

1996

1996 ANNUAL REPORT AND FORM 10-K

[LOGO] FIRST BANK SYSTEM

FIRST BANK SYSTEM

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FBS BANKING REGION

[U.S.MAP]

ABOUT THE COMPANY

First Bank System, Inc. (FBS), a regional, multistate bank holding company headquartered in Minneapolis, Minnesota, offers a wide array of financial products and services to individuals, businesses and institutions.

Through our bank subsidiaries, FBS serves customers principally in 11 Midwestern and Rocky Mountain states, where our banking franchise is a market leader in most of the region's largest communities. Nationally, we're a leader in corporate trust services and electronic credit card payment systems. And we offer investment products that have ranked among the best available. We serve our customers through multiple distribution channels including 359 banking and 15 nonbanking offices, a network of 3,235 automated teller machines (ATMs), and centralized telephone service centers.

With 1996 return on average assets of 1.88 percent, return on average common equity of 21.4 percent, and an efficiency ratio of 49.9 percent, all before nonrecurring items, FBS ranks among the top-performing U.S. bank holding companies.

Our commitment to creating shareholder value directs virtually every decision we make. Focusing on five business lines has helped fulfill this commitment. Our businesses are:

Retail Banking--consumer and small business banking, increasingly through convenient, cost-effective channels including supermarkets and general merchandise stores, ATMs, and FastLine(SM) 24-Hour Banking by telephone.

Payment Systems--consumer, corporate and purchasing cards, and merchant processing.

Business Banking and Private Financial Services--credit and other financial services to middle market companies, and integrated services in private banking, trust and investments to ultra affluent customers.

Commercial Banking--credit products, treasury management, trust and other financial services, primarily to large companies in the Twin Cities region.

Corporate Trust and Institutional Financial Services--bond indenture trusteeship, paying agent, and custody services to corporate and municipal debt issuers; 401(k) and other employee benefit programs; asset management; and institutional investment products.

FBS is listed on the New York Stock Exchange under the ticker symbol FBS and also may be found under FtBkSy.

Our home page on the World Wide Web is located at <http://www.fbs.com>.

FINANCIAL SUMMARY

(Dollars in Millions, Except Per Share Data)	1996	1995	Percent Change 1995-1996
Income before nonrecurring items	\$ 667.7	\$ 568.1	17.5%
Nonrecurring items	72.1	-	*
Net income	\$ 739.8	\$ 568.1	30.2
PER COMMON SHARE			
Primary income before nonrecurring items	\$ 4.81	\$ 4.19	14.8
Nonrecurring items	.53	-	*
Primary net income	\$ 5.34	\$ 4.19	27.4
Fully diluted income before nonrecurring items	\$ 4.74	\$ 4.11	15.3
Nonrecurring items	.51	-	*
Fully diluted net income	\$ 5.25	\$ 4.11	27.7
Earnings on a cash basis before nonrecurring items**	\$ 5.29	\$ 4.53	16.8
Nonrecurring items	.72	-	*
Earnings on a cash basis (fully diluted)**	\$ 6.01	\$ 4.53	32.7
Dividends paid	\$ 1.65	\$ 1.45	13.8
Common shareholders' equity	22.63	20.59	9.9
RETURN ON AVERAGE ASSETS			
Income before nonrecurring items	1.88%	1.73%	*
Nonrecurring items	.21	-	*
Return on average assets	2.09%	1.73%	*
RETURN ON AVERAGE COMMON EQUITY			
Income before nonrecurring items	21.4%	21.3%	*
Nonrecurring items	2.4	-	*
Return on average common equity	23.8%	21.3%	*
Net interest margin (taxable-equivalent basis)	4.89%	4.91%	*
Efficiency ratio before nonrecurring items	49.9	53.3	*
Efficiency ratio	51.0	53.9	*
AT YEAR END			
Loans	\$27,128	\$26,400	2.8%
Allowance for credit losses	517	474	9.1
Assets	36,489	33,874	7.7
Total shareholders' equity	3,053	2,725	12.0
Tangible common equity to total assets***	6.7%	6.5%	*
Tier 1 capital ratio	7.2	6.5	*
Total risk-based capital ratio	12.0	11.0	*
Leverage ratio	6.8	6.1	*

* Not meaningful.

** Calculated by adding amortization of goodwill and other intangible assets to net income.

*** Defined as common equity less goodwill as a percentage of total assets less goodwill.

Refer to Management's Discussion and Analysis on pages 24 and 25 for a description of nonrecurring items.

[GRAPHS APPEAR HERE - SEE GRAPHICS APPENDIX]

First Bank System, Inc.

TO OUR SHAREHOLDERS

IT SEEMS ONE OF THE FEW CONSTANTS IN BANKING IS CHANGE. IN 1996 FIRST BANK SYSTEM PROVED AGAIN THAT WE HAVE THE RESOURCES, KNOW-HOW AND DISCIPLINE TO ADAPT TO OUR INDUSTRY'S CONTINUAL TRANSFORMATION--AND IN MANY INSTANCES, LEAD THE WAY.

Each day we are reshaping FBS to meet our customers' evolving needs and create value for our shareholders. FBS's corporate culture thrives on change, and our employees deserve thanks for another strong year. At the same time, we urge them to strive for more.

We must build on the winning attitude that has served us well: staying focused on meeting customer needs and creating value for you, the shareholder. Shareholder value drives our management priorities and directs virtually every decision we make.

[PHOTO OF JOHN F. GRUNDHOFER]

FINANCIAL RESULTS

In 1996 FBS strengthened its position as one of the nation's top-performing banking companies in terms of profitability and efficiency.

FBS stock has continued to outperform key market indices over the period since 1990, when current management assumed control of the company. One hundred dollars invested in FBS common stock at December 31, 1989, would have been worth \$529 at year-end 1996. That compares with \$329 for the KBW 50 Bank Index and \$257 for the S&P 500 stock index. The KBW 50 Bank Index is a market-capitalization-weighted total return index of 50 bank stocks published by Keefe, Bruyette & Woods, Inc.

On a fully diluted basis and before nonrecurring items, earnings per common share increased 15.3 percent to \$4.74 in 1996 compared with the previous year. Our goal is to sustain earnings per share growth of 12 to 15 percent over the next several years (without accounting for possible acquisitions).

In terms of key financial ratios, FBS continues to rank among the industry's best. Excluding nonrecurring items, our return on average assets of 1.88 percent in 1996 placed us first among our peer group of 23 regional bank holding companies, and our return on average common equity of 21.4 percent for the year placed us second among our peers.

Our relentless efforts to improve productivity also reached an important milestone in 1996 when, for the first time, our ratio of expenses to revenues (efficiency ratio) dropped below 50 percent. Our efficiency ratio of 49.9 percent

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for the year and 49.2 percent for the fourth quarter placed us second in our peer group. We plan to drive the ratio down to the mid-40s within the next few years--we must in order to compete with nonbanks and their lower cost structures. We believe that technology investment and revenue growth will make this possible, as will our employees, who by second nature continually look for ways to spend more wisely, eliminate waste, and work more productively.

FBS has been able to generate high returns while maintaining a low risk profile. While we've seen some increase in consumer credit losses, we're in a stronger position than many of our competitors. Our base in the Midwestern and Rocky Mountain states, combined with our conservative lending practices, continues to work in our favor.

Past performance does not guarantee future results. However, FBS's past performance has set high expectations among our shareholders, managers and employees. We plan to meet and exceed those expectations.

BUSINESS LINES

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First Bank System chooses to be in only those businesses that hold potential for strong, sustainable profitability. In 1996 we streamlined our senior management and realigned our organization into five business lines: Retail Banking, Payment Systems, Business Banking and Private Financial Services, Commercial Banking, and Corporate Trust and Institutional Financial Services.

FBS offers standard products and services supported by central operations. At the same time, we provide more hands-on, custom service to customers who demand it. Our organizational structure enables us to meet the unique needs of diverse customer segments. Each business line seeks to leverage resources and customer relationships across FBS.

RETAIL BANKING is our largest business. Two key technology initiatives are changing the very nature of Retail Banking. First, we are successfully encouraging customers to migrate to more cost-effective distribution channels such as supermarket branches, automated teller machines, and FastLine(SM) 24-Hour Banking. These channels offer customers the convenience of banking anytime, anywhere. Second, our Relationship Management System (RMS), launched in 1995 and expanded in 1996, generates detailed customer information that helps our people provide better service and identify the best sales opportunities. Based on early results, we expect RMS to provide opportunities to increase revenue and profitability.

[GRAPH APPEARS HERE - SEE GRAPHICS APPENDIX]

PAYMENT SYSTEMS is our fastest-growing business and our largest source of fee income. FBS is the leading issuer of VISA(R) Corporate and Purchasing Cards, one of the leading issuers of VISA consumer cards, and among the top 10 processors of credit card transactions. State-of-the-art technology in the new First Bank Service Center in Fargo, North Dakota, enhances our efficiency and effectiveness in customer service and processing.

BUSINESS BANKING AND PRIVATE FINANCIAL SERVICES, which together contribute roughly the same percentage of net income as Retail Banking, provide middle market companies and ultra affluent customers with relationship-oriented service. The management structure facilitates cross-selling between business and individual clients. Many of the business owners and managers served by our business bankers have needs for personal banking, personal trust, and investment services offered through Private Financial Services. Our business bankers are typically among the first to identify these opportunities, and now they are in a better position to leverage their customer relationships. Both Business Banking and Private Financial Services experienced good growth in 1996.

