Item | Hedging Instrument | Notional Amount (\$ in mil) | Fair Value (\$ in mil) | Wt. Avg. Term (Yr) | Ineffec- tiveness | Excluded from Ineffec- tiveness | Reclass from AOCI | Total |
|---------------------|----------------------|-----------------------------|------------------------|--------------------|-------------------|---------------------------------|-------------------|------------|
| Variable Rate Loans | Pay Fixed Swap | \$ 721.1 | \$ 11.4 | 1.4 | \$ -- | \$ -- | \$ (218) | \$ (218) |
| Commercial Paper | Pay Fixed Swap | 200.0 | (19.2) | 5.7 | -- | -- | (932) | (932) |
| Fed Funds Purchased | Pay Fixed Swap | 500.0 | (6.1) | 2.8 | -- | -- | 101 | 101 |
| Variable Rate Loans | Interest Rate Floors | 25.0 | 0.1 | 0.7 | (8) | -- | 2 | (6) |
| | | ----- | ----- | | ----- | ----- | ----- | ----- |
| | | \$1,446.1 | \$ (13.8) | | \$ (8) | \$ -- | \$ (1,047) | \$ (1,055) |
| | | ===== | ===== | | ===== | ===== | ===== | ===== |

For the three months ended March 31, 2000, the effect on net interest income resulting from derivative financial instruments was a positive \$0.2 million.

11. Segments

Generally, the Corporation organizes its segments based on legal entities. Each entity offers a variety of products and services to meet the needs of its customers and the particular market served. Each entity has its own president and is separately managed subject to adherence to Corporate policies. Discrete financial information is reviewed by senior management to assess performance on a monthly basis. Certain segments are combined and consolidated for purposes of assessing financial performance.

Prior period segment information for the Banking segment and Data Services segment have been restated for the transfer of certain assets and liabilities of the Data Services Division, which represent the payment services or item processing line of business. The transfer to the Banking segment occurred at the beginning of the third quarter of 2000.

MARSHALL & ILSLEY CORPORATION
Notes to Financial Statements - Continued
March 31, 2001 & 2000 (Unaudited)

The Corporation evaluates the profit or loss performance of its segments based on operating income. Operating income is after-tax income excluding nonrecurring charges and charges for services from the holding company. Operating income for the banking entities and certain other entities also excludes certain assets, liabilities, equity, revenues and expenses associated with adjustments, charges or credits arising from acquisitions accounted for as purchases (hereinafter called acquisition costs). The accounting policies of the Corporation's segments are the same as those described in Note 1 to the Corporation's Annual Report on Form 10K, Item 8. Intersegment revenues may be based on cost, current market prices or negotiated prices between the providers and receivers of services.

Based on the way the Corporation organizes its segments and the

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requirements of Statement of Financial Accounting Standards No. 131, "DISCLOSURES ABOUT SEGMENTS OF AN ENTERPRISE AND RELATED INFORMATION", the Corporation has determined that it has two reportable segments. Information with respect to M&I's segments is as follows:

BANKING

Banking represents the aggregation of fifteen separately chartered banks located in Wisconsin, one bank in Arizona, one federally chartered thrift headquartered in Nevada and an operational support subsidiary which, beginning in the third quarter of 2000, includes item processing. Banking consists of accepting deposits, making loans and providing other services such as cash management, foreign exchange and correspondent banking to a variety of commercial and retail customers. Products and services are provided through a variety of delivery channels including traditional branches, supermarket branches, telephone centers, ATMs and the internet. In addition, the Corporation's larger affiliate banks provide numerous services such as cash management, regional credit, and centralized accounting to M&I's community banking affiliates. Intrasegment revenues, expenses and assets have been eliminated in the following information and prior periods have been restated to include the item processing line of business. (\$ in millions):

| | Three Months Ended March 31, | |
|-------------------------------------|------------------------------|-------------|
| | 2001 | 2000 |
| Revenue: | | |
| Net interest income | \$ 187.5 | \$ 170.9 |
| Other revenues: | | |
| Unaffiliated customers | 68.2 | 57.5 |
| Affiliated customers | 8.0 | 4.6 |
| | ----- | ----- |
| Total revenues | 263.7 | 233.0 |
| Expenses: | | |
| Intersegment charges | 15.7 | 10.2 |
| Other operating expense | 109.7 | 101.1 |
| | ----- | ----- |
| Total expenses | 125.4 | 111.3 |
| Provision for loan and lease losses | 10.9 | 5.8 |
| Income tax expense | 40.4 | 36.0 |
| | ----- | ----- |
| Operating income | \$ 87.0 | \$ 79.9 |
| | ===== | ===== |
| Identifiable assets | \$ 24,985.6 | \$ 23,585.4 |
| | ===== | ===== |
| Return on tangible equity | 18.8 % | 19.4 % |
| | ===== | ===== |

MARSHALL & ILSLEY CORPORATION
Notes to Financial Statements - Continued
March 31, 2001 & 2000 (Unaudited)

The following tables present revenue and operating income by line of

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business for Banking. This information is based on the Corporation's product profitability measurement system and is an aggregation of the revenues and expenses associated with the products and services within each line of business. Net interest income is derived from the Corporation's internal funds transfer pricing system, expenses are allocated based on available transaction volumes and the provision for loan and lease losses is allocated based on credit risk. Equity is assigned to products and services on a basis that considers market, operational and reputation risk. (\$ in millions):

| | Three Months Ended March 31, | |
|--|------------------------------|----------|
| | 2001 | 2000 |
| Banking revenues: | | |
| Commercial Banking | \$ 106.9 | \$ 98.6 |
| Retail Banking | 104.4 | 95.1 |
| Investments and Other | 52.4 | 39.3 |
| | ----- | ----- |
| Total banking revenues | \$ 263.7 | \$ 233.0 |
| | ===== | ===== |
| Percent of total banking revenue: | | |
| Commercial Banking | 40.5 % | 42.3 % |
| Retail Banking | 39.6 | 40.8 |
| Investments and Other | 19.9 | 16.9 |
| | ----- | ----- |
| Total banking revenues | 100.0 % | 100.0 % |
| | ===== | ===== |
| Operating banking income | | |
| Commercial Banking | \$ 47.4 | \$ 40.3 |
| Retail Banking | 24.6 | 24.4 |
| Investments and Other | 15.0 | 15.2 |
| | ----- | ----- |
| Total operating banking income | \$ 87.0 | \$ 79.9 |
| | ===== | ===== |
| Percent of total operating banking income: | | |
| Commercial Banking | 54.4 % | 50.4 % |
| Retail Banking | 28.3 | 30.5 |
| Investments and Other | 17.3 | 19.1 |
| | ----- | ----- |
| Total operating banking income | 100.0 % | 100.0 % |
| | ===== | ===== |
| Banking return on tangible equity | | |
| Commercial Banking | 23.7 % | 21.9 % |
| Retail Banking | 17.7 | 19.4 |
| | ----- | ----- |
| Total banking return on tangible equity | 18.8 % | 19.4 % |
| | ===== | ===== |

MARSHALL & ILSLEY CORPORATION
Notes to Financial Statements - Continued
March 31, 2001 & 2000 (Unaudited)

