# FORM 8-K

Current report filing

Filing Date: **1994-05-17** | Period of Report: **1994-05-17**
**SEC Accession No.** 0000062741-94-000023



## FILER

**MARSHALL & ILSLEY CORP/WI/**

CIK:**62741**| IRS No.: **390968604** | State of Incorp.:**WI** | Fiscal Year End: **1231**
Type: **8-K** | Act: **34** | File No.: **000-01220** | Film No.: **94529125**
SIC: **6021** National commercial banks

Business Address
*770 N WATER ST*
*MILWAUKEE WI 53202*
*4147657801*

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): May 17, 1994.

Marshall & Ilsley Corporation

(Exact name of registrant as specified in its charter)

| Wisconsin | 0-1220 | 39-0968604 |
|---|---|---|
| (State or other jurisdiction of incorporation) | (Commission File Number) | (IRS 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

Item 5. Other Events.

Filed as an exhibit hereto and incorporated by reference herein is Valley Bancorporation's Quarterly Report on Form 10-Q for the period ended March 31, 1994.

Item 7. Financial Statements and Exhibits.

(c) Exhibit

99 Valley Bancorporation - Quarterly Report on Form 10-Q for the period ended March 31, 1994.

## SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned hereunto duly authorized.

Dated: May 17, 1994

MARSHALL & ILSLEY CORPORATION

By: /s/ M.A. Hatfield

M.A. Hatfield
Senior Vice President,
Secretary and Treasurer

## EXHIBIT INDEX

| Exhibit No. | Description | Sequential Page No. |
|---|---|---|
| 99 | Valley Bancorporation - Quarterly Report on Form 10-Q for the period ended March 31, 1994. | |

EXHIBIT 99

CONFORMED COPY
WITH EXHIBITS

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

# F O R M 10 - Q

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

For the quarterly period ended March 31, 1994

OR

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

For the transition period from _______________ to ________________

Commission file number 0-2453

VALLEY BANCORPORATION
(Exact name of registrant as specified in its charter)

| Wisconsin | 39-6047319 |
|---|---|
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |

| 100 W. Lawrence Street, P.O. Box 1061, Appleton, Wisconsin | 54912-1061 |
|---|---|
| (Address of principal executive offices) | (Zip Code) |

Registrant's telephone number, including area code: (414) 738-3830

No Change
(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 the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

| Class | Outstanding at May 1, 1994 |
|---|---|
| Common Stock, $.50 par value | 20,763,122 shares |

VALLEY BANCORPORATION
****
TABLE OF CONTENTS

QUARTERLY REPORT ON FORM 10-Q
FOR QUARTER ENDED MARCH 31, 1994

FORM 10-Q
PART 1 - FINANCIAL INFORMATION

ITEM 1. Financial Statements

Financial Highlights*

| Three Months Ended March 31 | 1994 | 1993 | % Change |
|---|---|---|---|
| Interest income | $ 75,841,032 | $ 77,771,077 | (2.48) |
| Interest expense | 31,728,586 | 35,115,169 | (9.64) |
| Net interest income | 44,112,446 | 42,655,908 | 3.41 |
| Taxable equivalent adjustment | 1,221,930 | 1,181,610 | 3.41 |
| Taxable equivalent net interest income | 45,334,376 | 43,837,518 | 3.41 |
| Provision for loan losses | 2,181,000 | 2,164,700 | .75 |
| Net income | 10,338,977 | 10,893,654 | (5.09) |
| Per share | .50 | .54 | (7.41) |
| Weighted average shares | 20,739,928 | 20,160,942 | 2.87 |
| Dividends per share | .24 | .23 | 4.35 |
| At March 31 | | | |
| Assets | $4,443,570,365 | $4,277,488,684 | 3.88 |
| Investment securities | 965,177,680 | 891,791,164 | 8.23 |
| Loans | 3,154,346,748 | 3,011,518,170 | 4.74 |
| Reserve for loan losses | 42,302,707 | 38,747,732 | 9.17 |
| Nonperforming loans | 23,200,000 | 25,901,000 | (10.43) |
| Deposits | 3,778,006,115 | 3,690,529,013 | 2.37 |
| Shareholders' equity | 365,183,367 | 334,600,943 | 9.14 |
| Per share | 17.60 | 16.55 | 6.34 |
| Other Information | | | |
| For the three month period | | | |

| | | |
|---|---|---|
| Return on average equity | 11.12% | 13.15% |
| Return on average assets | .92% | 1.02% |
| Net yield on earning assets | 4.34% | 4.42% |
| Efficiency ratio | 69.35% | 68.05% |
| At March 31 | | |
| Shareholders' equity as a percent of assets | 8.22% | 7.82% |
| Total risk-based capital as a percent of risk-weighted assets | 11.65% | 11.03% |
| Reserve for loan losses as a percent of loans | 1.34% | 1.29% |
| Nonperforming loans as a percent of loans | .74% | .86% |
| Employees - full time equivalents | 2,620 | 2,646 |
| Banking offices | 160 | 154 |

*Per share data has been restated for the three for two stock split effected in the form of a 50% stock dividend distributed on August 27, 1993.

Quarterly Financial Summary*
<TABLE>
<CAPTION>

| Quarter End | Assets | Share-holders' Equity | Average Assets | Return on Average Assets | Net Income | Per Share (post-split basis) Net Income | Dividends | Book Value | Stock Price Range** Low | High |
|---|---|---|---|---|---|---|---|---|---|---|
| <S> | <C> | <C> | <C> | <C> | <C> | <C> | <C> | <C> | <C> | <C> |
| March 31, 1994 | $4,444 | $365 | $4,507 | .92% | $10.339 | $.50 | $.2400 | $17.60 | $32.38 | $39.75 |
| Dec. 31, 1993 | 4,592 | 366 | 4,488 | 1.06 | 11.943 | .58 | .2350 | 17.65 | 35.00 | 39.63 |
| Sept. 30, 1993 | 4,394 | 350 | 4,361 | 1.06 | 11.581 | .57 | .2350 | 17.23 | 28.25 | 38.00 |
| June 30, 1993 | 4,337 | 343 | 4,307 | 1.07 | 11.485 | .57 | .2350 | 16.88 | 25.83 | 30.50 |
| March 31, 1993 | 4,277 | 335 | 4,284 | 1.02 | 10.894 | .54 | .2350 | 16.55 | 24.83 | 29.50 |
| Dec. 31, 1992 | 4,384 | 327 | 4,297 | 1.03 | 11.044 | .55 | .2125 | 16.24 | 23.00 | 26.00 |
| Sept. 30, 1992 | 4,303 | 319 | 4,265 | 1.06 | 11.258 | .57 | .2125 | 15.91 | 22.17 | 26.50 |
| June 30, 1992 | 3,957 | 281 | 3,884 | .95 | 9.252 | .50 | .2125 | 15.21 | 20.00 | 22.50 |
| March 31, 1992 | 3,898 | 275 | 3,873 | .85 | 8.226 | .45 | .2125 | 14.92 | 18.00 | 21.67 |

</TABLE>

*Dollars in millions except per share data. Per share data has been restated for three for two stock split effected in the form of a 50% stock dividend distributed on August 27, 1993.
**High and low sales prices in the NASDAQ National Market System as reported by NASDAQ.

VALLEY BANCORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(unaudited)

<TABLE>
<CAPTION>

| Assets | March 31, 1994 | December 31, 1993 | March 31, 1993 |
|---|---|---|---|
| <S> | <C> | <C> | <C> |
| Cash and due from banks | $ 143,616,611 | $ 202,369,683 | $ 168,343,140 |
| Federal funds sold and securities purchased under resale agreements | 7,885,000 | 2,640,000 | 600,000 |

| | | | |
|---|---|---|---|
| Total Cash and cash equivalents | 151,501,611 | 205,009,683 | 168,943,140 |
| Interest-bearing deposits with other banks | 765,113 | 756,010 | 10,083,323 |
| Investments: (Note 5) | | | |
| Investment securities available for sale (market value $758,398,376, $772,580,974, and $31,093,676, respectively) | 758,398,376 | 765,825,981 | 30,675,623 |
| Investment securities held to maturity (market value $207,308,558, $209,076,438, and $875,825,726,respectively) | 206,779,304 | 206,376,848 | 861,115,541 |
| Total investments | 965,177,680 | 972,202,829 | 891,791,164 |
| Mortgages held for sale | 14,813,679 | 60,420,582 | 32,374,629 |
| Loans: | | | |
| Commercial | 723,062,131 | 723,941,280 | 738,440,745 |
| Real estate-construction | 117,074,397 | 119,240,431 | 97,889,602 |
| Real estate-mortgage | 1,696,927,013 | 1,611,402,801 | 1,670,105,401 |
| Installment (primarily simple interest) | 644,104,819 | 650,376,812 | 563,785,022 |
| Total loans | 3,190,485,536 | 3,011,518,170 | 3,154,346,748 |
| Reserve for loan losses (Note 7) | (42,302,707) | (40,410,907) | (38,747,732) |
| Total loans, net | 3,112,044,041 | 3,150,074,629 | 2,972,770,438 |
| Premises and equipment, net | 101,232,128 | 103,271,225 | 103,507,341 |
| Other assets | 98,036,113 | 100,457,657 | 98,018,649 |
| Total assets | $4,443,570,365 | $4,592,192,615 | $4,277,488,684 |
| Liabilities and Shareholders' Equity | | | |
| Deposits: | | | |
| Noninterest-bearing | $ 497,662,177 | $ 571,750,622 | $ 450,312,759 |
| Interest-bearing | 3,280,343,938 | 3,406,358,245 | 3,240,216,254 |
| Total deposits | 3,778,006,115 | 3,978,108,867 | 3,690,529,013 |
| Short-term borrowings (Note 8) | 182,973,313 | 132,004,071 | 109,088,703 |
| Long-term borrowings | 53,235,529 | 53,251,185 | 68,296,056 |
| Other liabilities | 64,172,041 | 62,920,639 | 74,973,969 |
| Total liabilities | 4,078,386,998 | 4,226,284,762 | 3,942,887,741 |
| Shareholders' equity: | | | |
| Preferred stock, cumulative, par value $1 per share, 1,000,000 shares authorized; none issued (Note 4) | --- | --- | --- |
| Common stock, par value $.50 per share, 40,000,000 shares authorized; 20,753,522, 20,725,790, and 13,479,849 shares issued and outstanding, respectively | 10,376,761 | 10,362,895 | 6,739,925 |
| Capital surplus | 213,812,701 | 213,230,599 | 206,114,576 |
| Net unrealized losses on securities available for sale, net of tax | (6,681,426) | --- | --- |
| Retained Earnings | 147,675,331 | 142,314,359 | 121,746,442 |
| Total shareholders' equity | 365,183,367 | 365,907,853 | 334,600,943 |
| Total liabilities and shareholders' equity | $4,443,570,365 | $4,592,192,615 | $4,277,488,684 |

</TABLE>

The accompanying notes to consolidated financial statements are an integral part of these statements.

