MARSHALL & ILSLEY CORP/WI/
Form 10-Q
May 14, 2003

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SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2003

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

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

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

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

Indicate by check mark whether the registrant is an accelerated filer (as defined by Rule 12b-2 of the Exchange Act). Yes [X] No [ ]

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

Class	Outstanding at April 30, 2003
Common Stock, $1.00 Par Value	226,676,936

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	March 31, 2003	December 31, 2002	
Assets			
Cash and cash equivalents:			
Cash and due from banks	$ 957,805	$ 1,012,090	$
Federal funds sold and security resale agreements	11,045	30,117	
Money market funds	185,551	104,325	
Total cash and cash equivalents	1,154,401	1,146,532	
Investment securities:			
Trading securities, at market value	22,245	21,252	
Short-term investments, at cost which approximates market value	77,945	93,851	
Available for sale at market value	4,355,890	4,266,372	
Held to maturity at amortized cost, market value $980,528 ($993,937 December 31, and $1,035,696 March 31, 2002)	921,662	942,819	
Total investment securities	5,377,742	5,324,294	
Loans and leases			
Mortgage loans held for sale	221,812	311,077	
Loans and leases, net of unearned income	23,977,886	23,597,769	2
Total loans and leases, net of unearned income	24,199,698	23,908,846	2
Less: Allowance for loan and lease losses	338,253	338,409	
Net loans and leases	23,861,445	23,570,437	2
Premises and equipment	438,820	442,395	
Goodwill and other intangibles	1,093,868	1,088,804	
Accrued interest and other assets	1,322,396	1,302,180	
Total Assets	$ 33,248,672	$ 32,874,642	$ 2
Liabilities and Shareholders' Equity			
Deposits:			
Noninterest bearing	$ 4,278,218	$ 4,461,880	$
Interest bearing	17,047,956	15,931,826	1
Total deposits	21,326,174	20,393,706	1
Funds purchased and security repurchase agreements	3,730,611	946,583	
Other short-term borrowings	1,780,463	4,335,213	
Accrued expenses and other liabilities	1,010,058	1,067,120	
Long-term borrowings	2,272,324	3,095,352	

Total liabilities	30,119,630	29,837,974	2
Shareholders' equity:			
Series A convertible preferred stock, $1.00 par value; 336,370 shares issued March 31, 2002	--	--	
Common stock, $1.00 par value; 240,832,522 shares issued (120,416,261 March 31, 2002)	240,833	240,833	
Additional paid-in capital	566,004	569,162	
Retained earnings	2,767,034	2,675,148	
Accumulated other comprehensive income, net of related taxes	(50,209)	(44,427)	
Less: Treasury common stock, at cost: 14,296,874 shares (14,599,565 December 31, and 13,946,539 March 31, 2002)	373,959	381,878	
Deferred compensation	20,661	22,170	
Total shareholders' equity	3,129,042	3,036,668	
Total Liabilities and Shareholders' Equity	$ 33,248,672	$ 32,874,642	$ 2

See notes to financial statements.

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

	Three Months Ended March 31,	
	2003	2002
Interest income		
Loans and leases	$ 330,185	$ 309,982
Investment securities:		
Taxable	45,819	50,767
Exempt from federal income taxes	14,787	15,156
Trading securities	64	59
Short-term investments	734	4,443
Total interest income	391,589	380,407
Interest expense		
Deposits	62,827	70,915
Short-term borrowings	22,050	38,853
Long-term borrowings	42,227	30,362
Total interest expense	127,104	140,130
Net interest income	264,485	240,277
Provision for loan and lease losses	25,692	15,196
Net interest income after provision for loan and lease losses	238,793	225,081
Other income		
Data processing services:		

e-Finance solutions	40,209	33,807
Financial technology solutions	116,879	111,210
Other	--	2
Total data processing services	157,088	145,019
Item processing	10,274	10,336
Trust services	30,040	30,979
Service charges on deposits	26,238	25,574
Mortgage banking	17,528	9,376
Net investment securities gains (losses)	1,569	(745)
Life insurance revenue	7,243	7,331
Other	40,452	31,131
Total other income	290,432	259,001
Other expense		
Salaries and employee benefits	197,225	179,486
Net occupancy	18,635	17,090
Equipment	28,697	28,487
Software expenses	10,310	12,591
Processing charges	12,018	9,586
Supplies and printing	5,254	4,713
Professional services	10,696	9,795
Shipping and handling	13,953	12,054
Amortization of intangibles	6,919	4,299
Other	31,884	35,505
Total other expense	335,591	313,606
Income before income taxes	193,634	170,476
Provision for income taxes	65,604	54,847
Net income	$ 128,030	$ 115,629
Net income per common share		
Basic	$ 0.57	$ 0.55
Diluted	0.56	0.53
Dividends paid per common share	$ 0.160	$ 0.145
Weighted average common shares outstanding:		
Basic	226,225	209,626
Diluted	227,774	219,541

See notes to financial statements.

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

	Three Months Ended March 31,	
	2003	2002

Net Cash Provided by Operating Activities	$ 214,673	$ 427,929
Cash Flows From Investing Activities:		
Proceeds from sales of securities available for sale	7,049	1,167
Proceeds from maturities of securities available for sale	713,537	492,575
Proceeds from maturities of securities held to maturity	21,111	19,529
Purchases of securities available for sale	(832,039)	(166,103)
Net increase in loans	(469,376)	(606,725)
Purchases of assets to be leased	(162,816)	(38,563)
Principal payments on lease receivables	210,290	103,239
Fixed asset purchases, net	(13,915)	(6,400)
Purchase acquisitions, net of cash equivalents acquired	(3,541)	(7,853)
Other	4,854	2,632
Net cash used in investing activities	(524,846)	(206,502)
Cash Flows From Financing Activities:		
Net increase in deposits	929,955	526,930
Proceeds from issuance of commercial paper	1,735,063	928,180
Payments for maturity of commercial paper	(1,763,649)	(928,845)
Net increase in other short-term borrowings	(320,939)	(283,418)
Proceeds from issuance of long-term debt	392	200,300
Payments of long-term debt	(231,673)	(259,561)
Dividends paid	(36,145)	(31,164)
Purchases of treasury stock	--	(48,492)
Other	5,038	6,385
Net cash provided by financing activities	318,042	110,315
Net increase in cash and cash equivalents	7,869	331,742
Cash and cash equivalents, beginning of year	1,146,532	1,563,765
Cash and cash equivalents, end of period	$ 1,154,401	$ 1,895,507
Supplemental cash flow information:		
Cash paid during the period for:		
Interest	$ 148,833	$ 151,744
Income taxes	18,886	10,340

See notes to financial statements.

MARSHALL & ILSLEY CORPORATION
Notes to Financial Statements
March 31, 2003 & 2002 (Unaudited)

1. The accompanying unaudited consolidated financial statements should be read in conjunction with Marshall & Ilsley Corporation's ("M&I" or "Corporation") 2002 Annual Report on Form 10-K. The unaudited financial information included in this report reflects all adjustments consisting only of normal recurring accruals and adjustments which are necessary for a fair statement of the financial position and results of operations as of and for the three months ended March 31, 2003 and 2002. The results of operations for the three months ended March 31, 2003 and 2002 are not necessarily indicative of results to be expected for the entire year. Certain amounts in the 2002 consolidated financial statements and analyses have been reclassified to conform with the 2003 presentation.

   Common stock per share and average share information have been restated for the 2-for-1 stock split effected in the form of a 100% stock dividend for reporting periods prior to the effective date of June 17, 2002.

2. New Accounting Pronouncements

In June 2002, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 146 (SFAS 146), ACCOUNTING FOR COSTS ASSOCIATED WITH EXIT OR DISPOSAL ACTIVITIES. This Statement addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force (EITF) Issue No. 94-3, LIABILITY RECOGNITION FOR CERTAIN EMPLOYEE TERMINATION BENEFITS AND OTHER COSTS TO EXIT AN ACTIVITY (INCLUDING CERTAIN COSTS INCURRED IN A RESTRUCTURING). The principal difference between SFAS 146 and Issue 94-3 relates to its requirements for recognition of a liability for a cost associated with an exit or disposal activity. SFAS 146 requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred and establishes that fair value is the objective for initial measurement of the liability. Under Issue 94-3, a liability for an exit cost was recognized at the date of an entity's commitment to an exit plan. This statement is effective for exit or disposal activity initiated after December 31, 2002. The provisions of Issue 94-3 shall continue to apply for an exit activity initiated under an exit plan that met the criteria of Issue 94-3 prior to the initial application of SFAS 146. The Corporation had no exit or disposal activities during the first quarter of 2003.