DATA SERVICES

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Data Services includes Metavante and its two nonbank subsidiaries. Metavante provides data processing services, develops and sells software and provides consulting services to M&I affiliates as well as banks, thrifts, credit unions, trust companies and other financial services companies throughout the world although its activities are primarily domestic. In addition, Metavante derives revenue from the Corporation's credit card merchant operations. The majority of Metavante revenue is derived from internal and external processing. Intrasegment revenues, expenses and assets have been eliminated in the following information and prior periods have been restated to exclude the item processing business. (\$ in millions):

| | Three Months Ended March 31, | |
|-------------------------|------------------------------|----------|
| | 2001 | 2000 |
| Revenue: | | |
| Net interest expense | \$ (0.6) | \$ (1.3) |
| Other revenues: | | |
| Unaffiliated customers | 131.6 | 128.9 |
| Affiliated customers | 16.0 | 15.1 |
| Total revenues | 147.0 | 142.7 |
| Expenses: | | |
| Intersegment charges | 3.2 | 0.7 |
| Other operating expense | 129.1 | 122.8 |
| Total expenses | 132.3 | 123.5 |
| Income tax expense | 6.2 | 8.1 |
| Operating income | \$ 8.5 | \$ 11.1 |
| Identifiable assets | \$ 610.5 | \$ 528.5 |
| Return on equity | 12.0 % | 18.4 % |

MARSHALL & ILSLEY CORPORATION
Notes to Financial Statements - Continued
March 31, 2001 & 2000 (Unaudited)

ALL OTHERS

M&I's primary other operating segments includes Trust Services, Mortgage Banking (residential and commercial), Capital Markets Group, Brokerage and Insurance Services and Commercial Leasing. Trust Services provide investment management and advisory services as well as personal, commercial and corporate trust services in Wisconsin, Florida and Arizona. Capital Markets Group provide venture capital and advisory services. Intrasegment revenues, expenses and assets for the entities that comprise Trust Services and Capital Markets Group have been eliminated in the following information. (\$ in millions):

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| | Three Months Ended March 31, | |
|-------------------------------------|------------------------------|----------|
| | 2001 | 2000 |
| Revenue: | | |
| Net interest income | \$ 5.5 | \$ 5.0 |
| Other revenues: | | |
| Unaffiliated customers | 47.2 | 52.9 |
| Affiliated customers | 3.6 | 3.1 |
| Total revenues | 56.3 | 61.0 |
| Expenses: | | |
| Intersegment charges | 7.4 | 7.4 |
| Other operating expense | 28.9 | 26.0 |
| Total expenses | 36.3 | 33.4 |
| Provision for loan and lease losses | 0.2 | 0.0 |
| Income tax expense | 7.9 | 11.1 |
| Operating income | \$ 11.9 | \$ 16.5 |
| Identifiable assets | \$ 757.7 | \$ 704.1 |
| Return on tangible equity | 20.5 % | 30.7 % |

Total Revenues by type in All Others consist of the following:

| | Three Months Ended March 31, | |
|------------------------------|------------------------------|---------|
| | 2001 | 2000 |
| All Others Revenues: | | |
| Trust Services | \$ 30.3 | \$ 28.5 |
| Residential Mortgage Banking | 7.4 | 5.7 |
| Capital Markets | 7.1 | 15.8 |
| Brokerage and Insurance | 5.5 | 6.4 |
| Commercial Leasing | 2.9 | 2.4 |
| Commercial Mortgage Banking | 0.6 | 0.4 |
| Others | 2.5 | 1.8 |
| Total All Others revenues | \$ 56.3 | \$ 61.0 |

MARSHALL & ILSLEY CORPORATION
Notes to Financial Statements - Continued
March 31, 2001 & 2000 (Unaudited)

Segment information reconciled to the Consolidated Financial Statements is as follows (\$ in millions):

Three Months Ended March 31,

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| | 2001 | 2000 |
|---------------------------|-------------|-------------|
| Revenues: | | |
| Banking | \$ 263.7 | \$ 233.0 |
| Data Services | 147.0 | 142.7 |
| All Others | 56.3 | 61.0 |
| Corporate overhead | (6.9) | (4.2) |
| Acquisition costs | 0.3 | 0.4 |
| Intersegment eliminations | (27.7) | (22.4) |
| Consolidated revenues | \$ 432.7 | \$ 410.5 |
| Expenses: | | |
| Banking | \$ 125.4 | \$ 111.3 |
| Data Services | 132.3 | 123.5 |
| All Others | 36.3 | 33.4 |
| Corporate overhead | 14.1 | 17.2 |
| Acquisition costs | 4.4 | 5.0 |
| Single charter | 6.0 | -- |
| Intersegment eliminations | (27.7) | (22.4) |
| Consolidated expenses | \$ 290.8 | \$ 268.0 |
| Net income (loss): | | |
| Operating income: | | |
| Banking | \$ 87.0 | \$ 79.9 |
| Data Services | 8.5 | 11.1 |
| All Others | 11.9 | 16.5 |
| Corporate overhead | (12.8) | (12.9) |
| Nonrecurring | (5.0) | (2.3) |
| Acquisition costs | (3.4) | (3.9) |
| Consolidated net income | \$ 86.2 | \$ 88.4 |
| Assets: | | |
| Banking | \$ 24,985.6 | \$ 23,585.4 |
| Data Services | 610.5 | 528.5 |
| All Others | 757.7 | 704.1 |
| Corporate overhead | 364.3 | 196.4 |
| Acquisition costs | 245.8 | 264.8 |
| Intersegment eliminations | (809.4) | (315.5) |
| Consolidated assets | \$ 26,154.5 | \$ 24,963.7 |

MARSHALL & ILSLEY CORPORATION
CONSOLIDATED AVERAGE BALANCE SHEETS (Unaudited)
(\$000's)

| | Three Months Ended March 31, 2001 | 2000 |
|-------------------------|--------------------------------------|------------|
| Assets | | |
| ----- | | |
| Cash and due from banks | \$ 612,645 | \$ 630,113 |

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| | | |
|--|---------------|---------------|
| Investment securities: | | |
| Trading securities | 29,919 | 41,553 |
| Short-term investments | 318,075 | 234,435 |
| Other investment securities: | | |
| Taxable | 4,488,625 | 4,132,667 |
| Tax-exempt | 1,293,755 | 1,341,892 |
| | ----- | ----- |
| Total investment securities | 6,130,374 | 5,750,547 |
| Loans and leases: | | |
| Commercial | 5,258,481 | 4,896,688 |
| Real estate | 10,105,358 | 9,599,400 |
| Personal | 1,173,905 | 1,313,719 |
| Lease financing | 1,079,695 | 825,300 |
| | ----- | ----- |
| Total loans and leases | 17,617,439 | 16,635,107 |
| Less: Allowance for loan and lease losses | 237,791 | 228,464 |
| | ----- | ----- |
| Net loans and leases | 17,379,648 | 16,406,643 |
| Premises and equipment, net | 386,423 | 372,300 |
| Accrued interest and other assets | 1,524,781 | 1,441,311 |
| | ----- | ----- |
| Total Assets | \$ 26,033,871 | \$ 24,600,914 |
| | ===== | ===== |
| Liabilities and Shareholders' Equity | | |
| ----- | | |
| Deposits: | | |
| Noninterest bearing | \$ 2,657,789 | \$ 2,609,079 |
| Interest bearing | 15,020,398 | 14,422,706 |
| | ----- | ----- |
| Total deposits | 17,678,187 | 17,031,785 |
| Funds purchased and security repurchase agreements | 1,916,858 | 2,751,558 |
| Other short-term borrowings | 1,759,942 | 1,143,504 |
| Long-term borrowings | 1,611,647 | 1,010,484 |
| Accrued expenses and other liabilities | 785,255 | 585,216 |
| | ----- | ----- |
| Total liabilities | 23,751,889 | 22,522,547 |
| Shareholders' equity | 2,281,982 | 2,078,367 |
| | ----- | ----- |
| Total Liabilities and Shareholders' Equity | \$ 26,033,871 | \$ 24,600,914 |
| | ===== | ===== |