VALLEY BANCORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(unaudited)

| | Three months ended March 31, | |
|---|---|---|
| Interest Income | 1994 | 1993 |
| Interest and fees on loans | $63,873,838 | $64,984,137 |
| Interest on federal funds sold and securities purchased under resale agreements | 50,706 | 53,704 |
| Interest on interest-bearing deposits with other banks | 4,979 | 74,018 |
| Interest on investment securities-taxable | 9,467,650 | 10,033,418 |
| Interest on investment securities-nontaxable | 2,443,859 | 2,625,800 |
| Total interest income | 75,841,032 | 77,771,077 |
| Interest Expense | | |
| Deposits | 28,915,118 | 32,629,990 |
| Short-term borrowings | 1,459,957 | 705,097 |
| Long-term borrowings | 1,353,511 | 1,780,082 |
| Total interest expense | 31,728,586 | 35,115,169 |
| Net Interest Income | 44,112,446 | 42,655,908 |
| Provision for loan losses (Note 7) | 2,181,000 | 2,164,700 |
| Net Interest Income After Provision for Loan Losses | 41,931,446 | 40,491,208 |
| Noninterest Income | | |
| Service charges on deposit accounts | 4,142,595 | 3,939,212 |
| Trust service fees | 3,092,514 | 3,346,292 |
| Other service charges, commissions and fees | 3,079,593 | 3,058,693 |
| Insurance related | 1,970,880 | 1,874,568 |
| Credit card | 1,711,759 | 1,519,226 |
| Gain on sale of mortgage loans | 1,026,863 | 1,127,347 |
| Net securities gains (losses) | (21,700) | 148,220 |
| Other | 626,350 | 741,708 |
| Total noninterest income | 15,628,854 | 15,755,266 |
| Noninterest Expense | | |
| Salaries and wages | 18,025,204 | 17,391,595 |
| Pensions and other employee benefits | 6,010,807 | 5,560,267 |
| Equipment | 4,256,603 | 4,170,512 |
| Net occupancy | 3,612,026 | 3,326,183 |
| FDIC insurance | 2,195,235 | 2,041,726 |
| Credit card | 968,965 | 842,468 |
| Other | 7,226,108 | 7,118,200 |

| | | |
|---|---|---|
| Total noninterest expense | 42,294,948 | 40,450,951 |
| Income Before Income Taxes | 15,265,352 | 15,795,523 |
| Provision for income taxes | 4,926,375 | 4,901,869 |
| Net Income | $10,338,977 | $10,893,654 |
| Net Income Per Share* (Note 6) | $.50 | $.54 |

The accompanying notes to consolidated financial statements are an integral part of these statements.
*Per share data has been restated for the three for two stock split effected in the form of a 50% stock dividend declared on August 27, 1993.

VALLEY BANCORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(unaudited)

<TABLE>
<CAPTION>

| | Common Stock | | | Net unrealized gains/(losses) on securities available for sale, net of tax | | |
|---|---|---|---|---|---|---|
| | Shares | Par Value | Capital Surplus | | Retained Earnings | Total |
| Balance, December 31, 1992 | 13,414,513 | $ 6,707,257 | $204,642,969 | $ --- | $115,425,710 | $326,775,936 |
| Net income | --- | --- | --- | --- | 10,893,654 | 10,893,654 |
| Cash dividends | --- | --- | --- | --- | (4,572,922) | (4,572,922) |
| Common stock issued pursuant to stock option plans | 65,336 | 32,668 | 1,143,357 | --- | --- | 1,176,025 |
| Other | --- | --- | 328,250 | --- | --- | 328,250 |
| Balance, March 31, 1993 | 13,479,849 | $ 6,739,925 | $206,114,576 | $ --- | $121,746,442 | $334,600,943 |
| Balance, December 31, 1993 | 20,725,790 | $10,362,895 | $213,230,599 | $ --- | $142,314,359 | $365,907,853 |
| Net unrealized gain on securities available for sale, net of tax as of January 1, 1994 | --- | --- | --- | 4,390,745 | --- | 4,390,745 |
| Net income | --- | --- | --- | --- | 10,338,977 | 10,338,977 |
| Cash dividends | --- | --- | --- | --- | (4,978,005) | (4,978,005) |
| Common stock issued pursuant to stock option plans | 27,732 | 13,866 | 429,105 | --- | --- | 442,971 |
| Change in unrealized losses on securities available for sale, net of tax | --- | --- | --- | (11,072,171) | --- | (11,072,171) |
| Other | --- | --- | 152,997 | --- | --- | 152,997 |
| Balance, March 31, 1994 | 20,753,522 | $10,376,761 | $213,812,701 | $(6,681,426) | $147,675,331 | $365,183,367 |

</TABLE>

The accompanying notes to consolidated financial statements are an integral part of these statements.

VALLEY BANCORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)

| | Three months ended March 31, | |
|---|---|---|
| | 1994 | 1993 |

| | | |
|---|---|---|
| Operating Activities | | |
| Net Income | $ 10,338,977 | $ 10,893,654 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Provision for loan losses | 2,181,000 | 2,164,700 |
| Origination of loans held for resale | (88,518,000) | (72,172,000) |
| Proceeds from sale of loans held for resale | 135,247,911 | 79,408,990 |
| Depreciation | 3,543,231 | 3,433,842 |
| Amortization/accretion of intangibles | 530,058 | 479,530 |
| Accretion of valuation adjustments | (280,590) | (386,176) |
| Amortization of premium on investment securities | 2,237,659 | 2,339,008 |
| Accretion of discount on investment securities | (72,724) | (77,682) |
| Provision for (benefit of) deferred taxes | 520,184 | (100,978) |
| Other, net | 5,043,921 | 2,583,142 |
| Net cash provided by operating activities | 70,771,627 | 28,566,030 |
| Investing Activities | | |
| Proceeds from sales of investment securities | 136,057 | 2,675,210 |
| Proceeds from matured investment securities | 125,978,042 | 206,443,725 |
| Purchases of investment securities | (131,379,341) | (187,702,171) |
| Net decrease (increase) in time deposits with other banks | (9,103) | (6,133,400) |
| Net increase in loans | 35,316,653 | 3,839,433 |
| Purchase of premises and equipment, net of disposals | (1,458,853) | (3,439,276) |
| Recoveries of loans charged off | 574,074 | 605,723 |
| Net cash used by investing activities | 29,157,529 | 16,289,244 |
| Financing Activities | | |
| Net increase (decrease) in deposits | (199,855,780) | (141,670,152) |
| Net increase in short-term borrowings | 50,969,242 | 22,194,349 |
| Repayment of long-term borrowings | (15,656) | (14,378) |
| Net proceeds from issuance of common stock | 442,971 | 1,176,025 |
| Dividends paid | (4,978,005) | (4,572,922) |
| Net cash provided (used) by financing activities | (153,437,228) | (122,887,078) |
| Net increase (decrease) in cash and cash equivalents | (53,508,072) | (78,031,804) |
| Cash and cash equivalents at beginning of period | 205,009,683 | 246,974,944 |
| Cash and cash equivalents at end of period | $151,501,611 | $168,943,140 |
| Supplemental Disclosure of Cash Flow Information Cash Paid for: | | |
| Interest (net of amount capitalized) | $ 28,861,643 | $ 33,206,779 |
| Income taxes | 1,078,743 | 1,219,800 |

Supplemental Disclosure of Non-Cash
Investing and Financing Activities:

| | | |
|---|---|---|
| Loans charged off | $ 863,274 | $ 1,943,365 |
| Loans transferred to other real estate owned | 577,985 | 1,089,323 |

The accompanying notes to consolidated financial statements are an integral part of these statements.

VALLEY BANCORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

The condensed financial statements included herein have been prepared by the Company, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations, although the Company believes that the disclosures are adequate to make the information presented not misleading. It is suggested that these condensed financial statements be read in conjunction with the financial statements and notes thereto included in the Company's latest report on Form 10-K.

1. General:

The consolidated financial statements include the accounts of Valley Bancorporation (Valley) and subsidiaries. All material intercompany transactions and balances are eliminated in consolidation. The accounting and reporting policies of Valley conform to generally accepted accounting principles and to general practice within the banking industry, applied on a consistent basis. Valley has not changed its accounting and reporting policies from those stated in its 1993 Form 10-K except for adoption of SFAS No. 115 "Accounting for Certain Investments in Debt and Equity Securities" (see footnote 5). The consolidated statements included herein should be read in conjunction with the consolidated financial statements and footnotes contained in Valley's Form 10-K for the year ended December 31, 1993.

2. Interim Period Adjustments:

The consolidated financial statements contained herein reflect all adjustments (which are of a normal recurring nature) which are, in the opinion of the management, necessary for a fair statement of the results of operations for the unaudited interim periods. The results of operations for the interim periods are not necessarily indicative of the results to be expected for the entire year.

3. Business Combinations:

On November 6, 1993, Valley completed the cash acquisition of the $112 million-asset Pierce County Bank and Trust Company ("Pierce County"). Pierce County serves western Wisconsin markets through seven branch offices. This transaction was accounted for as a purchase and therefore not included in Valley's results of operations or statements of financial position prior to the date of acquisition.