49.9% FOR THE FIRST TIME, OUR EFFICIENCY RATIO DROPPED BELOW 50 PERCENT

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COMMERCIAL BANKING, which provides an array of financial services to large corporate customers, is a mature and profitable business. Credit quality remains strong. Commercial Banking is successfully deepening client relationships by providing highly customized, complex financial services to increasingly demanding clients.

CORPORATE TRUST improved its revenues and profitability with the completion of our acquisition of BankAmerica's corporate trust business in early 1996. We continued our growth by closing on our acquisition of Comerica, Inc.'s bond indenture and paying agent business in January 1997. We have built the critical mass needed to succeed in corporate trust, and we will continue to grow by acquisition as other regional banks decide to exit this business.

INSTITUTIONAL FINANCIAL SERVICES had nearly \$40 billion in assets under management at year-end 1996, up 35 percent from 1995. Our strong-performing asset management services helped grow the First American Funds portfolio, a proprietary mutual fund family advised by our First Asset Management (FAM) group, to more than \$12 billion in assets in 1996, up 72 percent from a year earlier. Our focus on defined contribution plans and the introduction of the no-load First American Strategy Funds, advised by FAM, contributed to our strong results in 1996. We expect continued growth if we can continue to deliver top investment results and introduce new products and services that fill customer needs.

CAPITAL MANAGEMENT
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Our success in generating earnings growth also contributes to one of our greatest challenges: allocating capital. We challenge ourselves to allocate capital for maximum shareholder benefit, as well as to maintain strong protection for depositors and creditors.

FBS pursues four key strategies in managing capital:

INVESTMENT IN CORE BUSINESSES--We invest in technology and other resources so that our core businesses can serve customers better, improve profitability, and increase revenues. The Relationship Management System (RMS) and the First Bank Service Center in Fargo are just two examples of significant investments that we expect will pay off handsomely over the long term. State-of-the-art technology gives us a key competitive edge against banks and nonbanks alike.

We also shift capital from businesses with deficient returns in order to free capital for reinvestment in our strongest businesses. In February we reached agreements to sell the mortgage servicing and mortgage loan production business of our residential mortgage subsidiary, enabling

[GRAPH APPEARS HERE - SEE GRAPHICS APPENDIX]

1ST OUR RETURN ON AVERAGE ASSETS OF 1.88 PERCENT IN 1996 PLACED US FIRST AMONG OUR PEER GROUP OF 23 REGIONAL BANK HOLDING COMPANIES.

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further investment in our fee-based businesses and further lowering the risk profile of FBS.

. ACQUISITIONS--We look for opportunities in existing markets and adjacent markets where the economic benefits are highest, as well as niche markets such as corporate trust. We will pursue only those acquisitions that we believe will create shareholder value.

In February 1996 we closed on our acquisition of FirstTier Financial, Inc., creating the second-largest banking institution in Nebraska in terms of total deposits, and making that state our third-largest market. We completed the integration of FirstTier within three days, quickly taking out operating expenses for the benefit of shareholders.

. STOCK REPURCHASES--In February 1996 the FBS Board of Directors authorized the repurchase of up to 25 million common shares through December 1997. At year-end we had repurchased approximately 15 million of those shares.

. DIVIDEND INCREASES--On February 19, 1997, the FBS Board of Directors increased the quarterly dividend rate to 46.50 cents from 41.25 cents per common share, an increase of 12.7 percent. It was our sixth consecutive annual increase.

While size is important to some aspects of our corporation, high performance is what differentiates FBS in the marketplace. Our strategy is to manage capital for the benefit of shareholders now and over the long term.

SHAREHOLDER FOCUS

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Our commitment to creating shareholder value runs deep. Through an employee stock purchase plan, all eligible employees have the opportunity to purchase FBS stock at a discount and align their interests with our shareholders--to become owners, and behave like them. A majority of employees own FBS stock through our Capital Accumulation Plan, a 401(k) program.

Management, in particular, is aligned with shareholders' interests. Nearly 200 senior managers have targets to own the equivalent of 80 percent to 550 percent of their annual salaries in FBS stock. At year-end 1996, senior managers owned more than \$100 million in FBS stock.

At FBS, we are confident in our ability to capitalize on change. We are successfully developing our franchise and creating shareholder value by meeting customer needs, building strong core businesses, actively managing capital, and delivering strong financial results.

In addition to our dedicated employees, our Directors have earned thanks for another year of prudent guidance. I especially want to acknowledge two Directors who will retire at our annual meeting on April 24, 1997: Marilyn Carlson Nelson, our longest-serving Director, who joined the Board in 1978; and Dr. James J. Renier, a Director for more than a decade.

Finally, thank you for expressing your confidence by investing in our company. I look forward to writing you again in 1998 with news that we created opportunities, overcame challenges, and built an even stronger First Bank System.

/s/ John F. Grundhofer
John F. Grundhofer
Chairman, President and Chief Executive Officer
February 19, 1997

15.3% EARNINGS PER COMMON SHARE INCREASED 15.3 PERCENT OVER THE PREVIOUS YEAR ON A FULLY DILUTED BASIS AND BEFORE NONRECURRING ITEMS.

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[GRAPHIC APPEARS HERE -- SEE GRAPHICS APPENDIX]

BUSINESS DESCRIPTION

Retail Banking focuses on the broad consumer and small business markets. We serve approximately 1.9 million households and 147,000 small businesses throughout our 11-state banking region.

We built our business on quality products, effective sales and service, long-term relationships, and physical presence in the markets we serve, and these competitive advantages remain important. However, with the aid of technology we increasingly serve our customers through more convenient and efficient distribution channels. These channels include 32 branches in supermarkets and general merchandise stores, 2,324 in-market ATMs, FastLine(SM) 24-Hour Banking by telephone, and First FinancialLine(SM) telemarketing.

Retail Banking provides financial services to small businesses with annual sales under \$5 million. Bankers throughout our branch system analyze customer needs and recommend solutions. If customers have credit needs, the bankers assist with documentation and then rely on a centralized underwriting center for credit approval. FBS offers competitive pricing and 48-hour turnaround on standard credit products, including real estate loans, working capital loans and lines of credit under \$350,000.

Perspectives

ACHIEVING OPERATIONAL EXCELLENCE

In their book *The Discipline of Market Leaders*, business strategists Michael Treacy and Fred Wiersema write, "Operationally excellent companies deliver a combination of quality, price and ease of purchase that no one else in their market can match." Retail Banking is committed to operational excellence.

Investing in new technology is a prerequisite to achieving operational excellence. Our state-of-the-art systems have enabled us to offer standardized products and services, and centralize our back-office operations. Imaging technology in retail loan processing makes our back office more efficient. Customized software enhances customer sales and service in all our branches, as well as in our central customer service and telemarketing facilities.

Advanced systems give our personal bankers, tellers, telebankers and telephone service representatives comprehensive customer information files and the ability to answer questions about virtually all consumer products. They also can transfer balances, make payments on accounts, and approve consumers for a variety of products--all with speed, accuracy and consistency.

Our centralized customer service, data processing, and operations units can concentrate on improving productivity and service quality, while our branches can focus on selling. In the branches, we have begun separating management of sales and transactions so that we can focus on building a stronger sales culture. We expect the transaction side of branch management to diminish over time as more customers migrate to centrally managed alternative distribution channels. At the same time, our branches will focus more on selling products and services.

Having operations functions taken out of our branches has proven to be a significantly lower-cost way of doing business. It's also left us with unneeded space. So we're developing a new paradigm for our branch network. In the future, we will have more, but smaller, branches. With our focus on in-market acquisitions, we have closed or divested more than 170 branches on a pro forma basis since 1991.

In 1996 we continued to reduce average branch size by leasing out excess space and closing some of our larger offices. We also opened 18 smaller branches in supermarkets and general merchandise stores. Long term, we will shed more of our retail branch space with no or limited customer impact.

The branch of the future also will be redesigned to better reflect our distribution strategy. We'll offer a variety of service levels by location, ranging from full-service to fully automated, such as the prototype we opened in Denver in 1996.

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Our research confirms that today's customers have less time to spend on banking transactions. They are growing more comfortable with diverse ways of interacting with the bank, and they expect us to provide convenience. Retail Banking has developed multiple distribution channels so that customers can conduct their financial business with us anytime, anywhere. In addition to providing superior convenience to the customer, these channels provide transactions at lower cost than at a traditional branch.

The telephone continues to be a cost-effective distribution channel for FBS. Our telephone service centers fielded more than 46 million calls in 1996, and about 72 percent of the calls were handled by our interactive voice response (IVR) unit.

With advanced telephone technology, we are using telemarketing, together with advertising and direct mail, to sell and retain a wide variety of consumer and small business products. In 1996, our telemarketing efforts handled approximately 676,000 inbound calls, and converted nearly 40 percent of those calls to new product sales.

We have expanded our ATM network to ensure convenient customer access. We provide support for 2,324 ATMs in our markets including the Fastbank(R), PEAK(R) and MINIBANK networks. In addition, we process for 911 ATMs outside our existing markets, generating transaction fee income.

72%

ABOUT 72 PERCENT OF THE CALLS FIELDDED BY OUR TELEPHONE SERVICE CENTERS WERE HANDLED BY OUR INTERACTIVE VOICE RESPONSE (IVR) UNIT.

The home computer is an emerging distribution channel for FBS. In 1996 FBS joined IBM Corporation and 14 other banks as co-owners of Integriion Financial Network, which will develop industry standards for PC and home banking. In 1997 we will launch the first of several home banking options, using MECA Software's Managing Your Money(R) and leveraging our ownership in MECA. Our World Wide Web site now includes e-mail access to FastLine and a variety of customer service functions.