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL POSITION

 AND RESULTS OF OPERATIONS

THREE MONTHS ENDED MARCH 31, 2001 AND 2000

Net income for the first quarter of 2001 amounted to \$86.2 million compared to \$88.4 million for the same period in the prior year. Basic and diluted earnings per share were \$.83 and \$.80 respectively for the three months ended March 31, 2001, compared with \$.84 and \$.81 respectively for the three months ended March 31, 2000. The return on average assets and average equity were 1.34% and 15.31% for the quarter ended March 31, 2001

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and 1.45% and 17.11% for the quarter ended March 31, 2000.

Net income for the current quarter includes certain expenses incurred in connection with the previously announced plan to reduce the number of banking charters under which it operates and also includes the cumulative effect of the change in accounting for derivatives and hedging activities. Net income for the prior year comparative quarter includes the cumulative effect of the change in accounting for certain conversion services provided by Metavante. The impact of these items is shown in the following table:

| | Consolidated Income Statement | Other Comprehensive Income (Equity) |
|---|-------------------------------------|--|
| | | |
| Fair value hedges | \$ (628) | \$ -- |
| Cash flow hedges | (43) | (15,665) |
| | (671) | (15,665) |
| Income tax benefit | 235 | 5,483 |
| | (436) | (10,182) |
| Cumulative effect of change in accounting principles | \$ (436) | \$ (10,182) |

The following tables present a summary of each of the major elements of the consolidated operating income statement, certain financial statistics and a summary of the major operating income statement elements stated as a percent of average consolidated assets converted to a fully taxable equivalent basis (FTE) where appropriate for the current quarter and previous four quarters. Operating income for the first quarter of 2001 and 2000 excludes the items discussed above and operating income for the third and fourth quarters of 2000 excludes certain nonrecurring losses and expenses associated with balance sheet restructuring, charter consolidations and the withdrawn Metavante IPO. "Cash operating income" and related statistics is operating income before amortization of intangibles. Amortization includes amortization of goodwill and core deposit premiums and is net of negative goodwill accretion and the income tax expense or benefit, if any related to each component. These calculations were specifically formulated by the Corporation and may not be comparable to similarly titled measures reported by other companies.

Summary Consolidated Operating Income Statements

and Financial Statistics

(\$000's except per share data)

| | 2001 | | 2000 | | |
|------------------|------------------|-------------------|------------------|-------------------|------------------|
| | First Quarter | Fourth Quarter | Third Quarter | Second Quarter | First Quarter |
| | | | | | |
| Interest income | \$ 452,434 | \$ 457,503 | \$ 443,265 | \$ 432,589 | \$ 414,625 |
| Interest expense | (266,655) | (282,738) | (279,200) | (267,534) | (245,504) |

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| | | | | | |
|---|-----------|-----------|-----------|-----------|-----------|
| Net interest income | 185,779 | 174,765 | 164,065 | 165,055 | 169,121 |
| Provision for loan and lease losses | (11,063) | (8,979) | (5,938) | (9,616) | (5,819) |
| Net investment securities gains (losses) | (123) | (120) | (110) | 1,281 | -- |
| Other income | 247,084 | 249,543 | 247,560 | 244,142 | 241,426 |
| Other expense | (284,796) | (282,262) | (271,542) | (266,981) | (267,997) |
| Income before taxes | 136,881 | 132,947 | 134,035 | 133,881 | 136,731 |
| Income tax provision | (45,754) | (43,230) | (43,578) | (43,134) | (46,016) |
| Operating income | \$ 91,127 | \$ 89,717 | \$ 90,457 | \$ 90,747 | \$ 90,715 |
| Cash operating income | \$ 95,828 | \$ 94,663 | \$ 95,606 | \$ 95,307 | \$ 95,204 |
| Per Common Share | | | | | |
| Operating income | | | | | |
| Basic | \$ 0.88 | \$ 0.86 | \$ 0.86 | \$ 0.86 | \$ 0.86 |
| Diluted | 0.85 | 0.83 | 0.83 | 0.83 | 0.83 |
| Cash Operating income | | | | | |
| Basic | \$ 0.92 | \$ 0.90 | \$ 0.91 | \$ 0.91 | \$ 0.90 |
| Diluted | 0.89 | 0.87 | 0.88 | 0.88 | 0.87 |
| Dividends | 0.265 | 0.265 | 0.265 | 0.265 | 0.24 |
| Return on Average Equity | | | | | |
| Operating income | 16.20 % | 15.92 % | 16.57 % | 17.39 % | 17.55 % |
| Cash Operating income | 19.60 | 19.40 | 20.45 | 21.52 | 21.92 |

Summary Consolidated Operating Income Statement Components

as a Percent of Average Total Assets

| | 2001 | | 2000 | | |
|---|------------------|-------------------|------------------|-------------------|------------------|
| | First Quarter | Fourth Quarter | Third Quarter | Second Quarter | First Quarter |
| Interest income (FTE) | 7.16 % | 7.27 % | 7.16 % | 7.08 % | 6.91 % |
| Interest expense | (4.15) | (4.42) | (4.43) | (4.30) | (4.01) |
| Net interest income | 3.01 | 2.85 | 2.73 | 2.78 | 2.90 |
| Provision for loan and lease losses | (0.17) | (0.14) | (0.10) | (0.15) | (0.10) |
| Net investment securities gains (losses) | -- | -- | -- | 0.02 | -- |
| Other income | 3.85 | 3.90 | 3.93 | 3.92 | 3.94 |

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| | | | | | |
|---|--------|--------|--------|--------|--------|
| Other expense | (4.45) | (4.41) | (4.31) | (4.29) | (4.38) |
| | ----- | ----- | ----- | ----- | ----- |
| Income before taxes | 2.24 | 2.20 | 2.25 | 2.28 | 2.36 |
| Income tax provision | (0.82) | (0.80) | (0.81) | (0.82) | (0.88) |
| | ----- | ----- | ----- | ----- | ----- |
| Return on average assets based on operating income | 1.42 % | 1.40 % | 1.44 % | 1.46 % | 1.48 % |
| | ===== | ===== | ===== | ===== | ===== |
| Return on tangible average assets based on cash operating income | 1.51 % | 1.50 % | 1.54 % | 1.55 % | 1.58 % |
| | ===== | ===== | ===== | ===== | ===== |

NET INTEREST INCOME

Net interest income for the first quarter of 2001 amounted to \$185.8 million compared to \$169.1 million reported for the first quarter of 2000. Strong loan growth and increased spreads in loan products contributed to the \$16.7 million increase in net interest income despite the continued use of higher-cost funding sources and reduced spreads in deposit products due to an adverse shift in the mix of bank-issued deposit types.

