

MARSHALL & ILSLEY CORP/WI/
Form 10-K
March 10, 2003
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2002

OR

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

Commission File No. 1-15403

MARSHALL & ILSLEY CORPORATION

(Exact name of registrant as specified in its charter)

Wisconsin
(State or other jurisdiction of
incorporation or organization)
770 North Water Street
Milwaukee, Wisconsin
(Address of principal executive offices)

39-0968604
(I.R.S. Employer
Identification No.)

53202
(Zip Code)

Edgar Filing: MARSHALL & ILSLEY CORP/WI/ - Form 10-K

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

Securities registered pursuant to Section 12(b) of the Act:

<u>Title of Each Class:</u>	<u>Name of Each Exchange on Which Registered:</u>
Common Stock \$1.00 par value	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: **None**

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 by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act).

Yes No

The aggregate market value of the voting stock held by nonaffiliates of the registrant was approximately \$6,261,446,000 as of June 28, 2002. The number of shares of common stock outstanding as of January 31, 2003 was 226,367,117.

DOCUMENTS INCORPORATED BY REFERENCE

Part III incorporates information by reference from the Proxy Statement for the registrant's Annual Meeting of Shareholders to be held on April 22, 2003.

Table of Contents

MARSHALL & ILSLEY CORPORATION
ANNUAL REPORT ON FORM 10-K
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2002

TABLE OF CONTENTS

		<u>Page</u>
PART I		
ITEM 1.	<u>BUSINESS</u>	1
ITEM 2.	<u>PROPERTIES</u>	15
ITEM 3.	<u>LEGAL PROCEEDINGS</u>	15
ITEM 4.	<u>SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS</u>	15
PART II		
ITEM 5.	<u>MARKET FOR REGISTRANT'S COMMON STOCK AND RELATED STOCKHOLDER MATTERS</u>	17
ITEM 6.	<u>SELECTED FINANCIAL DATA</u>	18
ITEM 7.	<u>MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL POSITION AND RESULTS OF OPERATIONS</u>	21
ITEM 7A.	<u>QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u>	46
ITEM 8.	<u>CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA FOR YEARS ENDED DECEMBER 31, 2002, 2001, AND 2000</u>	48
ITEM 9.	<u>CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE</u>	101
PART III		
ITEM 10.	<u>DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT</u>	101
ITEM 11.	<u>EXECUTIVE COMPENSATION</u>	101
ITEM 12.	<u>SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS</u>	101
ITEM 13.	<u>CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS</u>	101
ITEM 14.	<u>CONTROLS AND PROCEDURES</u>	102
PART IV		
ITEM 15.	<u>EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K</u>	102

Table of Contents

PART I

ITEM 1. BUSINESS

General

Marshall & Ilsley Corporation (M&I or the Corporation), incorporated in Wisconsin in 1959, is a registered bank holding company under the Bank Holding Company Act of 1956 (the BHCA). As of December 31, 2002, M&I had consolidated total assets of approximately \$32.9 billion and consolidated total deposits of approximately \$20.4 billion, making M&I the largest bank holding company headquartered in Wisconsin. The executive offices of M&I are located at 770 North Water Street, Milwaukee, Wisconsin 53202 (telephone number (414) 765-7801).

M&I's principal assets are the stock of its bank and nonbank subsidiaries, which, as of February 1, 2003, included Metavante Corporation (Metavante) (formerly its M&I Data Services Division), six bank and trust subsidiaries and a number of companies engaged in businesses that the Board of Governors of the Federal Reserve System (the Federal Reserve Board) has determined to be closely-related or incidental to the business of banking. M&I provides its subsidiaries with financial and managerial assistance in such areas as budgeting, tax planning, compliance assistance, asset and liability management, investment administration and portfolio planning, business development, advertising and human resources management.

Generally, M&I organizes its business segments based on legal entities. Each entity offers a variety of products and services to meet the needs of its customers and the particular market served. Based on the way M&I organizes its business, M&I has two reportable segments: Banking and Data Services (or Metavante). 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. Data Services consists of providing data processing services, developing and selling software and providing consulting services to financial services companies, including M&I affiliates, as well as providing credit card merchant services. M&I's primary other business segments include Trust Services, Mortgage Banking (residential and commercial), Capital Markets Group, Brokerage and Insurance Services, and Commercial Leasing.