Customers can choose from a range of products and service terms to meet their needs. Our new line of Chextra(R) Banking products, for example, provides incentives for customers to maintain broader relationships with FBS or to use nontraditional channels for some transactions. Monthly account maintenance fees also are waived on certain accounts if the customer authorizes direct payroll deposit or automatic payment of loans.

We realize that some customers may feel uncomfortable changing to alternative distribution channels, so we continually look for ways to make change easy for them. In 1996 we provided tens of thousands of demonstrations at branches to teach customers how to use ATM and telephone banking technology, and sponsored a vacation getaway and other incentives for participants.

continued

1996 HIGHLIGHTS

- . Successfully integrated more than 60 banking offices in Nebraska and Iowa within three days of closing acquisition of FirstTier Financial, Inc.
- . Increased Chextra(R) POS sales nearly 55 percent.
- . Increased retail investment sales 29 percent.
- . Grew FBS total average home equity and second mortgage loans nearly 16 percent.
- . Increased average small-business loans 23.5 percent.

ATM Banking

- . Increased FBS deposit transactions at all ATMs 76 percent to 4.2 million.
- . Acquired MINIBANK, a shared network including 473 ATMs, which provides electronic payment systems services to small and mid-sized financial institutions and retailers throughout Colorado and parts of Wyoming.

Telephone Banking

- . Redirected customer telephone calls from 124 of our branches so that our central telephone center now fields those calls. This process provides faster resolution to customer service requests and allows branch staff to better focus on customers in the branch and make outbound customer calls.
- . Increased sales from telemarketing efforts by 49 percent.

First Bank System, Inc.

1996 HIGHLIGHTS
(Continued)

PRODUCT DEVELOPMENTS

- . Introduced no-load First American Strategy Funds, "funds of funds" that are advised by First Asset Management and which provide a one-stop option for investors seeking income, growth and income, growth, or aggressive growth portfolios.
- . Introduced Easy First Equity Line, which allows customers to borrow \$5,000 to \$25,000 against the value of their home equity without an appraisal.
- . Introduced InvestLine, which allows employee stock purchase plan participants to borrow against the stock held in their plan accounts.
- . Introduced Mortgage Direct, a centralized telemarketing unit that originates home mortgages by telephone through an 800 number and referrals from personal bankers.
- . Introduced Instant Approval for home equity and auto loans through First FinancialLine(SM). Customers now can receive credit decisions on the telephone within minutes of applying for a loan.
- . Initiated automated score-driven underwriting process for small-business loans under \$50,000, enabling us to provide faster, consistent credit decisions while raising approval rates, reducing processing costs, and maintaining high asset quality.

FOCUSING ON RELATIONSHIP MANAGEMENT

Our new Relationship Management System (RMS) is designed to revolutionize the way we sell, increasing revenue and profitability. This key technology initiative, launched in 1995 with ongoing rollout through early 1997, generates detailed customer information that helps our people provide better service and identify the best sales opportunities.

RMS marks an important shift from account management to relationship management. It uses predictive modeling to develop detailed relationship strategies, and it links multiple account usage information to demographics and analysis.

Unlike other database marketing efforts, RMS actually analyzes customer account and behavior data--and initiates action. Consider the issue of overdrawn accounts. RMS determines which overdrafts should be paid, based on a variety of customer and account usage characteristics. When the system encounters a check drawn on an account having insufficient funds, it decides whether to honor the check--and actually executes its decision based on customer behavior and value to the bank.

Initial results are promising. With RMS, loan approval rates have increased in the branch and mail-in channels by 13 percent, with a 50 percent reduction in manual credit overrides. When using RMS in the direct mail channel, customer response rates were significantly improved. In addition, customers had a higher rate of activation and utilization on the new credit lines when compared to previous mailings.

By the end of first quarter 1997, RMS will be implemented across all FBS retail banking channels, handling 20 decision-making and support routines. All customer contact employees in our branches, telephone centers, and direct-mail unit will have RMS tools for more effective sales and service.

RESULTS

BANKING MADE EASY

PORTER AND HARRIET EDDY LIKE TO STAY CURRENT WITH TECHNOLOGY, ESPECIALLY WHEN IT SIMPLIFIES THEIR LIVES. SO THE JAMESTOWN, NORTH DAKOTA, COUPLE, IN THEIR LATE 60S, EAGERLY USE MANY CONVENIENT ELECTRONIC OR TELEPHONE BANKING OPTIONS AVAILABLE FROM FIRST BANK.

A SEMI-RETIRED INSURANCE BROKER AND HOMEMAKER, MR. AND MRS. EDDY COLLECT THEIR SOCIAL SECURITY BENEFITS BY DIRECT DEPOSIT. THEY HAVE A CHEXTRA(R)BANKING ACCOUNT, INCLUDING A DEBIT CARD, WHICH ENABLES THEM TO BUY GROCERIES AND OTHER GOODS AND SERVICES WITHOUT WRITING CHECKS. THEY CALL FASTLINE(SM) 24-HOUR BANKING TO VERIFY BALANCES OR TRANSFER FUNDS. WHEN THEY DO VISIT THEIR LOCAL FIRST BANK BRANCH, THEY TYPICALLY GO NO FURTHER THAN THE ATM LOBBY TO GET CASH OR MAKE BUSINESS DEPOSITS.

IN 1996 THE EDDYS WERE AMONG THE FIRST TO SIGN UP FOR FASTLINE(SM) BILL PAY, WHICH ENABLES THEM TO PAY MONTHLY BILLS BY TELEPHONE. THEY USED TO DRIVE AROUND TOWN TO DELIVER PAYMENTS FOR RENT, UTILITIES, CREDIT CARDS, AND THE LIKE, OR MAIL THEIR CHECKS AT THE POST OFFICE--EVEN DURING BITTERLY COLD AND SNOWY WINTERS. WITH BILL PAY, THEY SAVE ON MILEAGE, STAMPS AND PERSONAL ENERGY. THEY ALSO HAVE MORE TIME TO SPEND AT THE COUNTRY CLUB, WHERE THEY PAY THEIR MEMBERSHIP DUES BY TELEPHONE.

First Bank System, Inc.

PAYMENT SYSTEMS

[GRAPHIC APPEARS HERE -- SEE GRAPHICS APPENDIX]

BUSINESS DESCRIPTION

Payment Systems provides an array of innovative credit card products and services to businesses and consumers. The business consists of three units.

CORPORATE PAYMENT SYSTEMS provides card products that help business and government manage their expenses cost-effectively. Employees of Fortune 1000 companies use the First Bank VISA(R) Corporate Card, a non-revolving charge card for travel and entertainment expenses. Large businesses use the First Bank VISA Purchasing Card to simplify the procurement of high-volume, small-ticket items. Government agencies use our I.M.P.A.C.(R) Card. Other products include the First Bank VISA Relocation Card(SM), for costs associated with employee relocation.

CONSUMER PAYMENT SYSTEMS focuses on being the dominant card issuer in our banking region and building valuable co-branding relationships. This strategy leverages the distribution power of our co-branded partners and our branch system, and is less dependent on direct mail. Both our Northwest Airlines and Amway(R) co-brands continued to grow in volume and profitability in 1996, as did our small business card products. First Bank also has card-accessible secured lines of credit and an international prepaid travel card.

(CONTINUED NEXT PAGE)

Perspectives

CORPORATE AND PURCHASING CARDS: POISED FOR CONTINUED GROWTH

Sales volume for First Bank VISA(R) Corporate and Purchasing Cards increased nearly 50 percent in 1996, and our challenge is to perform an encore. It's a challenge for which FBS is well-rehearsed.

In 1996 FBS continued to invest in technology for our Corporate Card program, focusing on capabilities that enable our customers to reengineer their expense reporting processes. For instance, we developed the ability to deliver First Bank VISA transactions charged on the Corporate Card to a variety of automated expense reporting applications. This capability allows our clients' employees to complete their expense reports much more efficiently and accurately.

Our new strategic alliance with the Hessel Group for the First Bank Corporate Relocation Card(SM) added unique expense tracking and tax reporting capabilities. "DRTS-DIRECT" combines the unique benefits and features of the Relocation Card and Hessel Group's Domestic Relocation Tracking System (DRTS), a system that employers use to calculate tax assistance for relocating employees and print tax documents, as well as to analyze and manage relocation costs.

23.8%

INCREASED NONINTEREST INCOME 23.8 PERCENT.

Corporate Payment Systems also completed development of a powerful data-mining tool, FirstSource(SM), which provides both Corporate and Purchasing Card customers the ability to perform complex, year-over-year, transaction-based analysis.

First to market with the purchasing card, FBS is well ahead of our competitors in establishing customer relationships and developing innovative product and service features. Our 10-step process for selling and training customers on the Purchasing Card concept is a key factor in our success, and we have significant experience working with an array of clients. Our technical support, including a proprietary management information system that can integrate into the client's accounts payable function, adds value to each client relationship.

Innovative product and service features also help create loyal customers. One popular benefit is FirstView, an integrated expense management reporting tool that lets customers audit expenditures and relationships with merchants. We're committed to developing additional tools to help our clients document, analyze and manage their expenses.

A key niche for us in this market is I.M.P.A.C.(R), our government purchasing card. The federal government, including the Department of Defense,

continued

First Bank System, Inc.

BUSINESS DESCRIPTION
(continued)

MERCHANT BANKCARD SERVICES provides an in-house, single-source solution for electronic transaction processing. We enable our merchant customers to electronically authorize and capture transactions from bankcards, other credit cards, and debit cards, as well as to authorize or guarantee checks at the point of sale. FBS has built relationships with about a dozen "front-end" authorization networks to provide terminal, electronic cash register (ECR), and computer applications for virtually any industry. FBS has combined that front-end flexibility with a proprietary "back-end" merchant accounting platform, which is recognized as one of the best in the industry. The combination of flexibility and capability have positioned Merchant Bankcard Services for growth in an industry demonstrating intense competition from both bank and nonbank processors.

ranks among our largest clients. The I.M.P.A.C. program has saved the government millions of dollars through reduced paper flow and a streamlined purchase order process. The sheer size of the federal government, the current administration's emphasis on reengineering, and our successful track record bode well for I.M.P.A.C.'s growth potential.