In November 2002, the FASB issued Interpretation No. 45, GUARANTOR'S ACCOUNTING AND DISCLOSURE REQUIREMENTS FOR GUARANTEES, INCLUDING INDIRECT GUARANTEES OF INDEBTEDNESS OF OTHERS. This Interpretation elaborates on the disclosures to be made by a guarantor in its interim and annual financial statements about its obligations under certain guarantees that it has issued. It also clarifies that a guarantor is required to recognize at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. The initial recognition and initial measurement provisions of this Interpretation are applicable on a prospective basis to guarantees issued or modified after December 31, 2002. The disclosure requirements in this Interpretation are effective for financial statements of interim or annual periods ending after December 15, 2002. Loan commitments and commercial letters of credit are excluded from the scope of this Interpretation. The Corporation already records as a liability the premium received from the issuance of a standby letter of credit and amortizes that liability into earnings as the Corporation is released from risk which is generally the term of the guarantee. As a result, the impact of this statement on the consolidated financial statements of the Corporation is not material.

Standby letters of credit are contingent commitments issued by the Corporation to support the obligations of a customer to a third party. Standby letters of credit are issued to support public and private financing, and other financial or performance obligations of customers. Standby letters of credit have maturities which generally reflect the maturities of the underlying obligations. The credit risk involved in issuing standby letters of credit is the same as that involved in extending loans to customers. If deemed necessary, the Corporation holds various forms of collateral to support the standby letters of credit. The gross amount of standby letters of credit issued at March 31, 2003 was $1.0 billion. Of the amount outstanding at March 31, 2003, standby letters of credit conveyed to others in the form of participations amounted to $60.0 million. Since many of the standby letters of credit are expected to expire without being drawn upon, the amounts outstanding do not necessarily represent future cash requirements. At March 31, 2003, the estimated fair value associated with letters of credit amounted to $3.0 million.

MARSHALL & ILSLEY CORPORATION
Notes to Financial Statements - Continued
March 31, 2003 & 2002 (Unaudited)

In January 2003, the FASB issued Interpretation No. 46 (FIN 46), CONSOLIDATION OF VARIABLE INTEREST ENTITIES. This Interpretation addresses consolidation by business enterprises of variable interest entities. Under current practice, entities generally have been included in consolidated financial statements because they are controlled through voting interests. This Interpretation explains how to identify variable interest entities and how an entity assesses its interests in a variable interest entity to decide whether to consolidate that entity. FIN 46 requires existing unconsolidated variable interest entities to be consolidated by their primary beneficiaries if the entities do not effectively disperse risks among parties involved. Variable interest entities that effectively disperse risks will not be consolidated unless a single party holds an interest or combination of interests that effectively recombines risks that were previously dispersed. Transferors to qualifying special purpose entities (QSPEs) and "grandfathered" QSPEs subject to the reporting requirements of SFAS 140 are outside the scope of FIN 46 and do not consolidate those entities. FIN 46 also requires certain disclosures by the primary beneficiary of a variable interest entity or an entity that holds a significant variable interest in a variable interest entity.

FIN 46 is applicable for all entities with variable interests in variable interest entities created after January 31, 2003 immediately. Public companies with a variable interest in a variable interest entity created before February 1, 2003, shall apply the provisions of FIN 46 no later than the beginning of the first interim reporting period beginning after June 15, 2003.

The Corporation does not believe FIN 46 impacts its consolidated financial statements because its financial asset transfers are generally to QSPEs or to entities in which the Corporation does not hold a significant variable interest. For additional discussion on the Corporation's asset sales and securitization activities see Note 7 and the discussion of critical accounting policies contained in Item 2. Management's Discussion and Analysis of Financial Position and Results of Operations.

3. Comprehensive Income

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

	Three Months Ended March 31, 2003		
	Before-Tax Amount	Tax (Expense) Benefit	Net-of-Tax Amount
Net income			$ 128,030
Other comprehensive income:			
Unrealized gains (losses) on securities:			
Arising during the period	$ (11,807)	$ 4,135	(7,672)

Reclassification for securities transactions included in net income	(1,675)	586	(1,089)
Unrealized gains (losses)	(13,482)	4,721	(8,761)
Net gains (losses) on derivatives hedging variability of cash flows:			
Arising during the period	(10,484)	3,669	(6,815)
Reclassification adjustments for hedging activities included in net income	15,067	(5,273)	9,794
Net gains (losses)	$ 4,583	$ (1,604)	2,979
Other comprehensive income (loss)			(5,782)
Total comprehensive income (loss)			$ 122,248

MARSHALL & ILSLEY CORPORATION
Notes to Financial Statements - Continued
March 31, 2003 & 2002 (Unaudited)

	Three Months Ended March 31, 2002		
	Before-Tax Amount	Tax (Expense) Benefit	Net-of-Tax Amount
Net income			$ 115,629
Other comprehensive income:			
Unrealized gains (losses) on securities:			
Arising during the period	$ (14,371)	$ 4,846	(9,525)
Reclassification for securities transactions included in net income	--	--	--
Unrealized gains (losses)	(14,371)	4,846	(9,525)
Net gains (losses) on derivatives hedging variability of cash flows:			
Adoption of SFAS 133			
Arising during the period	6,566	(2,298)	4,268
Reclassification adjustments for hedging activities included in net income	9,924	(3,474)	6,450
Net gains (losses)	$ 16,490	$ (5,772)	10,718
Other comprehensive income (loss)			1,193
Total comprehensive income (loss)			$ 116,822

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

	Three Months Ended March 31, 2003		
	Income (Numerator)	Average Shares (Denominator)	Per Share Amount
Basic Earnings Per Share			
Income Available to Common Shareholders	$ 128,030	226,225	$ 0.57
Effect of Dilutive Securities			
Stock Options and Restricted Stock Plans	--	1,549	
Diluted Earnings Per Share			
Income Available to Common Shareholders	$ 128,030	227,774	$ 0.56

	Three Months Ended March 31, 2002		
	Income (Numerator)	Average Shares (Denominator)	Per Share Amount
Net Income	$ 115,629		
Convertible Preferred Dividends	(1,115)		
Basic Earnings Per Share			
Income Available to Common Shareholders	$ 114,514	209,626	$ 0.55
Effect of Dilutive Securities			
Convertible Preferred Stock	1,115	7,688	
Stock Options and Restricted Stock Plans	--	2,227	
Diluted Earnings Per Share			
Income Available to Common Shareholders Plus Assumed Conversions	$ 115,629	219,541	$ 0.53

MARSHALL & ILSLEY CORPORATION
Notes to Financial Statements - Continued
March 31, 2003 & 2002 (Unaudited)

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

	Three months ended March 31,	
	2003	2002
Shares	11,903,950	6,445,128
Price Range	$26.875 - $33.938	$28.457 - $33.938

Statement of Financial Accounting Standards No. 123 (SFAS 123), "ACCOUNTING FOR STOCK-BASED COMPENSATION," establishes financial accounting and reporting standards for stock based employee compensation plans.

SFAS 123 defines a fair value based method of accounting for employee stock option or similar equity instruments. Under the fair value based method, compensation cost is measured at the grant date based on the fair value of the award using an option-pricing model that takes into account the stock price at the grant date, the exercise price, the expected life of the option, the volatility of the underlying stock, expected dividends and the risk-free interest rate over the expected life of the option. The resulting compensation cost is recognized over the service period, which is usually the vesting period.

Compensation cost can also be measured and accounted for using the intrinsic value based method of accounting prescribed in Accounting Principles Board Opinion No. 25 (APBO 25), "ACCOUNTING FOR STOCK ISSUED TO EMPLOYEES." Under the intrinsic value based method, compensation cost is the excess, if any, of the quoted market price of the stock at grant date or other measurement date over the amount paid to acquire the stock.

The largest difference between SFAS 123 and APBO 25 as they relate to the Corporation is the amount of compensation cost attributable to the Corporation's fixed stock option plans and employee stock purchase plan (ESPP). Under APBO 25 no compensation cost is recognized for fixed stock option plans because the exercise price is equal to the quoted market price at the date of grant and therefore there is no intrinsic value. SFAS 123 compensation cost would equal the calculated fair value of the options granted. Under APBO 25 no compensation cost is recognized for the ESPP because the discount (15%) and the plan meets the definition of a qualified plan of the Internal Revenue Code and meets the requirements of APBO 25. Under SFAS 123 the safe-harbor discount threshold is 5% for a plan to be non-compensatory. SFAS 123 compensation cost would equal the initial discount (15% of beginning of plan period price per share) plus the value of a one year call option on 85% of a share of stock for each share purchased.

