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MARSHALL & ILSLEY CORP/WI/
Form 10-Q
November 14, 2001

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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 September 30, 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 1-15403

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 October 31, 2001 |
|--------------------------------|------------------------------------|
| ----- | ----- |
| Common Stock, \$1.00 Par Value | 105,545,370 |

PART I - FINANCIAL INFORMATION

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ITEM 1. FINANCIAL STATEMENTS

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

| | September 30, 2001 | December 31, 2000 | September 2000 |
|--|-----------------------|----------------------|-------------------|
| Assets | | | |
| ----- | | | |
| Cash and cash equivalents: | | | |
| Cash and due from banks | \$ 788,554 | \$ 760,103 | \$ 64 |
| Federal funds sold and security resale agreements | 33,619 | 54,443 | 6 |
| Money market funds | 656,396 | 50,147 | 17 |
| | ----- | ----- | ----- |
| Total cash and cash equivalents | 1,478,569 | 864,693 | 88 |
| Investment securities: | | | |
| Trading securities, at market value | 11,180 | 15,317 | 2 |
| Short-term investments, at cost which approximates market | 24,806 | 43,528 | 2 |
| Available for sale at market value | 3,863,068 | 4,735,722 | 4,24 |
| Held to maturity at amortized cost, market value \$1,101,318 (\$1,124,756 December 31, and \$1,121,228 September 30, 2000) | 1,060,015 | 1,112,545 | 1,12 |
| | ----- | ----- | ----- |
| Total investment securities | 4,959,069 | 5,907,112 | 5,41 |
| Loans and leases | | | |
| Loans and leases | 18,997,703 | 17,587,087 | 17,30 |
| Less: Allowance for loan and lease losses | 264,736 | 235,115 | 23 |
| | ----- | ----- | ----- |
| Net loans and leases | 18,732,967 | 17,351,972 | 17,07 |
| Premises and equipment | 400,068 | 392,995 | 37 |
| Goodwill | 512,252 | 295,784 | 29 |
| Other intangibles | 61,324 | 49,500 | 5 |
| Accrued interest and other assets | 1,182,397 | 1,215,683 | 1,19 |
| | ----- | ----- | ----- |
| Total Assets | \$ 27,326,646 | \$ 26,077,739 | \$ 25,29 |
| ===== | | | |
| Liabilities and Shareholders' Equity | | | |
| ----- | | | |
| Deposits: | | | |
| Noninterest bearing | \$ 3,357,337 | \$ 3,129,834 | \$ 2,78 |
| Interest bearing | 13,320,289 | 16,118,793 | 15,30 |
| | ----- | ----- | ----- |
| Total deposits | 16,677,626 | 19,248,627 | 18,08 |
| Funds purchased and security repurchase agreements | 1,237,787 | 1,092,723 | 1,75 |
| Other short-term borrowings | 4,137,330 | 1,722,008 | 1,52 |
| Accrued expenses and other liabilities | 927,549 | 850,916 | 74 |
| Long-term borrowings | 1,760,521 | 921,276 | 98 |
| | ----- | ----- | ----- |
| Total liabilities | 24,740,813 | 23,835,550 | 23,09 |
| Shareholders' equity: | | | |
| ----- | | | |

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| | | | |
|---|---------------|---------------|----------|
| Series A convertible preferred stock, \$1.00 par value; 336,370 shares issued | 336 | 336 | |
| Common stock, \$1.00 par value; 117,301,755 shares issued (112,757,546 December 31 and September 30, 2000) | 117,302 | 112,757 | 11 |
| Additional paid-in capital | 696,426 | 452,212 | 45 |
| Retained earnings | 2,254,916 | 2,117,759 | 2,06 |
| Accumulated other comprehensive income, net of related taxes | 53,453 | 38,127 | |
| Less: Treasury common stock, at cost: 10,795,640 shares (9,910,839 December 31, and 8,773,349 September 30, 2000) | 515,713 | 458,472 | 40 |
| Deferred compensation | 20,887 | 20,530 | 2 |
| Total shareholders' equity | 2,585,833 | 2,242,189 | 2,20 |
| Total Liabilities and Shareholders' Equity | \$ 27,326,646 | \$ 26,077,739 | \$ 25,29 |

See notes to financial statements.

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

| | Three Months Ended September 30, | |
|---|-------------------------------------|------------|
| | 2001 | 2000 |
| Interest income | | |
| Loans and leases | \$ 339,221 | \$ 356,670 |
| Investment securities: | | |
| Taxable | 64,006 | 65,071 |
| Exempt from federal income taxes | 15,507 | 16,213 |
| Trading securities | 137 | 312 |
| Short-term investments | 4,380 | 4,999 |
| Total interest income | 423,251 | 443,265 |
| Interest expense | | |
| Deposits | 129,783 | 201,869 |
| Short-term borrowings | 46,295 | 55,425 |
| Long-term borrowings | 28,695 | 21,906 |
| Total interest expense | 204,773 | 279,200 |
| Net interest income | 218,478 | 164,065 |
| Provision for loan and lease losses | 12,206 | 5,938 |
| Net interest income after provision for loan and lease losses | 206,272 | 158,127 |
| Other income | | |
| Data processing services: | | |
| e-Finance solutions | 32,629 | 36,938 |
| Financial technology solutions | 111,723 | 105,708 |

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| | | |
|---|-----------|-----------|
| Other | 37 | 2,687 |
| Total data processing services | 144,389 | 145,333 |
| Item processing | 11,742 | 13,062 |
| Trust services | 30,144 | 29,859 |
| Service charges on deposits | 21,151 | 18,644 |
| Mortgage banking | 10,647 | 5,349 |
| Capital Markets revenue | 762 | (157) |
| Net investment securities (losses)/gains | 24 | (50,205) |
| Life insurance revenue | 6,844 | 6,934 |
| Other | 29,960 | 28,536 |
| Total other income | 255,663 | 197,355 |
| Other expense | | |
| Salaries and employee benefits | 179,547 | 162,245 |
| Net occupancy | 22,779 | 13,604 |
| Equipment | 29,177 | 28,469 |
| Software expenses | 9,604 | 7,653 |
| Processing charges | 9,271 | 8,350 |
| Supplies and printing | 4,916 | 4,922 |
| Professional services | 7,104 | 8,410 |
| Shipping and handling | 11,195 | 10,680 |
| Amortization of intangibles | 10,802 | 8,987 |
| Single charter/IPO/ARM loan sale | -- | 9,306 |
| Other | 55,382 | 18,222 |
| Total other expense | 339,777 | 280,848 |
| Income before income taxes | 122,158 | 74,634 |
| Provision for income taxes | 38,843 | 23,025 |
| Net income | \$ 83,315 | \$ 51,609 |
| Net income per common share | | |
| Basic | \$ 0.78 | \$ 0.49 |
| Diluted | 0.75 | 0.47 |
| Dividends paid per common share | \$ 0.290 | \$ 0.265 |
| Weighted average common shares outstanding: | | |
| Basic | 105,964 | 103,904 |
| Diluted | 110,916 | 108,768 |

See notes to financial statements.

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

| | Nine Months Ended September 30, | |
|------------------|------------------------------------|--------------|
| | 2001 | 2000 |
| Interest income | | |
| Loans and leases | \$ 1,034,889 | \$ 1,027,833 |

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| | | |
|---|-----------|-----------|
| Investment securities: | | |
| Taxable | 211,969 | 199,186 |
| Exempt from federal income taxes | 46,919 | 49,183 |
| Trading securities | 806 | 1,323 |
| Short-term investments | 12,549 | 12,954 |
| | ----- | ----- |
| Total interest income | 1,307,132 | 1,290,479 |
| Interest expense | | |
| ----- | | |
| Deposits | 472,920 | 560,053 |
| Short-term borrowings | 149,687 | 173,044 |
| Long-term borrowings | 79,034 | 59,141 |
| | ----- | ----- |
| Total interest expense | 701,641 | 792,238 |
| Net interest income | 605,491 | 498,241 |
| Provision for loan and lease losses | 34,006 | 21,373 |
| | ----- | ----- |
| Net interest income after provision for loan and lease losses | 571,485 | 476,868 |
| Other income | | |
| ----- | | |
| Data processing services: | | |
| e-Finance solutions | 86,799 | 78,063 |
| Financial technology solutions | 324,761 | 312,289 |
| Other | 3,965 | 12,718 |
| | ----- | ----- |
| Total data processing services | 415,525 | 403,070 |
| Item processing | 36,247 | 38,175 |
| Trust services | 90,744 | 87,634 |
| Service charges on deposits | 62,424 | 55,707 |
| Mortgage banking | 30,747 | 13,069 |
| Capital Markets revenue | 10,256 | 17,111 |
| Net investment securities losses | (16,275) | (48,924) |
| Life insurance revenue | 20,069 | 20,966 |
| Other | 90,764 | 97,396 |
| | ----- | ----- |
| Total other income | 740,501 | 684,204 |
| Other expense | | |
| ----- | | |
| Salaries and employee benefits | 525,536 | 478,424 |
| Net occupancy | 54,005 | 40,609 |
| Equipment | 86,778 | 83,641 |
| Software expenses | 26,898 | 21,551 |
| Processing charges | 30,059 | 23,345 |
| Supplies and printing | 15,309 | 14,908 |
| Professional services | 20,906 | 25,571 |
| Shipping and handling | 33,438 | 31,707 |
| Amortization of intangibles | 27,808 | 23,850 |
| Single charter/IPO/ARM loan sale | 11,952 | 9,306 |
| Other | 140,420 | 62,914 |
| | ----- | ----- |
| Total other expense | 973,109 | 815,826 |
| Income before income taxes and cumulative effect of changes in accounting principles | 338,877 | 345,246 |
| Provision for income taxes | 109,277 | 112,175 |
| | ----- | ----- |
| Income before cumulative effect of changes in accounting principles | 229,600 | 233,071 |

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| | | |
|--|------------|------------|
| Cumulative effect of changes in accounting principles, net of income taxes | (436) | (2,279) |
| Net income | \$ 229,164 | \$ 230,792 |
| Net income per common share | | |
| Basic: | | |
| Income before cumulative effect of changes in accounting principles | \$ 2.17 | \$ 2.21 |
| Cumulative effect of changes in accounting principles, net of income taxes | -- | (0.02) |
| Net income | \$ 2.17 | \$ 2.19 |
| Diluted: | | |
| Income before cumulative effect of changes in accounting principles | \$ 2.11 | \$ 2.14 |
| Cumulative effect of changes in accounting principles, net of income taxes | -- | (0.02) |
| Net income | \$ 2.11 | \$ 2.12 |
| Dividends paid per common share | \$ 0.845 | \$ 0.770 |
| Weighted average common shares outstanding: | | |
| Basic | 103,914 | 104,151 |
| Diluted | 108,816 | 109,028 |

See notes to financial statements.