Private sector opportunities also are promising, as U.S. companies spend approximately \$400 billion annually on small-dollar purchases. We believe less than 2 percent of this market has been tapped. Our first-entrant and technological advantages will help us remain a high-quality, low-cost leader.

CONSUMER CARDS: BUILDING ON SUCCESS

In 1996 Consumer Payment Systems focused on growing accounts, sales volume, and overall profitability for existing portfolios. Our strategy is to pursue relatively controlled growth by marketing through our branches, co-branding partners, and other sources of new accounts. This strategy enables us to maintain a strong credit discipline.

We continue to work with our partner Northwest Airlines to propel our First Bank WorldPerks(R) VISA cards to new heights. In 1996 the number of WorldPerks cards issued grew 20 percent to more than 550,000. In cooperation with Northwest Airlines we also bolstered our First Bank WorldPerks VISA Business Card, introduced in 1995. New accounts grew as we focused on selling and distributing the card through our partner channels. For example, we promoted the card by enclosing sales literature with plane tickets. Through this and other programs, we grew sales volume on our VISA small business cards to the number-one position nationally.

We also strengthened our seven-year-old Amway(R) VISA card with a significant reintroduction. We dropped the annual fee, created a more attractive Gold Card option, and developed a new application and collateral, among other changes. New accounts grew due to these efforts.

FBS will continue to seek other co-branding opportunities with similar growth and profitability potential. New programs will focus on partners with strong brands and good consumer distribution potential. Both FBS and the brand partners must meet our profitability goals.

Another ongoing initiative to build our credit card sales will be to leverage First Bank's new Relationship Management System (RMS). Using RMS in a pilot program, we identified prospects without credit cards and automatically qualified them. A subsequent mailing resulted in twice the sales rate compared to a control group.

Consumer Payment Systems will continue to leverage our branch and other channels, which provide a cost-effective alternative to direct marketing channels. Five years ago, we gained a majority of our new accounts through mass mailings. Today, less than a third of our new accounts result from direct mail.

First Bank System, Inc.

MERCHANT BANKCARD SERVICES: ENGINEERING FOR THE FUTURE

Merchant Bankcard Services offers products and prices that allow merchants to concentrate on their businesses and to accept payments as efficiently as possible. In 1996 Merchant Bankcard Services improved our ability to serve our existing merchant base and attract new business both by enhancing our product set and developing our staff. From a product standpoint, customers now can access more and better point-of-sale applications, a greater number of point-of-sale debit networks, improved check services, and many equipment purchase/finance arrangements. Organizationally, we added marketing and retention personnel, increased the size of our inside and outside sales forces, and restructured our customer implementation and servicing organization.

Merchant Bankcard Services also is leveraging other parts of FBS through ongoing cross-selling. In 1996 members of our dedicated sales force tested cross-selling checking and business reserve line products, and bankers tested cross-selling small merchant bankcard accounts. Our goal is to offer a package of products and services that is more valuable to a merchant than individual products or services.

BUILDING A TECHNOLOGICAL EDGE

In July 1996 FBS opened the doors to the First Bank Service Center in Fargo--and to a future of efficiency, profitability and growth in Payment Systems.

The two-story, 150,000-square-foot facility is home to Payment Systems Services, which includes customer service, research, and account initiation for all FBS credit card products, as well as loan processing and servicing for our indirect sales finance business. The facility consolidated operations from Denver, Minneapolis, and Sioux Falls, South Dakota, resulting in more effective line balancing, keeping staff productive on multiple tasks during peak and off-peak hours.

The service center features state-of-the-art telephone technology for more efficient and effective management. ACD switching, for example, enables us to route calls to representatives based on their expertise. With up-to-the-minute management information, we can provide better customer service.

At year end, approximately 700 employees were working in the service center. The facility, with 1,200 work stations and a 35-acre site, is equipped for growth.

RESULTS

COST SAVINGS IS IN THE CARDS

AS ELI LILLY AND COMPANY STRIVES TO MANAGE EXPENSES MORE COST-EFFECTIVELY, ITS DEMAND FOR CARD PRODUCTS KEEPS GROWING. AND FBS PAYMENT SYSTEMS KEEPS PROVIDING NEW CARD SOLUTIONS FOR THE INDIANAPOLIS-BASED PHARMACEUTICAL COMPANY AND ITS SUBSIDIARIES.

LILLY BEGAN USING THE FIRST BANK VISA(R) CORPORATE TRAVEL CARD IN 1992, AND CARD VOLUME HAS GROWN TREMENDOUSLY SINCE. IN 1996 THE COMPANY ADDED ELECTRONIC EXPENSE REPORTING, ENABLING CARDHOLDERS TO SUBMIT AND RECONCILE TRAVEL EXPENSE REPORTS WITHOUT TIME-CONSUMING AND COSTLY PAPERWORK.

LILLY ALSO HAS USED THE FIRST BANK VISA PURCHASING CARD SINCE 1992 TO STREAMLINE ITS PROCUREMENT PROCESS AND REDUCE PROCESSING COSTS. THE PURCHASING CARD HAS ENABLED LILLY TO CONSOLIDATE THOUSANDS OF Product Developments

IN 1997 THE COMPANY WILL EXPLORE USING AN ELECTRONIC SYSTEM THAT WOULD ALLOW EMPLOYEES TO ORDER SUPPLIES FROM AN ON-LINE CATALOG USING PCS. THE FIRST BANK VISA PURCHASING CARD WILL BE THE PREFERRED PAYMENT VEHICLE FOR THIS SYSTEM.

1996 Highlights

- . Increased total revenue 12.8 percent.
- . Increased noninterest income 23.8 percent.

Corporate Payment Systems

- . Continued to be the largest issuer of VISA(R) Corporate and Purchasing Cards in terms of number of cards and sales volume, and the leading issuer of purchasing cards to the federal government.
- . Increased Corporate and Purchasing Card relationships to more than 200 of the Fortune 1000.

Consumer Payment Systems

- . Continued to be among the nation's largest issuers of VISA credit cards.
- . Ranked first within the VISA network in sales volume for small business cards.
- . Increased sales volume on our co-branded credit cards by more than 25 percent.

Merchant Bankcard Services

- . Remained among the top 10 processors of VISA and MasterCard(R) transactions, serving more than 55,000 merchant locations.

. Improved branch marketing efforts to more efficiently target regional business, our most profitable niche.

First Bank System, Inc.

[GRAPH APPEARS HERE -- SEE GRAPHICS APPENDIX]

BUSINESS DESCRIPTION

Through Business Banking and Private Financial Services (PFS), FBS meets the unique financial needs of nearly 21,600 middle market companies and approximately 27,000 ultra affluent customers throughout our banking region. The management structure enables us to leverage the synergistic potential between business and individual customers so that we can fully serve these relationships.

BUSINESS BANKING provides deposit, credit, treasury management, international, and other financial products and services to middle market companies with annual sales in excess of \$5 million. Through 67 local offices, we serve customers in industries where FBS has the intellectual capital and other resources to adequately assess risk and provide innovative solutions with high-quality products and excellent customer service.

PRIVATE FINANCIAL SERVICES serves the ultra affluent market with one-stop access to investment management, personal trust, and private banking services. We define the ultra affluent market to be the top 3 percent of households. PFS also serves professional firms, family wealth groups, and executives of Business Banking customers. We provide individualized service through 31 offices, all in metropolitan areas.

Perspectives

SEIZING MARKET OPPORTUNITIES

Business Banking and Private Financial Services (PFS) experienced strong growth in 1996, and prospects for the future are bright. Average loans increased 22 percent during the year to \$7.28 billion, and loan commitments grew 23 percent to more than \$12.1 billion by year-end.

We also experienced tremendous growth in several niche businesses. Our asset-based lending division, Republic Acceptance Corporation, achieved average annual loan growth of 83 percent to end the year at approximately \$155 million in outstandings. Our leasing division, which specializes in both equipment and auto lease financing, recorded average annual loan growth of nearly 46 percent to end the year at \$179 million in outstandings.

Business Banking and Private Financial Services benefit from growing economies in our 11-state banking region. Facing increased competition from bank and nonbank providers, we differentiate Business Banking through outstanding relationship management. We stay close to our customers by understanding their needs, providing high-quality products and services, and marketing aggressively.

22%

INCREASED AVERAGE LOANS 22 PERCENT TO \$7.28 BILLION.

Competition for PFS also is growing, but the market itself is expanding substantially. We expect the five-year compounded annual growth rate for households with income of \$150,000 or more to be 20 percent, compared to an overall household growth rate of less than 2 percent. Furthermore, customer surveys indicate the opportunity to capture a greater share of our customers' credit outstandings and investment portfolios.

Improving customer satisfaction--so critical in a relationship-driven business--is our top priority, and key to gaining a competitive advantage. Toward this end, in 1997 we plan to increase customer calls, improve customer service, and align incentive compensation to reflect improvement in customer satisfaction.

LEVERAGING BUSINESS AND PERSONAL SYNERGIES

Business owners and executives welcome a high level of service from their bankers, both for their business and personal needs. Our bankers have the expertise to recognize both the business and personal financial requirements of their customers.