As permitted by SFAS 123, the Corporation continues to measure compensation cost for such plans using the accounting method prescribed by APBO 25.

MARSHALL & ILSLEY CORPORATION
Notes to Financial Statements - Continued
March 31, 2003 & 2002 (Unaudited)

Had compensation cost for the Corporation's ESPP and options granted after January 1, 1995 been determined consistent with SFAS 123, the Corporation's net income and earnings per share would have been reduced to the following pro forma amounts:

	Three months ended March 31, 2003	Three months ended March 31, 2002
Net Income, as reported	$ 128,030	$ 115,629
Add: Stock-based employee compensation expense included in reported net income, net of tax	1,018	898
Less: Total stock-based employee compensation		

expense determined under fair value based method for all awards, net of tax	(5,530)	(5,295)
Pro forma net income	$ 123,518	$ 111,232
Basic earnings per share:		
As reported	$ 0.57	$ 0.55
Pro forma	0.55	0.53
Diluted earnings per share:		
As reported	$ 0.56	$ 0.53
Pro forma	0.54	0.51

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

	March 31, 2003	December 31, 2002	March 31, 2002
Investment securities available for sale:			
U.S. treasury and government agencies	$ 3,384,400	$ 3,266,144	$ 2,125,690
State and political subdivisions	267,376	265,470	230,099
Mortgage backed securities	179,992	162,268	229,687
Other	524,122	572,490	643,792
Total	$ 4,355,890	$ 4,266,372	$ 3,229,268
Investment securities held to maturity:			
U.S. government agencies	$ 30	$ 30	$ --
State and political subdivisions	918,604	939,158	1,007,140
Other	3,028	3,631	3,537
Total investment securities	$ 921,662	$ 942,819	$ 1,010,677

MARSHALL & ILSLEY CORPORATION
Notes to Financial Statements - Continued
March 31, 2003 & 2002 (Unaudited)

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

	March 31, 2003	December 31, 2002	March 31, 2002
Commercial, financial and agricultural	$ 7,009,023	$ 6,867,091	$ 6,106,708
Cash flow hedging instruments at fair value	2,644	4,423	9,205
Total commercial, financial and agricultural	7,011,667	6,871,514	6,115,913
Real estate:			
Construction	1,150,770	1,058,144	784,532
Residential mortgage	6,745,651	6,758,650	5,879,668
Commercial mortgage	6,754,730	6,586,332	5,426,945

Total real estate	14,651,151	14,403,126	12,091,145
Personal	1,804,091	1,852,202	1,165,470
Lease financing	732,789	782,004	912,384
Total loans and leases	$ 24,199,698	$ 23,908,846	$ 20,284,912

7. Sale of Receivables

During the first quarter of 2003, $161.8 million of automobile loans were sold in securitization transactions. Gains of $2.3 million were recognized and is reported in Other income in the Consolidated Statements of Income. Other income associated with auto securitizations in the current quarter amounted to $1.8 million.

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

Prepayment speed (CPR)	18-42 %
Weighted average life (in months)	19.9
Expected credit losses (based on original balance)	0.15-0.50 %
Residual cash flow discount rate	12.0 %
Variable returns to transferees	Forward one month LIBOR yield curve

At March 31, 2003, securitized automobile loans and other automobile loans managed together with them along with delinquency and credit loss information consisted of the following:

	Securitized	Portfolio	Managed
Loan balances	$ 776,524	$ 128,289	$ 904,813
Principal amounts of loans 60 days or more past	698	240	938
Net credit losses year to date	613	67	680

8. Goodwill and Other Intangibles:

The changes in the carrying amount of goodwill for the three months ended March 31, 2003 are as follows (dollars in thousands):

	Banking	Metavante	Others	
Goodwill balance as of January 1, 2003	$ 801,977	$ 136,672	$ 4,687	$
Goodwill acquired during the period	--	--	--	
Purchase accounting adjustments	7,881	3,541	--	
Goodwill balance as of March 31, 2003	$ 809,858	$ 140,213	$ 4,687	$

MARSHALL & ILSLEY CORPORATION
Notes to Financial Statements - Continued
March 31, 2003 & 2002 (Unaudited)

Purchase accounting adjustments for the banking segment in the first quarter of 2003 were primarily due to the adjustments required to be made to the initial estimates of fair value for the loans acquired and the deposits and borrowings assumed in the acquisition of Mississippi Valley Bancshares, Inc. Upon conversion to the M&I systems, the final valuations were completed.

Purchase accounting adjustments for Metavante in the first quarter of 2003, represent the net effect of additional contingent consideration paid as a result of revenue targets being achieved, offset by the return of consideration placed in escrow associated with acquisitions completed in 2001.

At March 31, 2003, the Corporation's other intangible assets consisted of the following (dollars in thousands):

	March 31, 2003		
	Gross Carrying Amount	Accum- ulated Amort	
Other intangible assets:			
Core deposit intangible	$ 161,028	$ 53,659	$
Data processing contract rights/customer lists	33,809	10,386	
Trust customers	750	81	
Tradename	2,500	417	
	$ 198,087	$ 64,543	$
Mortgage loan servicing rights	$ 38,501	$ 32,935	$

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

	March 31, 2003	December 31, 2002	March 31, 2002
Noninterest bearing demand	$ 4,278,218	$ 4,461,880	$ 3,381,636
Savings and NOW	9,265,264	9,225,899	8,171,884
CD's $100,000 and over	3,279,520	2,793,793	1,891,344
Cash flow hedge-Institutional CDs	19,714	18,330	--
Total CD's $100,000 and over	3,299,234	2,812,123	1,891,344
Other time deposits	2,853,089	2,979,502	2,914,585
Foreign deposits	1,630,369	914,302	1,469,261
Total deposits	$ 21,326,174	$ 20,393,706	$ 17,828,710

10. Derivative Financial Instruments and Hedging Activities

Trading Instruments

The Corporation enters into interest rate swaps as part of its trading and securitization activities. Interest rate swaps enable 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 March 31, 2003, interest rate swaps designated as trading consisted of $852.3 million in notional amount of receive fixed/pay floating with an aggregate positive fair value of $13.6 million and $598.2 million in notional amount of pay fixed/receive floating with an aggregate negative fair value of $10.2 million.

At March 31, 2003, the notional value of interest rate futures designated as trading was $1.8 billion with a negative fair value of $0.2 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.

Hedging Instruments

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

Fair Value Hedges
March 31, 2003

Hedged Item	Hedging Instrument	Notional Amount ($ in mil)	Fair Value ($ in mil)	Weighted Average Remaining Term (Yrs)
Callable CDs	Receive Fixed Swap	$ 234.0	$ (0.4)	6.6
Medium Term Notes	Receive Fixed Swap	196.4	16.9	3.6

For the three months ended March 31, 2003, the impact from fair value hedges to net interest income was a positive $6.6 million.

The following table presents information with respect to the Corporation's cash flow hedges.

Cash Flow Hedges
March 31, 2003

Hedged Item	Hedging Instrument	Notional Amount ($ in mil)	Fair Value ($ in mil)	Weighted Average Remaining Term (Yrs)
Variable Rate Loans	Receive Fixed Swap	$ 125.0	$ 2.6	0.5

Institutional CDs	Pay Fixed Swap	820.0	(19.7)	1.9
Fed Funds Purchased	Pay Fixed Swap	860.0	(46.6)	2.1
FHLB Advances	Pay Fixed Swap	610.0	(53.5)	3.9
Long-Term Borrowings	Pay Fixed Swap	15.0	(1.4)	3.3

For the three months ended March 31, 2003, the impact from cash flow hedges to net interest income was a negative $17.9 million.

During the first quarter of 2003, the Corporation terminated the fair value hedge on long-term borrowings. The adjustment to the fair value of the hedged instrument of $35.2 million is being accreted as income into earnings over the expected remaining term of the borrowings using the effective interest method. Also during the quarter, the cash flow hedge on commercial paper was terminated. The $32.6 million in accumulated other comprehensive income at the time of termination is being amortized as expense into earnings in the remaining periods during which the hedged forecasted transaction affects earnings.