Valley and Marshall & Ilsley Corporation (M&I) have entered into an Agreement and Plan of Merger, dated as of September 19, 1993 (the "Merger Agreement"), which provides for the combination of the two companies through a merger of Valley into M&I (the "Merger"). Under the Merger Agreement, each share of Valley common stock, par value $.50 per share ("Valley Common Stock"), outstanding at the time the Merger is consummated (other than any shares owned by M&I for its own account) will be converted into the right to receive 1.72 (the "Exchange Rate") shares of M&I common stock, par value $1.00 per share ("M&I Common Stock"), in a tax-free reorganization to be accounted for as a pooling of interests. Resulting fractional share interests will be paid in cash in lieu of issuing fractional shares. Then outstanding Valley employee and director stock options will be converted at the Exchange Rate into options to acquire M&I Common Stock.

The consummation of the Merger is currently expected to occur in the second quarter of 1994, and has been approved by the shareholders of both companies and received all requisite regulatory approvals. As a result of the merger various assets, specifically computer and software have impaired value and will be written off, subsequent to the merger. The current book value of tax assets is approximately $11.6 million.

In connection with the Merger Agreement, the parties entered into a Stock Option Agreement, dated as of September 19, 1993 (the "Stock Option Agreement"), by which Valley granted M&I an option (the "Option") to purchase up to 4,045,795 newly issued shares of Valley Common Stock (19.9% of the number of shares outstanding and subject to adjustment to maintain that percentage) at an exercise price of $35.75 per share, exercisable upon the occurrence of certain events and subject to certain conditions set forth in the Stock Option Agreement. The Stock Option Agreement also provides M&I the right to receive a termination fee to the extent that the Option has not been exercised after the occurrence of an event which makes the Option exercisable. The Option will expire upon consummation of the Merger.

4. Shareholder Rights Plan:

On October 21, 1988, Valley declared a distribution of one preferred share purchase right (a "Right") for each outstanding share of Valley Common Stock. As a result of the three for two stock split on August 27, 1993, each outstanding share of Valley Common Stock now evidences two-thirds of a Right. Detailed provisions of the Rights are set forth in a Rights Agreement, dated as of October 21, 1988, between Valley and The First National Bank of Boston.

The Rights Agreement may be amended by the Valley Board of Directors with the concurrence of a majority of the Board's independent directors. As required by the Merger Agreement, the Rights Agreement has been amended by Amendment No. 1 thereto, dated as of September 19, 1993, to provide that (a) neither M&I nor any affiliate of M&I shall be deemed an Acquiring Person, and (b) the execution, delivery and performance of the Merger Agreement and the Stock Option Agreement does not and will not result in a Shares Acquisition Date or Distribution Date (as such terms are defined in the Rights Agreement), provided that M&I and its affiliates acquire Valley Common Stock only in the manner specified. Under the Merger Agreement, the shares of M&I Common Stock into which the outstanding shares of Valley Common Stock will be converted in the Merger will be deemed to have been issued in full satisfaction of all rights pertaining to such shares of Valley Common Stock, including the Rights.

5. Investment Securities:

The book and fair values of investment securities are as follows:

5. Investment Securities:

The book and fair values of investment securities are as follows:

Note 5: Investment Securities

<TABLE>
<CAPTION>

| March 31, 1994 | Amortized Cost | Gross Unrealized Gains | Gross Unrealized (Losses) | Fair Value |
|---|---|---|---|---|
| Investment securities available for sale: | | | | |
| <S> | <C> | <C> | <C> | <C> |
| U.S. Government | $419,262,794 | $ 952,234 | $( 6,482,113) | $413,732,915 |
| CMOs | 185,983,555 | 205,427 | ( 5,007,314) | 181,181,668 |
| Federal Agencies | 122,993,366 | 725,238 | ( 1,278,696) | 122,439,908 |
| Other | 37,278,831 | 880,423 | (600) | 38,158,654 |
| Corporates | 2,885,231 | --- | --- | 2,885,231 |
| Total investment securities available for sale | $768,403,777 | $ 2,763,322 | $(12,768,723) | $758,398,376 |
| Investment securities held to maturity: | | | | |

| | | | | |
|---|---|---|---|---|
| State and political subdivisions | $206,779,304 | $ 1,159,783 | $( 630,529) | $207,308,558 |
| Total investment securities held to maturity | $206,779,304 | $ 1,159,783 | $( 630,529) | $207,308,558 |
| Total investments | $975,183,081 | $ 3,923,105 | $(13,399,252) | $965,706,934 |

| March 31, 1993 | Amortized Cost | Gross Unrealized Gains | (Losses) | Fair Value |
|---|---|---|---|---|
| Investment securities available for sale: | | | | |
| Mortgage pass-throughs | $ 20,441,747 | $ 364,719 | $ --- | $ 20,806,466 |
| Corporates | 10,233,876 | 53,334 | --- | 10,287,210 |
| Total investment securities available for sale | $ 30,675,623 | $ 418,053 | $ --- | $ 31,093,676 |
| Investment securities held to maturity: | | | | |
| U.S. Government | $309,900,573 | $ 6,183,658 | $ (33,147) | $316,051,084 |
| CMOs | 230,732,050 | 2,282,754 | (503,087) | 232,511,717 |
| Federal agencies | 99,388,214 | 1,261,473 | (222) | 100,649,465 |
| Other | 44,180,288 | 1,143,348 | --- | 45,323,636 |
| State and political subdivisions | 176,914,416 | 4,425,592 | (50,184) | 181,289,824 |
| Total investment securities held to maturity | $861,115,541 | $15,296,825 | $ (586,640) | $875,825,726 |
| Total investments | $891,791,164 | $15,714,878 | $ (586,640) | $906,919,402 |

</TABLE>

The book and fair values of investment securities at March 31, 1994, by contractual maturity, are shown below. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

| | Investment securities available for sale | |
|---|---|---|
| March 31, 1994 | Amortized Cost | Fair Value |
| Due in 1 year or less | $201,561,240 | $204,619,939 |
| Due after 1 through 5 years | 352,575,816 | 341,116,313 |
| Due after 5 through 10 years | 12,841,847 | 20,211,340 |
| Due after 10 years | 15,441,319 | 11,269,116 |
| Total excluding CMOs | $582,420,222 | $577,216,708 |
| CMOs | 185,983,555 | 181,181,668 |
| Total | $768,403,777 | $758,398,376 |

| | Investment securities held to maturity | |
|---|---|---|
| March 31, 1994 | Amortized Cost | Fair Value |
| Due in 1 year or less | $ 56,645,895 | $ 56,780,730 |
| Due after 1 through 5 years | 102,061,831 | 102,757,705 |
| Due after 5 through 10 years | 38,416,334 | 37,895,764 |
| Due after 10 years | 9,655,244 | 9,874,359 |
| Total excluding CMOs | $206,779,304 | $207,308,558 |
| CMOs | --- | --- |
| Total | $206,779,304 | $207,308,558 |

Proceeds from sales of investments in the first three months of 1994 were $136,057. Gross gains of $1,162 and gross losses of $22,862 were realized on security transactions in the first three months of 1994.

In May 1993, the FASB issued SFAS No. 115 "Accounting for Certain Investments in Debt and Equity Securities." This statement addresses the accounting and reporting for investments in equity securities that have readily determinable fair values and for all investments in debt securities. The statement calls for classification and accounting for investments in three categories; held-to-maturity to be accounted for at amortized cost, trading securities to be accounted for at fair value with unrealized gains and losses included in earnings, and available-for-sale securities to be accounted for at fair value with unrealized gains and losses excluded from earnings and reported in a separate component of shareholder's equity. Valley adopted this statement on January 1, 1994, and shows a decrease to shareholders' equity of $6.7 million as of March 31, 1994. If this new standard had been adopted by Valley at December 31, 1993, the result would have increased shareholders' equity by the net unrealized gain of $4,390,745, after tax.

6. Net Income Per Share:

Net income per share was computed based on the weighted average number of common shares outstanding (20,739,928 in 1994 and 20,160,942 in 1993 post-split basis). A three for two stock split effected in the form of a 50% stock dividend was declared July 20, 1993, payable August 27, 1993 to shareholders of record August 6, 1993. The common stock per share and average share information for 1993 has been retroactively restated for the stock split. The effect of outstanding stock options on net income per share is not material.

7. Reserve for Loan Losses:

An analysis of the reserve for loan losses is as follows:

Note 7: Reserve for Loan Losses

| | March 31, 1994 | March 31, 1993 |
|---|---|---|
| Balance, beginning of year | $40,410,907 | $37,920,674 |
| Provision charged to expense | 2,181,000 | 2,164,700 |
| Recoveries | 574,074 | 605,723 |
| Loans charged off | (863,274) | (1,943,365) |
| Net loans charged off | (289,200) | (1,337,642) |
| Balance, end of period | $42,302,707 | $38,747,732 |

8. Short-Term Borrowings:

Short-term borrowings consisted of the following:

Note 8: Short-Term Borrowings
<TABLE>
<CAPTION>

| <S> | <C> March 31, 1994 | <C> December 31, 1993 | <C> March 31, 1993 |
|---|---|---|---|
| Security repurchase agreements | $162,794,117 | $ 73,048,347 | $101,074,098 |
| U.S. Treasury demand notes | 4,829,196 | 7,605,724 | 6,664,605 |
| Lines of credit | 14,000,000 | 50,000,000 | --- |
| Other | 1,350,000 | 1,350,000 | 1,350,000 |
| Total | $182,973,313 | $132,004,071 | $109,088,703 |

==========================================================================================
</TABLE>

The average rates paid on these funds were 3.15%, 2.81% and 2.79% for the periods ending March 31, 1994, December 31, 1993 and March 31, 1993, respectively. The demand notes payable to the U.S. Treasury accrue interest at .25% below the weekly federal funds rate and are fully collateralized by subsidiary banks' investment securities. Securities sold under repurchase agreements are periodically borrowed on a short-term basis by subsidiary banks at prevailing rates for these funds.