Managing Business Banking and PFS together, we are better positioned to leverage FBS resources to deliver integrated financial services to our business and ultra affluent customers.

First Bank System, Inc.

In Business Banking, we strive to be close to the customer. Our relationship managers make credit decisions and have direct accountability for profitability. They're motivated to leverage local customer relationships. And they have more time to spend with customers and prospects, because we centralized administrative functions such as policy-making, procedures and training.

In PFS, we decentralized management to be more aligned with Business Banking. PFS serves clients through teams consisting of managing directors and experts from personal trust, private banking and investments. This team approach provides greater expertise to our clients and helps address a wider array of their financial needs. Team members report through their respective business lines--functional reporting that underscores our commitment to maintaining strong core competencies, while still providing fully integrated product and service delivery.

PROVIDING SERVICE OPTIONS

Private Financial Services remains relationship-driven. However, we are applying technology where appropriate to serve customers more conveniently and efficiently.

In personal trust, for example, we began segmenting our customers so that we can provide the optimal delivery method to different customers based on their needs. A personal trust customer with complex and diverse assets works with a relationship manager, who assembles a team of experts who can deliver a high degree of personal service. A customer with simpler needs, such as managing a portfolio invested mainly in mutual funds, may choose to work directly with Trust Customer Service instead of a relationship manager.

Trust Customer Service, opened in 1996, provides personal trust customers convenient access to their accounts through an 800 number. Trained representatives can handle most inquiries and transactions--from providing account balances to managing investments to making distributions--in a timely manner. About 30 percent of Trust Customer Service clients call on a monthly basis.

Results

INTERNAL REFERRALS BENEFIT CLIENTS

TERRY L. SCHMIDT AND ROSE MANUFACTURING COMPANY ENJOY A SUCCESSFUL, LONG-TERM RELATIONSHIP WITH COLORADO NATIONAL BANK (CNB), FIRST BANK SYSTEM'S COLORADO AFFILIATE. SCHMIDT RECENTLY SOLD THE DENVER-BASED MANUFACTURING FIRM, WHICH PRODUCES WORKPLACE SAFETY EQUIPMENT.

ROSE MANUFACTURING BECAME A CLIENT OF CNB'S BUSINESS BANKING GROUP NEARLY 20 YEARS AGO. AMONG OTHER SERVICES, CNB HAS PROVIDED THE COMPANY WITH A REVOLVING LINE OF CREDIT FOR WORKING CAPITAL PURPOSES, AS WELL AS TERM DEBT TO FINANCE EQUIPMENT PURCHASES. WHEN MR. SCHMIDT PLANNED TO SELL THE BUSINESS IN 1996, CNB RISKED LOSING A LOYAL CLIENT.

HOWEVER, ROSE MANUFACTURING REMAINS A CNB CLIENT UNDER NEW OWNERSHIP. AND WHEN MR. SCHMIDT'S BUSINESS BANKER LEARNED ABOUT THE PENDING TRANSACTION, SHE REALIZED HE WOULD NEED FINANCIAL SERVICES RELATING TO THE PROCEEDS OF THE SALE. SO SHE REFERRED HER CLIENT TO A BANKER IN PRIVATE FINANCIAL SERVICES (PFS).

AS THE SALE NEARED, MR. SCHMIDT MET WITH THE PFS BANKER, A TRUST OFFICER AND CNB'S VICE CHAIRMAN. AS A RESULT, HE ESTABLISHED A TRUST ACCOUNT WITH CNB.

BY LEVERAGING SYNERGIES WITHIN BUSINESS BANKING AND PRIVATE FINANCIAL SERVICES, MR. SCHMIDT BENEFITED FROM VALUABLE NEW SERVICES, AND CNB RETAINED TWO VALUED RELATIONSHIPS.

1996 Highlights

- . Successfully integrated more than 7,000 Business Banking customers and 3,500 Private Financial Services (PFS) customers in Nebraska and Iowa from acquisitions of FirstTier Financial, Inc., First Bank of Omaha, and Southwest Bank; completed FirstTier integration within three days of closing acquisition.
- . Increased average loans 22 percent to \$7.28 billion, including FirstTier acquisition.
- . Grew loan commitments 23 percent to more than \$12.1 billion.
- . Improved net tangible return on equity to 35.5 percent from 32.3 percent.
- . Lowered efficiency ratio on a cash basis to 37 percent from 42 percent.
- . Opened new Wisconsin Business Banking office serving greater Appleton and Green Bay, rapidly growing manufacturing and service markets.
- . Grew assets under administration in PFS 58.4 percent to \$24.41 billion, including FirstTier acquisition.

First Bank System, Inc.

COMMERCIAL BANKING

[GRAPH APPEARS HERE -- SEE GRAPHICS APPENDIX]

BUSINESS DESCRIPTION

Commercial Banking provides credit and noncredit financial solutions to public and private companies with annual revenues of \$25 million or more.

We focus on middle market and national companies that are either headquartered or maintain large operations in the Twin Cities region, where we are the market leader. In addition, we serve corporations in selected national markets and niche specialties such as asset-based lending, including agricultural credit, business credit, leasing, and real estate lending. We also are one of the nation's leading providers of credit and other financial services to mortgage bankers. We provide structured finance expertise as well as noncredit products and advisory services including treasury management, international banking, corporate finance, and loan syndications.

Commercial Banking is relationship-driven, not transaction-based. A team of delivery and support professionals led by a relationship manager works closely with each client at multiple levels to link various products and services to meet unique client needs.

RESULTS

PROVIDING VALUE THROUGH STRUCTURED FINANCE

NEEDING TO FINANCE CONSTRUCTION OF A MANUFACTURING FACILITY FOR ITS NEW SISTER COMPANY, A MINNEAPOLIS-BASED COMMERCIAL BANKING CLIENT LOOKED NO FURTHER THAN FBS. FACING CHALLENGING TIME CONSTRAINTS, OUR RELATIONSHIP MANAGERS STRUCTURED A COMPLEX FINANCIAL PACKAGE TO BUILD THE MANUFACTURING FACILITY AND PROVIDE CREDIT FOR WORKING CAPITAL REQUIREMENTS.

OUR ULTIMATE SOLUTION, USING AN ALL-FBS TEAM, INCLUDED ISSUING "LOWER-FLOATER" INDUSTRIAL DEVELOPMENT BONDS TO REDUCE INTEREST COSTS. COMMERCIAL BANKING, RESPONDING TO THE CRITICAL TIMING, PROVIDED A BRIDGE LOAN TO FUND INTERIM CONSTRUCTION COSTS PRIOR TO ISSUING THE BONDS AND SUBSEQUENTLY ISSUED A LETTER OF CREDIT TO FACILITATE THE SALE OF THE BONDS. FBS INVESTMENT SERVICES, INC. SERVED AS THE PLACEMENT AND REMARKETING AGENT, AND FIRST TRUST PROVIDED TRUSTEE SERVICES FOR THE BONDS. FINALLY, TREASURY MANAGEMENT SERVICES WERE IMPLEMENTED TO TRANSACT PAYMENTS OF BOND PROCEEDS TO CONSTRUCTION VENDORS.

USING ALL FBS RESOURCES REDUCED COSTS AND INCREASED CONVENIENCE TO THE CLIENT. MORE AND MORE, SITUATIONS DEMAND COMPLEX FINANCIAL SOLUTIONS. THIS EXPERIENCE SHOWS HOW OUR RELATIONSHIP MANAGERS CAN MARSHAL EXPERTISE THROUGHOUT FBS TO DELIVER VALUE TO OUR CLIENTS.

Perspectives

BUILDING CLIENT LOYALTY

Like our industry as a whole, Commercial Banking is changing rapidly. Competition is expanding from new sources every day, while our client base in many industries faces accelerating consolidation. Companies demand more from their banking partners, and they are placing their financial business with fewer bank providers. Furthermore, the strengthening financial condition of many companies translates into lower demand for funds and lower margins.

We can't control the competition. We can't control the economy. But we can focus on our clients. To succeed, we must create loyal clients. A loyal client is one who is highly satisfied with our partnership, who knows that we understand the client's business, and who repeatedly comes to us for more. Our strategy for fostering client loyalty is to distinguish ourselves from other service providers by consistently exceeding our clients' expectations.

How do we know what exceeds clients' expectations? We asked them. We identified three key banking practices that lead to client loyalty:

CLIENT FOCUS--focusing on client needs, communicating and listening to clients, and generating innovative ideas and solutions.

SUPERB EXECUTION--providing products and services that our clients need, and maintaining a commitment to excellence.

ESSENTIAL KNOWLEDGE--having business acumen, understanding our clients and their industries, and being able to link client needs to our products and services.

To improve client loyalty in 1996, we launched a rigorous sales initiative that requires our relationship teams to continuously understand and identify potential relationships between our clients' needs, market and industry factors, and available financial solutions. The result of this "Client Ready Approach" is a common sales method that develops customized financial solutions for clients and generates revenue for FBS.

First Bank System, Inc.

MOVING TOWARD ALIGNMENT

In building client loyalty, we know that people are the key to differentiation in a relationship-driven business. The increasingly complex needs of our clients require teams of committed delivery and support professionals working together to provide effective solutions.

For these teams to be effective, team members must be aligned. In Commercial Banking, we have chosen to focus our alignment efforts around five values that guide us in our strategy to consistently exceed our clients' expectations. These values are integrity, initiative, accountability, teamwork and innovation.

In 1996 we continued our commitment toward achieving a culture of aligned values. Through a process that included a series of workshops, employees gained a better understanding of Commercial Banking's values and the individual changes necessary to achieve alignment with these values. Through self-assessment tools and feedback from co-workers, employees also received data that provided a basis for generating individual development plans focused on improving alignment.