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

| | Nine Months Ended September 30, | |
|---|------------------------------------|-------------|
| | 2001 | 2000 |
| Net Cash Provided by Operating Activities | \$ 419,525 | \$ 837,532 |
| Cash Flows From Investing Activities: | | |
| Proceeds from sales of securities available for sale | 159,145 | 1,526,794 |
| Proceeds from maturities of securities available for sale | 1,375,356 | 509,080 |
| Proceeds from maturities of securities held to maturity | 51,436 | 42,044 |
| Purchases of securities available for sale | (236,837) | (1,910,983) |
| Purchases of securities held to maturity | (55) | (217) |
| Net increase in loans | (570,052) | (1,317,170) |
| Purchases of assets to be leased | (407,836) | (439,748) |
| Principal payments on lease receivables | 545,640 | 266,073 |
| Fixed asset purchases, net | (34,216) | (51,308) |
| Acquisitions and investments in joint ventures | (46,903) | (265) |
| Other | 15,661 | 8,205 |
| Net cash provided/(used) in investing activities | 851,339 | (1,367,495) |
| Cash Flows From Financing Activities: | | |
| Net increase/(decrease) in deposits | (3,613,551) | 1,664,451 |

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| | | |
|---|--------------|-------------|
| Proceeds from issuance of commercial paper | 2,226,551 | 2,606,476 |
| Payments for maturity of commercial paper | (2,279,042) | (2,414,696) |
| Net increase /(decrease) in other short-term borrowings | 1,859,707 | (1,366,771) |
| Proceeds from issuance of long-term debt | 1,486,731 | 534,663 |
| Payments of long-term debt | (168,263) | (308,582) |
| Dividends paid | (91,316) | (82,889) |
| Purchases of treasury stock | (101,193) | (98,304) |
| Other | 23,388 | 2,979 |
| | ----- | ----- |
| Net cash provided/(used) by financing activities | (656,988) | 537,327 |
| Net increase in cash and cash equivalents | 613,876 | 7,364 |
| Cash and cash equivalents, beginning of year | 864,693 | 879,856 |
| | ----- | ----- |
| Cash and cash equivalents, end of period | \$ 1,478,569 | \$ 887,220 |
| | ===== | ===== |
| Supplemental cash flow information: | | |
| Cash paid during the period for: | | |
| Interest | \$ 744,645 | \$ 726,733 |
| Income taxes | 108,603 | 104,217 |

See notes to financial statements.

MARSHALL & ILSLEY CORPORATION
Notes to Financial Statements
September 30, 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 and nine months ended September 30, 2001 and 2000. The results of operations for the three and nine months ended September 30, 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 and nine months ended September 30, 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

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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 | |
| | ----- | ----- | |
| 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
September 30, 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 140 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 adoption of SFAS 140 did not materially impact the Corporation's present securitization activities.

In June, 2001, the FASB issued SFAS 141, BUSINESS COMBINATIONS. SFAS 141 supercedes APB Opinion No. 16, BUSINESS COMBINATIONS, and SFAS 38, ACCOUNTING FOR PREACQUISITION CONTINGENCIES OF PURCHASED ENTERPRISES. All business combinations in the scope of this Statement are to be accounted for using the purchase method. This Statement carries forward without reconsideration portions of APB Opinion No. 16 that provide guidance related to the application of the purchase method. The provisions of this Statement shall apply to all business combinations initiated after June 30, 2001 and the provisions of this Statement also shall apply to all business combinations accounted for by the purchase method for which the date of acquisition is July 1, 2001, or later.

In June 2001, the FASB also issued SFAS 142, GOODWILL AND OTHER INTANGIBLE ASSETS. This Statement addresses financial accounting and

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reporting for acquired goodwill and other intangible assets and supercedes APB Opinion No. 17, INTANGIBLE ASSETS. It addresses how intangible assets that are acquired individually or with a group of other assets (but not those acquired in a business combination) should be accounted for in financial statements upon their acquisition. This Statement also addresses how goodwill and other intangible assets should be accounted for after they have been initially recognized in the financial statements. The provisions of this Statement are required to be applied starting with fiscal years beginning after December 15, 2001. Goodwill and intangible assets acquired after June 30, 2001, will be subject immediately to the provisions of this Statement.

With respect to the acquisitions of Derivion and Cyberbills, the provisions of SFAS 142 will be applicable beginning January 1, 2002. The provisions of both SFAS 141 and SFAS 142 will apply to the Corporation's merger with National City Bancorporation which was completed on August 1, 2001, the Brokat acquisition completed on September 21, 2001 and the acquisition of the Arizona branches. For the three months ended September 30, 2001 and 2000, the estimated after-tax goodwill amortization which would cease under the provisions of SFAS 142 was approximately \$4.0 million and \$4.1 million, respectively, and for the nine months ended September 30, 2001 and 2000, was approximately \$11.3 million and \$11.1 million, respectively. The Corporation is assessing whether SFAS 142 will result in a reduction of amortization of identifiable intangibles and has not yet determined how the impairment provisions of the standard will affect its financial statements.

MARSHALL & ILSLEY CORPORATION
Notes to Financial Statements - Continued
September 30, 2001 & 2000 (Unaudited)

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 September 30, | | |
|---|----------------------------------|---------------------------------|--------------|
| | Income (Numerator) | Average Shares (Denominator) | Per S Amo |
| Net Income | \$ 83,315 | | |
| Convertible Preferred Dividends | (1,115) | | |
| | ----- | | |
| Basic Earnings Per Share | | | |
| Income Available to Common Shareholders | \$ 82,200 | 105,964 | \$ |
| | | | ===== |
| Effect of Dilutive Securities | | | |
| Convertible Preferred Stock | 1,115 | 3,844 | |
| Stock Options and Restricted Stock Plans | -- | 1,108 | |
| | ----- | ----- | |
| Diluted Earnings Per Share | | | |
| Income Available to Common Shareholders Plus Assumed Conversions | \$ 83,315 | 110,916 | \$ |
| | | | ===== |

Three Months Ended September 30, 2001

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| | Income (Numerator) | Average Shares (Denominator) | Per S Amo |
|---|-----------------------|---------------------------------|--------------|
| Net Income | \$ 51,609 | | |
| Convertible Preferred Dividends | (1,019) | | |
| <hr/> | | | |
| Basic Earnings Per Share | | | |
| Income Available to Common Shareholders | \$ 50,590 | 103,904 | \$ |
| <hr/> | | | |
| Effect of Dilutive Securities | | | |
| Convertible Preferred Stock | 1,019 | 3,844 | |
| Stock Options and Restricted Stock Plans | -- | 1,020 | |
| <hr/> | | | |
| Diluted Earnings Per Share | | | |
| Income Available to Common Shareholders Plus Assumed Conversions | \$ 51,609 | 108,768 | \$ |

MARSHALL & ILSLEY CORPORATION
Notes to Financial Statements - Continued
September 30, 2001 & 2000 (Unaudited)

| | Nine Months Ended September 30, 20 | | |
|---|------------------------------------|---------------------------------|--------------|
| | Income (Numerator) | Average Shares (Denominator) | Per S Amo |
| Net Income | \$ 229,164 | | |
| Convertible Preferred Dividends | (3,248) | | |
| <hr/> | | | |
| Basic Earnings Per Share | | | |
| Income Available to Common Shareholders | \$ 225,916 | 103,914 | \$ |
| <hr/> | | | |
| Effect of Dilutive Securities | | | |
| Convertible Preferred Stock | 3,248 | 3,844 | |
| Stock Options and Restricted Stock Plans | -- | 1,058 | |
| <hr/> | | | |
| Diluted Earnings Per Share | | | |
| Income Available to Common Shareholders Plus Assumed Conversions | \$ 229,164 | 108,816 | \$ |

| | Nine Months Ended September 30, 20 | | |
|---|------------------------------------|---------------------------------|--------------|
| | Income (Numerator) | Average Shares (Denominator) | Per S Amo |
| Net Income | \$ 230,792 | | |
| Convertible Preferred Dividends | (2,960) | | |
| <hr/> | | | |
| Basic Earnings Per Share | | | |
| Income Available to Common Shareholders | \$ 227,832 | 104,151 | \$ |

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| | | |
|--|------------|------------|
| Effect of Dilutive Securities | | |
| Convertible Preferred Stock | 2,960 | 3,844 |
| Stock Options and Restricted Stock Plans | -- | 1,033 |
| | ----- | ----- |
| Diluted Earnings Per Share | | |
| Income Available to Common Shareholders | | |
| Plus Assumed Conversions | \$ 230,792 | 109,028 \$ |
| | | ===== |

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

| | September 30, 2001 | December 31, 2000 | Sept |
|---|-----------------------|----------------------|-------|
| | ----- | ----- | ----- |
| Investment securities available for sale: | | | |
| U.S. treasury and government agencies | \$ 2,681,766 | \$ 3,342,952 | \$ 3 |
| State and political subdivisions | 182,422 | 151,041 | |
| Mortgage backed securities | 225,366 | 342,171 | |
| Other | 773,514 | 899,558 | |
| | ----- | ----- | ----- |
| Total | \$ 3,863,068 | \$ 4,735,722 | \$ 4 |
| | ===== | ===== | ===== |
| Investment securities held to maturity: | | | |
| State and political subdivisions | \$ 1,056,425 | \$ 1,107,476 | \$ 1 |
| Other | 3,590 | 5,069 | |
| | ----- | ----- | ----- |
| Total | \$ 1,060,015 | \$ 1,112,545 | \$ 1 |
| | ===== | ===== | ===== |

MARSHALL & ILSLEY CORPORATION
Notes to Financial Statements - Continued
September 30, 2001 & 2000 (Unaudited)

6. The Corporation's loan and lease portfolio consists of the following (\$000's):

| | September 30, 2001 | December 31, 2000 | Sept |
|---|-----------------------|----------------------|-------|
| | ----- | ----- | ----- |
| Commercial, financial & agricultural | \$ 5,925,830 | \$ 5,289,537 | \$ 5 |
| Real estate: | | | |
| Construction | 610,956 | 619,281 | |
| Residential mortgage | 5,233,197 | 5,049,557 | 5 |
| Commercial mortgage | 5,013,554 | 4,359,812 | 4 |
| | ----- | ----- | ----- |
| Total real estate | 10,857,707 | 10,028,650 | 10 |
| Personal | 1,210,485 | 1,174,248 | 1 |
| Lease financing | 991,766 | 1,094,652 | 1 |
| Cash flow hedging instruments at fair value | 11,915 | -- | |
| | ----- | ----- | ----- |
| Total | \$ 18,997,703 | \$ 17,587,087 | \$ 17 |

7. Sale of Receivables

During the third quarter of 2001, \$113.4 million of automobile loans were sold in securitization transactions and gains of \$2.1 million were recognized. Other income associated with auto securitizations amounted to \$0.6 million.

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

| | |
|-----------------------------------|-------------------------------------|
| Prepayment speed | 25.0 % |
| Weighted average life (in months) | 30.1 |
| Expected credit losses | 0.12 % |
| Residual cash flow discount rate | 12.0 % |
| Variable returns to transferees | Forward one month LIBOR yield curve |

At September 30, 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 Manag |
|----------------------------|-------------|------------|----------------|
| Loan balances | \$ 375,622 | \$ 260,801 | \$ 636, |
| Principal amounts of loans | | | |
| 60 days or more past due | 400 | 663 | 1, |
| Net credit losses | 353 | 818 | 1, |

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

| | September 30, 2001 | December 31, 2000 | Sept |
|--------------------------------|-----------------------|----------------------|-------|
| Noninterest bearing demand | \$ 3,357,337 | \$ 3,129,834 | 2 |
| Savings and NOW | 7,514,748 | 7,486,094 | 7 |
| CD's \$100,000 and over | 1,738,481 | 2,663,050 | 2 |
| Other time deposits | 3,281,307 | 3,532,310 | 3 |
| Foreign deposits | 786,551 | 2,437,339 | 2 |
| Fair value hedging instruments | (798) | -- | |
| | \$ 16,677,626 | \$ 19,248,627 | \$ 18 |

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9. Comprehensive Income

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

| | Three Months Ended September 30, | | |
|---|----------------------------------|--------------------------|------------|
| | Before-Tax Amount | Tax (Expense) Benefit | Net- Am |
| Net income | | | \$ |
| Other comprehensive income: | | | |
| Unrealized gains (losses) on securities: | | | |
| Arising during the period | \$ 25,839 | \$ (9,806) | |
| Reclassification for securities transactions included in net income | (9,170) | 3,210 | |
| Unrealized gains (losses) | 16,669 | (6,596) | |
| Net gains (losses) on derivatives hedging variability of cash flows: | | | |
| Arising during the period | (36,256) | 12,690 | |
| Reclassification adjustments for hedging activities included in net income | 3,113 | (1,090) | |
| Net gains (losses) | \$ (33,143) | \$ 11,600 | |
| Other comprehensive income | | | |
| Total comprehensive income | | | \$ |

| | Three Months Ended September 30, | | |
|---|----------------------------------|--------------------------|------------|
| | Before-Tax Amount | Tax (Expense) Benefit | Net- Am |
| Net income | | | \$ |
| Other comprehensive income: | | | |
| Unrealized gains (losses) on securities: | | | |
| Arising during the period | \$ 133,778 | \$ (47,358) | |
| Reclassification for securities transactions included in net income | (52,864) | 18,502 | |
| Unrealized gains (losses) | 80,914 | (28,856) | |
| Net gains (losses) on derivatives hedging variability of cash flows: | | | |
| Arising during the period | N/A | N/A | |
| Reclassification adjustments for hedging activities included in net income | N/A | N/A | |
| Net gains (losses) | \$ N/A | \$ N/A | |
| Other comprehensive income | | | |