Item 2. Management Discussion and Analysis of Financial Condition and Results of Operations

The following discussion will cover results of operations, asset quality, financial position and capital resources. The information included in this discussion is intended to assist readers in their analysis of, and should be read in conjunction with, the consolidated financial statements presented elsewhere in this report.

Results of Operations

Overview

In the first quarter of 1994, Valley reported net income of $10.339 million, a decrease of $.555 million, or 5.1%, from the $10.894 million in the first quarter of 1993. Earnings per share in the first quarter of 1994 were $.50 compared with $.54 (adjusted for three for two stock split on August 27, 1993) in the first quarter of 1993, a 7.4% decrease. Weighted average shares outstanding in the first three months of 1994 increased to 20,739,928 compared with 20,160,942 (adjusted) in the first three months of 1993.

Valley's earnings were lower than expected. Due to the impending merger with Marshall & Ilsley Corporation ("M&I"), Valley Senior Management, on its own initiative, began to reconfigure Valley with a view towards realizing expected efficiencies from the merger. This effort caused a diminution of focus resulting in a negative impact on product sales and net income.

Table 1 highlights the major factors affecting the changes in earnings per share for the first three months of the last three years.

Table 1: Changes in Earnings and Earnings Per Share
<TABLE>
<CAPTION>

| | Three months ended March 31, | | | | | | |
|---|---|---|---|---|---|---|---|
| | Income/Expense | | | Change | | | |
| | 1994 | 1993 | 1992 | 1994/1993 | | 1993/1992 | |
| (dollars in thousands) | Dollars | Dollars | Dollars | Dollars | Per Share** | Dollars | Per Share* |
| <S> | <C> | <C> | <C> | <C> | <C> | <C> | <C> |
| Net Income, prior period | N/A | N/A | N/A | $10,894 | $.54 | $ 8,226 | $.45 |
| Increase(decrease) attributable to: | | | | | | | |
| Interest Income* | $77,063 | $78,952 | $81,213 | (1,889) | (.09) | (2,261) | (.12) |
| Interest Expense | 31,729 | 35,115 | 41,121 | 3,386 | .17 | 6,006 | .33 |
| Net Interest Income | 45,334 | 43,837 | 40,092 | 1,497 | .08 | 3,745 | .21 |
| Provision for loan losses | 2,181 | 2,165 | 2,275 | (16) | --- | 110 | .01 |
| Noninterest Income: | | | | | | | |
| Service charges on deposit accounts | 4,143 | 3,939 | 3,592 | 204 | .01 | 347 | .02 |
| Trust service fees | 3,092 | 3,346 | 3,229 | (254) | (.01) | 117 | .01 |
| Other service charges, commissions and fees | 3,080 | 3,059 | 2,407 | 21 | --- | 652 | .03 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Insurance related | 1,971 | 1,875 | 1,747 | 96 | --- | 128 | .01 |
| Credit card | 1,712 | 1,519 | 1,348 | 193 | .01 | 171 | .01 |
| Net securities gains | (22) | 148 | 402 | (170) | (.01) | (254) | (.02) |
| Other | 1,653 | 1,869 | 800 | (216) | (.01) | 1,069 | .06 |
| Total noninterest income | 15,629 | 15,755 | 13,525 | (126) | (.01) | 2,230 | .12 |
| Noninterest Expense: | | | | | | | |
| Salaries and wages | 18,025 | 17,392 | 16,102 | (633) | (.03) | (1,290) | (.07) |
| Pensions and other employee benefits | 6,011 | 5,560 | 5,027 | (451) | (.02) | (533) | (.03) |
| Equipment | 4,257 | 4,171 | 4,088 | (86) | (.01) | (83) | --- |
| Net occupancy | 3,612 | 3,326 | 2,893 | (286) | (.01) | (433) | (.02) |
| FDIC Insurance | 2,195 | 2,042 | 1,922 | (153) | (.01) | (120) | (.01) |
| Credit card | 969 | 842 | 736 | (127) | (.01) | (106) | (.01) |
| Other | 7,226 | 7,118 | 7,290 | (108) | --- | 172 | .01 |
| Total noninterest expense | 42,295 | 40,451 | 38,058 | (1,844) | (.09) | (2,393) | (.13) |
| FTE income before taxes | 16,487 | 16,976 | 13,284 | (489) | (.02) | 3,692 | .20 |
| Income taxes | 4,926 | 4,901 | 3,235 | (25) | --- | (1,666) | (.09) |
| Taxable equivalent adjustment | 1,222 | 1,181 | 1,823 | (41) | (.01) | 642 | .03 |
| Additional shares outstanding | --- | --- | --- | --- | (.01) | --- | (.05) |
| Net change | --- | --- | --- | (555) | (.04) | 2,668 | .09 |
| Net income, current period | $10,339 | $10,894 | $ 8,226 | $10,339 | $.50 | $10,894 | $.54 |

</TABLE>

* Income computed on a fully taxable equivalent basis.
** Per share data has been restated for the three for two stock split effected in the form of a 50% stock dividend declared on August 27, 1993.

Valley's return on average equity decreased in the first three months of 1994 to 11.12%, down from the 13.15% reported in 1993. Return on average assets was .92% and 1.02% in the first three months of 1994 and 1993. Table 2 highlights certain relationships between significant financial ratios. The remainder of this discussion provides a more detailed explanation of factors affecting the change in results of operations and the change in financial position of Valley for the reported periods.

Table 2: Financial Ratios

| | Three months ended March 31, | | Years ended December 31, | | |
|---|---|---|---|---|---|
| | 1994 | 1993 | 1993 | 1992 | 1991 |
| Return on average assets | .92% | 1.02% | 1.05% | .98% | .82% |
| Divided by | | | | | |
| Average equity as a % of average assets | 8.25 | 7.73 | 7.89 | 7.31 | 7.00 |
| Equals | | | | | |
| Return on average equity (%) | 11.12 | 13.15 | 13.33 | 13.35 | 11.68 |
| Multiplied by | | | | | |
| Earnings retained (%) | 51.85 | 58.02 | 58.58 | 58.71 | 52.14 |
| Equals | | | | | |

| | | | | | |
|---|---|---|---|---|---|
| Internal capital growth (%) | 5.77 | 7.63 | 7.81 | 7.84 | 6.09 |

Net Interest Income

Net interest income is the most significant component of earnings. For analytical purposes, interest earned on tax exempt assets, such as industrial development revenue bonds and state and municipal obligations, is adjusted to a fully-taxable equivalent (FTE) basis. This adjustment is based upon the federal corporate income tax rate of 35% for first quarter 1994 and 34% for first quarter 1993, and any interest expense which is disallowed as a deduction in connection with carrying tax exempt assets. This FTE adjustment facilitates a meaningful comparison between taxable and nontaxable earning assets. Table 3 shows the sources of interest income and expense between years and the variances resulting from fluctuations in interest rate (rate) and changes in the amount (volume) of earning assets and interest-bearing liabilities.

Net interest income on an FTE basis increased to $45.334 million in the first three months of 1994, compared with $43.837 million in the first three months of 1993. This increase of $1.497 million was due primarily to a greater increase in the volume of average earning assets (a $217.472 million increase) than in average interest-bearing liabilities (a $135.931 million increase), which accounted for $3.908 million of the increase in net interest income. Increased loans (a $146.304 million increase) primarily accounted for the increase in average earning assets. Approximately 44% of average earning asset growth was external, due to the Pierce County Bank & Trust Company ("Pierce County") acquisition, while the remaining 56% was internally generated. Average savings deposits (a $103.341 million increase) comprised the majority of the increase in average interest-bearing liabilities.

The continued extraordinary volume of mortgage loan refinancings has negatively impacted Valley's net interest income. The impact on earning assets from the declining rate environment (a decrease of $6.020 million) was offset by aggressive repricing of interest-bearing liabilities (a $3.608 million decrease). The resulting $2.411 million decrease in net interest income was offset by a $3.908 million increase in net interest income from increased average balances, resulting in the $1.497 million increase in net interest income between the first three months of 1994 and 1993. Valley's net interest margin declined to 4.34% in the first three months of 1994, down from 4.42% for the first three months of 1993.

Table 3: Changes in Net Interest Income - Taxable Equivalent Basis
<TABLE>
<CAPTION>

| | Average Balances | | | Average Rates | | Interest | | 1994-1993 | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Three months ended March 31, | | | Three months ended March 31, | | Three months ended March 31, | | | | |
| (dollars in thousands) | 1994 | 1993 | Increase/ (Decrease) | 1994 | 1993 | 1994 | 1993 | Income Expense Variance | Volume Variance | Rate Variance |
| <S> | <C> | <C> | <C> | <C> | <C> | <C> | <C> | <C> | <C> | <C> |
| Loans(1) | $3,192,336 | $3,046,032 | $146,304 | 8.00% | 8.53% | $63,874 | $64,984 | $(1,110) | $3,037 | $(4,147) |
| Funds sold | 6,577 | 8,827 | (2,250) | 3.10 | 2.45 | 51 | 54 | (3) | (16) | 13 |
| Investment securities-taxable(2) | 776,668 | 725,071 | 51,597 | 4.88 | 5.58 | 9,472 | 10,107 | (635) | 687 | (1,322) |
| Investment securities-nontaxable | 205,751 | 183,930 | 21,821 | 7.13 | 8.28 | 3,666 | 3,807 | (141) | 423 | (564) |
| Total earning assets | 4,181,332 | 3,963,860 | 217,472 | 7.37 | 7.97 | 77,063 | 78,952 | (1,889) | 4,131 | (6,020) |
| Reserve for loan losses | (41,459) | (38,798) | (2,661) | | | | | | | |
| Cash and due from banks | 173,094 | 164,480 | 8,614 | | | | | | | |
| Premises and equipment | 102,518 | 103,643 | (1,125) | | | | | | | |

