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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
<b>Assets</b>			
-----			
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
	=====	=====	=====
<b>Liabilities and Shareholders' Equity</b>			
-----			
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)	Components Excluded from		Net Settlement
						Ineffec- tiveness	Ineffec- tiveness	
-----	-----	-----	-----	-----	-----	-----	-----	-----

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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
	263.7	233.0
Expenses:		
Intersegment charges	15.7	10.2
Other operating expense	109.7	101.1
	125.4	111.3
Total expenses	125.4	111.3
Provision for loan and lease losses	10.9	5.8
Income tax expense	40.4	36.0
	87.0	79.9
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
<b>Revenues:</b>		
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
<b>Expenses:</b>		
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
<b>Net income (loss):</b>		
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
<b>Assets:</b>		
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
<b>Assets</b>		
-----		
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
	<hr/>	<hr/>
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
	<hr/>	<hr/>
Total loans and leases	17,617,439	16,635,107
Less: Allowance for loan and lease losses	237,791	228,464
	<hr/>	<hr/>
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
	<hr/>	<hr/>
Total Assets	\$ 26,033,871	\$ 24,600,914
	<hr/> <hr/>	<hr/> <hr/>
Liabilities and Shareholders' Equity		
-----		
Deposits:		
Noninterest bearing	\$ 2,657,789	\$ 2,609,079
Interest bearing	15,020,398	14,422,706
	<hr/>	<hr/>
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
	<hr/>	<hr/>
Total liabilities	23,751,889	22,522,547
Shareholders' equity	2,281,982	2,078,367
	<hr/>	<hr/>
Total Liabilities and Shareholders' Equity	\$ 26,033,871	\$ 24,600,914
	<hr/> <hr/>	<hr/> <hr/>

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
	-----	-----	-----	-----	-----	-----

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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 & 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

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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

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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

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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