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Total comprehensive income

\$ 1

MARSHALL & ILSLEY CORPORATION
Notes to Financial Statements - Continued
September 30, 2001 & 2000 (Unaudited)

| | Nine Months Ended September 30, 2001 | | |
|---|--------------------------------------|--------------------------|------------|
| | Before-Tax Amount | Tax (Expense) Benefit | Net- Am |
| Net income | | | \$ |
| Other comprehensive income: | | | |
| Unrealized gains (losses) on securities: | | | |
| Arising during the period | \$ 83,415 | \$ (30,165) | |
| Reclassification for securities transactions included in net income | (12,242) | 4,285 | |
| Unrealized gains (losses) | 71,173 | (25,880) | |
| Net gains (losses) on derivatives hedging variability of cash flows: | | | |
| Adoption of SFAS 133 | (15,665) | 5,483 | |
| Arising during the period | (36,469) | 12,764 | |
| Reclassification adjustments for hedging activities included in net income | 6,031 | (2,111) | |
| Net gains (losses) | \$ (46,103) | \$ 16,136 | |
| Other comprehensive income | | | |
| Total comprehensive income | | | \$ 2 |

| | Nine Months Ended September 30, 2000 | | |
|---|--------------------------------------|--------------------------|------------|
| | Before-Tax Amount | Tax (Expense) Benefit | Net- Am |
| Net income | | | \$ 2 |
| Other comprehensive income: | | | |
| Unrealized gains (losses) on securities: | | | |
| Arising during the period | \$ 93,434 | \$ (33,231) | |
| Reclassification for securities transactions included in net income | (39,449) | 13,807 | |
| Unrealized gains (losses) | 53,985 | (19,424) | |
| Net gains (losses) on derivatives hedging variability of cash flows: | | | |
| Arising during the period | N/A | N/A | |

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| | | | |
|--|----|-----|--------|
| Reclassification adjustments for hedging activities included in net income | | N/A | N/A |
| Net gains (losses) | \$ | N/A | \$ N/A |
| Other comprehensive income | | | |
| Total comprehensive income | | | \$ 2 |

MARSHALL & ILSLEY CORPORATION
Notes to Financial Statements - Continued
September 30, 2001 & 2000 (Unaudited)

10. Derivative Financial Instruments and Hedging Activities

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 values, terms and indices.

At September 30, 2001, interest rate swaps designated as trading consisted of \$311.5 million in notional amount of receive fixed/pay floating with an aggregate positive fair value of \$2.6 million and \$297.2 million in notional amount of pay fixed/receive floating with an aggregate negative fair value of \$3.4 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.

Fair Value Hedges

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

Fair Value Hedges
September 30, 2001

| Hedged Item | Hedging Instrument | Notional Amount (\$ in mil) | Fair Value (\$ in mil) | Weighted Average Remaining Term (Yrs) |
|----------------------|--------------------|-----------------------------|------------------------|---------------------------------------|
| Callable CDs | Receive Fixed Swap | \$ 162.5 | \$ 0.8 | 7.0 |
| Medium Term Notes | Receive Fixed Swap | 190.0 | 5.3 | 4.9 |
| Long-term Borrowings | Receive Fixed Swap | 200.0 | 25.0 | 25.2 |
| | | \$ 552.5 | \$ 31.1 | |

The following table presents the Corporation's fair value hedges' impact

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to net income.

| Fair Value Hedges | | Three Months Ended September 30, 2001 Impact to Net Interest Income (\$000's) | | | |
|----------------------|-----------------|--|-------|----------------|----------|
| Hedged Item | Ineffectiveness | Components Excluded from | | Net Settlement | Total |
| | | Ineffectiveness | | | |
| Callable CDs | \$ 155 | \$ -- | \$ -- | \$ 1,456 | \$ 1,611 |
| Medium Term Notes | -- | -- | -- | 315 | 315 |
| Long-term Borrowings | -- | -- | -- | 2,152 | 2,152 |
| | \$ 155 | \$ -- | \$ -- | \$ 3,923 | \$ 4,078 |

MARSHALL & ILSLEY CORPORATION
Notes to Financial Statements - Continued
September 30, 2001 & 2000 (Unaudited)

Cash Flow Hedges

The following table summarizes the Corporation's cash flow hedges at September 30, 2001.

Cash Flow Hedges
September 30, 2001

| Hedged Item | Hedging Instrument | Notional Amount (\$ in mil) | Fair Value (\$ in mil) | Weighted Average Remaining Term (Yrs) |
|---------------------|---------------------|-----------------------------|------------------------|---------------------------------------|
| Variable Rate Loans | Receive Fixed Swap | \$ 391.0 | \$ 11.7 | 1.6 |
| Commercial Paper | Pay Fixed Swap | 200.0 | (25.6) | 5.2 |
| Fed Funds Purchased | Pay Fixed Swap | 500.0 | (21.9) | 2.3 |
| FHLB Advances | Pay Fixed Swap | 310.0 | (10.1) | 4.9 |
| Variable Rate Loans | Interest Rate Floor | 25.0 | 0.2 | 0.2 |
| | | \$ 1,426.0 | \$ (45.7) | |

The following table presents the Corporation's cash flow hedges' impact to net income.

| Cash Flow Hedges | | Three Months Ended September 30, 2001 Impact to Net Interest Income (\$000's) | |
|------------------|------------|--|--|
| | Components | Reclass | |

Estimate
Reclass F
AOI in N

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| Hedged Item | Ineffectiveness | Excluded from Ineffectiveness | From AOCI | Total | 12 Mont (\$000' |
|------------------------|-----------------|----------------------------------|--------------|------------|--------------------|
| Variable Rate Loans \$ | -- | \$ -- | \$ 1,666 | \$ 1,666 | 9,3 |
| Commercial Paper | (1,123) | -- | (1,866) | (2,989) | (9,2 |
| Fed Funds Purchased | -- | -- | (2,296) | (2,296) | (14,0 |
| FHLB Advances | -- | -- | (706) | (706) | (7,7 |
| Variable Rate Loans | (37) | -- | 89 | 52 | 1 |
| | \$ (1,160) | \$ -- | \$ (3,113) | \$ (4,273) | (21,5 |

For the three and nine months ended September 30, 2000, the effect on net interest income resulting from derivative financial instruments was a negative \$1.3 million and a negative \$1.8 million, respectively.

MARSHALL & ILSLEY CORPORATION
Notes to Financial Statements - Continued
September 30, 2001 & 2000 (Unaudited)

11. Acquisitions

The Corporation completed the following acquisitions during the third quarter of 2001:

On September 21, 2001, the Corporation, through its Metavante subsidiary, completed the purchase of substantially all the assets of the Atlanta-based North American Internet Banking division of Brokat Technologies. The Brokat Financial Applications provide technology for consumer, business and corporate e-banking. Initial goodwill, subject to the completion of appraisals and valuations of the assets acquired and liabilities assumed, amounted to \$19.7 million.

On August 1, 2001 the Corporation completed its merger with National City Bancorporation, a Minneapolis, Minnesota-based bank holding company. National City Bancorporation had assets of \$1.1 billion and liabilities of \$0.8 billion. There were 4,544,209 new shares issued in the acquisition. Initial goodwill, subject to the completion of appraisals and valuations of the assets acquired and liabilities assumed, amounted to \$107.9 million.

During the third quarter the Corporation completed the acquisition of twelve branches in Arizona. Total assets acquired amounted to \$537.9 million of which loans acquired were \$344.8 million. Total deposits acquired were \$455.2 million. Initial goodwill, subject to the completion of appraisals and valuations of the assets acquired and liabilities assumed, recorded in this transaction amounted to \$50.0 million.

12. Segments

Generally, the Corporation organizes its segments based on legal entities. Each entity offers a variety of products and services to

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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 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. 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.

MARSHALL & ILSLEY CORPORATION
Notes to Financial Statements - Continued
September 30, 2001 & 2000 (Unaudited)

Based on the way the Corporation organizes its segments and the 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 consists of two banks headquartered in Wisconsin, with branches in Wisconsin, Arizona, Nevada and Florida, one bank headquartered in Minnesota, one federally chartered thrift headquartered in Nevada, an asset-based lending subsidiary and an operational support subsidiary which 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. Intrasegment revenues, expenses and assets have been eliminated in the following information (\$ in millions):

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|------------------------|-------------------------------------|----------|------------------------------------|----------|
| | 2001 | 2000 | 2001 | 2000 |
| Revenue: | | | | |
| Net interest income | \$ 218.8 | \$ 166.0 | \$ 607.1 | \$ 478.8 |
| Other revenues: | | | | |
| Unaffiliated customers | 71.0 | 62.6 | 211.7 | 198.8 |
| Affiliated customers | 9.0 | 5.4 | 23.8 | 12.2 |
| Total revenues | 298.8 | 234.0 | 842.6 | 689.8 |

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| | | | | |
|--|-------------|-------------|-------------|-------|
| Expenses: | | | | |
| Intersegment charges | 19.0 | 16.2 | 54.9 | |
| Other operating expense | 119.7 | 103.8 | 348.8 | |
| | ----- | ----- | ----- | ----- |
| Total expenses | 138.7 | 120.0 | 403.7 | |
| Provision for loan and lease losses | 11.9 | 5.8 | 33.3 | |
| Income tax expense | 48.1 | 33.3 | 131.3 | |
| | ----- | ----- | ----- | ----- |
| Operating income | \$ 100.1 | \$ 74.9 | \$ 274.3 | \$ |
| | ===== | ===== | ===== | ===== |
| Identifiable assets | \$ 26,255.0 | \$ 24,481.4 | \$ 26,255.0 | \$ 24 |
| | ===== | ===== | ===== | ===== |
| Return on tangible equity | 21.3 % | 17.9 % | 19.9 % | |
| | ===== | ===== | ===== | ===== |

MARSHALL & ILSLEY CORPORATION
Notes to Financial Statements - Continued
September 30, 2001 & 2000 (Unaudited)

The following tables present revenue and operating income by line of 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 September 30, | | Nine Months Ended September 30, | |
|--------------------------------------|-------------------------------------|----------|------------------------------------|-------|
| | 2001 | 2000 | 2001 | 2000 |
| | ----- | ----- | ----- | ----- |
| Banking revenues: | | | | |
| Commercial Banking | \$ 124.0 | \$ 100.1 | \$ 338.9 | \$ |
| Retail Banking | 110.0 | 93.3 | 328.4 | |
| Treasury and Other | 64.8 | 40.6 | 175.3 | |
| | ----- | ----- | ----- | ----- |
| Total banking revenues | \$ 298.8 | \$ 234.0 | \$ 842.6 | \$ |
| | ===== | ===== | ===== | ===== |
| Percent of total banking revenue: | | | | |
| Commercial Banking | 41.5 % | 42.8 % | 40.2 % | |
| Retail Banking | 36.8 | 39.9 | 39.0 | |
| Treasury and Other | 21.7 | 17.3 | 20.8 | |
| | ----- | ----- | ----- | ----- |
| Total banking revenues | 100.0 % | 100.0 % | 100.0 % | |
| | ===== | ===== | ===== | ===== |
| Operating banking income: | | | | |
| Commercial Banking | \$ 52.8 | \$ 40.7 | \$ 148.5 | \$ |
| Retail Banking | 20.8 | 22.9 | 65.1 | |
| Treasury and Other | 26.5 | 11.3 | 60.7 | |