Banking Operations

M&I's bank subsidiaries provide a full range of banking services to individuals, businesses and governments throughout Wisconsin, and in the Phoenix and Tucson, Arizona metropolitan areas, the Minneapolis/St. Paul, Minnesota metropolitan area, the St. Louis, Missouri metropolitan area, Las Vegas, Nevada, Naples, Florida and Belleville, Illinois. These subsidiaries offer retail, institutional, business, international and correspondent banking and investment services through the operation of 214 banking offices in Wisconsin, 25 offices in Arizona, 11 offices in Minnesota, six offices in Missouri, one office in Florida, one office in Nevada and one office in Illinois, as well as on the Internet. M&I's bank subsidiaries hold a significant portion of their mortgage loan and investment portfolios indirectly through their ownership interests in direct and indirect subsidiaries. M&I Marshall & Ilsley Bank (M&I Bank) is M&I's largest bank subsidiary, with consolidated assets as of December 31, 2002 of approximately \$28.2 billion.

Through its bank and nonbank subsidiaries, M&I offers a variety of loan products to retail customers, including credit cards, lines of credit, automobile loans and leases, student loans, home equity loans, personal loans, residential mortgage loans and mortgage refinancing. M&I also offers a variety of loan and leasing products to business, commercial and institutional customers, including business loans, lines of credit,

Edgar Filing: MARSHALL & ILSLEY CORP/WI/ - Form 10-K

standby letters of credit, credit cards, government-sponsored loans, commercial real estate financing, construction financing, commercial mortgage loans and equipment and machinery leases. Diversified Business Credit, Inc. provides working capital loans to commercial borrowers secured by accounts receivable, inventory and other marketable assets. M&I Dealer Finance, Inc. provides retail vehicle lease and installment sale financing.

Table of Contents

M&I Support Services Corp. provides bank operation support for loan and deposit account processing and maintenance, item processing and other banking services.

M&I's lending activities involve credit risk. Credit risk is controlled through active asset quality management and the use of lending standards and thorough review of potential borrowers. M&I evaluates the credit risk of each borrower on an individual basis and, where deemed appropriate, collateral is obtained. Collateral varies by individual loan customer but may include accounts receivable, inventory, real estate, equipment, deposits, personal and government guaranties, and general security agreements. Access to collateral is dependent upon the type of collateral obtained. On an on-going basis, M&I monitors its collateral and the collateral value related to the loan balance outstanding.

The M&I bank subsidiaries may use wholesale deposits, which include foreign (Eurodollar) deposits. Wholesale deposits are funds in the form of deposits generated through distribution channels other than M&I's own banking branches. These deposits allow M&I'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 to wholesale deposits also provides M&I with the flexibility to not pursue single service time deposit relationships in markets that have experienced unprofitable pricing levels.

M&I's securitization activities are generally limited to basic term or revolving securitization facilities associated with indirect automobile loans. A discussion of M&I's securitization activities is contained in Item 7, Management's Discussion and Analysis of Financial Position and Results of Operations, and in Note 9 of the Notes to the Consolidated Financial Statements contained in Item 8, Consolidated Financial Statements and Supplementary Data.

Data Services Metavante Operations

Metavante provides financial technology products, software and services, including data processing, to financial institutions and other companies in the United States. Metavante's clients include large banks, mid-tier and community banks and other financial services providers. Metavante organizes its business into two groups: Financial Technology and e-Finance. The Financial Technology group represented 76 percent of Metavante's 2002 external revenue. This group provides data processing for deposit and loan account management, general ledger, customer information systems, and data warehouse services for financial institutions. It also provides trust and investment account processing, and employee retirement benefit third-party administration. Its electronic funds transfer and card services unit provides debit, stored-value, and credit card processing, card personalization, ATM management, transaction and merchant processing services. Metavante also develops and markets document composition software that businesses use to generate electronic or printed bills and statements. The e-Finance group represented 24 percent of Metavante's 2002 external revenue. This group incorporates electronic bill presentment and payment services, which allow consumers and businesses to manage and pay bills electronically instead of writing and mailing checks. Metavante provides payment and settlement of bill payment transactions as part of its service. Metavante electronic banking products and technology allow consumers or businesses to manage their financial accounts online through the Internet or by telephone to access account balances, transfer funds between accounts, and obtain other banking services.

Metavante's revenues consist of fees related to information and transaction processing services, software licensing and maintenance, conversion services and other professional services. Maintenance fees include ongoing client support and product updates. Metavante also receives buyout fees related to client termination prior to the end of the contract term. The buyout fee is contractual and based on the estimated remaining contract value. Buyout fees can vary significantly from quarter to quarter and year to year.