We are confident that a culture of committed employees aligned with a shared set of values will lead to increased client satisfaction and loyalty and will continue to differentiate us in an increasingly competitive environment.

FOCUSING ON OPPORTUNITY

In 1996 we continued to analyze product usage, profitability, and relationship potential among our client base.

As our clients' businesses become more demanding, they require more sophisticated financial solutions. And clients' needs vary. With the goal of focusing our expertise for maximum client benefit, clients are strategically linked with the most appropriate relationship team to handle their unique needs.

10%

INCREASED AVERAGE LOANS, EXCLUDING LOANS TO MORTGAGE BANKERS, BY MORE THAN 10 PERCENT TO \$4.9 BILLION.

In addition to focusing appropriate resources on our clients, we also have stepped up our efforts to win and retain the most complex relationships--which are often the most profitable. Traditionally, banks have offered a standard line of credit and noncredit products without regard for the particular needs of their clients. In other words, banks were more focused on selling products than providing effective solutions. Now, we have sophisticated professionals who have the resources to deliver customized, innovative financial solutions to meet our clients' most complex, challenging and unique needs.

1996 Highlights

- . Increased average loans, excluding loans to mortgage bankers, by 10.2 percent to \$4.9 billion.
- . Served as agent on transactions totaling \$1.7 billion and co-agent on transactions totaling \$6.7 billion.
- . Increased total FBS revenues from treasury management services by 12.1 percent including acquisitions.
- . Maintained strong credit quality, with nonperforming assets of \$41.1 million, or .78 percent of loans plus other real estate owned.
- . Improved efficiency ratio on a cash basis to 29.3 percent from 31.6 percent.

First Bank System, Inc.

[GRAPH APPEARS HERE -- SEE GRAPHICS APPENDIX]

BUSINESS DESCRIPTION

Corporate Trust and Institutional Financial Services share a trust accounting system, fee billing unit, and the legal entity First Trust, but otherwise remain distinct businesses.

Through CORPORATE TRUST, FBS is one of the nation's largest providers of domestic corporate trust services. Corporate Trust provides trusteeship for municipal, corporate, asset-backed and international bonds, as well as paying agent, escrow agent, and document custodial services to debt issuers.

INSTITUTIONAL FINANCIAL SERVICES focuses on investment clients and products. The business is organized into two groups: First Asset Management (FAM) and Investment Services. FAM provides centralized investment management, delivery and business support services for all FBS individual and institutional investment products. These products include First American Funds (a proprietary mutual fund family advised by FAM) and 401(k) products. Investment Services is FBS's full-service broker/dealer providing a wide array of investment products to individual investors, and underwriting, distribution and portfolio services to institutional clients.

Perspectives

CORPORATE TRUST: POSITIONED TO LEAD

In the corporate trust business, establishing economies of scale is necessary for competing effectively. The advantage goes to companies with the means to invest in efficient technology and offer a breadth of high-quality products and services. Through recent acquisitions and internal growth, FBS has become one of the largest providers of corporate trust services in the industry.

In 1996 we successfully completed the integration of BankAmerica's corporate trust business, doubling our corporate trust revenue and profitability. We continued our growth by announcing the acquisition of Comerica, Inc.'s bond indenture and paying agent business. Having closed on the Comerica acquisition in January 1997, FBS now serves more than 10,000 clients with 33,000 bond issues in the areas of municipal, revenue, housing and corporate bond indenture trusteeships.

FBS continues to explore acquisition opportunities for Corporate Trust, but scale is just one reason we are well-positioned to succeed in this niche.

We are investing in the infrastructure needed to absorb future acquisitions and grow our existing business. For example, we're upgrading systems for fee billing and collection, account control, and bondholder accounting and service. Our continuing emphasis on automation and standardization enhances our ability to deliver the levels of accuracy, quality and timeliness that bondholders and bond issuers demand.

Our strategy of maintaining local offices gives us a competitive edge in retaining and expanding our client base, particularly for municipal bonds. Through 13 full-service offices nationwide, we clearly have the size, experience and resources to compete profitably and efficiently.

In addition, we are able to leverage management expertise throughout FBS in areas such as acquisitions and cost control.

RESULTS

TOP-OF-THE-LINE SYSTEMS, SERVICE AND CLIENTS

THE CALIFORNIA HOUSING FINANCE AGENCY (CHFA) BECAME A FIRST TRUST CUSTOMER IN 1992, WHEN FBS ACQUIRED A MAJOR COMPETITOR'S CORPORATE TRUST PORTFOLIO. CHFA HAD BEEN CONSIDERING CHANGING VENDORS TO PROVIDE TRUSTEE AND PAYING AGENT SERVICES, AND AGREED TO STAY PUT IF FIRST TRUST COULD PROVIDE HIGH-QUALITY SERVICE AND MAINTAIN A LOCAL PRESENCE. WE DID BOTH.

TODAY CHFA IS ONE OF CORPORATE TRUST'S LARGEST CLIENTS AND ONE OF THE LARGEST BOND ISSUERS IN CALIFORNIA. THE AGENCY'S OUTSTANDING DEBT HAS GROWN NEARLY 40 PERCENT SINCE 1992. IN 1996 THE AGENCY ISSUED MORE THAN \$1 BILLION IN NEW BONDS, AS IT IMPROVED ITS EFFICIENCY AND PRODUCT DELIVERY.

FIRST TRUST HAS PROVED CAPABLE OF HANDLING THIS RAPIDLY GROWING, HIGH-PROFILE CLIENT AND ITS COMPLEX BUSINESS. OUR CENTRALIZED TRUST ACCOUNTING SYSTEMS AND OUR STAFF PROVIDE THE DEPENDABLE, HIGH-QUALITY SERVICE THE AGENCY NEEDS. WHEN HANDS-ON, PERSONAL ATTENTION IS REQUIRED, A DEDICATED ACCOUNT TEAM IS NEARBY IN OUR SAN FRANCISCO REGIONAL OFFICE, ONE OF 13 ACROSS THE COUNTRY.

First Bank System, Inc.

INSTITUTIONAL FINANCIAL SERVICES: PERFORMANCE PLUS

72%

GREW PROPRIETARY FIRST AMERICAN MUTUAL FUND ASSETS 72 PERCENT TO \$12.8 BILLION.

The goal of Institutional Financial Services is to satisfy customers, enabling us to grow noninterest income by gathering assets. In 1996 our assets under management increased 35 percent to \$39.3 billion, and fee income grew 16 percent to \$85.8 million.

We are on target to meet our long-term objectives for size and revenue. Furthermore, we are confident that we can continue to grow because we offer sound investment products--both in performance and breadth--and because FBS has solid market presence and distribution.

Strong, long-term performance is fueling our growth and is a key reason why First American Funds, a proprietary mutual fund family advised by First Asset Management (FAM), reached \$12.8 billion in assets under management in 1996. At year-end, Morningstar gave eight of these funds four-star ratings or higher for three-year performance.

In 1996 we continued to expand our product offerings to meet the needs of a wide range of investors. First American Strategy Funds, "funds of funds" that invest primarily in shares of other First American funds, were introduced into the no-load arena. The new funds, advised by FAM, provide a one-stop option for investors seeking income, growth and income, growth, or aggressive growth portfolios.

In retirement investments, FBS is seizing the opportunity related to the shift of assets from defined benefit to defined contribution plans. First Select, our new 401(k) plan for companies with 250 to 5,000 employees, promises to be a successful vehicle for defined benefit plan conversion. It gives customers the option to invest in First American Funds as well as in partner funds such as Fidelity and Putnam. Our retirement products continue to grow largely on the strength of referrals from FBS retail and business bankers.

401(K) SOLUTION FOR A GROWING COMPANY

WHEN THE RAMKOTA COMPANIES, INC., LAUNCHED ITS 401(K) PROGRAM IN 1989, IT INSTINCTIVELY TURNED TO FIRST TRUST. THE SIOUX FALLS, S.D.-BASED COMPANY ALREADY RELIED ON FIRST BANK FOR DEPOSIT AND CREDIT SERVICES, AS WELL AS CASH MANAGEMENT, TRUST ADMINISTRATION, AND CREDIT CARDS.

AS RAMKOTA GREW RAPIDLY THROUGH ACQUISITIONS TO OWN AND MANAGE 38 HOTELS IN 13 STATES, ITS 401(K) PROGRAM GREW MORE COMPLEX. BY 1996 THE COMPANY SPONSORED 28 RETIREMENT PLANS--A CUMBERSOME, TIME-CONSUMING ADMINISTRATIVE BURDEN.

RECOGNIZING RAMKOTA'S NEEDS, FIRST TRUST RECOMMENDED CONSOLIDATING THE COMPANY'S 401(K) BENEFITS USING THE FIRST AMERICAN RETIREMENT PLAN. RAMKOTA AGREED, SIGNIFICANTLY REDUCING ADMINISTRATIVE TASKS. IN ADDITION, RAMKOTA EMPLOYEES NOW HAVE MORE COMPLETE, TIMELY ACCESS TO THEIR RETIREMENT ACCOUNTS. AN 800 NUMBER ENABLES THEM TO CHECK DAILY BALANCES AND TRANSFER FUNDS BY PHONE 24 HOURS A DAY. THEY RECEIVE STATEMENTS THAT ARE MORE DETAILED AND TIMELY THAN BEFORE. AND THEY CAN CHOOSE FROM AMONG SEVERAL INVESTMENT OPTIONS FROM THE FIRST AMERICAN FUNDS FAMILY.

EVEN WITH CONTINUED EXPANSION, RAMKOTA CAN EASILY ENROLL NEW EMPLOYEES IN THE FIRST AMERICAN RETIREMENT PLAN WITHOUT ADDING NEW PLANS.