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| | | | | |
|--|----------|---------|----------|----|
| Total operating banking income | \$ 100.1 | \$ 74.9 | \$ 274.3 | \$ |
| Percent of total operating banking income: | | | | |
| Commercial Banking | 52.7 % | 54.3 % | 54.2 % | |
| Retail Banking | 20.7 | 30.6 | 23.7 | |
| Treasury and Other | 26.6 | 15.1 | 22.1 | |
| Total operating banking income | 100.0 % | 100.0 % | 100.0 % | |
| Banking return on tangible equity: | | | | |
| Commercial Banking | 23.6 % | 20.7 % | 23.5 % | |
| Retail Banking | 15.1 | 18.1 | 15.7 | |
| Total banking return on tangible equity | 21.3 % | 17.9 % | 19.9 % | |

MARSHALL & ILSLEY CORPORATION
Notes to Financial Statements - Continued
September 30, 2001 & 2000 (Unaudited)

Data Services

Data Services includes Metavante and its 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 September 30, | | Nine Months Ended September 30, | |
|-------------------------|-------------------------------------|----------|------------------------------------|------|
| | 2001 | 2000 | 2001 | 2000 |
| Revenue: | | | | |
| Net interest expense | \$ (0.9) | \$ (0.9) | \$ (2.5) | \$ |
| Other revenues: | | | | |
| Unaffiliated customers | 144.4 | 144.4 | 413.3 | |
| Affiliated customers | 14.8 | 16.3 | 46.5 | |
| Total revenues | 158.3 | 159.8 | 457.3 | |
| Expenses: | | | | |
| Intersegment charges | 4.7 | 2.2 | 12.9 | |
| Other operating expense | 131.8 | 125.8 | 388.0 | |
| Total expenses | 136.5 | 128.0 | 400.9 | |

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| | | | | | | | |
|---------------------------|----|--------|----|--------|----|--------|----|
| Income tax expense | | 8.9 | | 13.0 | | 23.3 | |
| | | ----- | | ----- | | ----- | |
| Operating income | \$ | 12.9 | \$ | 18.8 | \$ | 33.1 | \$ |
| | | ===== | | ===== | | ===== | |
| Identifiable assets | \$ | 678.4 | \$ | 597.8 | \$ | 678.4 | \$ |
| | | ===== | | ===== | | ===== | |
| Return on tangible equity | | 27.7 % | | 39.1 % | | 20.8 % | |
| | | ===== | | ===== | | ===== | |

MARSHALL & ILSLEY CORPORATION
Notes to Financial Statements - Continued
September 30, 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 provides 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):

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--|-------------------------------------|----------|------------------------------------|----------|
| | 2001 | 2000 | 2001 | 2000 |
| | ----- | ----- | ----- | ----- |
| Revenue: | | | | |
| Net interest income | \$ 6.7 | \$ 5.2 | \$ 19.2 | \$ 19.2 |
| Other revenues: | | | | |
| Unaffiliated customers | 39.1 | 38.7 | 129.9 | 129.9 |
| Affiliated customers | 5.4 | 3.6 | 15.1 | 15.1 |
| | ----- | ----- | ----- | ----- |
| Total revenues | 51.2 | 47.5 | 164.2 | 164.2 |
| Expenses: | | | | |
| Intersegment charges | 7.2 | 6.8 | 21.7 | 21.7 |
| Other operating expense | 26.7 | 26.5 | 82.9 | 82.9 |
| | ----- | ----- | ----- | ----- |
| Total expenses | 33.9 | 33.3 | 104.6 | 104.6 |
| Provision for loan and lease losses | 0.3 | 0.1 | 0.7 | 0.7 |
| Income tax expense | 6.8 | 5.5 | 23.6 | 23.6 |
| | ----- | ----- | ----- | ----- |
| Operating income | \$ 10.2 | \$ 8.6 | \$ 35.3 | \$ 35.3 |
| | ===== | ===== | ===== | ===== |
| Identifiable assets | \$ 726.4 | \$ 940.3 | \$ 726.4 | \$ 726.4 |
| | ===== | ===== | ===== | ===== |
| Return on tangible equity | 15.6 % | 15.1 % | 19.1 % | 19.1 % |
| | ===== | ===== | ===== | ===== |

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

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| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|------------------------------|-------------------------------------|---------|------------------------------------|----------|
| | 2001 | 2000 | 2001 | 2000 |
| All Others Revenues: | | | | |
| Trust Services | \$ 29.7 | \$ 30.4 | \$ 91.0 | \$ 91.0 |
| Residential Mortgage Banking | 10.1 | 6.7 | 29.2 | 29.2 |
| Capital Markets | 1.3 | 0.4 | 12.2 | 12.2 |
| Others | 10.1 | 10.0 | 31.8 | 31.8 |
| Total All Others revenues | \$ 51.2 | \$ 47.5 | \$ 164.2 | \$ 164.2 |

MARSHALL & ILSLEY CORPORATION
Notes to Financial Statements - Continued
September 30, 2001 & 2000 (Unaudited)

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

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--------------------------------|-------------------------------------|----------|------------------------------------|------------|
| | 2001 | 2000 | 2001 | 2000 |
| Revenues: | | | | |
| Banking | \$ 298.8 | \$ 234.0 | \$ 842.6 | \$ 842.6 |
| Data Services | 158.3 | 159.8 | 457.3 | 457.3 |
| All Others | 51.2 | 47.5 | 164.2 | 164.2 |
| Corporate overhead | (4.6) | (5.0) | (15.8) | (15.8) |
| Nonrecurring securities losses | 0.0 | (50.1) | (16.1) | (16.1) |
| Intersegment eliminations | (29.6) | (24.8) | (86.2) | (86.2) |
| Consolidated revenues | \$ 474.1 | \$ 361.4 | \$ 1,346.0 | \$ 1,346.0 |
| Expenses: | | | | |
| Banking | \$ 138.7 | \$ 120.0 | \$ 403.7 | \$ 403.7 |
| Data Services | 136.5 | 128.0 | 400.9 | 400.9 |
| All Others | 33.9 | 33.3 | 104.6 | 104.6 |
| Corporate overhead | 22.2 | 15.1 | 60.3 | 60.3 |
| Nonrecurring | 38.0 | 9.3 | 89.8 | 89.8 |
| Intersegment eliminations | (29.6) | (24.8) | (86.2) | (86.2) |
| Consolidated expenses | \$ 339.7 | \$ 280.9 | \$ 973.1 | \$ 973.1 |
| Net income (loss): | | | | |
| Operating income: | | | | |
| Banking | \$ 100.1 | \$ 74.9 | \$ 274.3 | \$ 274.3 |
| Data Services | 12.9 | 18.8 | 33.1 | 33.1 |
| All Others | 10.2 | 8.6 | 35.3 | 35.3 |
| Corporate overhead | (16.8) | (11.9) | (47.2) | (47.2) |
| Nonrecurring | (23.0) | (38.8) | (66.3) | (66.3) |
| Consolidated net income | \$ 83.4 | \$ 51.6 | \$ 229.2 | \$ 229.2 |

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| | ===== | ===== | ===== | ===== |
|---------------------------|-------------|-------------|-------------|-------------|
| Assets: | | | | |
| Banking | \$ 26,255.0 | \$ 24,481.4 | \$ 26,255.0 | \$ 24,481.4 |
| Data Services | 678.4 | 597.8 | 678.4 | 597.8 |
| All Others | 726.4 | 940.3 | 726.4 | 940.3 |
| Corporate overhead | 609.2 | 391.9 | 609.2 | 391.9 |
| Intersegment eliminations | (942.4) | (1,114.2) | (942.4) | (1,114.2) |
| | ----- | ----- | ----- | ----- |
| Consolidated assets | \$ 27,326.6 | \$ 25,297.2 | \$ 27,326.6 | \$ 25,297.2 |
| | ===== | ===== | ===== | ===== |

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

| | Three Months Ended September 30, | |
|--|-------------------------------------|---------------|
| | 2001 | 2000 |
| | ----- | ----- |
| Assets | | |
| ----- | | |
| Cash and due from banks | \$ 680,451 | \$ 605,934 |
| Investment securities: | | |
| Trading securities | 13,910 | 26,255 |
| Short-term investments | 497,709 | 307,222 |
| Other investment securities: | | |
| Taxable | 3,753,722 | 3,875,469 |
| Tax-exempt | 1,268,253 | 1,323,791 |
| | ----- | ----- |
| Total investment securities | 5,533,594 | 5,532,737 |
| Total loans and leases | 18,338,194 | 17,302,910 |
| Less: Allowance for loan and lease losses | 259,083 | 236,043 |
| | ----- | ----- |
| Net loans and leases | 18,079,111 | 17,066,867 |
| Premises and equipment, net | 396,422 | 376,525 |
| Accrued interest and other assets | 1,721,717 | 1,488,725 |
| | ----- | ----- |
| Total Assets | \$ 26,411,295 | \$ 25,070,788 |
| | ===== | ===== |
| Liabilities and Shareholders' Equity | | |
| ----- | | |
| Deposits: | | |
| Noninterest bearing | \$ 2,940,571 | \$ 2,638,611 |
| Interest bearing | 14,046,651 | 14,946,173 |
| | ----- | ----- |
| Total deposits | 16,987,222 | 17,584,784 |
| Funds purchased and security repurchase agreements | 2,100,279 | 2,107,345 |
| Other short-term borrowings | 1,816,788 | 1,263,623 |
| Long-term borrowings | 2,079,704 | 1,235,052 |
| Accrued expenses and other liabilities | 877,323 | 708,204 |
| | ----- | ----- |
| Total liabilities | 23,861,316 | 22,899,008 |

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| | | |
|--|---------------|---------------|
| Shareholders' equity | 2,549,979 | 2,171,780 |
| Total Liabilities and Shareholders' Equity | \$ 26,411,295 | \$ 25,070,788 |

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

| | Nine Months Ended September 30, | |
|--|------------------------------------|---------------|
| | 2001 | 2000 |
| Assets | | |
| Cash and due from banks | \$ 632,168 | \$ 616,892 |
| Investment securities: | | |
| Trading securities | 24,642 | 35,527 |
| Short-term investments | 406,882 | 273,928 |
| Other investment securities: | | |
| Taxable | 4,110,023 | 4,008,427 |
| Tax-exempt | 1,276,259 | 1,332,971 |
| Total investment securities | 5,817,806 | 5,650,853 |
| Total loans and leases | 17,944,039 | 17,033,536 |
| Less: Allowance for loan and lease losses | 247,376 | 232,978 |
| Net loans and leases | 17,696,663 | 16,800,558 |
| Premises and equipment, net | 389,317 | 373,589 |
| Accrued interest and other assets | 1,609,602 | 1,461,475 |
| Total Assets | \$ 26,145,556 | \$ 24,903,367 |
| Liabilities and Shareholders' Equity | | |
| Deposits: | | |
| Noninterest bearing | \$ 2,776,397 | \$ 2,622,238 |
| Interest bearing | 14,509,362 | 14,648,660 |
| Total deposits | 17,285,759 | 17,270,898 |
| Funds purchased and security repurchase agreements | 2,120,859 | 2,239,946 |
| Other short-term borrowings | 1,722,836 | 1,449,783 |
| Long-term borrowings | 1,797,883 | 1,185,304 |
| Accrued expenses and other liabilities | 826,055 | 641,105 |
| Total liabilities | 23,753,392 | 22,787,036 |
| Shareholders' equity | 2,392,164 | 2,116,331 |
| Total Liabilities and Shareholders' Equity | \$ 26,145,556 | \$ 24,903,367 |

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ITEM 2 MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL POSITION AND RESULTS OF OPERATIONS

THREE MONTHS ENDED SEPTEMBER 30, 2001 and 2000

Net income for the third quarter of 2001 amounted to \$83.3 million compared to \$51.6 million for the same period in the prior year. Basic and diluted earnings per share were \$.78 and \$.75 respectively for the three months ended September 30, 2001, compared with \$.49 and \$.47 respectively for the three months ended September 30, 2000. The return on average assets and average equity were 1.25% and 12.96% for the quarter ended September 30, 2001 and 0.82% and 9.45% for the quarter ended September 30, 2000.