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Other assets | 91,538 | 90,425 | 1,113 | | | | | | | |
| Total assets | $4,507,023 | $4,283,610 | $223,413 | | | | | | | |
| N.O.W. and money market deposits | $ 800,602 | $ 773,698 | $ 26,904 | 1.85 | 2.25 | 3,704 | 4,357 | (653) | 147 | (800) |
| Savings deposits | 441,395 | 338,054 | 103,341 | 2.14 | 2.33 | 2,366 | 1,971 | 395 | 564 | (169) |
| Time deposits | 2,090,005 | 2,153,459 | (63,454) | 4.37 | 4.89 | 22,845 | 26,302 | (3,457) | (757) | (2,700) |
| Short-term borrowings | 185,372 | 101,136 | 84,236 | 3.15 | 2.79 | 1,460 | 705 | 755 | 653 | 102 |
| Long-term borrowings | 53,244 | 68,340 | (15,096) | 10.17 | 10.42 | 1,354 | 1,780 | (426) | (385) | (41) |
| Total interest-bearing liabilities | 3,570,618 | 3,434,687 | 135,931 | 3.55 | 4.09 | 31,729 | 35,115 | (3,386) | 222 | (3,608) |
| Demand deposits | 506,277 | 452,717 | 53,560 | | | | | | | |
| Accrued expenses and other liabilities | 58,284 | 64,907 | (6,623) | | | | | | | |
| Shareholders' equity | 371,844 | 331,299 | 40,545 | | | | | | | |
| Total liabilities and shareholders' equity | $4,507,023 | $4,283,610 | $223,413 | | | | | | | |
| Rate spread | | | | 3.82 | 3.88 | | | | | |
| Net interest margin/revenue | | | | 4.34% | 4.42% | $45,334 | $43,837 | $1,497 | $3,908 | $(2,411) |

</TABLE>

Changes in interest due to volume and rate were defined as follows: Volume variance-change in average balance multiplied by prior year rate; Rate variance-change in rate multiplied by prior year average balance; and Rate/Volume variance-change in average balance multiplied by the change in rate. The change in interest due to both rate and volume has been allocated proportionately to volume variance and rate variance based on the relationship of the absolute dollar change in each.

(1) Nonperforming loans and mortgages held for sale are included in average balances used to determine average rates.
(2) Includes time deposits with other banks and investment securities available for sale.

The net interest margin was affected not only by the increase in average balances and declining interest rates, as noted above, but also by changes in the mix of earning assets and interest-bearing liabilities. Table 4 shows the sources and mix of net interest income. As shown in this table, the mix of nontaxable interest income to total interest on earning assets declined significantly from 1992 to 1994. The decrease in the level of nontaxable interest income resulted from Valley's use of other investment alternatives in response to the decrease in the FTE yields of "bank qualified" municipal obligations, in relation to other taxable investment alternatives. Valley's commitment to lending is evident in the increase in the relationship of interest and fees on loans as a percent of total interest on earning assets for the years shown.

Provision for Loan Losses

In the first three months of 1994, the provision for loan losses amounted to $2.181 million compared with $2.165 million in the first three months of 1993. The 1994 provision for the first three months comprises two elements: 1) a general increase in the reserve for loan losses from 1.27% of loans at December 31, 1993 to 1.34% at March 31, 1994 (amounting to $1.892 million); and 2) restoration of the reserve for the first three months of 1994 net charge-offs (amounting to $.289 million).

Noninterest Income

Total noninterest income amounted to $15.629 million in the first three months of 1994 compared to $15.755 million in 1993 and $13.525 million in 1992, a .8% decrease in 1994 from 1993 and a 16.5% increase in 1993 from 1992. All categories of noninterest income reflect increases due to Valley's acquisitions of United Savings and Loan Association ("United") in July 1992 and Pierce County in November 1993. Their results of operations are included in Valley's from the dates of acquisition forward. Table 5 shows the major categories of noninterest income for the first three months of 1994, 1993 and 1992, and the percentage change between years.

Major changes in noninterest income categories over the periods shown include insurance related income, gain on sales of mortgage loans and annuity commissions.

Service charges on deposit accounts make up the largest portion of noninterest income. Service charges increased by $.204 million, or 5.2% over the amounts recorded in the first three months of 1993.

Valley recognized accretion of negative goodwill in the amount of $.394 million in the first three months of 1994 and 1993, substantially all of which is attributable to the United acquisition. The negative goodwill attributable to United is being accreted over a 10 year period, in equal annual amounts of $1.537 million.

Net securities losses amounted to $0.22 million in the first three months of 1994 compared to net securities gains of $.148 million and $.402 million in 1993 and 1992, respectively. All securities sold were classified as securities available for sale.

Table 4: Sources of Net Interest Income
<TABLE>
<CAPTION>

| | Three months ended March 31, | | | | | |
|---|---|---|---|---|---|---|
| (dollars in thousands) | 1994 | Mix | 1993 | Mix | 1992 | Mix |
| Interest Income | | | | | | |
| <S> | <C> | <C> | <C> | <C> | <C> | <C> |
| Loans (1) | $63,874 | 82.9% | $64,984 | 82.3% | $63,623 | 78.4% |
| Funds sold | 51 | .1 | 54 | .1 | 261 | .3 |
| Taxable securities (2) | 9,472 | 12.3 | 10,107 | 12.8 | 11,455 | 14.1 |
| Nontaxable securities | 3,666 | 4.7 | 3,807 | 4.8 | 5,874 | 7.2 |
| Total earning assets | $77,063 | 100.0% | $78,952 | 100.0% | $81,213 | 100.0% |
| Interest Expense | | | | | | |
| N.O.W. & money market deposits | $ 3,704 | 11.7% | $ 4,357 | 12.4% | $5,480 | 13.3% |
| Savings deposits | 2,366 | 7.4 | 1,971 | 5.6 | 2,320 | 5.6 |
| Time deposits | 22,845 | 72.0 | 26,302 | 74.9 | 30,380 | 73.9 |
| Short-term borrowings | 1,460 | 4.6 | 705 | 2.0 | 1,017 | 2.5 |
| Long-term borrowings | 1,354 | 4.3 | 1,780 | 5.1 | 1,924 | 4.7 |
| Total interest-bearing funds | $31,729 | 100.0% | $35,115 | 100.0% | $41,121 | 100.0% |
| Net interest income -- taxable equivalent basis | $45,334 | | $43,837 | | $40,092 | |
| Average Rates | | | | | | |
| Earning assets | 7.37% | | 7.97% | | 9.14% | |
| Interest-bearing funds | 3.55 | | 4.09 | | 5.24 | |
| Net yield on earning assets | 3.82 | | 4.42 | | 4.51 | |

(1) Includes mortgages held for sale.
(2) Includes time deposits with other banks and investment securities available for sale.

Table 5: Noninterest Income

</TABLE>
<TABLE>
<CAPTION>

| (dollars in thousands) | Three months ended March 31, 1994 | 1993 | 1992 | % Increase (Decrease) 1994-1993 | 1993-1992 |
|---|---|---|---|---|---|
| <S> | <C> | <C> | <C> | <C> | <C> |
| Service charges on deposit accounts | $ 4,143 | $ 3,939 | $ 3,592 | 5.2 | 9.7 |
| Trust service fees | 3,092 | 3,346 | 3,229 | (7.6) | 3.6 |
| Other service charges, commissions and fees | 3,080 | 3,059 | 2,407 | .1 | 27.1 |
| Credit card | 1,712 | 1,519 | 1,348 | 12.7 | 12.7 |
| Insurance related | 1,588 | 1,334 | 1,382 | 19.0 | (3.5) |
| Gain on sale of mortgage loans | 1,027 | 1,127 | 598 | (8.9) | 88.5 |
| Accretion of negative goodwill | 394 | 394 | -- | -- | NMF |
| Annuity commissions | 383 | 541 | 365 | (29.2) | 48.2 |
| Other | 232 | 348 | 202 | (33.3) | 72.3 |
| Subtotal | 15,651 | 15,607 | 13,123 | .3 | 18.9 |
| Net securities gains | (22) | 148 | 402 | NMF | (63.2) |
| Total noninterest income | $15,629 | $15,755 | $13,525 | (.8) | 16.5 |

</TABLE>

Noninterest Expense

Total noninterest expense amounted to $42.295 million in the first three months of 1994 compared to $40.451 million in 1993 and $38.058 million in 1992, a 4.6% increase in 1994 from 1993 and a 6.3% increase in 1993 from 1992. All categories of noninterest expense reflect increases due to Valley's acquisitions of United in July 1992 and Pierce County in November 1993. Their results of operations are included in Valley's from the dates of acquisition forward. Table 6 shows the major categories of noninterest expense for the first three months of 1994, 1993 and 1992, and the percentage change between years.

The largest component of noninterest expense is salaries and wages. Salaries and wages increased to $18.025 million for the first three months of 1994, up from $17.392 for the first three months of 1993 and $16.102 million for the first three months of 1991. Pensions and other employee benefits totalled $6.011 in the first quarter of 1994 compared to $5.560 million in the first quarter of 1993 and $5.027 million for the first quarter of 1992. These two categories make up over 56% of Valley's total noninterest expense.

In 1992, the Financial Accounting Standards Board (FASB) issued SFAS No. 112 "Employers' Accounting for Post Employment Benefits." This statement requires accrual accounting for the estimated cost of benefits provided to former employees after employment, but before retirement. Valley is required to adopt the new standard no later than 1994. Valley currently accrues for severance benefits when identified and therefore, has determined that adoption of the new standard will not have a material impact.

Other expenses include a wide range of miscellaneous expense types. Other expenses for the first three months of 1994 were $1.026 million, $.802 million for the first three months of 1993, and $1.352 million for the first three months of 1992.