1996 Highlights

Corporate Trust

- . Completed integration of BankAmerica's corporate trust business.
- . Announced acquisition of bond indenture services business of Comerica, Inc.
- . Grew principal outstanding 39 percent to \$458 billion.
- . Increased bond issues 83 percent to 33,000.
- . Increased number of bondholders served by 77 percent to 995,000.

Institutional Financial Services

- . Increased assets under management 35 percent to \$39.3 billion.
- . Grew proprietary First American mutual fund assets 72 percent to \$12.8 billion.
- . Increased small plan 401(k) plan assets under management 74 percent to \$712.3 million.
- . Attracted 121 new retirement plan sponsors, up 45 percent.
- . Established nearly 39,000 new brokerage account relationships, a 16.5 percent increase in new relationships.
- . Increased brokerage investment sales revenue by 27 percent.
- . Increased public finance and municipal underwriting volume by nearly \$500 million, a 33 percent increase.

OVERVIEW

SUMMARY OF 1996 RESULTS First Bank System, Inc. (the "Company") earned a record \$740 million for the year 1996, up 30 percent from 1995 net income of \$568 million. On a per fully diluted share basis, net income was \$5.25 compared with \$4.11 in 1995, an increase of 28 percent. Return on average assets and return on average common equity were 2.09 percent and 23.8 percent, compared with returns of 1.73 percent and 21.3 percent in 1995.

Several nonrecurring items affected operating results for 1996. The impact of these items was \$72.1 million (\$138.0 million on a pre-tax basis), or \$.53 per share. Nonrecurring gains were: \$190 million, net of expenses, received for the termination of the First Interstate Bancorp ("First Interstate") merger agreement; a \$65 million refund of state income taxes, including interest; \$45.8 million in gain on the sale of the Company's mortgage banking operations; and, \$15 million in net securities gains. Nonrecurring charges included: \$31.3 million in merger and integration charges associated with the acquisitions of FirstTier Financial, Inc. ("FirstTier") and the corporate trust business of BankAmerica Corporation ("BankAmerica"); \$38.6 million in branch distribution resizing expenses; a \$29.5 million valuation adjustment of cardholder and core deposit intangibles; \$10.1 million for a one-time employee bonus; \$17.3 million to acquire software and write-off other miscellaneous assets; and, a \$51 million one-time special assessment by the Federal Deposit Insurance Corporation ("FDIC") on deposits insured by the Savings Association Insurance Fund ("SAIF").

Operating earnings (net income excluding nonrecurring items) for 1996 were \$667.7 million, an increase of \$99.6 million (18 percent) from 1995. On a per fully diluted share basis, operating earnings were \$4.74 in 1996, compared with \$4.11 in 1995. Return on average assets and return on average common equity, excluding nonrecurring items, were 1.88 percent and 21.4 percent, compared with returns of 1.73 percent and 21.3 percent in 1995. Excluding nonrecurring items, the efficiency ratio (the ratio of expenses to revenues) improved to 49.9 percent in 1996 from 53.3 percent in 1995.

The strong 1996 results reflect growth in net interest and noninterest income, controlled operating expenses, and effective capital management. Net interest income on a taxable-equivalent basis was \$1.6 billion, an increase of \$100 million (7 percent) from 1995. Noninterest income increased \$117.8 million (16 percent) from 1995, excluding nonrecurring items, primarily as a result of growth in credit card, trust fees and service charges on deposit accounts. Excluding nonrecurring items, 1996 noninterest expense increased \$35.4 million (3 percent) compared with 1995 primarily because of acquisitions. Compared with noninterest expense for 1995, adjusted for acquisitions and divestitures, noninterest expense declined \$101 million (8 percent) in 1996.

Credit quality remained strong during 1996. Nonperforming assets totaled \$137.7 million at December 31, 1996, down \$16 million (10 percent) from December 31, 1995. The ratio of allowance for credit losses to nonperforming loans increased to 429 percent from 401 percent at December 31, 1995. See "Corporate Risk Profile" for additional information.

ACQUISITION AND DIVESTITURE ACTIVITY On February 16, 1996, the Company completed its acquisition of Omaha-based FirstTier for \$717 million. Under the terms of the purchase agreement, the Company exchanged .8829 shares of its common stock for each common share of FirstTier, or a total of 16.5 million shares. FirstTier had \$3.7 billion in assets, \$2.9 billion in deposits, and 63 offices in Nebraska and Iowa. As a purchase transaction, the results of operations of FirstTier are included in the Company's results from the date of acquisition.

During the fourth quarter of 1995 and first quarter of 1996 the Company acquired the corporate trust business of BankAmerica. After the acquisition, the Company became one of the nation's leading providers of domestic corporate trust services.

During 1996 the Company sold its residential mortgage servicing and loan production business to three parties. Bank of America fsb, a subsidiary of BankAmerica, purchased approximately \$14 billion in mortgage servicing rights. Columbia National, Inc., of Maryland, and Knutson Mortgage Co., of Minnesota, agreed to purchase the Company's loan production business. The Company will now deliver mortgage loan products through bank branches and telemarketing. These transactions resulted in a net gain of \$45.8 million.

On January 31, 1997, the Company completed its acquisition of the bond indenture services and paying agency business of Comerica Incorporated. This business serves approximately 860 municipal and corporate clients with about 2,400 bond issues.

On January 24, 1996, First Interstate announced that it had terminated a merger agreement with the Company and entered into a definitive agreement with Wells Fargo & Company. Under the terms of a settlement agreement, the Company received \$125 million on January 24, 1996, and an additional \$75 million paid upon consummation of the merger of First Interstate and Wells Fargo & Company on April 1, 1996.

Refer to Note C for additional information regarding acquisitions and divestitures.

TABLE 1 SELECTED FINANCIAL DATA

(Dollars in Millions, Except Per Share Data)	1996	1995	1994	1993	1992
CONDENSED INCOME STATEMENT:					
Net interest income (taxable-equivalent basis).....	\$1,553.6	\$1,454.0	\$1,434.5	\$1,355.9	\$1,175.7
Provision for credit losses.....	136.0	115.0	123.6	133.1	191.7
Net interest income after provision for credit losses.....	1,417.6	1,339.0	1,310.9	1,222.8	984.0
Securities gains (losses).....	15.0	--	(115.0)	.3	46.3
Other nonrecurring gains.....	300.8	31.0	--	--	--
Other noninterest income.....	869.9	752.1	673.9	618.6	567.4
Merger-related charges*.....	69.9	--	125.3	72.2	110.4
Other nonrecurring charges.....	107.9	31.0	--	--	--
Other noninterest expense.....	1,210.3	1,174.9	1,224.1	1,192.5	1,135.9
Income from continuing operations before income taxes and cumulative effect of changes in accounting principles.....	1,215.2	916.2	520.4	577.0	351.4
Taxable-equivalent adjustment.....	20.6	13.8	15.1	17.7	22.7
Income taxes.....	454.8	334.3	191.8	198.6	115.7
Income from continuing operations before cumulative effect of changes in accounting principles.....	739.8	568.1	313.5	360.7	213.0
Income (loss) from discontinued operations.....	--	--	(8.5)	2.5	2.7
Income before cumulative effect of changes in accounting principles.....	739.8	568.1	305.0	363.2	215.7
Cumulative effect of changes in accounting principles.....	--	--	--	--	233.2
Net income.....	\$ 739.8	\$ 568.1	\$ 305.0	\$ 363.2	\$ 448.9
Return on average assets.....	2.09%	1.73%	.91%	1.13%	1.56%
Return on average assets before merger-related and nonrecurring items and cumulative effect of changes in accounting principles.....	1.88	1.73	1.35	1.27	.89
Return on average common equity.....	23.8	21.3	11.2	13.9	20.0
Return on average common equity before merger-related and nonrecurring items and cumulative effect of changes in accounting principles.....	21.4	21.3	17.0	15.8	10.8
Net interest margin.....	4.89	4.91	4.74	4.69	4.54
Efficiency ratio.....	51.0	53.9	64.0	64.1	71.5
Efficiency ratio before merger-related and nonrecurring items.....	49.9	53.3	58.1	60.4	65.2
PER COMMON SHARE:					
Primary income from continuing operations before cumulative effect of changes in accounting principles.....	\$ 5.34	\$ 4.19	\$ 2.21	\$ 2.46	\$ 1.46
Income (loss) from discontinued operations.....	--	--	(.06)	.02	.02
Cumulative effect of changes in accounting principles.....	--	--	--	--	1.87
Primary net income.....	\$ 5.34	\$ 4.19	\$ 2.15	\$ 2.48	\$ 3.35
Fully diluted income from continuing operations before cumulative effect of changes in accounting principles.....	\$ 5.25	\$ 4.11	\$ 2.20	\$ 2.45	\$ 1.45
Income (loss) from discontinued operations.....	--	--	(.06)	.02	.02
Cumulative effect of changes in accounting principles.....	--	--	--	--	1.79
Fully diluted net income.....	\$ 5.25	\$ 4.11	\$ 2.14	\$ 2.47	\$ 3.26
Dividends paid**.....	\$ 1.65	\$ 1.45	\$ 1.16	\$ 1.00	\$.88
AVERAGE BALANCE SHEET DATA:					
Loans.....	\$ 26,806	\$ 25,383	\$ 23,863	\$ 21,808	\$ 19,108
Earning assets.....	31,754	29,603	30,265	28,907	25,899
Assets.....	35,477	32,886	33,545	32,191	28,837
Deposits.....	23,443	22,708	24,661	25,637	22,953
Long-term debt.....	3,393	2,963	2,609	1,633	1,453
Common equity.....	3,085	2,634	2,603	2,409	2,090
Total shareholders' equity.....	3,175	2,739	2,746	2,769	2,495
YEAR-END BALANCE SHEET DATA:					
Loans.....	\$ 27,128	\$ 26,400	\$ 24,556	\$ 23,497	\$ 20,692
Assets.....	36,489	33,874	34,128	33,370	32,758
Deposits.....	24,379	22,514	24,256	26,386	26,395
Long-term debt.....	3,553	3,201	2,981	2,070	1,151
Common equity.....	3,053	2,622	2,494	2,466	2,354
Total shareholders' equity.....	3,053	2,725	2,612	2,744	2,745

*Includes \$26.4 relating to ORE in 1992, and \$56.5 relating to severance in 1994.