Average earning assets in the first quarter of 2001 increased \$1.4 billion or 6.1% compared to the same period a year ago. Average loans, including securitized adjustable rate mortgage loans (ARMs), accounted for \$1.4 billion or all of the growth in earning assets compared to the first quarter of last year. Average investment securities, excluding securitized ARMs, declined \$96.8 million while other earning assets increased \$72.0 million for the three months ended March 31, 2001 compared with the same period in the prior year.

Average interest bearing liabilities increased \$1.0 billion or 5.1% in the first quarter of 2001 compared to the same period in 2000. Since the first quarter of 2000, average interest bearing deposits increased \$0.6 billion. Over 74% of the growth in interest bearing deposits were attributable to bank-issued deposits. Average total short-term borrowings decreased \$218 million and reflects a shift away from fed funds and repurchase agreements and short-term bank notes to longer-term liabilities. Long-term borrowings increased \$0.6 billion.

Average noninterest bearing deposits increased \$49 million or 1.9% compared to the same period last year.

The growth and composition of the Corporation's quarterly average loan portfolio for the current quarter and previous four quarters are reflected in the following table. Securitized ARM loans which are classified in the consolidated balance sheets as investment securities available for sale are included to provide a more meaningful comparison (\$ in millions):

Consolidated Average Loans, Leases and Securitized ARMs

| | 2001 | | 2000 | | | Growth Pct. |
|--|---------|---------|---------|---------|---------|-------------|
| | First | Fourth | Third | Second | First | Prior |
| | Quarter | Quarter | Quarter | Quarter | Quarter | Quarter |
| | ----- | ----- | ----- | ----- | ----- | ----- |
| | | | | | | Annual |
| | | | | | | Quarte |
| | | | | | | |

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| | | | | | | | |
|--|-----------|-----------|-----------|-----------|-----------|--------|--------|
| Commercial | \$ 5,258 | \$ 5,042 | \$ 4,950 | \$ 5,013 | \$ 4,897 | 7.4 % | 4.3 |
| Real Estate | | | | | | | |
| Construction | | | | | | | |
| Commercial | 495 | 469 | 450 | 407 | 407 | 21.7 | 5.5 |
| Residential | 126 | 123 | 117 | 112 | 106 | 18.1 | 2.5 |
| Total Construction | 621 | 592 | 567 | 519 | 513 | 21.0 | 4.9 |
| Commercial Mortgages | 4,429 | 4,300 | 4,219 | 4,159 | 4,050 | 9.3 | 3.0 |
| Residential | | | | | | | |
| Residential mortgages | 2,409 | 2,740 | 3,168 | 3,011 | 2,862 | (15.8) | (12.1) |
| Home equity loans and lines | 2,647 | 2,462 | 2,261 | 2,230 | 2,174 | 21.7 | 7.5 |
| Securitized ARM loans | 828 | 523 | 375 | 403 | 424 | 95.5 | 58.4 |
| Total Residential | 5,884 | 5,725 | 5,804 | 5,644 | 5,460 | 7.8 | 2.8 |
| Total Real Estate | 10,934 | 10,617 | 10,590 | 10,322 | 10,023 | 9.1 | 3.0 |
| Personal | | | | | | | |
| Student | 134 | 119 | 108 | 254 | 262 | (48.9) | 12.5 |
| Credit card | 190 | 187 | 171 | 153 | 151 | 26.5 | 1.9 |
| Other | 850 | 852 | 883 | 944 | 901 | (5.7) | (0.3) |
| Total Personal | 1,174 | 1,158 | 1,162 | 1,351 | 1,314 | (10.6) | 1.4 |
| Lease financing | | | | | | | |
| Commercial | 385 | 377 | 360 | 341 | 335 | 15.0 | 2.2 |
| Personal | 695 | 698 | 616 | 536 | 490 | 41.6 | (0.5) |
| Total Lease Financing | 1,080 | 1,075 | 976 | 877 | 825 | 30.8 | 0.4 |
| Total Consolidated Average Loans, Leases and ARMs | \$ 18,446 | \$ 17,892 | \$ 17,678 | \$ 17,563 | \$ 17,059 | 8.1 % | 3.1 |
| Total Consolidated Average Loans, Leases and ARMs | | | | | | | |
| Commercial Banking | \$ 10,567 | \$ 10,188 | \$ 9,979 | \$ 9,920 | \$ 9,689 | 9.1 % | 3.7 |
| Retail Banking | 7,879 | 7,704 | 7,699 | 7,643 | 7,370 | 6.9 | 2.3 |
| Total Consolidated Average Loans, Leases and ARMs | \$ 18,446 | \$ 17,892 | \$ 17,678 | \$ 17,563 | \$ 17,059 | 8.1 % | 3.1 |
| Total Consolidated Average Loans and Leases | \$ 17,618 | \$ 17,369 | \$ 17,303 | \$ 17,160 | \$ 16,635 | 5.9 % | 1.4 |

Compared with the first quarter of 2000, total consolidated average loans, leases and securitized ARMs increased \$1.4 billion or 8.1%. Approximately 63% of consolidated average loan growth was attributable to commercial banking. Total loan growth in commercial banking amounted to \$878 million or 9.1% and was driven by commercial loan growth of \$361 million and commercial real estate loan growth of \$467 million of which, \$88 million was attributable to commercial construction loan growth. Retail banking loan growth amounted to \$509 million or 6.9%. Home equity loans and lines increased \$473 million. In the fourth quarter of 2000, the Corporation acquired \$341 million of home equity loans and lines related to its private-label banking services. Personal lease financing receivables

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increased \$205 million. Residential mortgages decreased \$453 million or 15.8% while securitized ARM loans increased \$404 million. In addition to

the ongoing sale of residential mortgage production in the secondary market, late in the third quarter of 2000, the Corporation sold \$300.8 million of portfolio ARM loans and late in the fourth quarter of 2000, securitized \$511 million of ARM loans. The decline in average student loans of \$128 million reflects the sale of approximately \$150 million of such loans late in the second quarter of 2000. Average other personal loans decreased \$51 million or 5.7%. Beginning in the third quarter of 2000, the Corporation began securitizing indirect auto loans. Indirect auto loans securitized and sold in 2000 amounted to \$223 million and for the three months ended March 31, 2001 amounted to \$68 million. The Corporation anticipates that indirect auto loan origination will continue to be securitized and sold in future quarters.

Generally, the Corporation sells residential real estate loan production in the secondary market. Residential real estate loans originated and sold to investors amounted to \$ 322 million in the first quarter of 2001 compared to \$72 million in the first quarter of the prior year.