MARSHALL & ILSLEY CORPORATION
Notes to Financial Statements - Continued
March 31, 2003 & 2002 (Unaudited)

11. Segments

The following represents the Corporation's operating segments as of and for the three months ended March 31, 2003 and 2002. There have not been any changes to the way the Corporation organizes its segments or reports segment financial information. Intersegment expenses and assets have been eliminated. ($ in millions):

	Three Months Ended March 31, 2003				
	Banking	Metavante	Others	Corporate Overhead	Reclass-ifications & Elim-nations
Revenues:					
Net interest income	$ 262.5	$ (1.0)	$ 7.8	$ (4.8)	$ --
Fees - Unaffiliated customers	91.6	157.1	41.2	0.6	(0.1)
Fees - Affiliated customers	13.5	16.9	7.2	--	(37.6)
Total revenues	367.6	173.0	56.2	(4.2)	(37.7)
Expenses:					
Expenses - Unaffiliated customers	143.1	141.6	30.6	17.3	0.5
Expenses - Affiliated customers	20.8	8.0	9.2	0.2	(38.2)
Total expenses	163.9	149.6	39.8	17.5	(37.7)
Provision for loan and lease losses	17.6	--	8.1	--	--

Income before taxes	186.1	23.4	8.3	(21.7)	--	
Income tax expense	61.7	9.7	3.7	(8.5)	--	
Segment income	$ 124.4	$ 13.7	$ 4.6	$ (13.2)	$ --	$
Identifiable assets	$ 32,161.9	$ 838.2	$ 651.7	$ 403.3	$ (806.4)	$ 3
Return on average equity	17.5 %	16.8 %	8.1 %			

Metavante's segment income excludes charges for the three months ended March 31, 2003 certain transition expenses associated with the integration of the July 2002 PayTrust, Inc. acquisition which are included in "Excluded Changes."

	Three Months Ended March 31, 2002					
	Banking	Metavante	Others	Corporate Overhead	Reclass- ifications & Elim- nations	
Revenues:						
Net interest income	$ 239.7	$ (1.1)	$ 6.8	$ (5.1)	$ --	$
Fees - Unaffiliated customers	73.3	145.1	39.6	1.3	(0.3)	
Fees - Affiliated customers	10.2	15.9	5.5	--	(31.6)	
Total revenues	323.2	159.9	51.9	(3.8)	(31.9)	
Expenses:						
Expenses - Unaffiliated customers	124.7	137.7	27.1	24.5	(0.4)	
Expenses - Affiliated customers	17.6	5.4	8.6	(0.1)	(31.5)	
Total expenses	142.3	143.1	35.7	24.4	(31.9)	
Provision for loan and lease losses	14.9	--	0.3	--	--	
Income before taxes	166.0	16.8	15.9	(28.2)	--	
Income tax expense	52.0	7.0	6.5	(10.6)	--	
Segment income	$ 114.0	$ 9.8	$ 9.4	$ (17.6)	$ --	$
Identifiable assets	$ 27,571.6	$ 667.9	$ 635.4	$ 410.5	$ (726.2)	$ 2
Return on average equity	19.4 %	13.7 %	17.1 %			

Total Revenue by type in All Others consists of the following:

	Three Months Ended March 31, 2003	Three Months Ended March 31, 2002
Trust Services	$ 29.9	$ 30.9
Residential Mortgage Banking	12.7	9.2
Capital Markets	1.8	(0.5)
Brokerage and Insurance	5.8	6.5
Commercial Leasing	3.8	3.9
Commercial Mortgage Banking	1.3	0.9
Others	0.9	1.0
Total revenue	$ 56.2	$ 51.9

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

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

	Three Months Ended March 31, 2003	Three Months Ended March 31, 2002
Assets		
Cash and due from banks	$ 763,722	$ 649,555
Investment securities:		
Trading securities	18,374	9,606
Short-term investments	257,382	1,085,962
Other investment securities:		
Taxable	3,883,443	2,932,812
Tax-exempt	1,197,289	1,229,325
Total investment securities	5,356,488	5,257,705
Total loans and leases	23,900,481	19,450,822
Less: Allowance for loan and lease losses	345,055	279,936
Net loans and leases	23,555,426	19,170,886
Premises and equipment, net	443,518	399,652
Accrued interest and other assets	2,515,467	1,865,136
Total Assets	$ 32,634,621	$ 27,342,934
Liabilities and Shareholders' Equity		
Deposits:		
Noninterest bearing	$ 3,860,497	$ 3,184,224
Interest bearing	17,286,492	13,848,258
Total deposits	21,146,989	17,032,482
Funds purchased and security repurchase agreements	3,019,683	2,362,303

Other short-term borrowings	589,980	2,111,971
Long-term borrowings	3,697,993	2,427,736
Accrued expenses and other liabilities	1,079,911	809,505
Total liabilities	29,534,556	24,743,997
Shareholders' equity	3,100,065	2,598,937
Total Liabilities and Shareholders' Equity	$ 32,634,621	$ 27,342,934

Net income for the first quarter of 2003 amounted to $128.0 million compared to $115.6 million for the same period in the prior year. Basic and diluted earnings per share were $0.57 and $0.56, respectively, for the three months ended March 31, 2003, compared with $0.55 and $0.53 for the three months ended March 31, 2002. The return on average assets and average equity was 1.59% and 16.75% for the quarter ended March 31, 2003 and 1.72% and 18.04% for the quarter ended March 31, 2002.

The results of operations and financial position as of and for the three months ended March 31, 2003, include the effects of Metavante's acquisitions in the second and third quarters of 2002 and the Corporation's banking acquisitions of Richfield State Agency, Inc. and Century Bancshares, Inc. which both closed on March 1, 2002 and the fourth quarter acquisition of Mississippi Valley Bancshares, Inc. All acquisitions were accounted for using the purchase method of accounting and accordingly the results of operations and financial position are included from the dates the transactions were closed.

Net income in the current quarter includes the final transition charges related to the integration of Metavante's July, 2002 acquisition of PayTrust, Inc. ("PayTrust"). Acquisition related transition expenses associated with PayTrust amounted to $1.5 million (after-tax) or $.01 per diluted share in the first quarter of 2003. Total cumulative transition expenses with respect to PayTrust, which were incurred in the third and fourth quarters of 2002 and the current quarter, amounted to $5.7 million after-tax which was in line with the previously announced estimate of transition expenses of approximately $6.0 million after-tax.

NET INTEREST INCOME

Net interest income for the first quarter of 2003 amounted to $264.5 million compared to $240.3 million reported for the first quarter of 2002. Loan growth and increased spreads on loan products and the impact of the banking purchase acquisitions contributed to the increase in net interest income. Factors negatively affecting net interest income included asset repricing in excess of deposit repricing, the impact from lengthening liabilities in order to reduce future volatility in net interest income due to interest rate movements and the cash expenditures for common share buybacks and acquisitions in the prior year.

Average earning assets in the first quarter of 2003 increased $4.5 billion or 18.4% compared to the same period a year ago. Average loans and leases accounted for $4.4 billion of the quarter over quarter growth in earning assets. Average investment securities increased $0.9 billion and other short-term investments declined $0.8 billion compared to the prior year. The Corporation estimates that approximately $2.1 billion of the average loan and lease growth in the current quarter was attributable to the banking related purchase acquisitions.

Average interest bearing liabilities increased $3.8 billion or 18.5% in the first quarter of 2003 compared to the same period in 2002. Average interest bearing deposits increased $3.4 billion or 24.8% in the first quarter of 2003 compared to the first quarter of last year. Average borrowings increased $0.4 billion in the three months ended March 31, 2003 compared to the three months ended March 31, 2002. The Corporation estimates that approximately $2.0 billion of the growth in average interest bearing deposits in the three months ended March 31, 2003 was attributable to the banking related purchase acquisitions.

Average noninterest bearing deposits in the current quarter increased $0.7 billion or 21.2% compared to the same period last year. Approximately $0.3 billion of the growth in average noninterest bearing deposits in the three months ended March 31, 2003 compared to the same period in 2002 was attributable to the banking related purchase acquisitions.