Table 6: Noninterest Expense
<TABLE>
<CAPTION>

| (dollars in thousands) | Three months ended March 31, 1994 | 1993 | 1992 | % Increase (Decrease) 1994-1993 | 1993-1992 |
|---|---|---|---|---|---|
| <S> | <C> | <C> | <C> | <C> | <C> |

| | | | | | |
|---|---|---|---|---|---|
| Salaries and wages | $18,025 | $17,392 | $16,102 | 3.6 | 8.0 |
| Pensions and other employee benefits | 6,011 | 5,560 | 5,027 | 8.1 | 10.6 |
| Equipment | 4,257 | 4,171 | 4,088 | 2.1 | 2.0 |
| Net occupancy | 3,612 | 3,326 | 2,893 | 8.6 | 15.0 |
| FDIC insurance | 2,195 | 2,042 | 1,922 | 7.5 | 6.2 |
| Communication/Delivery | 1,715 | 1,652 | 1,575 | 3.8 | 4.9 |
| Professional services | 1,438 | 1,386 | 1,256 | 3.8 | 10.4 |
| Business development | 1,199 | 1,554 | 1,413 | (22.8) | 10.0 |
| Credit card | 969 | 842 | 736 | 15.1 | 14.4 |
| Processing costs | 924 | 851 | 834 | 8.6 | 2.0 |
| Intangible amortization | 924 | 873 | 860 | 5.8 | 1.5 |
| Other | 1,026 | 802 | 1,352 | 27.9 | (40.7) |
| Total noninterest expense | $42,295 | $40,451 | $38,058 | 4.6 | 6.3 |

</TABLE>

Income Taxes

Income tax expense was $4.926 million in the first three months of 1994 compared to $4.901 million in the first three months of 1993. The increase in tax expense in 1994 of $.025 million resulted primarily from two factors: 1) the federal corporate tax rate increase from 34% to 35%; and 2) a decrease in nontaxable interest income of $.182 million.

Financial Position

Total average assets were $4.507 billion in the first quarter of 1994, an increase of $223 million over the first quarter of 1993. Approximately $110 million of this growth was due to the acquisition of Pierce County and $113 million was internally generated. Average earning assets have consistently accounted for over 90% of total average assets. Average earning assets represented 92.8% of total average assets for the first quarter of 1994 compared to 92.5% in the first quarter of 1993. Average loans increased to $3.192 billion in the first quarter of 1994 compared to $3.046 billion in the first quarter of 1993. Valley also produced approximately $129 million of real estate loans in the first three months of 1994, not included in the March 31, 1994 period end balances, which were packaged and sold into the secondary market. Valley's general policy is not to retain long-term fixed rate mortgages in its loan portfolio.

Loans as a percent of assets have increased to 71.0% at March 31, 1994 compared to 69.5% at December 31, 1993 and 70.4% at March 31, 1993. Table 7 shows the loan portfolio mix at March 31, 1994. Table 10 provides an analysis of average balances, mix, interest, average rates and key ratios for the five most recent quarters.

Valley adopted SFAS No. 107 "Disclosures About Fair Value of Financial Instruments" in the fourth quarter of 1992. There have been no changes to the methodology and assumptions used to estimate fair values at December 31, 1993, and the relative mix of financial instruments on the balance sheet as well as off-balance sheet instruments have not significantly changed since December 31, 1993. Management believes the estimated fair values disclosed at December 31, 1993 continue to depict the relationship of carrying value to estimated fair value for financial instruments.

Asset Quality

The most significant risk of loss in a financial institution is from its loan portfolio. Valley manages its loan portfolio to limit risk through initial review of credit applications, approval of loans by a review committee and loan documentation and compliance procedures. Valley also has a corporate credit administration and loan review staff. This staff performs loan reviews at subsidiary banks. This review process assists banks in early recognition of problem credits. This staff also provides expertise in loan workouts to limit credit losses. Valley's banks prepare quarterly problem loan action reports (PLARs) to monitor nonperforming loans and determine the adequacy of the reserve. All loans classified for regulatory purposes as loss, doubtful or substandard are included in the PLARs. The PLARs also include all loans classified as nonperforming.

Table 7: Loan Portfolio Review

| (dollars in thousands) | March 31, 1994 | MIX |
|---|---|---|
| Commercial real estate | $ 824,663 | 26.1% |
| Real estate-mortgage (1st lien) | 754,013 | 23.9 |
| Commercial | 592,692 | 18.8 |
| Consumer | 360,216 | 11.4 |
| Agricultural | 204,187 | 6.5 |
| Real estate-mortgage (2nd lien) | 154,751 | 4.9 |
| Real estate-construction | 117,074 | 3.7 |
| Check credit and credit card | 62,851 | 2.0 |
| Student | 66,287 | 2.1 |
| Leasing | 17,613 | .6 |
| Total loans | 3,154,347 | 100.0% |
| Reserve for loan losses | (42,303) | |
| Total loans, net | $3,112,044 | |
| Loans as a % of assets | 70.9% | |

Senior management also reviews the PLARs quarterly with the corporate credit administration and loan review staff to determine if there are any trends or uncertainties which management reasonably expects will materially impact future operating results, liquidity, or capital resources. In addition, senior management determines if there is any information regarding large credits that may cause management to question the ability of such borrowers to comply with loan repayment terms. Valley's lending philosophy is to make high-quality loans to Wisconsin consumers and businesses, allowing the banks to efficiently monitor and control credit risk. The majority of the portfolio is composed of loans to individuals and small and medium-sized businesses. Consistent with its corporate-wide lending and investment policies, Valley's banks' portfolios have no foreign loans, energy loans or out-of-market credit card balances. Valley's loan underwriting policies discourage the making of out-of-market real estate loans and loans relating to highly leveraged transactions. Valley's banks do not hold non-investment grade debt securities in their investment portfolios and Valley does not invest in any interest only or principal only investment securities.

Loan loss exposure is also limited through industry diversification. Valley's loan portfolio is well diversified with no excessive concentration in any one industry. Agricultural loans at Valley represent approximately 6.5% of the portfolio at March 31, 1994, while loans to finance non-owner occupied commercial real estate development amounted to approximately $485 million, or 15.2% of December 31, 1993 loans outstanding. Valley does a limited amount of equipment lease financing, comprising mainly leases to individuals and small and

medium businesses. Leases outstanding remained at $17.6 million at March 31, 1994 compared to $17.6 million at March 31, 1993.

In accordance with regulatory standards, loans are placed in nonaccrual status when they reach a prescribed delinquency stage, generally when payments are 90 days past due or when other events occur which make the collection of all principal and interest owing on the loan questionable.

Nonperforming loans, which include nonaccrual loans, loans past due 90 days or more and loans with restructured terms, totalled $23.200 million at March 31, 1994 compared to $20.586 million and $25.901 million reported at December 31, 1993 and March 31, 1993, respectively. Nonperforming loans as a percent of loans outstanding decreased to .74% at March 31, 1994 as compared to .65% and .86% at December 31, 1993 and March 31, 1993, respectively.

Nonperforming assets, which include nonperforming loans and other real estate owned acquired in foreclosure, totaled $25.337 million at March 31, 1994, or .57% of total assets, compared to $22.880 million or .50% of total assets and $30.233 million or .71% of total assets at December 31, 1993 and March 31, 1993, respectively. In addition to the loans classified as nonperforming, there were other loans aggregating approximately $66 million at March 31, 1994 and $60 million at March 31, 1993, where management is closely following the borrowers' ability to continue to comply with loan repayment terms. Current conditions do not warrant classification of these loans as nonperforming, nor is any loss of principal on these loans considered likely at this time.

The reserve for loans losses (reserve) totaled $42.303 million or 1.34% of total loans at March 31, 1994 up from $38.748 million or 1.28% of total loans at March 31, 1993 and $40.411 or 1.27% of total loans at December 31, 1993. The level of reserve is established based upon management's assessment of overall risk in the loan portfolio. Valley uses a loan grading system to continuously monitor problem credits. A loan is graded based upon a number of factors, which include collateral values, financial condition of borrowers and assessment of ultimate collectibility. The reserve is based upon reasonable estimates, from which actual losses may vary. Reserve estimates are reviewed quarterly and evaluated based upon current conditions relating to individual customers and the economy in general. Adjustments to the reserve are reflected through the provision for loan losses. Valley implemented a new method of establishing and evaluating the reserve levels at all of its affiliate banks, based upon current regulatory methodology, in the fourth quarter of 1992. This method sets reserve requirements based upon a combination of estimated potential losses plus an additional percentage of the remaining balance of problem loans, and establishes a general reserve based upon the loan composition of the bank's loan portfolio.

Loans charged off, net of recoveries, totaled $.289 million in the first three months of 1994 compared with $1.338 million in the first three months of 1993. Net loans charged off as a percent of average loans was .01% in the first three months of 1994 and .04% in the first three months of 1993.

Valley has an environmental policy which establishes procedures to limit the exposure for loss related to environmental problems on any properties foreclosed upon or properties securing extensions of credit by Valley. This policy generally requires the borrower to complete an environmental questionnaire and calls for an on site inspection of the real estate securing the loan. The policy also requires that, prior to taking title to any real property by foreclosure, an investigation must be made of the property to determine if there is any potential environmental liability.

Table 8 shows balances of nonperforming loans and assets, reserve and key asset quality performance ratios.

Table 8: Nonperforming Assets and Reserve for Loan Losses

| (dollars in thousands) | March 31, 1994 | December 31, 1993 | March 31, 1993 |
|---|---|---|---|
| Nonperforming Assets: | | | |
| Nonaccrual loans | $19,139 | $16,306 | $21,359 |
| Restructured loans | 2,054 | 2,068 | 3,128 |
| Loans past due 90 days or more | 2,007 | 2,212 | 1,414 |

| | | | |
|---|---|---|---|
| Total nonperforming loans | 23,200 | 20,586 | 25,901 |
| Other real estate owned | 2,137 | 2,294 | 4,332 |
| Total nonperforming assets | $25,337 | $22,880 | $30,233 |
| Nonperforming loans as a % of loans | .74% | .65% | .86% |
| Nonperforming assets as a % of assets | .57% | .50% | .71% |
| Reserve for Loan Losses: | | | |
| At period end | $42,303 | $40,411 | $38,748 |
| As a % of loans | 1.34% | 1.27% | 1.28% |
| As a % of nonperforming loans | 182.34% | 196.30% | 149.60% |
| As a % of nonaccrual loans | 221.03% | 247.83% | 181.41% |

Capital Resources

Shareholders' equity increased to $365.183 million at March 31, 1994 compared to $334.601 million at March 31, 1993. The increase of $30.582 million between years was comprised mainly of net earnings retained.