Net income for the current quarter includes certain losses and expenses incurred in connection with the announced acquisitions at the Corporation's Metavante subsidiary. Net income for the third quarter of 2000 includes expenses of the withdrawn IPO of Metavante, expenses associated with the charter consolidation and losses associated with the planned sale of lower yielding assets and investment portfolio realignment. The impact of these items is shown in the following table (\$000's):

| | Pre-tax Effect | Three Months Ended September 30, | |
|--|-------------------|-------------------------------------|-----------|
| | | 2001 | 2000 |
| | | ----- | ----- |
| Income as Reported | \$ | 83,315 | \$ 51,609 |
| Nonrecurring Losses and Expenses: | | | |
| Metavante Subsidiary | | | |
| Acquisition related | \$ 38,025 | 23,007 | |
| IPO expenses | 1,996 | | 1,476 |
| Charter consolidation | 4,250 | | 2,821 |
| Balance Sheet Management | | | |
| Investment securities losses | 50,095 | | 32,562 |
| ARM loan sale losses | 3,060 | | 1,989 |
| | | ----- | ----- |
| Total Nonrecurring Losses and Expenses | | 23,007 | 38,848 |
| | | ----- | ----- |
| Operating Income | \$ | 106,322 | \$ 90,457 |
| | | ===== | ===== |

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 third quarters of 2001 and 2000, excludes the items discussed above. Operating income for the second quarter of 2001, excludes certain losses and expenses incurred in connection with structural changes and acquisitions at the Corporation's Metavante subsidiary, auto lease residual value write-downs and the final charge for the charter consolidation initiative. Operating income for the first quarter of 2001 excludes expenses associated with charter consolidations and the cumulative effect of the change in accounting for derivatives and hedging activities while operating income in the fourth quarter of 2000 excludes certain nonrecurring losses and

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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 | |
|--|------------------|-------------------|------------------|-------------------|------------------|
| | Third Quarter | Second Quarter | First Quarter | Fourth Quarter | Third Quarter |
| Interest income | \$ 423,248 | \$ 431,447 | \$ 452,434 | \$ 457,503 | \$ 443,248 |
| Interest expense | (204,746) | (230,213) | (266,655) | (282,738) | (279,248) |
| Net interest income | 218,502 | 201,234 | 185,779 | 174,765 | 164,000 |
| Provision for loan and lease losses | (12,206) | (10,737) | (11,063) | (8,979) | (5,000) |
| Net investment securities gains (losses) | 24 | (119) | (123) | (120) | (100) |
| Other income | 255,639 | 254,053 | 247,084 | 249,543 | 247,000 |
| Other expense | (301,776) | (296,713) | (284,796) | (282,262) | (271,000) |
| Income before taxes | 160,183 | 147,718 | 136,881 | 132,947 | 134,000 |
| Income tax provision | (53,861) | (49,665) | (45,754) | (43,230) | (43,000) |
| Operating income | \$ 106,322 | \$ 98,053 | \$ 91,127 | \$ 89,717 | \$ 90,000 |
| Cash operating income | \$ 111,758 | \$ 102,802 | \$ 95,828 | \$ 94,663 | \$ 95,000 |
| Per Common Share | | | | | |
| Operating income | | | | | |
| Basic | \$ 0.99 | \$ 0.94 | \$ 0.88 | \$ 0.86 | \$ 0.86 |
| Diluted | 0.96 | 0.91 | 0.85 | 0.83 | 0.83 |
| Cash Operating income | | | | | |
| Basic | \$ 1.04 | \$ 0.99 | \$ 0.92 | \$ 0.90 | \$ 0.90 |
| Diluted | 1.01 | 0.95 | 0.89 | 0.87 | 0.87 |
| Dividends | 0.290 | 0.290 | 0.265 | 0.265 | 0.265 |
| Return on Average Equity | | | | | |
| Operating income | 16.54 % | 16.80 % | 16.20 % | 15.92 % | 16.20 % |
| Cash Operating income | 20.91 | 20.15 | 19.60 | 19.40 | 20.00 |

Summary Consolidated Operating Income Statement Components

as a Percent of Average Total Assets

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| | 2001 | | | 2000 | |
|---|------------------|-------------------|------------------|-------------------|------------------|
| | Third Quarter | Second Quarter | First Quarter | Fourth Quarter | Third Quarter |
| Interest income (FTE) | 6.48 % | 6.78 % | 7.16 % | 7.27 % | 7.16 % |
| Interest expense | (3.08) | (3.55) | (4.15) | (4.42) | (4.15) |
| Net interest income | 3.40 | 3.23 | 3.01 | 2.85 | 3.01 |
| Provision for loan and lease losses | (0.18) | (0.17) | (0.17) | (0.14) | (0.17) |
| Net investment securities gains (losses) | -- | -- | -- | -- | -- |
| Other income | 3.84 | 3.92 | 3.85 | 3.90 | 3.85 |
| Other expense | (4.53) | (4.58) | (4.45) | (4.41) | (4.45) |
| Income before taxes | 2.53 | 2.40 | 2.24 | 2.20 | 2.24 |
| Income tax provision | (0.93) | (0.89) | (0.82) | (0.80) | (0.82) |
| Return on average assets based on operating income | 1.60 % | 1.51 % | 1.42 % | 1.40 % | 1.42 % |
| Return on tangible average assets based on cash operating income | 1.71 % | 1.61 % | 1.51 % | 1.50 % | 1.51 % |

NET INTEREST INCOME

Net interest income for the third quarter of 2001 amounted to \$218.5 million compared to \$164.1 million reported for the third quarter of 2000. The reduction in interest rates since early January along with loan growth and increased spreads on loan products and the impact of the purchase acquisitions of National City and the Arizona branches contributed to the \$54.4 million increase in net interest income. Factors negatively affecting net interest income included a shift in the mix to lower spread bank-issued deposit products, the ongoing process of lengthening liabilities in order to reduce future volatility in net interest income due to interest rate movements, reduced spreads on core deposits due to interest rate declines, the cost of treasury share repurchases and the cost of acquisitions.

Average earning assets in the third quarter of 2001 increased \$1.0 billion or 4.5% compared to the same period a year ago. Average loans, including securitized adjustable rate mortgage loans (ARMs), accounted for \$1.3 billion of the growth in earning assets compared to the third quarter of last year. Average investment securities, excluding securitized ARMs, declined \$0.4 billion while other earning assets increased \$0.1 billion. The Corporation estimates that approximately \$0.8 billion of average earning assets in the three months ended September 30, 2001, are attributable to the purchase acquisitions of National City and the Arizona branches.

Average interest bearing liabilities increased \$0.5 billion or 2.5% in the third quarter of 2001 compared to the same period in 2000. Since the third quarter of 2000, average interest bearing deposits decreased \$0.9 billion while average total short-term borrowings increased \$0.5 billion and average long-term borrowings increased \$0.8 billion. The Corporation estimates that approximately \$0.5 billion of average interest bearing liabilities in the three months ended September 30, 2001, are attributable to the purchase

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acquisitions of National City and the Arizona branches.

Average noninterest bearing deposits increased \$0.3 billion or 11.4% compared to the same period last year. Approximately \$0.1 billion of average noninterest bearing deposits in the three months ended September 30, 2001, are attributable to the purchase acquisitions of National City and the Arizona branches.

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 Annual |
|--|------------------|-------------------|------------------|-------------------|------------------|------------------|
| | Third Quarter | Second Quarter | First Quarter | Fourth Quarter | Third Quarter | |
| Commercial | | | | | | |
| Commercial | \$ 5,640 | \$ 5,328 | \$ 5,258 | \$ 5,042 | \$ 4,950 | 13.9 % |
| Commercial real estate | | | | | | |
| Commercial mortgages | 4,831 | 4,625 | 4,429 | 4,300 | 4,219 | 14.5 |
| Construction | 520 | 538 | 495 | 469 | 450 | 15.6 |
| Total commercial real estate | 5,351 | 5,163 | 4,924 | 4,769 | 4,669 | 14.6 |
| Commercial lease financing | 394 | 382 | 385 | 377 | 360 | 9.7 |
| Total Commercial | 11,385 | 10,873 | 10,567 | 10,188 | 9,979 | 14.1 |
| Personal | | | | | | |
| Residential real estate | | | | | | |
| Residential mortgages | 2,303 | 2,384 | 2,409 | 2,740 | 3,168 | (27.3) |
| Construction | 120 | 122 | 126 | 123 | 117 | 2.8 |
| Securitized ARM loans | 638 | 734 | 828 | 523 | 375 | 70.1 |
| Total residential real estate | 3,061 | 3,240 | 3,363 | 3,386 | 3,660 | (16.4) |
| Personal loans | | | | | | |
| Student | 94 | 133 | 134 | 119 | 108 | (13.2) |
| Credit card | 174 | 184 | 190 | 187 | 171 | 1.8 |
| Home equity loans and lines | 2,723 | 2,641 | 2,647 | 2,462 | 2,261 | 20.4 |
| Other | 927 | 864 | 850 | 852 | 883 | 5.0 |
| Total personal loans | 3,918 | 3,822 | 3,821 | 3,620 | 3,423 | 14.5 |
| Personal lease financing | 612 | 668 | 695 | 698 | 616 | (0.7) |
| Total personal | 7,591 | 7,730 | 7,879 | 7,704 | 7,699 | (1.4) |
| Total Consolidated Average Loans, Leases and ARMs | \$ 18,976 | \$ 18,603 | \$ 18,446 | \$ 17,892 | \$ 17,678 | 7.3 % |

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| | ===== | ===== | ===== | ===== | ===== | ===== |
|----------------------------|-----------|-----------|-----------|-----------|-----------|-------|
| Total Consolidated Average | | | | | | |
| Loans and Leases | \$ 18,338 | \$ 17,869 | \$ 17,618 | \$ 17,369 | \$ 17,303 | 6.0 % |
| | ===== | ===== | ===== | ===== | ===== | ===== |

Compared with the third quarter of 2000, total consolidated average loans, leases and securitized ARMs increased \$1.3 billion or 7.3%. Approximately \$0.7 billion of average total consolidated loans, leases and ARMs in the third quarter of 2001 are attributable to the National City and Arizona branch acquisitions. Other factors affecting the year to year comparison include: the Corporation sold approximately \$46 million of student loans in the second quarter of 2001, acquired \$341 million of home equity loans and lines related to its private-label banking services in the fourth quarter of 2000 and sold \$300.8 million of portfolio ARM loans in the third quarter of 2000. Also, 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 nine months ended September 30, 2001 amounted to \$274 million. The Corporation anticipates that indirect auto loan origination will continue to be securitized and sold in future quarters.