Edgar Filing: MARSHALL & ILSLEY CORP/WI/ - Form 10-K

Metavante's expenses consist primarily of salaries and related expenses and processing servicing expenses, such as data processing, telecommunications and equipment expenses. Other operating costs include selling, general and administrative costs, such as advertising and marketing expenses, travel, supplies and postage, and

Table of Contents

the use of outside firms for legal, accounting or other professional services, and amortization of investments in software, premises and equipment, conversions and acquired intangible assets.

Other Business Operations

M&I's other nonbank subsidiaries operate a variety of bank-related businesses, including those providing trust services, residential mortgage banking, capital markets, brokerage and insurance, commercial leasing, and commercial mortgage banking.

Trust Services. M&I Investment Management Corp. offers a full range of asset management services to Marshall & Ilesley Trust Company N.A., the Marshall Funds and other individual, business and institutional customers. Marshall & Ilesley Trust Company N.A., provides trust and employee benefit plan services to customers throughout the United States with offices in Wisconsin, Arizona, Minnesota, Florida, Nevada, North Carolina and Illinois.

Residential Mortgage Banking. M&I Mortgage Corp. originates, purchases, sells and services residential mortgage loans. M&I Mortgage Reinsurance Corporation acts as a reinsurer of private mortgage insurance written in connection with residential mortgage loans originated in the M&I system.

Capital Markets. M&I Capital Markets Group L.L.C. and M&I Ventures L.L.C. provide venture capital, financial advisory and strategic planning services to customers, including assistance in connection with the private placement of securities, raising funds for expansion, leveraged buy-outs, divestitures, mergers and acquisitions and small business investment company transactions.

Brokerage and Insurance. M&I Brokerage Services, Inc., a broker-dealer registered with the National Association of Securities Dealers, Inc. and the Securities and Exchange Commission, provides brokerage and other investment related services to a variety of retail and commercial customers. M&I Insurance Services, Inc. provides life, long-term care and disability income insurance products and annuities to retail clients and business owners.

Commercial Leasing. M&I First National Leasing Corp. leases a variety of equipment and machinery to large and small businesses.

Commercial Mortgage Banking. The Richter-Schroeder Company, Inc. originates and services long-term commercial real estate loans for institutional investors.

Other. M&I Community Development Corporation makes investments designed primarily to promote the public welfare in markets and communities served by affiliates and subsidiaries of M&I.

Edgar Filing: MARSHALL & ILSLEY CORP/WI/ - Form 10-K

More information on M&I's business segments is contained in Note 23 of the Notes to the Consolidated Financial Statements contained in Item 8, Consolidated Financial Statements and Supplementary Data.

Corporate Governance Matters

M&I has adopted a Code of Business Conduct and Ethics which is applicable to all of M&I's employees, officers and directors, including M&I's Chief Executive Officer, Chief Financial Officer and Controller. The Code of Business Conduct and Ethics is available on M&I's general web site at www.micorp.com.

M&I makes available free of charge through its web site its Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and its insiders' Section 16 reports and all amendments to these reports as soon as reasonably practicable after these materials are filed with or furnished to the Securities

Table of Contents

and Exchange Commission. In addition, certain documents relating to corporate governance matters are available on M&I's web site. These documents include, among others, the following:

Code of Business Conduct and Ethics;

Corporate Governance Guidelines;

Charter for the Nominating and Corporate Governance Committee of the Board of Directors, including the Board's categorical standards for determining the independence of directors;

Charter for the Audit Committee of the Board of Directors; and

Charter for the Compensation and Human Resources Committee of the Board of Directors.

Shareholders also may obtain a copy of any of these documents free of charge by calling the M&I Shareholder Information Line at 1-800-318-0208. Information contained on any of M&I's web sites is not deemed to be a part of this Annual Report.

Acquisitions

During 2002, M&I expanded its operations into the Minneapolis/St. Paul, Minnesota and St. Louis, Missouri metropolitan areas through acquisitions. On March 1, 2002, M&I completed a merger with Richfield State Agency, Inc. (Richfield State Agency), a bank holding company with offices located in the Minneapolis/St. Paul, Minnesota metropolitan area. Richfield State Agency was the holding company for Richfield Bank and Trust Co. As of December 31, 2001, Richfield State Agency had consolidated total assets of approximately \$735.5 million and consolidated total deposits of \$547.8 million.