Table 9 shows Valley's consolidated capital structure and risk-based capital ratios for March 31, 1994, December 31, 1993 and March 31, 1993. Valley's total capital ratio of 11.65% at March 31, 1994 is well above the regulatory minimum of 8.00%. Valley's Tier I ratio of 10.40% at March 31, 1994 is also well above the regulatory minimum of 4.00%.

Table 9: Capital Resources
<TABLE>
<CAPTION>

| | March 31, 1994 | December 31, 1993 | March 31, 1993 |
|---|---|---|---|
| Capital Structure | | | |
| <S> | <C> | <C> | <C> |
| Long-term debt | $ 53,235,529 | $ 53,251,185 | $ 68,296,056 |
| Shareholders' equity | 365,183,367 | 365,907,853 | 334,600,943 |
| Total capitalization | $ 418,418,896 | $ 419,159,038 | $ 402,896,999 |
| Tangible equity | $ 330,267,672 | $ 330,653,918 | $ 300,039,061 |
| Intangible Assets | | | |
| Goodwill - parent | $ 17,113,345 | $ 17,362,541 | $ 18,110,135 |
| Core deposit premium - parent | 1,259,607 | 1,512,782 | 2,290,553 |
| Subsidiaries: | | | |
| Goodwill | 13,913,814 | 13,621,866 | 10,899,328 |
| Core deposit premium | 2,419,361 | 2,514,175 | 2,799,095 |
| Other identifiable intangibles | 209,568 | 242,571 | 462,771 |
| Total intangibles | $ 34,915,695 | $ 35,253,935 | $ 34,561,882 |
| Risk-Based Capital | | | |
| Tier I capital: | | | |
| Shareholders' equity | $ 365,183,367 | $ 365,907,853 | $ 334,600,943 |
| Minority interest | 155,102 | 330,030 | 164,895 |
| Less intangibles | (34,915,695) | (35,253,935) | (34,203,956) |
| Total Tier I capital | $ 330,422,774 | $ 330,983,948 | $ 300,203,956 |
| Tier II capital: | | | |

| | | | |
|---|---|---|---|
| Allowable reserve for loan losses | $ 42,302,707 | $ 40,410,907 | $ 38,747,732 |
| Qualifying long-term debt | --- | --- | 3,000,000 |
| Total Tier II capital | $ 42,302,707 | $ 40,410,907 | $ 41,747,732 |
| Total capital | $ 372,725,481 | $ 371,394,855 | $ 341,951,688 |
| Risk-Weighted Assets | $3,177,914,000 | $3,294,529,000 | $3,099,836,000 |
| Risk-based capital ratios: | | | |
| Tier I | 10.40% | 10.05% | 9.68% |
| Total | 11.65% | 11.27% | 11.03% |
| Tier I Leverage | 7.56% | 7.26% | 7.08% |

Table 10: Quarterly Average Balances, Mix, Interest, Average Rates and Key Ratios

</TABLE>
<TABLE>
<CAPTION>

| (dollars in thousands) | First Quarter - 1994 Average Balance | Mix | Interest | Average Rate | Fourth Quarter - 1993 Average Balance | Mix | Interest | Average Rate |
|---|---|---|---|---|---|---|---|---|
| <S> | <C> | <C> | <C> | <C> | <C> | <C> | <C> | <C> |
| Assets | | | | | | | | |
| Earning Assets: | | | | | | | | |
| Loans, net of unearned discount (1) | $3,192,336 | 70.8 % | $63,874 | 8.00 % | $3,191,052 | 71.1 % | $65,969 | 8.27 % |
| Funds sold | 6,577 | 0.2 | 51 | 3.10 | 4,411 | 0.1 | 27 | 2.45 |
| Investment securities | | | | | | | | |
| Taxable (2) | 776,668 | 17.2 | 9,472 | 4.88 | 758,015 | 16.9 | 9,595 | 5.06 |
| Nontaxable | 205,751 | 4.6 | 3,666 | 7.13 | 202,845 | 4.5 | 3,806 | 7.50 |
| Total investment securities | 982,419 | 21.8 | 13,138 | 5.35 | 960,860 | 21.4 | 13,401 | 5.58 |
| Total earning assets | 4,181,332 | 92.8 | 77,063 | 7.37 | 4,156,323 | 92.6 | 79,397 | 7.64 |
| Reserve for loan losses | (41,459) | -0.9 | | | (40,215) | -0.9 | | |
| Cash and due from banks | 173,094 | 3.8 | | | 180,769 | 4.0 | | |
| Premises and equipment, net | 102,518 | 2.3 | | | 102,982 | 2.3 | | |
| Other assets | 91,538 | 2.0 | | | 88,435 | 2.0 | | |
| Total assets | $4,507,023 | 100.0 % | | | $4,488,294 | 100.0 % | | |
| Liabilities and Shareholders' Equity | | | | | | | | |
| Interest-bearing liabilities: | | | | | | | | |
| N.O.W. and money market deposits | $ 800,602 | 17.7 % | $ 3,704 | 1.85 % | $798,684 | 17.8 % | $ 4,056 | 2.03 % |
| Savings deposits | 441,395 | 9.8 | 2,366 | 2.14 | 437,181 | 9.7 | 2,660 | 2.43 |
| Time deposits | 2,090,005 | 46.4 | 22,845 | 4.37 | 2,121,063 | 47.3 | 24,177 | 4.56 |
| Short-term borrowings | 185,372 | 4.1 | 1,460 | 3.15 | 103,529 | 2.3 | 761 | 2.94 |
| Long-term borrowings | 53,244 | 1.2 | 1,354 | 10.17 | 53,150 | 1.1 | 1,352 | 10.17 |
| Total interest-bearing liabilities | 3,570,618 | 79.2 | 31,729 | 3.55 | 3,513,607 | 78.2 | 33,006 | 3.76 |
| Demand deposits | 506,277 | 11.2 | | | 541,159 | 12.1 | | |
| Accrued expenses and other liabilities | 58,284 | 1.3 | | | 74,707 | 1.7 | | |
| Total liabilities | 4,135,179 | 91.7 | | | 4,129,473 | 92.0 | | |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Shareholders' equity | 371,844 | 8.3 | | | 358,821 | 8.0 | | |
| Total liabilities and shareholders' equity | $4,507,023 | 100.0 % | | | $4,488,294 | 100.0 % | | |
| Taxable equivalent net interest income and rate spread | | | $45,334 | 3.82 % | | | $46,391 | 3.88 % |
| Net yield on earning assets | | | | 4.34 % | | | | 4.45 % |

(1) Non-performing loans and mortgages held for sale are included in average balances used to determine average rates.
(2) Includes time deposits with other banks and investment securities available for sale.

| Key Average Balances Ratios | | |
|---|---|---|
| Loans to assets | 70.83 % | 71.10 % |
| Earning assets to total assets | 92.77 | 92.60 |
| Reserve for loan losses to loans | 1.30 | 1.26 |
| Net loans charged off as a % of loans | 0.01 | 0.10 |
| Long-term borrowings to shareholders equity | 14.32 | 14.81 |
| Shareholders' equity to total assets | 8.25 | 7.99 |

</TABLE>

Table 10: Quarterly Average Balances, Mix, Interest, Average Rates and Key Ratios

<TABLE>
<CAPTION>

| | Third Quarter - 1993 | | | | Second Quarter - 1993 | | | |
|---|---|---|---|---|---|---|---|---|
| (dollars in thousands) | Average Balance | Mix | Interest | Average Rate | Average Balance | Mix | Interest | Average Rate |
| <S> | <C> | <C> | <C> | <C> | <C> | <C> | <C> | <C> |
| Assets | | | | | | | | |
| Earning Assets: | | | | | | | | |
| Loans, net of unearned discount (1) | $3,123,147 | 71.6 % | $65,667 | 8.41 % | $3,086,578 | 71.7 % | $65,643 | 8.51 % |
| Funds sold | 8,329 | 0.2 | 39 | 1.88 | 2,137 | 0.1 | 12 | 2.25 |
| Investment securities | | | | | | | | |
| Taxable (2) | 714,578 | 16.4 | 9,328 | 5.22 | 718,727 | 16.7 | 9,620 | 5.35 |
| Nontaxable | 188,948 | 4.3 | 4,071 | 8.62 | 178,550 | 4.1 | 3,633 | 8.14 |
| Total investment securities | 903,526 | 20.7 | 13,399 | 5.93 | 897,277 | 20.8 | 13,253 | 5.91 |
| Total earning assets | 4,035,002 | 92.5 | 79,105 | 7.84 | 3,985,992 | 92.6 | 78,908 | 7.92 |
| Reserve for loan losses | (40,449) | -0.9 | | | (39,946) | -0.9 | | |
| Cash and due from banks | 176,398 | 4.1 | | | 166,796 | 3.8 | | |
| Premises and equipment, net | 102,109 | 2.3 | | | 103,613 | 2.4 | | |
| Other assets | 88,076 | 2.0 | | | 90,309 | 2.1 | | |
| Total assets | $4,361,136 | 100.0 % | | | $4,306,764 | 100.0 % | | |
| Liabilities and Shareholders' Equity | | | | | | | | |
| Interest-bearing liabilities: | | | | | | | | |
| N.O.W. and money market deposits | $ 774,879 | 17.8 % | $ 4,103 | 2.12 % | $ 757,764 | 17.6 % | $ 4,131 | 2.18 % |
| Savings deposits | 414,966 | 9.5 | 3,085 | 2.97 | 455,898 | 10.6 | 2,602 | 2.28 |
| Time deposits | 2,064,502 | 47.3 | 23,780 | 4.61 | 2,038,633 | 47.3 | 24,803 | 4.87 |
| Short-term borrowings | 133,059 | 3.1 | 920 | 2.76 | 102,948 | 2.4 | 711 | 2.76 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Long-term borrowings | 63,256 | 1.4 | 1,811 | 11.45 | 68,330 | 1.6 | 1,780 | 10.42 |
| Total interest-bearing liabilities | 3,450,662 | 79.1 | 33,699 | 3.91 | 3,423,573 | 79.5 | 34,027 | 3.98 |
| Demand deposits | 501,348 | 11.5 | | | 473,705 | 11.0 | | |
| Accrued expenses and other liabilities | 61,931 | 1.4 | | | 70,186 | 1.6 | | |
| Total liabilities | 4,013,941 | 92.0 | | | 3,967,464 | 92.1 | | |
| Shareholders' equity | 347,195 | 8.0 | | | 339,300 | 7.9 | | |
| Total liabilities and shareholders' equity | $4,361,136 | 100.0 % | | | $4,306,764 | 100.0 % | | |
| Taxable equivalent net interest income and rate spread | | | $45,406 | 3.93 % | | | $44,881 | 3.94 % |
| Net yield on earning assets | | | | 4.50 % | | | | 4.50 % |