Compared with the second quarter of 2001 and excluding the effects of the banking related acquisitions, total consolidated average loans, leases and securitized ARMs decreased \$0.3 billion or 1.6%. The decrease in total average commercial loans reflects a slowing in loan demand and the Corporation's decision to move certain relationships out of M&I and to other institutions. Average personal loans were relatively unchanged as portfolio decreases in auto leases and student loans, tighter spread products, were offset by growth in consumer and home equity portfolios, both wider spread products. The decline in average residential real estate loans reflects

increased prepayment experience as well as the continued strategy of selling residential real estate loan production in the secondary market. Residential real estate loans originated and sold to investors amounted to \$1.5 billion in the first nine months of 2001 compared to \$393 million in the first nine months 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 | | | | | Growth | |
|------------------------------------|-------------------------------|-------------------|------------------|-------------------|------------------|--------|--------|
| | 2001 | | | 2000 | | | Annual |
| | Third Quarter | Second Quarter | First Quarter | Fourth Quarter | Third Quarter | | |
| Bank issued deposits | | | | | | | |
| Noninterest bearing deposits | | | | | | | |
| Commercial | \$ 1,969 | \$ 1,779 | \$ 1,639 | \$ 1,716 | \$ 1,694 | 16.2 % | |
| Personal | 608 | 601 | 583 | 582 | 572 | 6.4 | |
| Other | 364 | 347 | 436 | 428 | 373 | (2.6) | |
| Total noninterest bearing deposits | 2,941 | 2,727 | 2,658 | 2,726 | 2,639 | 11.4 | |
| Interest bearing deposits | | | | | | | |

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| | | | | | | |
|-------------------------------------|-----------|-----------|-----------|-----------|-----------|---------|
| Savings & NOW | 1,784 | 1,719 | 1,720 | 1,760 | 1,826 | (2.3) |
| Money market | 5,563 | 5,368 | 5,111 | 4,855 | 4,580 | 21.5 |
| Foreign activity | 640 | 532 | 476 | 476 | 402 | 59.1 |
| <hr/> | | | | | | |
| Total interest bearing deposits | 7,987 | 7,619 | 7,307 | 7,091 | 6,808 | 17.3 |
| <hr/> | | | | | | |
| Time deposits | | | | | | |
| Other CDs & time deposits | 3,167 | 3,202 | 3,397 | 3,452 | 3,394 | (6.7) |
| CDs greater than \$100,000 | 751 | 750 | 820 | 856 | 874 | (14.1) |
| <hr/> | | | | | | |
| Total time deposits | 3,918 | 3,952 | 4,217 | 4,308 | 4,268 | (8.2) |
| <hr/> | | | | | | |
| Total bank issued deposits | 14,846 | 14,298 | 14,182 | 14,125 | 13,715 | 8.2 |
| <hr/> | | | | | | |
| Wholesale deposits | | | | | | |
| Money market | -- | 222 | 762 | 703 | 668 | (100.0) |
| Brokered CDs | 1,517 | 1,740 | 1,795 | 1,780 | 1,653 | (8.2) |
| Foreign time | 624 | 939 | 939 | 1,566 | 1,549 | (59.7) |
| <hr/> | | | | | | |
| Total wholesale deposits | 2,141 | 2,901 | 3,496 | 4,049 | 3,870 | (44.7) |
| <hr/> | | | | | | |
| Total consolidated average deposits | \$ 16,987 | \$ 17,199 | \$ 17,678 | \$ 18,174 | \$ 17,585 | (3.4)% |
| <hr/> | | | | | | |

Average bank issued deposits increased \$1.1 billion or 8.2% in the third quarter of 2001 compared to the third quarter of 2000. Average bank issued deposits associated with the acquisitions in the third quarter of 2001 were approximately \$0.4 billion. As part of its private-label banking services, the Corporation acquired \$354 million of deposits late in 2000. Excluding the effect of the current acquisitions, average money market index accounts accounted for approximately \$1.0 billion of the growth in average bank issued deposits while savings and NOW and money market savings declined \$71 million and bank issued money market savings decreased \$161 million. This shift in mix had an adverse impact on the interest margin. Noninterest bearing deposits, excluding acquisitions, increased \$189 million. Excluding acquisitions, average CDs and time deposits declined \$0.5 billion. M&I's markets have experienced some irrational pricing on single service time deposit relationships to the extent of pricing time deposits above comparable wholesale levels which the Corporation has elected not to pursue.

Compared with the third quarter of 2000, average wholesale deposits declined \$1.7 billion or 44.7% and were replaced, in part, with borrowings. The decrease in wholesale deposits reflects in part, M&I electing during the second quarter to discontinue a contractual institutional relationship that would have repriced to levels above comparable funding alternatives.

Compared with the second quarter of 2001 and excluding the effects of the banking related acquisitions, total consolidated average deposits decreased \$0.7 billion. Average bank issued deposits increased \$0.1 billion and consisted of growth in noninterest bearing deposits and interest bearing activity accounts of \$ 0.1 billion and \$0.2 billion, respectively, and which was offset by a decline in average time deposits of \$0.2 billion. Average wholesale deposits decreased \$0.8 billion.

The Corporation's consolidated average interest earning assets and interest bearing liabilities, interest earned and interest paid for the current quarter and prior year second quarter are presented in the following table. Securitized ARM loans that are classified in the balance

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sheet as investment securities available for sale are included with loans to provide a more meaningful comparison (\$ in millions):

| | Three Months Ended September 30, 2001 | | | Three Months Ended September 30, 2000 | | |
|---|--|-----------------|---------------------------------|--|-----------------|---------------------------------|
| | Average Balance | Interest | Average Yield or Cost (b) | Average Balance | Interest | Average Yield or Cost (b) |
| Loans and leases (a) | \$ 18,975.7 | \$ 351.3 | 7.35 % | \$ 17,677.6 | \$ 364.5 | 2.06 % |
| Investment securities: | | | | | | |
| Taxable | 3,116.2 | 52.6 | 6.89 | 3,500.8 | 57.8 | 1.65 |
| Tax Exempt (a) | 1,268.3 | 22.8 | 7.21 | 1,323.8 | 23.3 | 1.76 |
| Other short-term investments (a) | 511.6 | 4.5 | 3.50 | 333.4 | 5.3 | 1.59 |
| Total interest earning assets | \$ 23,871.8 | \$ 431.2 | 7.20 % | \$ 22,835.6 | \$ 450.9 | 1.97 % |
| Money market savings | \$ 5,563.6 | \$ 42.9 | 3.06 % | \$ 5,248.2 | \$ 72.8 | 1.39 |
| Regular savings & NOW | 1,784.1 | 5.1 | 1.14 | 1,826.0 | 7.1 | 0.39 |
| Other CDs & time deposits | 4,430.7 | 62.1 | 5.56 | 5,345.1 | 80.3 | 1.50 |
| CDs greater than \$100 & Brokered CDs | 2,268.2 | 19.7 | 3.44 | 2,526.9 | 41.7 | 1.65 |
| Total interest bearing deposits | 14,046.6 | 129.8 | 3.67 | 14,946.2 | 201.9 | 1.35 |
| Short-term borrowings | 3,917.1 | 46.3 | 4.69 | 3,371.0 | 55.4 | 1.64 |
| Long-term borrowings | 2,079.7 | 28.7 | 5.47 | 1,235.0 | 21.9 | 1.77 |
| Total interest bearing liabilities | \$ 20,043.4 | \$ 204.8 | 4.05 % | \$ 19,552.2 | \$ 279.2 | 1.43 % |
| Net interest margin (FTE) as a percent of average earning assets | | \$ 226.4 | 3.78 % | | \$ 171.7 | 0.75 % |
| Net interest spread (FTE) | | | 3.15 % | | | 0.54 % |

(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 decreased 64 basis points since the third quarter of 2000, which had a negative impact on interest income (FTE) of approximately \$39.5 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 \$19.8 million compared with the third quarter of 2000. The cost of interest bearing deposits decreased 170 basis points from the same quarter of the previous year which reflects rate declines as well as less reliance on wholesale deposits offset by the shift in the bank issued deposit mix as previously discussed. Short-term borrowing costs decreased 185 basis points and long-term borrowing costs decreased 159 basis points compared with the third quarter of 2000. The overall decrease in the cost of interest

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bearing liabilities of 163 basis points decreased interest expense by approximately \$82.4 million while the increase in the volume of interest bearing liabilities increased interest expense by approximately \$8.0 million.

In the recent declining interest rate environment, the Corporation has taken certain actions and will continue to take certain actions, such as issuing term debt, 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 actions, 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 September 30, 2001 and the prior four quarters.

NONPERFORMING ASSETS

(\$000's)

| | 2001 | | | 2000 | |
|--------------------------------------|------------------|-------------------|------------------|-------------------|-------------|
| | Third Quarter | Second Quarter | First Quarter | Fourth Quarter | Thi Quar |
| Nonaccrual | \$ 163,946 | \$ 137,355 | \$ 130,640 | \$ 121,425 | \$ 116, |
| Renegotiated | 389 | 249 | 560 | 614 | |
| Past due 90 days or more | 7,185 | 7,166 | 7,080 | 7,371 | 7, |
| Total nonperforming loans and leases | 171,520 | 144,770 | 138,280 | 129,410 | 124, |
| Other real estate owned | 5,842 | 3,671 | 3,790 | 3,797 | 3, |
| Total nonperforming assets | \$ 177,362 | \$ 148,441 | \$ 142,070 | \$ 133,207 | \$ 128, |
| Allowance for loan and lease losses | \$ 264,736 | \$ 244,486 | \$ 240,348 | \$ 235,115 | \$ 232, |

CONSOLIDATED STATISTICS

| | 2001 | | | 2000 | |
|--|------------------|-------------------|------------------|-------------------|-------------|
| | Third Quarter | Second Quarter | First Quarter | Fourth Quarter | Thi Quar |
| Net Charge-offs (Recoveries) to average loans and leases annualized | 0.24 % | 0.15 % | 0.13 % | 0.16 % | 0 |
| Total nonperforming loans and leases to total loans and leases | 0.90 | 0.81 | 0.78 | 0.74 | 0 |
| Total nonperforming assets to total loans | | | | | |

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| | | | | | |
|---|------|------|------|------|---|
| and leases and other real estate owned | 0.93 | 0.83 | 0.80 | 0.76 | 0 |
| Allowance for loan and lease losses to total loans and leases | 1.39 | 1.37 | 1.35 | 1.34 | 1 |
| Allowance for loan and lease losses to nonperforming loans and leases | 154 | 169 | 174 | 182 | |

NONACCRUAL LOANS AND LEASES BY TYPE

(\$000's)

| | 2001 | | | 2000 | |
|--------------------------------------|---------------|----------------|---------------|----------------|---------------|
| | Third Quarter | Second Quarter | First Quarter | Fourth Quarter | Third Quarter |
| Commercial | | | | | |
| Commercial, financial & agricultural | \$ 78,623 | \$ 54,576 | \$ 50,273 | \$ 49,965 | \$ 39,965 |
| Lease financing receivables | 2,022 | 1,892 | 2,959 | 1,921 | 2,959 |
| Total commercial | 80,645 | 56,468 | 53,232 | 51,886 | 41,924 |
| Real estate | | | | | |
| Construction & land development | 1,063 | 2,590 | 2,584 | 2,896 | 2,584 |
| Commercial mortgage | 38,117 | 38,440 | 38,797 | 35,011 | 42,440 |
| Residential mortgage | 42,147 | 38,389 | 34,244 | 29,895 | 28,389 |
| Total real estate | 81,327 | 79,419 | 75,625 | 67,802 | 73,413 |
| Personal | 1,974 | 1,468 | 1,783 | 1,737 | 2,584 |
| Total nonaccrual loans and leases | \$ 163,946 | \$ 137,355 | \$ 130,640 | \$ 121,425 | \$ 116,921 |

RECONCILIATION OF ALLOWANCE FOR LOAN AND LEASE LOSSES

(\$000's)

| | 2001 | | | 2000 | |
|---|---------------|----------------|---------------|----------------|---------------|
| | Third Quarter | Second Quarter | First Quarter | Fourth Quarter | Third Quarter |
| Beginning balance | \$ 244,486 | \$ 240,348 | \$ 235,115 | \$ 232,690 | \$ 234,486 |
| Provision for loan and lease losses | 12,206 | 10,737 | 11,063 | 8,979 | 5,000 |
| Allowance of banks and loans acquired | 19,151 | -- | -- | 1,270 | -- |
| Allowance transfer for loan securitizations | -- | -- | -- | (1,022) | -- |
| Loans and leases charged-off | | | | | |
| Commercial | 5,266 | 3,607 | 2,577 | 2,253 | 5,000 |
| Real estate | 3,768 | 1,734 | 2,075 | 3,267 | 4,244 |
| Personal | 2,768 | 2,561 | 2,383 | 2,629 | 2,584 |
| Leases | 450 | 770 | 496 | 397 | 450 |

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| | | | | | |
|---|------------|------------|------------|------------|---------|
| Total charge-offs | 12,252 | 8,672 | 7,531 | 8,546 | 8, |
| Recoveries on loans and leases | | | | | |
| Commercial | 362 | 1,042 | 515 | 429 | |
| Real estate | 357 | 403 | 410 | 645 | |
| Personal | 354 | 531 | 728 | 627 | |
| Leases | 72 | 97 | 48 | 43 | |
| Total recoveries | 1,145 | 2,073 | 1,701 | 1,744 | 1, |
| Net loans and leases charge-offs (recoveries) | 11,107 | 6,599 | 5,830 | 6,802 | 7, |
| Ending balance | \$ 264,736 | \$ 244,486 | \$ 240,348 | \$ 235,115 | \$ 232, |

Nonperforming assets consist of nonperforming loans and leases 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 September 30, 2001, OREO acquired in satisfaction of debts amounted to \$5.4 million and branch premises held for sale amounted to \$0.4 million. Approximately \$2.8 million of OREO acquired in satisfaction of debts relates to the National City acquisition.