Also on March 1, 2002, M&I completed a merger with Century Bancshares, Inc. (Century Bancshares), a bank holding company located in the Minneapolis, Minnesota metropolitan area. Century Bancshares was the holding company for Century Bank, National Association. As of December 31, 2001, Century Bancshares had consolidated total assets of approximately \$326.2 million and consolidated total deposits of \$280.4 million. The aggregate purchase price for the Richfield State Agency and Century Bancshares acquisitions was \$216.5 million including \$29.9 million of cash and 6.2 million shares (post-split) of common stock valued at \$186.6 million based on the average price over their respective contractual pricing periods.

During 2002, Metavante strengthened its electronic bill presentment and payment and wealth management businesses through acquisitions. On July 29, 2002, Metavante acquired substantially all of the assets of PayTrust, Inc., a privately held online bill management company. On August 23, 2002, Metavante acquired substantially all of the assets of Spectrum EBP, LLC, a privately held, open interoperable switch for exchanging online bills and payments. On May 1, 2002, Metavante acquired substantially all of the assets of BenePlan, Inc., a provider of third-party plan administration services for retirement benefit plans. The total cost of these acquisitions was \$20.6 million which was paid in cash subject to additional payments up to \$10.0 million contingent upon certain revenue targets achieved two years from the date that acquisition was closed.

Edgar Filing: MARSHALL & ILSLEY CORP/WI/ - Form 10-K

On October 1, 2002, M&I completed the acquisition of Mississippi Valley Bancshares, Inc. (Mississippi Valley), the holding company of Southwest Bank of St. Louis, Southwest Bank, and Southwest Bank of Phoenix, with offices located in the St. Louis, Missouri metropolitan area, Belleville, Illinois and Phoenix, Arizona. As of September 30, 2002, Mississippi Valley had consolidated total assets of \$2.1 billion and consolidated total deposits of \$1.7 billion. The aggregate purchase price was \$486.0 million including \$255.2 million of cash and 8.25 million shares of common stock valued at \$230.8 million based on the average price over the contractual pricing period.

More information on M&I's acquisitions can be found in Note 4 of the Notes to the Consolidated Financial Statements contained in Item 8, Consolidated Financial Statements and Supplementary Data.

Table of Contents

M&I continues to evaluate opportunities to acquire banking institutions and other financial service providers and frequently conducts due diligence activities in connection with possible transactions. As a result, M&I may engage in discussions, and in some cases, negotiations with prospective targets and may make future acquisitions for cash, equity or debt securities. The issuance of additional shares of M&I common stock would dilute a shareholder's ownership interest in M&I. In addition, M&I's acquisitions may involve the payment of a premium over book value, and therefore, some dilution of book value may occur with any future acquisition. Generally, it is M&I's policy not to comment on such discussions or possible acquisitions until a definitive agreement has been signed. M&I's strategy for growth includes strengthening its presence in core markets, expanding into attractive markets and broadening its product offerings.

Principal Sources of Revenue

The table below shows the amount and percentages of M&I's total consolidated revenues resulting from interest on loans and leases, interest on investment securities and fees for data processing services for each of the last three years (\$ in thousands):

Years Ended	Interest on Loans and Leases		Interest on Investment Securities		Fees for Data Processing Services		Total Operating Revenues
	Amount	Percent of Total Operating	Amount	Percent of Total Operating	Amount	Percent of Total Operating	
		Revenues		Revenues		Revenues	
December 31,							
2002	\$ 1,297,166	48.9%	\$ 269,842	10.2%	\$ 601,500	22.7%	\$ 2,650,024
2001	1,358,802	50.1	349,421	12.9	559,816	20.7	2,710,357
2000	1,391,651	51.9	354,823	13.2	546,041	20.4	2,679,576

M&I business segment information is contained in Note 23 of the Notes to the Consolidated Financial Statements contained in Item 8, Consolidated Financial Statements and Supplementary Data.

Competition

M&I and its subsidiaries face substantial competition from hundreds of competitors in the markets they serve, some of which are larger and have greater resources than M&I. M&I's bank subsidiaries compete for deposits and other sources of funds and for credit relationships with other banks, savings associations, credit unions, finance companies, mutual funds, life insurance companies (and other long-term lenders) and other financial and non-financial companies located both within and outside M&I's primary market area, many of which offer products functionally equivalent to bank products. M&I's nonbank operations compete with numerous banks, finance companies, data servicing companies, leasing companies, mortgage bankers, brokerage firms, financial advisors, trust companies, mutual funds and investment bankers in Wisconsin and throughout the United States.