The growth and composition of the Corporation's quarterly average deposits for the current and prior year's quarters are as follows (\$ in millions):

Consolidated Average Deposits

| | 2001 | | 2000 | | | Growth Pct. | |
|-------------------------------------|------------------|-------------------|------------------|-------------------|------------------|-------------|------------------|
| | First Quarter | Fourth Quarter | Third Quarter | Second Quarter | First Quarter | Annual | Prior Quarter |
| Noninterest bearing deposits | | | | | | | |
| Commercial | \$ 1,639 | \$ 1,716 | \$ 1,694 | \$ 1,677 | \$ 1,668 | (1.7)% | (4.5) |
| Personal | 583 | 582 | 572 | 591 | 576 | 1.2 | 0.2 |
| Other | 436 | 428 | 373 | 351 | 365 | 19.5 | 1.8 |
| Total noninterest bearing deposits | 2,658 | 2,726 | 2,639 | 2,619 | 2,609 | 1.9 | (2.5) |
| Interest bearing deposits | | | | | | | |
| Savings & NOW | 1,720 | 1,760 | 1,826 | 1,880 | 1,919 | (10.4) | (2.3) |
| Money market | 5,873 | 5,558 | 5,248 | 5,092 | 5,065 | 15.9 | 5.7 |
| Other CDs & time deposits | 3,397 | 3,452 | 3,394 | 3,399 | 3,428 | (0.9) | (1.6) |
| CDs greater than \$100,000 | 820 | 856 | 874 | 852 | 909 | (9.8) | (4.2) |
| Foreign Time | 1,415 | 2,042 | 1,951 | 2,112 | 2,057 | (31.2) | (30.7) |
| Brokered CDs | 1,795 | 1,780 | 1,653 | 1,239 | 1,045 | 71.8 | 0.8 |
| Total interest bearing deposits | 15,020 | 15,448 | 14,946 | 14,574 | 14,423 | 4.1 | (2.8) |
| Total consolidated average deposits | \$ 17,678 | \$ 18,174 | \$ 17,585 | \$ 17,193 | \$ 17,032 | 3.8 % | (2.7) |
| Bank issued deposits | \$ 14,182 | \$ 14,125 | \$ 13,715 | \$ 13,572 | \$ 13,688 | 3.6 % | 0.4 |
| Wholesale deposits | 3,496 | 4,049 | 3,870 | 3,621 | 3,344 | 4.6 | (13.6) |
| Total consolidated | | | | | | | |

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average deposits \$ 17,678 \$ 18,174 \$ 17,585 \$ 17,193 \$ 17,032 3.8 % (2.7)
 =====

The Corporation continues to have some reliance on wholesale deposits for funding. Compared with the first quarter of 2000, average wholesale deposit growth amounted to \$152 million or 4.6%. The increase in Brokered CDs of \$750 million and brokered money market accounts of \$124 million was offset by a decrease in Eurodollar term and overnight funds, which are included in foreign time, of \$721 million.

Average bank issued deposits increased \$494 million or 3.6% in the first quarter of 2001 compared to the first quarter of 2000. As part of its private-label banking services, the Corporation acquired \$354 million of deposits late in 2000. Average money market index accounts accounted for approximately \$858 million of the growth in average bank issued deposits while savings and NOW declined \$199 million and bank issued money market savings decreased \$175 million. This shift in mix had an adverse impact on the interest margin. Noninterest bearing deposits, as previously discussed, increased \$49 million. Average bank issued deposits were negatively impacted by the sale of three bank branches in 2000 all located in Illinois. Total deposits sold amounted to approximately \$111 million. There were no branch sales in the first quarter of 2001 or during the first quarter of 2000.

The Corporation's consolidated average interest earning assets and interest bearing liabilities, interest earned and interest paid for the current quarter and prior year first quarter are presented in the following table. Securitized ARM loans that are classified in the balance sheet as investment securities available for sale are included with loans to provide a more meaningful comparison (\$ in millions):

| | Three Months Ended March 31, 2001 | | | Three Months Ended March 31, 2000 | | |
|---|--------------------------------------|----------|---------------------------------|--------------------------------------|----------|----------------|
| | Average Balance | Interest | Average Yield or Cost (b) | Average Balance | Interest | Av Yi Co |
| Loans and leases (a) | \$ 18,445.9 | \$ 370.5 | 8.15 % | \$ 17,059.0 | \$ 335.0 | |
| Investment securities: | | | | | | |
| Taxable | 3,660.1 | 61.9 | 6.98 | 3,708.8 | 59.9 | |
| Tax Exempt (a) | 1,293.8 | 22.6 | 7.17 | 1,341.9 | 23.8 | |
| Other short-term investments (a) | 348.0 | 4.6 | 5.36 | 276.0 | 3.8 | |
| Total interest earning assets | \$ 23,747.8 | \$ 459.6 | 7.88 % | \$ 22,385.7 | \$ 422.5 | |
| Money market savings | \$ 5,872.7 | \$ 71.8 | 4.96 % | \$ 5,065.3 | \$ 61.2 | |
| Regular savings & NOW | 1,719.8 | 5.7 | 1.34 | 1,918.4 | 8.5 | |
| Other CDs & time deposits CDs greater than \$100 & Brokered CDs | 4,812.9 | 69.5 | 5.86 | 5,484.9 | 74.6 | |
| | 2,615.0 | 40.2 | 6.23 | 1,954.1 | 28.3 | |
| Total interest bearing deposits | 15,020.4 | 187.2 | 5.05 | 14,422.7 | 172.6 | |
| Short-term borrowings | 3,676.8 | 54.1 | 5.97 | 3,895.1 | 57.0 | |
| Long-term borrowings | 1,611.6 | 25.3 | 6.38 | 1,010.5 | 15.9 | |

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| | | | | | |
|--|-------------|----------|--------|-------------|----------|
| Total interest bearing liabilities | \$ 20,308.8 | \$ 266.6 | 5.32 % | \$ 19,328.3 | \$ 245.5 |
| Net interest margin (FTE) as a percent of average earning assets | | \$ 193.0 | 3.31 % | | \$ 177.0 |
| Net interest spread (FTE) | | | 2.56 % | | |

- (a) Fully taxable equivalent basis (FTE), assuming a Federal income tax rate of 35%, and excluding disallowed interest expense.
- (b) Based on average balances excluding fair value adjustments for available for sale securities.

The yield on average earning assets increased 31 basis points since the first quarter of 2000 which had a positive impact on interest income (FTE) of approximately \$13.4 million. The increase in the yield of taxable investment securities reflects the Corporation's realignment of its available for sale investment securities portfolio through the sale and purchase of approximately \$1.6 billion of U.S. Government Agency securities during the third quarter of 2000. The increase in the volume of earning assets, primarily loans and securitized ARMs, increased interest income by approximately \$23.7 million compared with the first quarter of 2000. The cost of interest bearing deposits increased 24 basis points from the same quarter of the previous year which reflects, in part, the adverse shift in deposit mix previously discussed. Short-term borrowing costs increased 8 basis points which also reflects the shift in mix of short-term funding sources. Long-term borrowing costs increased 6 basis points compared with the first quarter of 2000 which is a result of the greater use of bank notes which were issued in the later part of 2000. The overall increase in the cost of interest bearing liabilities of 21 basis points increased interest expense by approximately \$5.7 million while the increase in the volume of interest bearing liabilities increased interest expense by approximately \$15.4 million.

In the recent declining interest rate environment, the Corporation has taken certain actions to lessen the amount of income at risk due to changes in interest rates. As a result, net interest income will not experience the same magnitude of benefit as it might have, absent the actions taken. In addition to continuing to seek less costly funding sources, the Corporation may, among other things, continue to divest of lower yielding assets through sale or securitization in the future.

PROVISION FOR LOAN AND LEASE LOSSES AND CREDIT QUALITY

The following tables present comparative consolidated credit quality information as of March 31, 2001 and the prior four quarters.