The growth and composition of the Corporation's quarterly average loan and lease portfolio for the current quarter and previous four quarters are reflected in the following table. ($ in millions):

Consolidated Average Loans and Leases

	2003	2002				Growth Pct.	
	First Quarter	Fourth Quarter	Third Quarter	Second Quarter	First Quarter	Annual	Prior Quarter
Commercial							
Commercial	$ 6,827	$ 6,636	$ 5,998	$ 6,087	$ 5,848	16.8 %	2.9 %
Commercial real estate							
Commercial mortgages	6,677	6,464	5,617	5,491	5,228	27.7	3.3
Construction	934	896	799	697	625	49.6	4.3
Total commercial real estate	7,611	7,360	6,416	6,188	5,853	30.1	3.4
Commercial lease financing	394	395	384	391	410	(4.0)	(0.4)
Total commercial	14,832	14,391	12,798	12,666	12,111	22.5	3.1
Personal							
Residential real estate							
Residential mortgages	2,623	2,741	2,545	2,371	2,346	11.8	(4.3)
Construction	175	156	150	137	131	33.0	11.9
Total residential real estate	2,798	2,897	2,695	2,508	2,477	13.0	(3.4)
Personal loans							
Student	107	94	86	116	117	(8.2)	14.2
Credit card	187	182	172	163	164	14.3	2.8
Home equity loans and lines	4,048	3,873	3,543	3,518	3,176	27.5	4.5
Other	1,561	1,445	1,198	934	876	78.2	8.0
Total personal loans	5,903	5,594	4,999	4,731	4,333	36.2	5.5
Personal lease financing	367	406	449	488	530	(30.8)	(9.6)

Total personal	9,068	8,897	8,143	7,727	7,340	23.5	1.9
Total consolidated Average Loans and Leases	$ 23,900	$ 23,288	$ 20,941	$ 20,393	$ 19,451	22.9 %	2.6 %

Compared with the first quarter of 2002, total consolidated average loans and leases increased $4.4 billion or 22.9%. Approximately $2.1 billion of average total consolidated loan and lease growth in the first quarter of 2003 was attributable to acquisitions. Excluding the impact of acquisitions, total average commercial loans and leases increased $0.9 billion and was driven by average commercial real estate loans which grew approximately $0.8 billion. Total average personal loans and leases increased $1.4 billion excluding the impact of acquisitions. Average personal loan and lease growth, excluding acquisitions, was driven primarily by growth in home equity loans and lines of $0.8 billion with the remainder of the growth attributable to indirect auto loans and residential real estate loans.

Generally, the Corporation sells residential real estate production in the secondary market, although throughout 2002 as well as the current quarter, selected loans with wider spreads and adjustable rate characteristics were retained in the portfolio and serve as a potential source of liquidity in the future. Residential real estate loans sold to investors amounted to $1.0 billion in the first quarter of 2003 compared to $0.6 billion in the first quarter of the prior year. At March 31, 2003 and 2002, the Corporation had approximately $0.2 billion and $0.1 billion of mortgage loans held for sale, respectively. Auto loans securitized and sold in the first quarter of 2003 amounted to $0.2 billion compared to $0.1 billion in the first quarter of last year. The Corporation anticipates that it will continue to divest of narrower interest rate spread assets through sale or securitization in future periods. Gains from the sale of mortgage loans amounted to $13.3 million in the first quarter of 2003 compared to $6.1 million in the first quarter of last year and are reported as a component of mortgage banking revenue in the consolidated statements of income. Gains from the sale and securitization of auto loans amounted to $2.3 million in the current quarter compared to $1.5 million in the same period last year.

The rate of growth experienced in commercial loans has largely been the result of attracting new customers in all of the Corporation's markets. Approximately 25% of the average loan growth from March 2002 to March 2003, excluding acquired loans, came from the new markets that M&I either entered or expanded (Arizona, Minneapolis and St. Louis). Existing customers are generally not increasing their credit needs but appear to be successfully managing their businesses through the slower economic conditions and lower revenue levels. The Corporation's commercial lending activities have historically fared well as the economy strengthens and it anticipates loan demand for existing customers will slowly strengthen reflecting the condition of its markets in future quarters. Home equity loans and lines, which includes M&I's wholesale activity, continue to be the primary consumer loan product. The Corporation anticipates these products will continue to drive growth to the consumer side of its banking activities even as the recent refinance activity for first mortgages slows.

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

	2003	2002				Growth Pct.	
	First Quarter	Fourth Quarter	Third Quarter	Second Quarter	First Quarter	Annual	Prior Quarter
Bank issued deposits							
Noninterest bearing deposits							
Commercial	$ 2,666	$ 2,811	$ 2,432	$ 2,275	$ 2,160	23.4 %	(5.2)%
Personal	761	728	711	729	678	12.3	4.5
Other	433	439	363	357	346	25.1	(1.4)
Total noninterest bearing deposits	3,860	3,978	3,506	3,361	3,184	21.2	(2.9)
Interest bearing deposits							
Savings and NOW	2,896	2,733	2,420	2,252	1,994	45.2	6.0
Money market	6,274	6,443	5,556	5,727	5,844	7.4	(2.6)
Foreign activity	867	891	733	686	694	24.9	(2.7)
Total interest bearing deposits	10,037	10,067	8,709	8,665	8,532	17.6	(0.3)
Time deposits							
Other CDs and time deposits	2,905	3,033	2,756	2,868	2,881	0.8	(4.2)
CDs greater than $100,000	662	680	634	657	651	1.6	(2.6)
Total time deposits	3,567	3,713	3,390	3,525	3,532	1.0	(3.9)
Total bank issued deposits	17,464	17,758	15,605	15,551	15,248	14.5	(1.7)
Wholesale deposits							
Money market	77	75	74	75	83	(7.3)	2.1
Brokered CDs	2,682	1,584	1,606	1,621	1,043	157.1	69.3
Foreign time	924	1,206	1,001	1,348	658	40.4	(23.4)
Total wholesale deposits	3,683	2,865	2,681	3,044	1,784	106.4	28.5
Total consolidated average deposits	$ 21,147	$ 20,623	$ 18,286	$ 18,595	$ 17,032	24.2 %	2.5 %

Total average deposits increased $4.1 billion or 24.2% in the first quarter of 2003 compared to the first quarter of 2002. The Corporation believes that annual deposit growth better reflects trends due to the seasonality that occurs between quarters. Average deposits associated with the acquisitions accounted for approximately $2.3 billion of the first quarter 2003 versus 2002 quarterly average deposit growth. Excluding the effect of the acquisitions, noninterest bearing deposits increased $0.4 billion while bank-issued interest bearing activity accounts increased $0.2 billion. The growth in bank-issued transaction deposits reflects the successful sales focus on certain activity accounts particularly in the new and expanded markets which accounted for almost 60% of the growth in transaction deposits, excluding acquired balances. Excluding acquisitions, average bank-issued time deposits declined $0.6 billion. M&I's markets have continued to experience some unprofitable pricing on single service time deposit relationships to the extent of pricing time deposits above comparable wholesale levels. The Corporation has elected not to pursue such relationships. The Corporation believes this strategy serves to help stabilize the interest margin, given the current rate environment, both now and in future periods when market rates begin to rise and these deposit accounts rapidly reprice.

The growth in bank issued deposits includes both commercial and retail banking and the effect of the lower interest rate environment. In commercial banking, the focus remains on developing deeper relationships through the sale of treasury management products and services along with revised incentive plans focused on growing deposits. The retail banking strategy continues to focus on aggressively selling the right products to meet the needs of customers and enhance the Corporation's profitability. Specific retail deposit initiatives include bank-at-work, single service calling, and retention calling programs as well as in 2002, an aggressive checking promotion in the Arizona market.

Compared with the first quarter of 2002, average wholesale deposits increased $1.9 billion. The Corporation has made greater use of wholesale funding alternatives, especially institutional CDs, during the latter half of 2002 and 2003. These deposits are funds in the form of deposits generated through distribution channels other than M&I's own banking branches. These deposits allow the Corporation's bank subsidiaries to gather funds across a geographic base and at pricing levels considered attractive, where the underlying depositor may be retail or institutional. Access and use of these funding sources also provides the Corporation with the flexibility to not pursue unprofitable single service time deposit relationships as previously discussed.

During the first quarter of 2003, $2.0 million of the Corporation's Medium-term Series D notes and $227.0 million of the banking segment's borrowings from the Federal Home Loan Bank matured. There was no material issuance of long-term debt during the first quarter of 2003.