The markets for the financial products and services offered by Metavante are intensely competitive. Metavante competes with a variety of companies in various segments of the financial services industry, and its competitors vary in size and in the scope and breadth of products and

services they offer. Certain segments of the financial services industry tend to be highly fragmented with numerous companies competing for market share. Other segments of the financial services industry have large well-capitalized competitors who command the majority of market share. Metavante also faces competition from in-house technology departments of existing and potential clients who may develop their own product offerings.

Employees

As of December 31, 2002, M&I and its subsidiaries employed in the aggregate 12,625 employees. M&I considers employee relations to be excellent. None of the employees of M&I or its subsidiaries are represented by a collective bargaining group.

Table of Contents

Supervision and Regulation

As a registered bank holding company, M&I is subject to regulation and examination by the Federal Reserve Board under the BHCA. As of February 1, 2003, M&I owned a total of six bank and trust subsidiaries, including two Wisconsin state banks, a Missouri state bank, an Illinois state bank, a federal savings bank, and a national banking association. M&I's two Wisconsin state bank subsidiaries are subject to regulation and examination by the Wisconsin Department of Financial Institutions, as well as by the Federal Reserve Board. M&I's Missouri state bank subsidiary is subject to regulation and examination by the Missouri Department of Economic Development, Division of Finance, and the Federal Reserve Board. M&I's Illinois state bank subsidiary is subject to regulation and examination by the Illinois Office of Banks and Real Estate, as well as the Federal Deposit Insurance Corporation (the FDIC). M&I's federal savings bank subsidiary is subject to regulation and examination by the Office of Thrift Supervision. M&I's national bank, through which trust operations are conducted, is subject to regulation and examination by the Office of the Comptroller of the Currency. In addition, all of M&I's bank subsidiaries are subject to examination by the FDIC.

Under Federal Reserve Board policy, M&I is expected to act as a source of financial strength to each of its bank subsidiaries and to commit resources to support each bank subsidiary in circumstances when it might not do so absent such requirements. In addition, there are numerous federal and state laws and regulations which regulate the activities of M&I and its bank subsidiaries, including requirements and limitations relating to capital and reserve requirements, permissible investments and lines of business, transactions with officers, directors and affiliates, loan limits, consumer protection laws, privacy of financial information, predatory lending, fair lending, mergers and acquisitions, issuances of securities, dividend payments, inter-affiliate liabilities, extensions of credit and branch banking. Information regarding capital requirements for bank holding companies and tables reflecting M&I's regulatory capital position at December 31, 2002 can be found in Note 15 of the Notes to the Consolidated Financial Statements contained in Item 8, Consolidated Financial Statements and Supplementary Data.

The federal regulatory agencies have broad power to take prompt corrective action if a depository institution fails to maintain certain capital levels. In addition, a bank holding company's controlled insured depository institutions are liable for any loss incurred by the FDIC in connection with the default of, or any FDIC-assisted transaction involving, an affiliated insured bank or savings association. Current federal law provides that adequately capitalized and managed bank holding companies from any state may acquire banks and bank holding companies located in any other state, subject to certain conditions. Banks are permitted to create interstate branching networks in states that do not opt out of interstate branching. M&I Marshall & Ilsley Bank currently maintains interstate branches in Arizona and Minnesota.

The laws and regulations to which M&I is subject are constantly under review by Congress, regulatory agencies and state legislatures. In 1999, Congress enacted the Gramm-Leach-Bliley Act (the Act), which eliminated certain barriers to and restrictions on affiliations between banks and securities firms, insurance companies and other financial services organizations. Among other things, the Act repealed certain Glass-Steagall Act restrictions on affiliations between banks and securities firms, and amended the BHCA to permit bank holding companies that qualify as financial holding companies to engage in a broad list of financial activities, and any non-financial activity that the Federal Reserve Board, in consultation with the Secretary of the Treasury, determines is complementary to a financial activity and poses no substantial risk to the safety and soundness of depository institutions or the financial system. The Act treats various lending, insurance underwriting, insurance company portfolio investment, financial advisory, securities underwriting, dealing and market-making, and merchant banking activities as financial in nature for this purpose.