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 September 30, 2001, nonperforming loans and leases amounted to \$171.5 million or 0.90% of consolidated loans and leases of \$19.0 billion, an increase of \$26.8 million or 18.5% since June 30, 2001. Nonaccrual loans and leases, primarily commercial loans, accounted for the increase compared to the prior quarter. At September 30, 2001, approximately \$26.6 million of nonperforming loans are related to recent acquisitions.

Net charge-offs amounted to \$11.1 million or 0.24% of average loans in the third quarter of 2001 compared with net charge-offs of \$6.6 million or 0.15% of average loans in the second quarter of 2001 and \$7.4 million or 0.17% of average loans in the third quarter of the prior year.

In light of the events of September 11th, the Corporation performed additional assessments of its loans to certain industries which may have become more vulnerable. These include loans to airlines, travel and leisure industries, auto suppliers and other transportation related industries and insurance. The Corporation has concluded that there are no large concentrations of loans or unusual draw down activity with respect to the

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loans to these industries. In addition, nonperforming loans and loans considered problem or watch type credits (loans considered to have a higher risk of becoming nonperforming) to these industries appear to be representative of the rest of portfolio. Only through the passage of time, over future quarters, will the Corporation be able to determine the strength of those borrowers.

The allowance for loan and lease losses represents management's estimate of probable 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 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 reserve. The amount of the allocated portion of the loss reserve is determined by reserving factors assigned to loans and leases based on the Corporation's historical loss experience. Line officers and loan committees are responsible for continually assigning grades to commercial loan types based on standards established in the Corporation's loan 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.

Management determines a portion of the allocated loss reserve based on factors that cannot be associated with a specific credit. 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 as well as 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 \$264.7 million at September 30, 2001 compared to \$244.5 million at June 30, 2001. The level of reserve reflects management's belief that losses in the loan and lease portfolio were larger

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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 current quarter as well as 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 the continued slowing of economic prosperity.

OTHER INCOME

Total other income in the third quarter of 2001 amounted to \$255.7 million compared to \$197.4 million in the same period last year. Included in other income in the third quarter of the prior year was \$50.1 million of investment securities losses associated with Corporation's realignment of its investment portfolio as previously discussed. Excluding the securities losses, total other income increased \$8.2 million or 3.3% compared to the third quarter of last year.

Total data processing services revenue amounted to \$144.4 million in the third quarter of 2001 compared to \$145.3 million in the third quarter of 2000. e-Finance solutions revenue in the third quarter of 2000 includes buyout fees of \$13.7 million compared to \$0.8 million in the same quarter this year. Excluding buyout fees, e-Finance solutions revenue increased \$8.6 million or 37.1% which reflects growth in electronic bill presentment and payment and electronic banking products for businesses and consumers. Financial technology solutions revenue, the traditional outsourcing business, increased \$6.0 million primarily due to buyout fees. This largest source of data processing services revenue is projected to grow at single digit levels during 2001 due to continued bank consolidation and a weaker economy. Professional services fees and software revenue declined primarily due to lower software consulting fees. Other revenue declined primarily due to lower professional services revenue.

Item processing revenue amounted to \$11.7 million in the third quarter of 2001 compared to \$13.1 million in the third quarter of 2000 and \$12.0 million in the second quarter of 2001. The slight revenue decline compared to the second quarter represents some lost activity as a result of the events of September 11th. By month-end transaction activity had returned to normal run rate levels.

Trust services revenue amounted to \$30.1 million in the third quarter of 2001, an increase of \$0.2 million compared to \$29.9 million in the third quarter of 2000. Strong sales have offset declines in managed asset values. Trust services revenue is largely derived from asset-based fees. With declining equity markets and the continued movement of funds from higher fee equity funds to lower fee fixed income or money market funds, maintaining year-over-year revenue growth in the current market environment will be a continuing challenge.

Service charges on deposits increased \$2.5 million or 13.4% and amounted \$21.2 million in the third quarter of 2001. National City accounted for approximately \$0.6 million of the revenue in the third quarter of 2001. The remainder of the increase was primarily attributable to service charges on commercial demand accounts.

Mortgage banking revenue increased \$5.3 million in the third quarter of 2001 compared to the third quarter of 2000. 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.

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Other income in the third quarter of 2001 amounted to \$30.0 million compared to \$28.5 million in the third quarter of 2000, an increase of \$1.5 million or 5.0%. The increase in gains and income from indirect auto securitizations, which began in the third quarter of 2000 as previously discussed, accounted for the majority of the increase.

OTHER EXPENSE

Total other expense for the three months ended September 30, 2001, amounted to \$339.8 million compared to \$280.8 million for the three ended September 30, 2000.

Non recurring expenses in the third quarter of 2001 consisted of the following:

As previously announced, transition expenses incurred in the third quarter in conjunction with the second quarter acquisitions of Derivion and Cyberbills amounted to approximately \$3.5 million of which \$1.6 million is attributable to salaries and benefits. The Corporation estimates that transition expenses in the fourth quarter with respect to these acquisitions will also be approximately \$3.5 million.

Nonrecurring costs related to the third quarter acquisition of Brokat's North American internet banking operations by Metavante amounted to approximately \$34.5 million. In conjunction with this acquisition four locations and five technology platforms will be consolidated resulting in severance of \$3.8 million and facility closure charges of approximately \$10.2 million. Write-offs of existing technology and software which will be replaced by Brokat's software amounted to \$20.5 million.

Non recurring expenses in the third quarter of 2000 consisted of the following:

As previously discussed, the Corporation sold \$300.8 million of portfolio ARM loans as part of its balance sheet management strategy and realized losses of \$3.1 million.

Organizational costs associated with Metavante's withdrawn IPO amounted to \$2.0 million.

Single charter related expenses incurred amounted to \$4.2 million.

Excluding these nonrecurring charges, total other operating expense amounted to \$301.8 million in the third quarter of 2001 compared to \$271.5 million in the third quarter of 2000, an increase of \$30.3 million or 11.1%.

Approximately \$8.8 million of operating expenses in the third quarter of 2001 were attributable to purchase acquisitions which were included in M&I's operating expenses since the merger dates.

The Corporation's nonbanking businesses, especially its Data Services segment ("Metavante"), continue to be the primary contributors to operating expense growth. Excluding salaries and benefits expense and the effect of acquisitions, Metavante operating expense growth represents over half of all of the consolidated operating expense growth and reflects the

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cost of ongoing investments in software, technology research and development and infrastructure in potentially high-growth areas.

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 securities gains or losses) and net interest income on a fully taxable equivalent basis. The Corporation's efficiency ratios for the three months ended September 30, 2001 and 2000 and December 31, 2000 are:

| | Three Months Ended September 30, 2001 ----- | Three Months Ended December 31, 2000 ----- | Three Months Ended September 30, 2000 ----- |
|---|---|--|---|
| Consolidated Corporation | 62.6 % | 65.4 % | 64.8 % |
| Consolidated Corporation Excluding Metavante Including Intangible Amortization | 52.5 % | 55.8 % | 56.4 % |
| Excluding Intangible Amortization | 50.4 % | 53.4 % | 54.1 % |

Salaries and employee benefits expense amounted to \$179.5 million in the third quarter of 2001 including the severance and transitional charges of \$5.4 million previously discussed. Excluding the charge, salaries and benefits expense amounted to \$174.1 million compared to \$162.2 million in the third quarter of 2000, an increase of \$11.9 million or 7.3%. Operating salaries and employee benefits expense associated with acquisitions accounted for \$5.7 million of the increase. Continued adverse claims experience in employee health plans added \$3.1 million to expense in the current quarter compared to the same period in the prior year.

Nonrecurring charges included in occupancy and equipment expense in the third quarter of 2001 amounted to approximately \$6.8 million. Excluding these items, occupancy and equipment expense in the third quarter of 2001 amounted to \$45.2 million and increase of \$3.1 million since the third quarter of 2000. Occupancy and equipment expense associated with the current period acquisitions accounted for approximately \$1.6 million of the increase.

Excluding the effect of acquisitions, Metavante's operating expense growth accounted for approximately \$1.5 million or 68% of the increase in software, supplies and printing and processing expenses and accounted for all of the decline in professional fees in the third quarter of 2001 compared to the third quarter of 2000. Expenses contributed by the acquisitions for these items were approximately \$0.9 million.

Approximately \$1.3 million of intangible amortization in the third quarter of 2001 represents write-downs of existing intangibles impaired as a result of the Brokat acquisition.

Other expense amounted to \$55.4 million in the third quarter of 2001. Included in this category in the current quarter were nonrecurring charges aggregating \$23.9 million associated with Metavante's acquisitions. Excluding these charges, other expense amounted to \$31.5 million in the current quarter compared to \$18.2 million in the third quarter of last year, an increase of \$13.3 million. Customer related expense, including advertising and promotion, was \$2.5 million higher in the current quarter

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compared to the same period last year. Recourse liability obligation reversals amounted to \$1.4 million in the third quarter of 2000.

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 and conversion capitalization was \$10.8 million in the third quarter of 2000 and in the current quarter amounted to \$2.8 million resulting in an increase of \$8.0 million in other expense in the third quarter of 2001 compared to third quarter of 2000.

INCOME TAXES

The provision for income taxes for the three months ended September 30, 2001 amounted to \$38.8 million or 31.8% of pre-tax income compared to \$23.0 million or 30.9% of pre-tax income for the three months ended September 30, 2000.

NINE MONTHS ENDED SEPTEMBER 30, 2001 AND 2000

Net income for the nine months ended September 30, 2001 amounted to \$229.2 million compared to \$230.8 million in the same period of 2000. Basic and diluted earnings per share were \$2.17 and \$2.11, respectively for the nine months ended September 30, 2001 compared to \$2.19 and \$2.12, respectively for the same period last year. The year to date return on average equity was 12.81% in the current period and 14.57% for the nine months ended September 30, 2000.