NONPERFORMING ASSETS

(\$000's)

| | 2001 | | 2000 | | |
|------------|---------------|----------------|---------------|----------------|---------------|
| | First Quarter | Fourth Quarter | Third Quarter | Second Quarter | First Quarter |
| Nonaccrual | \$ 130,640 | \$ 121,425 | \$ 116,682 | \$ 119,584 | \$ 111,642 |

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| | | | | | |
|--------------------------------------|------------|------------|------------|------------|------------|
| Renegotiated | 560 | 614 | 658 | 421 | 688 |
| Past due 90 days or more | 7,080 | 7,371 | 7,295 | 10,069 | 9,334 |
| Total nonperforming loans and leases | 138,280 | 129,410 | 124,635 | 130,074 | 121,664 |
| Other real estate owned | 3,790 | 3,797 | 3,804 | 4,592 | 6,247 |
| Total nonperforming assets | \$ 142,070 | \$ 133,207 | \$ 128,439 | \$ 134,666 | \$ 127,911 |
| Allowance for loan and lease losses | \$ 240,348 | \$ 235,115 | \$ 232,690 | \$ 234,119 | \$ 232,471 |

CONSOLIDATED STATISTICS

| | 2001 | | 2000 | | |
|--|---------------|----------------|---------------|----------------|---------------|
| | First Quarter | Fourth Quarter | Third Quarter | Second Quarter | First Quarter |
| Net Charge-offs (Recoveries) to average loans and leases annualized | 0.13 % | 0.16 % | 0.17 % | 0.19 % | (0.02) % |
| Total nonperforming loans and leases to total loans and leases | 0.78 | 0.74 | 0.72 | 0.75 | 0.72 |
| Total nonperforming assets to total loans and leases and other real estate owned | 0.80 | 0.76 | 0.74 | 0.77 | 0.75 |
| Allowance for loan and lease losses to total loans and leases | 1.35 | 1.34 | 1.34 | 1.35 | 1.37 |
| Allowance for loan and lease losses to nonperforming loans and leases | 174 | 182 | 187 | 180 | 191 |

NONACCRUAL LOANS AND LEASES BY TYPE

(\$000's)

| | 2001 | | 2000 | | |
|--|--------------------|--------------------|--------------------|--------------------|--------------------|
| | First Quarter | Fourth Quarter | Third Quarter | Second Quarter | First Quarter |
| Commercial Commercial, financial & agricultural Lease financing receivables | \$ 50,273 2,959 | \$ 49,965 1,921 | \$ 39,203 2,046 | \$ 51,505 2,271 | \$ 49,006 3,929 |
| Total commercial | 53,232 | 51,886 | 41,249 | 53,776 | 52,935 |
| Real estate Construction & land development | 2,584 | 2,896 | 2,929 | 2,915 | 5,284 |

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| | | | | | |
|-----------------------------------|------------|------------|------------|------------|------------|
| Commercial mortgage | 38,797 | 35,011 | 42,246 | 36,159 | 28,069 |
| Residential mortgage | 34,244 | 29,895 | 28,155 | 25,198 | 23,715 |
| Total real estate | 75,625 | 67,802 | 73,330 | 64,272 | 57,068 |
| Personal | 1,783 | 1,737 | 2,103 | 1,536 | 1,639 |
| Total nonaccrual loans and leases | \$ 130,640 | \$ 121,425 | \$ 116,682 | \$ 119,584 | \$ 111,642 |

RECONCILIATION OF ALLOWANCE FOR LOAN AND LEASE LOSSES

(\$000's)

| | 2001 | | 2000 | | |
|---|---------------|----------------|---------------|----------------|---------------|
| | First Quarter | Fourth Quarter | Third Quarter | Second Quarter | First Quarter |
| Beginning balance | \$ 235,115 | \$ 232,690 | \$ 234,119 | \$ 232,471 | \$ 225,862 |
| Provision for loan and lease losses | 11,063 | 8,979 | 5,938 | 9,616 | 5,819 |
| Allowance of banks and loans acquired | -- | 1,270 | -- | -- | -- |
| Allowance transfer for loan securitizations | -- | (1,022) | -- | -- | -- |
| Loans and leases charged-off | | | | | |
| Commercial | 2,577 | 2,253 | 5,210 | 2,711 | 449 |
| Real estate | 2,075 | 3,267 | 943 | 4,989 | 653 |
| Personal | 2,383 | 2,629 | 2,285 | 1,758 | 1,544 |
| Leases | 496 | 397 | 193 | 539 | 198 |
| Total charge-offs | 7,531 | 8,546 | 8,631 | 9,997 | 2,844 |
| Recoveries on loans and leases | | | | | |
| Commercial | 515 | 429 | 436 | 1,020 | 2,811 |
| Real estate | 410 | 645 | 291 | 373 | 206 |
| Personal | 728 | 627 | 508 | 539 | 525 |
| Leases | 48 | 43 | 29 | 97 | 92 |
| Total recoveries | 1,701 | 1,744 | 1,264 | 2,029 | 3,634 |
| Net loans and leases charge-offs (recoveries) | 5,830 | 6,802 | 7,367 | 7,968 | (790) |
| Ending balance | \$ 240,348 | \$ 235,115 | \$ 232,690 | \$ 234,119 | \$ 232,471 |

Nonperforming assets consist of nonperforming loans and other real estate owned (OREO).

OREO is comprised of commercial and residential properties acquired in partial or total satisfaction of problem loans and branch premises held for sale. At March 31, 2001, OREO acquired in satisfaction of debts amounted to \$3.2

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million and branch premises held for sale amounted to \$0.6 million.

Nonperforming loans and leases consist of nonaccrual, renegotiated or restructured loans, and loans and leases that are delinquent 90 days or more and still accruing interest. The balance of nonperforming loans and leases can fluctuate widely based on the timing of cash collections, renegotiations and renewals.

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

At March 31, 2001, nonperforming loans and leases amounted to \$138.3 million or 0.78% of consolidated loans and leases of \$17.8 billion, an increase of \$8.9 million or 6.9% since December 31, 2000. Nonaccrual loans and leases accounted for \$9.2 million of the increase compared to the prior quarter. Nonaccrual residential real estate loans accounted for \$4.3 million of the increase. Nonaccrual commercial real estate loans increased \$3.8 million driven primarily by multifamily loans. Two commercial lease financing receivables placed on nonaccrual accounted for the \$1.0 million increase in nonaccrual leases while nonaccrual commercial and industrial loans were relatively unchanged. Nonaccrual loans associated with the cranberry industry amounted to \$13.0 million at March 31, 2001, compared to \$13.8 million at December 31, 2000. While this sector represents 10% of total nonaccrual loans, the Corporation feels this industry has stabilized and does not anticipate further losses.

Net charge-offs amounted to \$5.8 million or 0.13% of average loans in the first quarter of 2001 compared with net charge-offs of \$6.8 million or 0.16% of average loans in the fourth quarter of 2000 and have remained fairly stable over the past four quarters.

The allowance for loan and lease losses represents management's estimate of probable inherent losses which have occurred as of the date of the financial statements. In determining the adequacy of the reserve the Corporation evaluates the reserves necessary for specific nonperforming loans and also estimates losses inherent in other loans and leases. As a result, the allowance for loans and leases contains the following components:

Specific Reserve. The amount of specific reserves is determined through a loan-by-loan analysis of nonperforming loans that considers expected future cash flows, the value of collateral and other factors that may impact the borrower's ability to make payments when due. Included in this group are those nonaccrual or renegotiated loans which meet the criteria as being "impaired" under the definition in SFAS 114. A loan is impaired when, based on current information and events, it is probable that a creditor will be unable to collect all amounts due according to the contractual terms of the loan agreement.