(1) Non-performing loans and mortgages held for sale are included in average balances used to determine average rates.
(2) Includes time deposits with other banks and investment securities available for sale.

| Key Average Balances Ratios | | |
|---|---|---|
| Loans to assets | 71.61 % | 71.67 % |
| Earning assets to total assets | 92.52 | 92.55 |
| Reserve for loan losses to loans | 1.30 | 1.29 |
| Net loans charged off as a % of loans | 0.06 | 0.05 |
| Long-term borrowings to shareholders equity | 18.22 | 20.14 |
| Shareholders' equity to total assets | 7.96 | 7.87 |

</TABLE>

Table 10: Quarterly Average Balances, Mix, Interest, Average Rates and Key Ratios

<TABLE>
<CAPTION>

| | First Quarter - 1993 | | | |
|---|---|---|---|---|
| (dollars in thousands) | Average Balance | Mix | Interest | Average Rate |
| <S> | <C> | <C> | <C> | <C> |
| Assets | | | | |
| Earning Assets: | | | | |
| Loans, net of unearned discount (1) | $3,046,032 | 71.1 % | $64,984 | 8.53 % |
| Funds sold | 8,827 | 0.2 | 54 | 2.45 |
| Investment securities | | | | |
| Taxable (2) | 725,071 | 16.9 | 10,108 | 5.58 |
| Nontaxable | 183,930 | 4.3 | 3,807 | 8.28 |
| Total investment securities | 909,001 | 21.2 | 13,915 | 6.12 |
| Total earning assets | 3,963,860 | 92.5 | 78,953 | 7.97 |
| Reserve for loan losses | (38,798) | -0.9 | | |
| Cash and due from banks | 164,480 | 3.9 | | |
| Premises and equipment, net | 103,643 | 2.4 | | |
| Other assets | 90,425 | 2.1 | | |
| Total assets | $4,283,610 | 100.0 % | | |

Liabilities and Shareholders' Equity

| | | | | |
|---|---|---|---|---|
| Interest-bearing liabilities: | | | | |
| N.O.W. and money market deposits | $773,698 | 18.1 % | $4,357 | 2.25 % |
| Savings deposits | 338,054 | 7.9 | 1,971 | 2.33 |
| Time deposits | 2,153,459 | 50.3 | 26,302 | 4.89 |
| Short-term borrowings | 101,136 | 2.3 | 705 | 2.79 |
| Long-term borrowings | 68,340 | 1.6 | 1,780 | 10.42 |
| Total interest-bearing liabilities | 3,434,687 | 80.2 | 35,115 | 4.09 |
| Demand deposits | 452,717 | 10.6 | | |
| Accrued expenses and other liabilities | 64,907 | 1.5 | | |
| Total liabilities | 3,952,311 | 92.3 | | |
| Shareholders' equity | 331,299 | 7.7 | | |
| Total liabilities and shareholders' equity | $4,283,610 | 100.0 % | | |
| Taxable equivalent net interest income and rate spread | | | $43,838 | 3.88 % |
| Net yield on earning assets | | | | 4.42 % |

(1) Non-performing loans and mortgages held for sale are included in average balances used to determine average rates.
(2) Includes time deposits with other banks and investment securities available for sale.

Key Average Balances Ratios

| | |
|---|---|
| Loans to assets | 71.11 % |
| Earning assets to total assets | 92.54 |
| Reserve for loan losses to loans | 1.27 |
| Net loans charged off as a % of loans | 0.04 |
| Long-term borrowings to shareholders equity | 20.63 |
| Shareholders' equity to total assets | 7.73 |

</TABLE>

PART II-OTHER INFORMATION

Item 4. Submission of Matters to a Vote of Security Holders.

As previously reported, the Agreement and Plan of Merger between Valley Bancorporation ("Valley") and Marshall & Ilsley Corporation ("M&I") dated as of September 19, 1993 (the "Merger Agreement") was approved at the special meeting of Valley shareholders held on February 15, 1994. Of the 20,721,290 outstanding shares of Valley Common Stock entitled to vote on the Merger Agreement, the Inspector of Election certified that 16,635,928 shares, or approximately 80.3%, were voted for such approval, 612,406 shares were voted against, and there were 147,365 abstentions. There were no broker non-votes.

The Merger Agreement provides for the combination of the two companies through a merger of Valley with and into M&I (the "Merger"). The Merger Agreement was also approved at a special meeting of M&I shareholders held on February 15, 1994.

On April 11, 1994, the Board of Governors of the Federal Reserve System approved the Merger. The Merger is presently expected to be consummated on May 31, 1994.

See Note 3 of Notes to Consolidated Financial Statements in Item 1 of Part I of this report.

Item 6. Exhibits and Reports on Form 8-K.

(a) Exhibits:

See Exhibit Index following the Signature page in this report, which is incorporated herein by reference.

(b) Reports on Form 8-K.

No reports on Form 8-K were filed during the quarter for which this report is filed.

SIGNATURES

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

VALLEY BANCORPORATION

Date May 11, 1994 By /s/ Peter M. Platten, III
Peter M. Platten, III
President and
Chief Executive Officer

Date May 11, 1994 By /s/ Gary A. Lichtenberg
Gary A. Lichtenberg
Senior Vice President/
Chief Financial Officer
and Secretary

VALLEY BANCORPORATION
(the "Registrant")
(Commission File No. 0-2453)

*****

EXHIBIT INDEX
TO
QUARTERLY REPORT ON FORM 10-Q
FOR QUARTER ENDED MARCH 31, 1994

| Exhibit Number | | Description | Incorporated Herein By Reference To | Filed Herewith | Sequential Page No. |
|---|---|---|---|---|---|
| 4.3 | (d) | March 11, 1994 letter agreement extending "Revolving Termination Date" under Amended and Restated Credit Agreement, dated as of September 30, 1989, between Registrant and Continental Bank, N.A. to June 30, 1994 | | X | |
| 11.1 | | Computation of Net Income Per Common Share | | X | |

Exhibit 4.3(d)
(3/31/94 10-Q)

[Continental Bank Letterhead]
231 South LaSalle Street
Chicago, Illinois 60697

312 828 4682
FAX: 312 967 6982

Continental Bank

Jennings F. Werner
Vice President
Financial Institutions

March 11, 1994

Mr. Gary A. Lichtenberg
SVP & CFO
Valley Bancorporation
100 W. Lawrence Street
Appleton, WI 54912

RE: Credit Agreement dated September 30, 1989 between VALLEY BANCORPORATION and CONTINENTAL BANK, N.A.

Dear Gary:

Pursuant to the terms of the above captioned Credit Agreement, the undersigned hereby approves and agrees to an extension of the "REVOLVING TERMINATION DATE" from March 31, 1994, to June 30, 1994.

Please acknowledge your Agreement of the new "REVOLVING TERMINATION DATE" by signing and returning a copy of this letter.

Regards,

/s/ Jennings F. Werner

APPROVED & AGREED

BY: /s/ GARY A. LICHTENBERG

PRINT: GARY A. LICHTENBERG

TITLE: SVP - CFO

DATE: 3/15/94

Exhibit 11.1
(3/31/94 10-Q)

VALLEY BANCORPORATION
COMPUTATION OF NET INCOME PER COMMON SHARE

| | Three Months Ended March 31, 1994 | Three Months Ended March 31, 1993 |
|---|---|---|
| PRIMARY: | | |
| Weighted average common shares outstanding during each period | 20,739,928 | 20,160,942 |
| Incremental shares relating to: | | |
| Dilutive stock options outstanding at end of each period (1) | 287,869 | 176,487 |
| Impact of 1993 3:2 stock split | 0 | 88,243 |
| | 21,027,797 | 20,425,672 |
| FULLY DILUTED: | | |
| Weighted average common shares outstanding during each period | 20,739,928 | 20,160,942 |
| Incremental shares relating to: | | |
| Dilutive stock options outstanding at end of each period (2) | 288,999 | 251,305 |
| Impact of 1993 3:2 stock split | 0 | 125,653 |
| | 21,028,927 | 20,537,900 |
| NET INCOME FOR EACH PERIOD | $10,339,000 | $10,893,654 |

PER COMMON SHARE AMOUNTS:

| | | |
|---|---|---|
| Primary | $0.49 | $0.53 |
| Fully diluted | $0.49 | $0.53 |
| As presented in statement of income based on weighted average common shares outstanding | $0.50 | $0.54 |
| % DILUTIVE (PRIMARY) | 1.3690% | 1.2961% |
| % DILUTIVE (FULLY DILUTIVE) | 1.3743% | 1.8354% |

Notes:

(1) Based on treasury stock method using average market price.

(2) Based on treasury stock method using period-end market price, if higher than average market price.

________________________

The effect of stock options on primary earnings per share and on fully diluted earnings per share for each of the years is less than 3%, and therefore, is not considered materially dilutive in computing earnings per share as presented in the Consolidated Statements of Income.