The Corporation's consolidated average interest earning assets and interest bearing liabilities, interest earned and interest paid for the three months ended March 31, 2003 and 2002, are presented in the following tables ($ in millions):

Consolidated Yield and Cost Analysis

	Three Months Ended March 31, 2003			Three Months Ended March 31, 2002		
	Average Balance	Interest	Average Yield or Cost (b)	Average Balance	Interest	Averag Yield Cost (
Loans and leases: (a)						
Commercial loans and leases	$ 7,220.8	$ 83.8	4.70 %	$ 6,257.8	$ 83.4	5.4
Commercial real estate loans	7,611.9	111.9	5.96	5,852.9	98.8	6.8
Residential real estate loans	2,797.6	44.0	6.39	2,476.7	44.0	7.2
Home equity loans and lines	4,048.3	59.5	5.96	3,176.2	54.3	6.9
Personal loans and leases	2,221.9	31.6	5.76	1,687.2	30.0	7.2
Total loans and leases	23,900.5	330.8	5.61	19,450.8	310.5	6.4
Investment securities (b):						
Taxable	3,883.4	45.8	4.87	2,932.8	50.8	7.2
Tax Exempt (a)	1,197.3	22.2	7.66	1,229.3	22.6	7.5
Total investment securities	5,080.7	68.0	5.52	4,162.1	73.4	7.3
Trading securities (a)	18.4	0.1	1.48	9.6	0.1	2.5

Other short-term investments	257.4	0.7	1.16	1,086.0	4.4	1.6
Total interest earning assets	$ 29,257.0	$ 399.6	5.56 %	$ 24,708.5	$ 388.4	6.4
Interest bearing deposits:						
Bank issued deposits:						
Bank issued interest bearing activity deposits	$ 10,036.2	$ 22.4	0.91 %	$ 8,531.5	$ 27.3	1.3
Bank issued time deposits	3,567.3	23.7	2.70	3,532.6	32.6	3.7
Total bank issued deposits	13,603.5	46.1	1.38	12,064.1	59.9	2.0
Wholesale deposits	3,683.0	16.7	1.84	1,784.2	11.0	2.5
Total interest bearing deposits	17,286.5	62.8	1.47	13,848.3	70.9	2.0
Short-term borrowings	3,609.6	22.1	2.48	4,474.3	38.8	3.5
Long-term borrowings	3,698.0	42.2	4.63	2,427.7	30.4	5.0
Total interest bearing liabilities	$ 24,594.1	$ 127.1	2.10 %	$ 20,750.3	$ 140.1	2.7
Net interest margin (FTE) as a percent of average earning assets		$ 272.5	3.79 %		$ 248.3	4.0
Net interest spread (FTE)			3.46 %			3.6

(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 net interest margin on a fully taxable equivalent basis ("FTE") decreased 30 basis points from 4.09 percent in the first quarter 2002 to 3.79 percent in the first quarter of 2003. The yield on average earning assets decreased 84 basis points in the first quarter of 2003 compared to the first quarter of the prior year. The cost of bank issued interest bearing deposits in the current quarter decreased 63 basis points from the same quarter of the previous year. The increase in noninterest bearing deposits as previously discussed was a source of benefit to the net interest margin. The cost of other funding sources (wholesale deposits and total borrowings) decreased 76 basis points in the current quarter compared to the first quarter of last year.

The Corporation anticipates the net interest margin will decline a few basis points over each of the next two quarters, with net interest income growing with internal growth. The current lower absolute level of interest rates and increased level of prepayments has shortened the expected life of many of the Corporation's financial assets. The Corporation intends to continue to actively manage the repricing characteristics of its interest bearing liabilities so as to minimize the long-term impact on net interest income. The net interest margin can vary depending on loan and deposit growth, lending spreads and future interest rate changes.

PROVISION FOR LOAN AND LEASE LOSSES AND CREDIT QUALITY

The following tables present comparative consolidated credit quality information as of March 31, 2003 and the prior four quarters.

Nonperforming Assets

($000's)

	2003	2002			
	First Quarter	Fourth Quarter	Third Quarter	Second Quarter	Q
Nonaccrual	$ 205,373	$ 188,232	$ 173,185	$ 160,250	$
Renegotiated	312	326	305	314	
Past due 90 days or more	6,439	5,934	7,407	6,560	
Total nonperforming loans and leases	212,124	194,492	180,897	167,124	
Other real estate owned	8,259	8,692	8,223	6,296	
Total nonperforming assets	$ 220,383	$ 203,184	$ 189,120	$ 173,420	$
Allowance for loan and lease losses	$ 338,253	$ 338,409	$ 300,628	$ 292,512	$

Consolidated Statistics

	2003	2002			
	First Quarter	Fourth Quarter	Third Quarter	Second Quarter	F Qu
Net charge-offs to average loans and leases annualized	0.44 %	0.23 %	0.20 %	0.17 %	
Total nonperforming loans and leases to total loans and leases	0.88	0.81	0.84	0.80	
Total nonperforming assets to total loans and leases and other real estate owned	0.91	0.85	0.88	0.83	
Allowance for loan and lease losses to total loans and leases	1.40	1.42	1.40	1.40	
Allowance for loan and lease losses to nonperforming loans and leases	159	174	166	175	

Nonaccrual Loans and Leases by Type

($000's)

	2003	2002			
	First Quarter	Fourth Quarter	Third Quarter	Second Quarter	
Commercial					
Commercial, financial and agricultural	$ 93,400	$ 81,433	$ 78,421	$ 62,349	$
Lease financing receivables	6,755	2,819	2,994	3,993	

Total commercial	100,155	84,252	81,415	66,342
Real estate				
Construction and land development	2,017	145	79	1,399
Commercial mortgage	42,241	46,179	37,408	40,933
Residential mortgage	59,547	56,166	52,590	50,079
Total real estate	103,805	102,490	90,077	92,411
Personal	1,413	1,490	1,693	1,497
Total nonaccrual loans and leases	$ 205,373	$ 188,232	$ 173,185	$ 160,250 $

Reconciliation of Allowance for Loan and Lease Losses

($000's)

	2003	2002		
	First Quarter	Fourth Quarter	Third Quarter	Second Quarter
Beginning balance	$ 338,409	$ 300,628	$ 292,512	$ 284,179 $
Provision for loan and lease losses	25,692	23,398	18,842	16,980
Allowance of banks and loans acquired	--	27,848	--	--
Loans and leases charged-off				
Commercial	2,256	8,276	6,482	3,740
Real estate	3,130	3,074	2,113	2,580
Personal	2,969	3,608	2,632	3,086
Leases	20,060	2,496	2,053	1,767
Total charge-offs	28,415	17,454	13,280	11,173
Recoveries on loans and leases				
Commercial	902	1,525	1,070	542
Real estate	495	971	343	770
Personal	733	813	667	840
Leases	437	680	474	374
Total recoveries	2,567	3,989	2,554	2,526
Net loans and leases charge-offs	25,848	13,465	10,726	8,647
Ending balance	$ 338,253	$ 338,409	$ 300,628	$ 292,512 $

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

OREO is principally comprised of commercial and residential properties acquired in partial or total satisfaction of problem loans and amounted to $8.3 million at March 31, 2003 compared to $8.7 million at December 31, 2002 and has remained at that level over the past three quarters.

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

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

At March 31, 2003, nonperforming loans and leases amounted to $212.1 million or 0.88% of consolidated loans and leases compared to $194.5 million or .81% of consolidated loans and leases at December 31, 2002, an increase of $17.6 million or 9.1%. Nonaccrual loans and leases accounted for $17.1 million of the increase. Since December 31, 2002, nonaccrual commercial loans increased $12.0 million while nonaccrual commercial real estate loans decreased $3.9 million. Nonaccrual construction and land development loans increased $1.9 million largely due to the addition of one larger credit and nonaccrual residential real estate loans increased $3.4 million. Nonaccrual consumer loans were relatively unchanged. Nonaccrual leases increased $3.9 million since year-end and was primarily due to the remaining airplane lease exposure associated with Midwest Express Airlines, Inc.

Net charge-offs amounted to $25.8 million or 0.44% of average loans in the first quarter of 2003 compared with net charge-offs of $13.5 million or 0.23% of average loans in the fourth quarter of 2002 and $11.2 million or 0.23% of average loans in the first quarter of the prior year. Included in net charge-offs in the first quarter of 2003 was $19.0 million related to the carrying value of lease obligations for airplanes leased to Midwest Express Airlines, Inc.

Until the economy demonstrates clear strengthening, some degree of stress and uncertainty exists. The Corporation continues to expect net charge-offs, excluding the airline lease charge-offs taken this quarter, to range from 0.15% to 0.25% for the year. While this expected range is higher than the Corporation's historical net charge-off levels, it is considered manageable.