Allocated inherent reserve. The amount of the allocated portion of the inherent loss reserve is determined by reserving factors assigned to loans and leases based on the Corporation's internal loan grading system. Line officers and loan committees are responsible for continually assigning grades to commercial loan types based on standards established in the Corporation's loan

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policies and adherence to the standards is closely monitored by the Corporation's Loan Review Group. Loan grades are similar to, but generally more conservative than, regulatory classifications. In addition, reserving factors are applied to retail and smaller balance ungraded credits as well as specialty loan products such as credit card, student loans and mortgages. Reserving factors are derived and are determined based on such factors as historical charge-off experience, remaining life, and industry practice for reserve levels. The use of industry practice is intended to prevent an understatement of reserves based upon an over-reliance on historical charge-offs during favorable economic conditions.

Unallocated inherent reserve. Management determines the unallocated portion of the inherent loss reserve based on factors that cannot be associated with a specific credit or loan categories. These factors include management's subjective evaluation of local, national and international economic and business conditions, changes to underwriting standards and marketing channels such as use of centralized retail and small business credit centers, trends towards higher advance rates and longer amortization periods and the impact of acquisitions on the Corporation's credit risk profile. The unallocated portion of the inherent loss reserve also reflects management's attempt to ensure that the overall reserve appropriately reflects a margin for the imprecision necessarily inherent in estimates of expected credit losses.

Management's evaluation of the factors described above resulted in an allowance for loan and lease losses of \$240.3 million at March 31, 2001 compared to \$235.1 million at December 31, 2000. The level of reserve reflects management's belief that losses inherent in the loan and lease portfolio were larger than would otherwise be suggested by the Corporation's favorable charge-off experience in recent years; the Corporation's experience, as most recently evidenced in the second and third quarters of 2000, of larger losses in commercial and commercial real estate loans in brief periods at particular points in economic cycles; and the view that the absolute level of the allowance should not decline appreciably given continuing loan growth and the slowing of economic prosperity.

OTHER INCOME

Total other income in the first quarter of 2001 amounted to \$247.0 million, an increase of \$5.6 million or 2.3%, compared to \$241.4 million in the same period last year.

Total data processing services revenue increased \$3.0 million or 2.3% from \$130.0 million in the first quarter of 2000 to \$133.0 million in the current quarter. Account processing fees increased \$10.1 million or 10.7% and reflects growth in electronic bill payment and presentment and online banking. Professional services fees and software revenue is somewhat seasonal in nature and are typically lower in the first quarter. Other revenue declined primarily due to lower equipment sales while buyout fees were relatively unchanged.

The increase in internet banking revenue was driven by increased internet mortgage lending activity.

Trust services revenue amounted to \$30.0 million in the first quarter of 2001, an increase of \$2.2 million or 8.0% compared to \$27.8 million in the first

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quarter of 2000. Trust services revenue is largely derived from asset-based fees. Maintaining year-over-year revenue growth in the current market environment will be a continuing challenge.

Service charges on deposits increased \$2.3 million or 12.5% and amounted \$20.8 million in the first quarter of 2001. The increase was primarily attributable to service charges on commercial demand accounts.

Mortgage banking revenue increased \$4.0 million in the first quarter of 2001 compared to the first quarter of 2000. While all sources of mortgage banking revenue increased compared to the prior year, gains on the sale of mortgage loans accounted for the majority of the increase which reflects the increased origination and sale activity as previously discussed.

The decrease in capital markets revenue is due to gains from the sale of investments and other net unrealized gains. Net securities gains from Capital Markets investments, which can vary from period to period, amounts to \$6.2 million in the current quarter compared to \$14.8 million in the first quarter of last year.

Other income in the first quarter of 2001 amounted to \$30.1 million compared to \$27.5 million in the first quarter of 2000, an increase of \$2.6 million or 9.5%. Gains and income from indirect auto securitizations, which began in the third quarter of 2000 as previously discussed, amounted to \$5.6 million in the current quarter. Offsetting this income was lower investment income on nonqualified benefit plan assets of approximately \$1.5 million. During the first quarter of 2000 the Corporation recognized reversion income associated with the final settlement of an acquired pension plan of approximately \$1.8 million.

OTHER EXPENSE

Total other expense for the three months ended March 31, 2001, amounted to \$290.8 million including costs attributable to the single charter initiative.

Single Charter related expenses incurred in the current quarter amounted to \$6.0 million. Such expenses consisted of the costs of programming changes required to support operations and processes to achieve the scale required in the single charter environment, systems conversion costs, consulting and other professional fees, costs incurred to eliminate duplicate loan and deposit customer's accounts and other affiliate shareholder matters and costs associated with employee relocation, retention and severance. During the first quarter of 2001, ten charter mergers were completed.

Excluding this item, total other expense amounted to \$284.8 million in the first quarter of 2001 compared to \$268.0 million in the first quarter of 2000 an increase of \$16.8 million or 6.3%.

The Corporation's nonbanking businesses, especially its Data Services segment ("Metavante"), continue to be the primary contributors to operating expense growth. Metavante expense growth represents over half of all of the consolidated operating expense growth and reflects the cost of adding processing capacity and other related costs associated with developing new products and services. Expense growth in the current quarter for the banking segment reflects start-up costs associated with its private-label banking services and losses associated with retail auto lease residual values.

Expense control is sometimes measured in the financial services industry by the efficiency ratio statistic. The efficiency ratio is calculated by taking total other expense (excluding nonrecurring charges) divided by the sum of total other income (including Capital Markets revenue but excluding investment

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securities gains or losses) and net interest income on a fully taxable equivalent basis. The Corporation's efficiency ratios for the three months ended March 31, 2001 and 2000 and the year ended December 31, 2000 are:

| | Three Months Ended March 31, 2001 ----- | Three Months Ended December 31, 2000 ----- | Three Months Ended March 31, 2000 ----- |
|--|---|--|---|
| Consolidated Corporation | 64.7 % | 65.4 % | 64.0 % |
| Consolidated Corporation Excluding Metavante | | | |
| Including Intangible Amortization | 53.9 % | 55.8 % | 53.8 % |
| Excluding Intangible Amortization | 51.8 % | 53.4 % | 51.6 % |

Salaries and employee benefits expense amounted to \$167.9 million in the first quarter of 2001 compared to \$157.3 million in the first quarter of 2000, an increase of \$10.6 million or 6.7%. Salaries and employee benefits expense of Metavante increased \$8.0 million. At March 31, 2001, Metavante had approximately 294 more full time equivalent employees when compared to March 31, 2000. Compared to the first quarter of 2000, expense growth in the current quarter in salaries and employee benefits was \$2.4 million or 3.9% for the banking segment.

Data Services expense growth accounted for approximately \$6.2 million or 96% of the increase in net occupancy, equipment, software, supplies and printing and processing expenses in the first quarter of 2001 compared to the first quarter of 2000.

Approximately \$1.3 million of the decline in professional fees was attributable to Metavante and was offset by increased fees in mortgage and internet banking.