Net income for the first nine months of 2001, includes certain losses and expenses incurred in connection with the previously announced structural changes and acquisitions at the Corporation's Metavante subsidiary, auto lease residual value write-downs, the final charge for the charter consolidation and the cumulative effect of the change in accounting for derivatives and hedging activities. Net income for the first nine months of the prior year includes the cumulative effect of the change in accounting for certain conversion services provided by Metavante as well as security losses and losses from the sale of ARM loans, single charter expenses and expenses associated with the withdrawn IPO of Metavante. The impact of these items is shown in the following table (\$000's):

| | | Three Months Ended September 30, | |
|------------------------------------|-------------------|-------------------------------------|------------|
| | Pre-tax Effect | 2001 | 2000 |
| Income as Reported | | \$ 229,164 | \$ 230,792 |
| Nonrecurring Losses and Expenses: | | | |
| Metavante Subsidiary | | | |
| Reduction in force and realignment | \$ 11,028 | | |
| Investment losses | 12,706 | | |
| IPO expenses | 1,996 | | |
| Acquisition related | 45,219 | | |
| | | | |
| Total Metavante Subsidiary | 70,949 | 41,594 | 1,476 |
| Balance Sheet Management | | | |

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| | | | |
|--|--------|---------|------------|
| Investment securities losses | 50,095 | -- | 32,562 |
| Losses from sale of ARM loans | 3,060 | -- | 1,989 |
| Auto Lease Residual Value Write-downs | 25,000 | 15,843 | -- |
| Charter Consolidations 2001 | 11,952 | 8,465 | -- |
| Charter Consolidations 2000 | 4,250 | -- | 2,821 |
| Change in Accounting: | | | |
| Derivatives and Hedging Activities | 671 | 436 | -- |
| Conversion Services - Metavante | 3,811 | -- | 2,279 |
| | | ----- | ----- |
| Total Nonrecurring Losses and Expenses | | 66,338 | 41,127 |
| | | ----- | ----- |
| Operating Income | \$ | 295,502 | \$ 271,919 |
| | | ===== | ===== |

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 nine months ended September 30, 2001 and 2000, respectively. Operating income for the nine months ended September 30, 2001, and 2000, excludes the nonrecurring items previously discussed. "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)

| | Nine Months Ended September 30, | |
|-------------------------------------|------------------------------------|--------------|
| | 2001 | 2000 |
| | ----- | ----- |
| Interest income | \$ 1,307,129 | \$ 1,290,479 |
| Interest expense | (701,614) | (792,238) |
| | ----- | ----- |
| Net interest income | 605,515 | 498,241 |
| Provision for loan and lease losses | (34,006) | (21,373) |
| Net investment securities gains | (218) | 1,171 |
| Other income | 756,776 | 733,128 |
| Other expense | (883,285) | (806,520) |
| | ----- | ----- |
| Income before taxes | 444,782 | 404,647 |
| Income tax provision | (149,280) | (132,728) |
| | ----- | ----- |
| Operating income | \$ 295,502 | \$ 271,919 |
| | ===== | ===== |
| Cash operating income | \$ 310,387 | \$ 286,116 |
| | ===== | ===== |
| Per Common Share | | |

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| | | | |
|--------------------------|----|---------|---------|
| Operating income | | | |
| Basic | \$ | 2.81 | \$ 2.58 |
| Diluted | | 2.72 | 2.49 |
| Cash Operating income | | | |
| Basic | \$ | 2.96 | \$ 2.72 |
| Diluted | | 2.85 | 2.62 |
| Dividends | | 0.845 | 0.770 |
| Return on Average Equity | | | |
| Operating income | | 16.52 % | 17.16 % |
| Cash Operating income | | 20.24 | 21.28 |

Summary Consolidated Operating Income Statement Components

as a Percent of Average Total Assets

| | Nine Months Ended September 30, | |
|---|------------------------------------|-----------------|
| | 2001 | 2000 |
| | ----- | ----- |
| Interest income (FTE) | 6.80 % | 7.05 % |
| Interest expense | (3.58) | (4.25) |
| Net interest income | ----- 3.22 | ----- 2.80 |
| Provision for loan and lease losses | (0.17) | (0.11) |
| Net investment securities gains | 0.00 | 0.01 |
| Other income | 3.87 | 3.93 |
| Other expense | (4.53) | (4.33) |
| Income before taxes | ----- 2.39 | ----- 2.30 |
| Income tax provision | (0.88) | (0.84) |
| Return on average assets based on operating income | ----- 1.51 % | ----- 1.46 % |
| Return on tangible average assets based on cash operating income | ===== | ===== |
| | 1.61 % | 1.55 % |
| | ===== | ===== |

The increase in operating income was primarily due to growth in net interest income of \$107.3 million or 21.5%. Other income increased 3.2% and was driven by data processing services and mortgage banking revenue. The provision for loan and lease losses increased \$12.6 million and other operating expenses increased \$76.8 million.

The Corporation's consolidated average interest earning assets and interest bearing liabilities, interest earned and interest paid for the current nine months and prior year nine months 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

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meaningful comparison (\$ in millions):

| | Nine Months Ended September 30, 2001 | | | Nine Months Ended September 30, 2000 | | |
|---|---|-------------------|---------------------------------|---|-------------------|---------------------------------|
| | Average Balance | Interest | Average Yield or Cost (b) | Average Balance | Interest | Average Yield or Cost (b) |
| Loans and leases (a) | \$ 18,676.7 | \$ 1,076.6 | 7.71 % | \$ 17,434.1 | \$ 1,052.4 | 6.03 % |
| Investment securities: | | | | | | |
| Taxable | 3,377.4 | 171.9 | 6.97 | 3,607.8 | 176.2 | 4.88 |
| Tax Exempt (a) | 1,276.2 | 68.5 | 7.26 | 1,333.0 | 71.0 | 5.33 |
| Other short-term investments (a) | 431.5 | 13.4 | 4.14 | 309.5 | 14.3 | 4.62 |
| Total interest earning assets | \$ 23,761.8 | \$ 1,330.4 | 7.52 % | \$ 22,684.4 | \$ 1,313.9 | 6.03 % |
| Money market savings | \$ 5,674.2 | \$ 168.5 | 3.97 % | \$ 5,135.6 | \$ 200.0 | 3.90 % |
| Regular savings & NOW | 1,741.2 | 15.9 | 1.22 | 1,874.7 | 23.8 | 1.27 |
| Other CDs & time deposits | 4,637.5 | 197.8 | 5.70 | 5,446.6 | 234.3 | 4.30 |
| CDs greater than \$100 & Brokered CDs | 2,456.4 | 90.7 | 4.94 | 2,191.8 | 102.0 | 4.65 |
| Total interest bearing deposits | 14,509.3 | 472.9 | 4.36 | 14,648.7 | 560.1 | 3.82 |
| Short-term borrowings | 3,843.7 | 149.7 | 5.21 | 3,689.7 | 173.0 | 4.69 |
| Long-term borrowings | 1,797.9 | 79.1 | 5.88 | 1,185.3 | 59.1 | 4.97 |
| Total interest bearing liabilities | \$ 20,150.9 | \$ 701.7 | 4.66 % | \$ 19,523.7 | \$ 792.2 | 4.04 % |
| Net interest margin (FTE) as a percent of average earning assets | | \$ 628.7 | 3.55 % | | \$ 521.7 | 2.30 % |
| Net interest spread (FTE) | | | 2.86 % | | | 2.30 % |

- (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.

CAPITAL RESOURCES

Shareholders' equity was \$2.59 billion at September 30, 2001 compared to \$2.24 billion at December 31, 2000 and \$2.20 billion at September 30, 2000.

The Corporation had net unrealized gains on securities available for sale at September 30, 2001 of \$83.4 million, an increase in market value net of related income tax effects of \$45.3 million since December 31, 2000. Net unrealized losses associated with derivative financial instruments designated as cash flow hedges at September 30, 2001 amounted to \$30.0 million.

During the third quarter of 2001, the Corporation issued 4.5 million shares in the purchase acquisition of National City.

The Corporation acquired 1.5 million shares of its Common Stock during the

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third quarter of 2001 at an aggregate cost of \$85.7 million. For the nine months ended September 30, 2001, M&I has repurchased 1.8 million shares of its Common Stock. The aggregate cost of the shares repurchased was \$101.2 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)

| | September 30, 2001 | | December 31, 2000 | |
|---|--------------------|---------|-------------------|---------|
| | Amount | Ratio | Amount | Ratio |
| Tier 1 Capital | \$ 2,194 | 10.13 % | \$ 2,071 | 10.20 % |
| Tier 1 Capital Minimum Requirement | 866 | 4.00 | 812 | 4.00 |
| Excess | \$ 1,328 | 6.13 % | \$ 1,259 | 6.20 % |
| <hr style="border-top: 1px dashed black;"/> | | | | |
| Total Capital | \$ 2,895 | 13.37 % | \$ 2,445 | 12.05 % |
| Total Capital Minimum Requirement | 1,732 | 8.00 | 1,624 | 8.00 |
| Excess | \$ 1,163 | 5.37 % | \$ 821 | 4.05 % |
| <hr style="border-top: 1px dashed black;"/> | | | | |
| Risk-Adjusted Assets | \$ 21,652 | | \$ 20,294 | |
| <hr style="border-top: 1px dashed black;"/> | | | | |

LEVERAGE RATIOS

(\$ in millions)

| | September 30, 2001 | | December 31, 2000 | |
|---|--------------------|---------------|-------------------|---------------|
| | Amount | Ratio | Amount | Ratio |
| Tier 1 Capital | \$ 2,194 | 8.52 % | \$ 2,071 | 8.25 % |
| Minimum Leverage Requirement | 773 - 1,287 | 3.00 - 5.00 | 753 - 1,255 | 3.00 - 5.00 |
| Excess | \$ 1,421 - 907 | 5.52 - 3.52 % | \$ 1,318 - 816 | 5.25 - 3.25 % |
| <hr style="border-top: 1px dashed black;"/> | | | | |
| Adjusted Average Total Assets | \$ 25,754 | | \$ 25,096 | |
| <hr style="border-top: 1px dashed black;"/> | | | | |

FORWARD-LOOKING STATEMENTS

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Items 2 and 3 of this Form 10-Q, "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Quantitative and Qualitative Disclosures about Market Risk," respectively, contain forward-looking statements within the meaning of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements include, without limitation, statements regarding operating activities and results. Such statements are subject to important factors that could cause the Corporation's actual results to differ materially than those anticipated by the forward-looking statements. These factors include (i) the economic impact of the terrorist attacks on the U.S. on September 11 and the U.S. response to those attacks; (ii) any delays or slowdown in the purchasing and decision-making activities of Metavante's financial institution customers, and (iii) those referenced in the Corporation's Annual Report on Form 10-K for the period ending December 31, 2000 and the Corporation's Prospectus dated June 18, 2001 as filed with the SEC pursuant to Rule 424(b)(3) under the Securities Act of 1933, as amended, or as may be described from time to time in the Corporation's subsequent SEC filings, and such factors are incorporated herein by reference.

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

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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 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 the indicated dates:

| | Impact to Annual Pretax Income as of | | | |
|--------------------------------------|--------------------------------------|------------------|-------------------|----------------------|
| | September 30, 2001 | June 30, 2001 | March 31, 2001 | December 31, 2000 |
| ----- | | | | |
| Hypothetical Change in Interest Rate | | | | |
| ----- | | | | |
| 100 basis point gradual: | | | | |
| Rise in rates | (2.6)% | (4.6)% | (4.9) % | (6.4) % |
| Decline in rates | 2.4 % | 2.7 % | 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

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market rate environments is the amount of fair value at risk from those rate movements. As of September 30, 2001 the fair value of equity at risk for a gradual 100bp shift in rates was approximately 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 exist, but due to the nature of the investments, cannot be quantified within acceptable levels of precision.

M&I Trust Services administer \$55.6 billion in assets and directly manage a portfolio of \$12.2 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 5 - Other Information

On September 18, 2001, the Corporation issued a press release announcing that David L. Andreas had joined the Corporation's Board of Directors. The September 18, 2001 press release is attached as Exhibit 99.1 and is incorporated herein by reference.

On October 18, 2001, the Corporation issued a press release announcing certain executive officer changes. The October 18, 2001 press release is attached as Exhibit 99.2 and is incorporated herein by reference.

Item 6 - Exhibits and Reports on Form 8-K

A. Exhibits:

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:

On July 12, 2001, the Corporation reported Items 5 and 7 in a Current Report on Form 8-K in connection with a letter agreement regarding the prepayment of Diversified Business Credit, Inc. (DBCI)'s senior notes, the termination of associated interest rate swap agreements and second quarter financial results.

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On August 24, 2001, the Corporation reported Items 5 and 7 in a Current Report on Form 8-K in connection with the issuance of a press release regarding Metavante's agreement to acquire Brokat Technologies U.S. Internet Banking and Brokerage assets.

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

November 14, 2001

EXHIBIT INDEX

| Exhibit Number ----- | Description of 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 |
| (12) | Computation of Ratio of Earnings to Fixed Charges |
| (99.1) | September 18, 2001 Press Release |
| (99.2) | October 18, 2001 Press Release |