The provision for loan and lease losses amounted to $25.7 million for the three months ended March 31, 2003 compared to $23.4 million in the fourth quarter of 2002 and $15.2 million for the three months ended March 31, 2002. The Corporation has not substantively changed any aspect to its overall approach in the determination of the allowance for loan and lease losses. There have been no material changes in assumptions or estimation techniques as compared to prior periods that impacted the determination of the current period allowance. The allowance for loan and lease losses to the total loan and lease portfolio was 1.40% at March 31, 2003 and 2002, respectively.

OTHER INCOME

Total other income in the first quarter of 2003 amounted to $290.4 million compared to $259.0 million in the same period last year, an increase of $31.4 million or 12.1%.

Total data processing services revenue amounted to $157.1 million in the first quarter of 2003 compared to $145.0 million in the first quarter of 2002 an increase of $12.1 million or 8.3%. e-Finance solutions revenue increased $6.4 million or 18.9% compared to the first quarter of 2002. Revenue growth was driven by consumer payment volume from three large financial institution clients, increased adoption of electronic bill presentment and payment in the customer base and revenues associated with the PayTrust acquisition. Financial technology solutions revenue, the traditional outsourcing business, increased $5.7 million or 5.1% in the first quarter compared to the first quarter of last year. Primary contributors to revenue growth in the current quarter compared to the first quarter of last year included electronic funds delivery and card solutions, wealth management and financial account processing. During the current quarter several new outsourcing contracts were negotiated. Total buyout revenue, which varies from period to period, was $2.5 million less in the current quarter compared to the first quarter of last year.

Trust services revenue amounted to $30.0 million in the first quarter of 2003 compared to $31.0 million in the first quarter of 2002. The positive impact from acquisitions and sales efforts were offset by the decline in market values of assets under management. Assets under management were approximately $13.2 billion at March 31, 2003, $12.9 billion at December 31, 2002 and $13.0 billion at March 31, 2002.

Service charges on deposits increased $0.7 million in the current quarter and amounted to $26.2 million for the three months ended March 31, 2003. Revenue growth in the comparative quarters was largely attributable to the banking segment acquisitions.

Mortgage banking revenue was $17.5 million in the first quartet of 2003 compared with $9.4 million in the first quarter of 2002, an increase of $8.1 million or 87%. Gains from sales of mortgages to the secondary market and mortgage-related fees accounted for the increase. During the first quarter of 2003, the Corporation sold $1.0 billion of loans to the secondary market. Retained interests in the form of mortgage servicing rights amounted to $0.6 million. During the first quarter of 2002, the Corporation sold $0.6 billion of loans to the secondary market. Retained interests in the form of mortgage servicing rights amounted to $0.3 million.

Net investment securities gains in the first quarter of 2003 amounted to $1.6 million compared to net investment securities losses in the first quarter of 2002 of $0.7 million. Activity in both periods was primarily attributable to the Corporation's Capital Markets Group which varies from period to period.

Other income in the first quarter of 2003 amounted to $40.5 million compared to $31.1 million in the first quarter of 2002, an increase of $9.4 million or 29.9%. For the three months ended March 31, 2003, approximately $2.3 million of the increase was attributable to the banking acquisitions. Loan fees, which include prepayment charges, and other commissions and fees, excluding the impact of acquisitions, increased $4.9 million in the current quarter compared to the first quarter of last year. Auto securitization income increased $1.1 million for the three months ended March 31, 2003 compared to the first quarter of the prior year and was primarily due to increased gains and increased servicing fee income. Auto loans securitized and sold in the first quarter of 2003 amounted to $0.2 billion compared to $0.1 billion in the first quarter of last year. Gains from the disposition of other real estate increased $1.4 million in the current quarter compared to the same period last year. The increase was primarily due to the sale of one large property.

OTHER EXPENSE

Total other expense for the three months ended March 31, 2003 amounted to $335.6 million compared to $313.6 million for the three months ended March 31, 2002, an increase of $22.0 million or 7.0%.

The Corporation estimates that approximately $10.4 million of the quarter over quarter expense growth was attributable to the purchase acquisitions by the banking and Metavante segments which were included in M&I's operating expenses since their merger dates. In addition, approximately $2.5 million of the expense growth was due to the transition costs associated with Metavante's integration of the PayTrust acquisition.

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 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 March 31, 2003 and prior four quarters were:

Efficiency Ratios

	Three Months Ended				
	March 31, 2003	December 31, 2002	September 30, 2002	June 30, 2002	Ma
Consolidated Corporation	59.2 %	60.4 %	60.7 %	60.9 %	
Consolidated Corporation Excluding Metavante	48.5 %	49.6 %	50.0 %	50.1 %	

Salaries and employee benefits expense amounted to $197.2 million in the first quarter of 2003 compared to $179.5 million in the first quarter of 2002, an increase of $17.7 million. Salaries and employee benefits expense associated with the banking and Metavante acquisitions and the PayTrust transition costs accounted for approximately $7.9 million of the increase.

For the three months ended March 31, 2003, occupancy and equipment expense amounted to $47.3 million compared to $45.6 million in the comparative three month period in 2002. Occupancy and equipment expense associated with the banking and Metavante acquisitions and the PayTrust transition costs accounted for an increase of approximately $2.8 million.

Software expense in the first quarter of 2003 amounted to $10.3 million compared to $12.6 million in the first quarter of 2002. During the first quarter of 2002, the Corporation's banking segment incurred nonrecurring software charges of approximately $1.7 million. Excluding that charge, software expenses in the current quarter were relatively unchanged compared to the first quarter of the prior year.

The growth in processing charges was primarily attributable to the banking segment and was due to increased third-party processing charges associated with wholesale loan activity.

Supplies and printing and shipping and handling expense amounted to $19.2 million in the first quarter of 2003 compared to $16.8 million in the first quarter of 2002, an increase of $2.4 million or 14.6%. Approximately $0.3 million of the increase was attributable to the banking and Metavante acquisitions and the PayTrust transition costs. The remainder of the increase was primarily attributable to Metavante.

Approximately $0.4 million of the increase in professional services expense was attributable to the banking and Metavante acquisitions and the PayTrust transition costs. Increases experienced across all of the Corporation's segments, primarily legal fees, were offset by lower consulting fees at the Corporation in the first quarter of 2003 compared to the first quarter of the prior year.

Intangible amortization expense increased $2.6 million in the first quarter of 2003 compared to the first quarter of 2002. Core deposit premium amortization accounted for $2.2 million of the increase in amortization expense for the quarter ended March 31, 2003. Accelerated amortization and valuation reserves associated with mortgage servicing rights increased amortization expense $0.9 million in the first quarter of 2003 compared to the first quarter of 2002. The carrying value of the Corporation's mortgage servicing rights was $5.6 million at March 31, 2003.

Other expense amounted to $31.9 million in the first quarter of 2003 compared to $35.5 million in the first quarter of 2002, a decrease of $3.6 million or 10.2%. Included in other expense in the first quarter of 2002 were asset write-downs associated with foreclosed properties and residual values at the Corporation's commercial leasing subsidiary which aggregated approximately $6.8 million. Expense associated with the banking and Metavante acquisitions and the PayTrust transition costs contributed approximately $0.9 million to other expense in the first quarter of 2003. Increases in the cost of business related insurance coverage, increased spending in advertising and promotion and increased costs associated with Metavante's card solutions and equipment sales added an additional $3.8 million to other expense in the first quarter of 2003 compared to the first quarter of 2002.

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 $1.2 million in the first quarter of 2002 and in the current quarter amounted to $3.1 million resulting in a decrease to other expense over the comparative quarters of approximately $1.9 million. Approximately $1.5 million of net software capitalization in the current quarter relates to PayTrust.

INCOME TAXES

The provision for income taxes for the three months ended March 31, 2003 amounted to $65.6 million or 33.9% of pre-tax income compared to $54.8 million or 32.2% of pre-tax income for the three months ended March 31, 2002. During the first quarter of 2002, the Corporation recognized income tax benefits associated with the sale of preferred stock.

LIQUIDITY AND CAPITAL RESOURCES

Shareholders' equity was $3.13 billion or 9.4% of total consolidated assets at March 31, 2003 compared to $3.04 billion or 9.2% of total consolidated assets at December 31, 2002 and $2.72 billion or 9.5% of total consolidated assets at March 31, 2002. The increase at March 31, 2003 was primarily due to earnings net of dividends paid. Accumulated other comprehensive income was relatively unchanged since December 31, 2002 and declined $92.0 million since March 31, 2002 primarily due to the change in fair value of the Corporation's pay fixed derivative financial instruments designated as cash flow hedges in the recent low interest rate environment.