Other expense amounted to \$23.9 million in the first quarter of 2001, and was relatively unchanged compared to the first quarter of 2000. Lower cost of sales associated with equipment sales and card plastics revenue was \$3.1 million and was offset by losses associated with auto lease residuals.

Other expense is affected by the capitalization of costs, net of amortization and write-downs associated with software development and customer data processing conversions. Net software capitalization was \$7.2 million in the first quarter of 2000 and in the current quarter amounted to \$6.4 million resulting in an increase of \$0.8 million in other expense in the first quarter of 2001 compared to first quarter of 2000.

INCOME TAXES

The provision for income taxes for the three months ended March 31, 2001 amounted to \$44.3 million or 33.8% of pre-tax income compared to \$46.0 million or 33.7% of pre-tax income for the three months ended March 31, 2000.

CAPITAL RESOURCES

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Shareholders' equity was \$2.31 billion at March 31, 2001 compared to \$2.24 billion at December 31, 2000 and \$2.07 billion at March 31, 2000.

The Corporation had net unrealized gains on securities available for sale at March 31, 2000 of \$72.5 million, an increase in market value net of related income tax effects of \$34.4 million since December 31, 2000. Net unrealized losses associated with derivative financial instruments designated cash flow hedges at March 31, 2001 amounted to \$12.9 million.

For the three months ended March 31, 2000, M&I repurchased 0.3 million shares of its Common Stock. The aggregate cost of the shares repurchased was \$15.5 million.

The Corporation continues to have a strong capital base and its regulatory capital ratios are significantly above the minimum requirements as shown in the following tables.

RISK-BASED CAPITAL RATIOS

(\$ in millions)

| | March 31, 2001 | | December 31, 2000 | |
|---------------------------------------|----------------|---------|-------------------|---------|
| | Amount | Ratio | Amount | Ratio |
| Tier 1 Capital | \$ 2,130 | 10.08 % | \$ 2,071 | 10.20 % |
| Tier 1 Capital Minimum Requirement | 845 | 4.00 | 812 | 4.00 |
| Excess | \$ 1,285 | 6.08 % | \$ 1,259 | 6.20 % |
| Total Capital | \$ 2,522 | 11.94 % | \$ 2,445 | 12.05 % |
| Total Capital Minimum Requirement | 1,690 | 8.00 | 1,624 | 8.00 |
| Excess | \$ 832 | 3.94 % | \$ 821 | 4.05 % |
| Risk-Adjusted Assets | \$ 21,121 | | \$ 20,294 | |

LEVERAGE RATIOS

(\$ in millions)

| | March 31, 2001 | | December 31, 2000 | |
|---|----------------|---------------|-------------------|---------------|
| | Amount | Ratio | Amount | Ratio |
| Tier 1 Capital Minimum Leverage Requirement | \$ 2,130 | 8.31 % | \$ 2,071 | 8.25 % |
| | 769 - 1,281 | 3.00 - 5.00 | 753 - 1,255 | 3.00 - 5.00 |
| Excess | \$ 1,361 - 849 | 5.31 - 3.31 % | \$ 1,318 - 816 | 5.25 - 3.25 % |

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| | | | |
|------------------|----|--------|-----------|
| Adjusted Average | | | |
| Total Assets | \$ | 25,620 | \$ 25,096 |

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The following updated information should be read in conjunction with the Corporation's 2000 Annual Report on Form 10-K. Updated information regarding the Corporation's use of derivative financial instruments is contained in Note 11, Notes to Financial Statements contained in Item 1 herein.

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

Interest Rate Risk

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

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

The models used include measures of the expected repricing characteristics of administered rate (NOW, savings and money market accounts) and non-rate related products (demand deposit accounts, other assets and other liabilities). These measures recognize the relative insensitivity of these accounts to changes in market interest rates, as demonstrated through current and historical experiences. In addition to information about contractual payment information for most other assets and liabilities, the models also include estimates of expected prepayment characteristics for those items that are likely to materially change their payment structures in different rate environments, including residential mortgage products, certain commercial and commercial real estate loans and certain mortgage-related securities. Estimates for these sensitivities are based on industry assessments and are substantially driven by the differential between the contractual coupon of the item and current market rates for similar products.

This information is incorporated into a model that allows the projection of future income levels in several different interest rate environments. Earnings at risk are calculated by modeling income in an environment where rates remain constant, and comparing this result to income in a different rate environment, and then dividing this result into the Corporation's budgeted / forecasted pre-tax income for the ensuing twelve months. Since future

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interest rate moves are difficult to predict, the following table presents two potential scenarios - a gradual increase of 100bp across the entire yield curve over the course of a year (+25bp per quarter), and a gradual decrease of 100bp across the entire yield curve over the course of a year (-25bp per quarter) for the balance sheet as of March 31, 2001 and December 31, 2000:

| | Impact to Annual Pretax Income as of | |
|--------------------------------------|--------------------------------------|----------------------|
| | March 31, 2001 | December 31, 2000 |
| Hypothetical Change in Interest Rate | | |
| ----- | | |
| 100 basis point gradual: | | |
| Rise in rates | (4.9)% | (6.4)% |
| Decline in rates | 3.7 % | 5.3 % |

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

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

Another component of interest rate risk is measuring the fair value at risk for a given change in market interest rates. The Corporation also uses computer modeling techniques to determine the present value of all asset and liability cash flows (both on- and off-balance sheet), adjusted for prepayment expectations, using a market discount rate. The net change in the present value of the assets and liability cash flows in different market rate environments is the amount of fair value at risk from those rate movements. As of March 31, 2001 the fair value of equity at risk for a gradual 100bp shift in rates was less than 1.0% of the market value of the Corporation.

The Corporation uses derivative financial instruments to manage interest rate exposure. A small amount of derivatives are sold to customers where the Corporation acts as an intermediary. The Corporation through its trading accounts matches off these instruments in order to minimize exposure to market risks.

Equity Risk

In addition to interest rate risk, the Corporation incurs market risk in the form of equity risk. M&I's Capital Markets Group invests in private, medium-sized companies to help establish new businesses or recapitalize existing ones. Exposure to the change in equity values for the companies that are held in their portfolio exists, but due to the nature of the investments, cannot be quantified within acceptable levels of precision.

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M&I Trust Services administers \$56.1 billion in assets and directly manages a portfolio of \$11.8 billion. Exposure exists to changes in equity values due to the fact that fee income is partially based on equity balances. While this exposure is present, quantification remains difficult due to the number of other variables affecting fee income. Interest rate changes can also have an effect on fee income for the above stated reasons.

PART II - OTHER INFORMATION

Item 6 - Exhibits and Reports on Form 8-K

A. Exhibits:

Exhibit 10 - Change of Control Agreement dated as of April 16, 2001
between the Corporation and Mark F. Furlong

Exhibit 11 - Statements - Computation of Earnings Per Share
Incorporated by Reference to NOTE 4 of Notes to
Financial Statements contained in Item 1 - Financial
Statements (unaudited) of Part 1-Financial Information
herein.

Exhibit 12 -Computation of Ratio of Earnings to Fixed Charges

B. Reports on Form 8-K:

None

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

MARSHALL & ILSLEY CORPORATION
(Registrant)

/s/ P.R. Justiliano

P.R. Justiliano
Senior Vice President and
Corporate Controller
(Chief Accounting Officer)

/s/ J.E. Sandy

J.E. Sandy
Vice President

May 15, 2001