Under the Act, a bank holding company may become certified as a financial holding company by filing a notice with the Federal Reserve Board, together with a certification that the bank holding company meets certain criteria, including capital, management, and Community Reinvestment Act requirements. M&I has determined not to become certified as a financial holding company at this time. M&I may reconsider this determination in the future.

Table of Contents

In 2001, Congress enacted the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (the USA PATRIOT Act). The USA PATRIOT Act is designed to deny terrorists and criminals the ability to obtain access to the United States financial system, and has significant implications for depository institutions, brokers, dealers and other businesses involved in the transfer of money. The USA PATRIOT Act mandates or will require financial services companies to implement additional policies and procedures with respect to, or additional measures designed to address, any or all of the following matters, among others: money laundering, terrorist financing, identifying and reporting suspicious activities and currency transactions, and currency crimes.

The earnings and business of M&I and its bank subsidiaries also are affected by the general economic and political conditions in the United States and abroad and by the monetary and fiscal policies of various federal agencies. The Federal Reserve Board impacts the competitive conditions under which M&I operates by determining the cost of funds obtained from money market sources for lending and investing and by exerting influence on interest rates and credit conditions. In addition, legislative and economic factors can be expected to have an ongoing impact on the competitive environment within the financial services industry. The impact of fluctuating economic conditions and federal regulatory policies on the future profitability of M&I and its subsidiaries cannot be predicted with certainty.

Selected Statistical Information

Statistical information relating to M&I and its subsidiaries on a consolidated basis is set forth as follows:

(1) Average Balance Sheets and Analysis of Net Interest Income for each of the last three years is included in Item 7, Management's Discussion and Analysis of Financial Position and Results of Operations.

(2) Analysis of Changes in Interest Income and Interest Expense for each of the last two years is included in Item 7, Management's Discussion and Analysis of Financial Position and Results of Operations.

(3) Nonaccrual, Past Due and Restructured Loans and Leases for each of the last five years is included in Item 7, Management's Discussion and Analysis of Financial Position and Results of Operations.

(4) Summary of Loan and Lease Loss Experience for each of the last five years (including the narrative discussion) is included in Item 7, Management's Discussion and Analysis of Financial Position and Results of Operations.

(5) Return on Average Shareholders' Equity, Return on Average Assets and other statistical ratios for each of the last five years can be found in Item 6, Selected Financial Data.

(6) Potential Problem Loans and Leases for the last two years can be found in Item 7, Management's Discussion and Analysis of Financial Position and Results of Operations.

The following tables set forth certain statistical information relating to M&I and its subsidiaries on a consolidated basis.

Investment Securities

The amortized cost of M&I's consolidated investment securities, other than trading and other short-term investments, at December 31 of each year are (\$ in thousands):

	<u>2002</u>	<u>2001</u>	<u>2000</u>
U.S. Treasury and government agencies	\$ 3,201,394	\$ 2,268,681	\$ 3,303,366
States and political subdivisions	1,185,804	1,198,685	1,251,359
Other	733,396	850,980	1,235,156
	<u> </u>	<u> </u>	<u> </u>
Total	<u>\$ 5,120,594</u>	<u>\$ 4,318,346</u>	<u>\$ 5,789,881</u>

Table of Contents

The maturities, at amortized cost, and weighted average yields (for tax-exempt obligations on a fully taxable basis assuming a 35% tax rate) of investment securities at December 31, 2002 are (\$ in thousands):

	Within One Year		After One but Within Five Years		After Five but Within Ten Years		After Ten Years		Total	
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
U.S. Treasury and government agencies	\$ 1,420,286	5.23%	\$ 1,726,735	5.28%	\$ 52,958	5.40%	\$ 1,415	5.45%	\$ 3,201,394	5.26%
States and political subdivisions	100,038	6.97	300,995	7.16	264,430	7.30	520,341	7.45	1,185,804	7.30
Other	357,968	6.64	89,480	5.90	99,828	5.11	186,120	4.41	733,396	5.78
Total	\$ 1,878,292	5.59%	\$ 2,117,210	5.57%	\$ 417,216	6.53%	\$ 707,876	6.65%	\$ 5,120,594	5.81%

Types of Loans and Leases

M&I's consolidated loans and leases, classified by type, at December 31 of each year are (\$ in thousands):

	2002	2001	2000	1999	1998
Commercial, financial and agricultural	\$ 6,791,404	\$ 5,656,384	\$ 5,230,795	\$ 4,691,996	\$ 4,0