The Corporation has a Stock Repurchase Program under which up to 12 million shares can be repurchased annually. During the first quarter of 2003, there were no common shares repurchased.

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

Risk-Based Capital Ratios

($ in millions)

	March 31, 2003		December 31, 2002	
	Amount	Ratio	Amount	Ratio
Tier 1 Capital	$ 2,431	8.94 %	$ 2,344	8.75 %
Tier 1 Capital Minimum Requirement	1,088	4.00	1,072	4.00
Excess	$ 1,343	4.94 %	$ 1,272	4.75 %
Total Capital	$ 3,412	12.55 %	$ 3,322	12.40 %
Total Capital Minimum Requirement	2,176	8.00	2,143	8.00
Excess	$ 1,236	4.55 %	$ 1,179	4.40 %
Risk-Adjusted Assets	$ 27,197		$ 26,791	

Leverage Ratios

($ in millions)

	March 31, 2003		December 31, 2002	
	Amount	Ratio	Amount	Ratio
Tier 1 Capital	$ 2,431	7.70 %	$ 2,344	7.58 %
Minimum Leverage Requirement	947 - 1,578	3.00 - 5.00	928 - 1,546	3.00 - 5.00
Excess	$ 1,484 - 853	4.70 - 2.70 %	$ 1,416 - 798	4.58 - 2.58 %
Adjusted Average Total Assets	$ 31,547		$ 30,924	

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

The Corporation's most readily available source of liquidity is its investment portfolio. Investment securities available for sale, which totaled $4.4

billion at March 31, 2003, represent a highly accessible source of liquidity. The Corporation's portfolio of held-to-maturity investment securities, which totaled $0.9 billion at March 31, 2003, provides liquidity from maturities and amortization payments. The Corporation's mortgage loans held-for-sale provide additional liquidity. The loans, which aggregated $0.2 billion at March 31, 2003, represent recently funded home mortgage loans that are prepared for delivery to investors, which generally occurs within thirty to ninety days after the loan has been funded.

Depositors within M&I's defined markets are another source of liquidity. Core deposits (demand, savings, money market and consumer time deposits) averaged $17.5 billion in the first quarter of 2003. The Corporation's banking affiliates may also access the federal funds markets or utilize collateralized borrowings such as treasury demand notes or FHLB advances.

The banking affiliates may use wholesale deposits. Wholesale deposits are funds in the form of deposits generated through distribution channels other than the Corporation's own banking branches. These deposits allow the Corporation's banking subsidiaries to gather funds across a national geographic base and at pricing levels considered attractive, where the underlying depositor may be retail or institutional. Access to wholesale deposits also provides the Corporation with the flexibility to not pursue single service time deposit relationships in markets that have experienced some unprofitable pricing levels. Wholesale deposits averaged $3.7 billion in the first quarter of 2003.

The Corporation utilizes certain financing arrangements to meet its balance sheet management, funding, liquidity, and market or credit risk management needs. The majority of these activities are basic term or revolving securitization vehicles. These vehicles are generally funded through term-amortizing debt structures or with short-term commercial paper designed to be paid off based on the underlying cash flows of the assets securitized. These vehicles provide access to funding sources substantially separate from the general credit risk of the Corporation and its subsidiaries. See Note 7 to the Consolidated Financial Statements for an update of the Corporation's securitization activities in the first quarter of 2003.

The Corporation's lead bank ("Bank") has implemented a bank note program which permits it to issue up to $7.0 billion of short-term and medium-term notes which are offered and sold only to institutional investors. This program is intended to enhance liquidity by enabling the Bank to sell its debt instruments in private markets in the future without the delays which would otherwise be incurred. Longer-term bank notes outstanding at March 31, 2003, amounted to $2.2 billion of which $0.6 billion is subordinated and qualifies as supplementary capital for regulatory capital purposes. No bank notes were issued during the first quarter of 2003.

The national capital markets represent a further source of liquidity to M&I. M&I has filed a shelf registration statement which is intended to permit M&I to raise funds through sales of corporate debt securities with a relatively short lead time. Under the shelf registration statement, the Corporation may issue up to $0.5 billion of medium-term Series E notes with maturities ranging from 9 months to 30 years and at fixed or floating rates. At March 31, 2003, Series E notes outstanding amounted to $0.3 billion. The Corporation may issue up to $0.5 billion of medium-term MiNotes with maturities ranging from 9 months to 30 years and at fixed or floating rates. The MiNotes are issued in smaller denominations to attract retail investors. No Series E or MiNotes were issued during the first quarter of 2003. Additionally, the Corporation has a commercial paper program. At March 31, 2003, commercial paper outstanding amounted to $0.3 billion.

Short-term borrowings represent contractual debt obligations with maturities of one year or less and amounted to $4.1 billion at March 31, 2003. Longer-term borrowings which are scheduled to mature in one year or less at March 31, 2003, amounted to $1.4 billion. Other obligations include future minimum lease payments on facilities and equipment as described in Note 10 and commitments to extend credit and letters of credit as described in Note 19 of the Notes to Consolidated Financial Statements contained in Item 8 of the Corporation's Annual Report on Form 10-K for the year ended December 31, 2002. Many commitments to extend credit expire without being drawn upon and letters of credit are contingent commitments. The amounts outstanding at any time do not necessarily represent future cash requirements. Under Federal Reserve Board policy, the Corporation is expected to act as a source of financial strength to each subsidiary bank in circumstances when it might not do so absent such policy.

CRITICAL ACCOUNTING POLICIES

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

Allowance for Loan and Lease Losses

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

Specific Reserve.

The Corporation's internal risk rating system is used to identify loans and leases rated "Classified" as defined by regulatory agencies. In general, these loans have been internally identified as credits requiring management's attention due to underlying problems in the borrower's business or collateral concerns. Subject to a minimum size, a quarterly review of these loans is performed to identify the specific reserve necessary to be allocated to each of these loans. This analysis considers expected future cash flows, the value of collateral and also other factors that may impact the borrower's ability to make payments when due. Included in this group are those nonaccrual or renegotiated loans that meet the criteria as being "impaired" under the definition in SFAS 114. A loan is impaired when, based on current information and events, it is probable that a creditor will be unable to collect all amounts due according to the contractual terms of the loan agreement. For impaired loans, impairment is measured using one of three alternatives: (1) the present value of expected future cash flows discounted at the loan's effective interest rate; (2) the loan's observable market price, if available; or (3) the fair value of the collateral for collateral dependent loans and loans for which foreclosure is deemed to be probable.

Collective Loan Impairment.

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

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

The following factors were taken into consideration in determining the adequacy of the allowance for loans and lease losses at March 31, 2003:

Management continues to be concerned over the lack of economic improvement forecasted for 2003 and the resulting impact this will have on the Corporation's customer base. Although recent economic reports and opinions indicate there may be some signs of improvement, the uncertainty remains as to when there may be any substantive increase in business activity. In addition, the retail loan portfolio will continue to be affected by the prolonged economic conditions as evidenced by the generally increasing personal bankruptcy and unemployment rates.

At March 31, 2003, nonperforming loans and leases amounted to $212.1 million or 0.88% of consolidated loans and leases compared to $194.5 million or 0.81% of consolidated loans and leases at December 31, 2002, an increase of $17.6 million or 9.1%. A portion of the increase is due to the remaining Midwest Express Airlines, Inc. ("Midwest Express") lease receivable being placed on a nonperforming status. The remainder of the increase is generally spread across all of M&I's lending segments and is primarily the result of the slow economy. As stated in previous quarters, some of the Corporation's largest nonperforming loans are in industries that have undergone well-publicized declines in recent months. Among those industries affected are construction and related, technology, airline, manufacturing and healthcare.

At the present time, there is no specific industry that is of immediate concern, however, the Corporation believes that the current economic environment will continue to negatively affect the markets and communities it serves in the near term. While nonperforming loans have remained in the 80-90 basis point range over the past two years, there continues to be some risk of nonperforming loans increasing.

The Corporation's primary lending areas are Wisconsin, Arizona, Minnesota and Missouri. The recent acquisitions in Minnesota and Missouri represent new geographic regions for the Corporation. Each of these regions has cultural and env