**Dividends per share have not been restated for the Metropolitan Federal Corporation ("MFC") or Colorado National Bankshares, Inc. ("CNB") mergers. MFC paid common dividends of \$25.1 million in 1994 (\$.80 per share), \$12.1 million in 1993 (\$.39 per share) and \$7.7 million in 1992 (\$.27 per share). CNB paid common dividends of \$3.2 million in 1992 (\$.28 per share).

TABLE 2 LINE OF BUSINESS FINANCIAL PERFORMANCE

(Dollars in Millions)	Retail Banking			Payment Systems			Business Banking and Private Financial Services		
	1996	1995	Percent Change	1996	1995	Percent Change	1996	1995	Percent Change
CONDENSED INCOME STATEMENT:									
Net interest income (taxable-equivalent basis).....	\$ 758.6	\$ 712.1	6.5%	\$146.5	\$155.8	(6.0)%	\$394.1	\$330.0	19.4%
Provision for credit losses.....	20.2	19.5	3.6	92.0	74.8	23.0	13.4	11.0	21.8
Noninterest income.....	161.4	141.1	14.4	330.3	266.9	23.8	116.8	95.2	22.7
Noninterest expense.....	569.6	541.4	5.2	208.9	193.0	8.2	199.8	182.7	9.4
Income taxes and taxable-equivalent adjustment.....	125.5	111.1		66.8	58.9		113.1	87.9	
Income before nonrecurring items.....	\$ 204.7	\$ 181.2	13.0	\$109.1	\$ 96.0	13.6	\$184.6	\$143.6	28.6
Net nonrecurring items (after-tax).....									
Net income.....									
AVERAGE BALANCE SHEET DATA:									
Commercial loans.....	\$ 442	\$ 358	23.5	\$1,148	\$ 807	42.3	\$6,695	\$5,472	22.4
Consumer loans, excluding residential mortgage.....	6,441	5,849	10.1	2,654	2,341	13.4	463	405	14.3
Residential mortgage loans.....	3,323	4,815	(31.0)	--	--	--	124	91	36.3
Assets.....	13,151	13,932	(5.6)	4,632	3,854	20.2	9,615	7,837	22.7
Deposits.....	16,993	16,839	.9	40	40	--	3,638	3,139	15.9
Common equity.....	1,039	1,002	3.7	427	351	21.7	841	608	38.3
Return on average assets.....	1.56%	1.30%		2.36%	2.49%		1.92%	1.83%	
Return on average common equity ("ROCE").....	19.7	18.1		25.6	27.4		22.0	23.6	
Net tangible ROCE**.....	36.2	26.0		43.4	47.8		35.5	32.3	
Efficiency ratio.....	61.9	63.5		43.8	45.7		39.1	43.0	
Efficiency ratio on a cash basis**.....	59.2	61.4		41.8	43.2		36.9	41.9	

*Not meaningful.

**Calculated by excluding goodwill and other intangibles and the related amortization.

Note: The Company's mortgage banking operations, which were sold in first quarter 1996, and nonrecurring items are included in "Other."

LINE OF BUSINESS FINANCIAL REVIEW

Financial performance is measured by major lines of business, which include: Retail Banking, Payment Systems, Business Banking and Private Financial Services, Commercial Banking, and Corporate Trust and Institutional Financial Services. Business line results are derived from the Company's business unit profitability reporting system. Designations, assignments, and allocations may change from time to time as management accounting systems are enhanced or product lines change. During 1996 certain organization and methodology changes were made and 1995 results are presented on a consistent basis.

RETAIL BANKING Retail Banking delivers products and services to the broad consumer market and small-business through branch offices, telemarketing, direct mail, and automated teller machines ("ATMs"). Net income was \$204.7 million in 1996 compared with \$181.2 million in 1995. Return on average assets increased to 1.56 percent from 1.30 percent in 1995. Net tangible return on average common equity increased to 36.2 percent from 26.0 percent in the previous year.

The increase in net interest income resulted from growth in core commercial and nonmortgage consumer loans and the February 1996 acquisition of FirstTier. Noninterest income and expense were higher in 1996 compared with 1995, reflecting the impact of acquisitions. The efficiency ratio on a cash basis improved to 59.2 percent in 1996 from 61.4 percent a year ago.

PAYMENT SYSTEMS Payment Systems includes consumer and business credit cards, corporate and purchasing card services, card-accessed secured and unsecured lines of credit, ATM processing, and merchant processing. Net income increased 14 percent in 1996 to \$109.1 million compared with \$96.0 million in 1995. Return on average assets was 2.36 percent, compared with 2.49 percent in 1995, and net tangible return on average common equity was 43.4 percent compared with 47.8 percent in 1995.

First Bank Systems, Inc.

Commercial Banking			Corporate Trust and Institutional Financial Services			Other		Consolidated Company		
1996	1995	Percent Change	1996	1995	Percent Change	1996	1995	1996	1995	Percent Change
\$209.2	\$216.1	(3.2)%	\$ 39.4	\$ 26.3	49.8%	\$ 5.8	\$13.7	\$1,553.6	\$1,454.0	6.9%
10.4	9.7	7.2	--	--	--	--	(.1)	136.0	115.0	18.3
59.8	60.3	(.8)	196.9	140.6	40.0	4.7	48.0	869.9	752.1	15.7
79.9	88.3	(9.5)	142.7	109.4	30.4	9.4	60.1	1,210.3	1,174.9	3.0
68.0	67.8		35.6	21.8		.5	.6	409.5	348.1	
\$110.7	\$110.6	.1	\$ 58.0	\$ 35.7	62.5	.6	1.1	667.7	568.1	17.5
						72.1	--	72.1	--	*
						\$72.7	\$ 1.1	\$739.8	\$568.1	30.2
\$5,438	\$4,978	9.2	\$ --	\$ --	\$ --	\$ --	\$ 4	\$ 13,723	\$ 11,619	18.1
--	--	--	--	--	--	--	--	9,558	8,595	11.2
--	--	--	--	--	--	78	263	3,525	5,169	(31.8)
6,752	6,095	10.8	1,165	709	64.3	162	459	35,477	32,886	7.9
1,569	1,620	(3.1)	1,040	788	32.0	163	282	23,443	22,708	3.2
473	427	10.8	289	179	61.5	16	67	3,085	2,634	17.1
* 1.64%	1.81%		*	*				1.88%	1.73%	
23.4	25.9		20.1%	19.9%				21.4	21.3	
24.4	27.2		36.6	28.8				35.2	30.7	
29.7	31.9		60.4	65.5				49.9	53.3	
29.3	31.6		52.5	60.3				46.8	50.7	

Fee-based noninterest income increased approximately 24 percent in 1996 compared with 1995. The increases were due to growth in the sales volume of the Corporate Card, the Purchasing Card, the First Bank WorldPerks(R) VISA(R) card, and the expansion of the ATM network. Net interest income decreased slightly due to a change in the loan mix. Average commercial loans, which are primarily noninterest-earning Corporate and Purchasing Card balances, comprised approximately 30 percent of the portfolio in 1996, compared with approximately 26 percent in 1995. Noninterest expense increased 8 percent reflecting an increase in sales volume. The efficiency ratio on a cash basis improved to 41.8 percent from 43.2 percent in 1995.

BUSINESS BANKING AND PRIVATE FINANCIAL SERVICES

Business Banking and Private Financial Services includes middle-market banking services, private banking, and personal trust. Net income increased 29 percent to \$184.6 million compared with 1995. Return on average assets was 1.92 percent compared with 1.83 percent in 1995, and net tangible return on average common equity was 35.5 percent compared with 32.3 percent in 1995.

Net interest income increased 19 percent, reflecting 22 percent growth in average loan balances including acquisitions. The 23 percent increase in noninterest income in 1996 compared with 1995 resulted from acquisitions and a more effective approach to charging for private financial services. Noninterest expense increased in 1996 compared with 1995 reflecting the impact of acquisitions. The efficiency ratio on a cash basis improved to 36.9 percent in 1996 from 41.9 percent in 1995.

COMMERCIAL BANKING Commercial Banking provides lending, treasury management, and other financial services to middle-market, large corporate and mortgage banking companies. Net income was \$110.7 million, essentially unchanged from 1995. Return on average assets was 1.64 percent compared with 1.81 percent in 1995, and net tangible return on average common equity was 24.4 percent compared with 27.2 percent in 1995.

Although average loans increased \$460 million (9 percent) from 1995, net interest income was lower primarily reflecting the impact of lending to the cyclical mortgage banking sector. Noninterest income remained relatively flat in 1996 compared with 1995. The decrease in noninterest expense reflected the benefits of increased operational efficiencies. The efficiency ratio on a cash basis improved to 29.3 percent compared to 31.6 percent in 1995.

CORPORATE TRUST AND INSTITUTIONAL FINANCIAL SERVICES

Corporate Trust and Institutional Financial Services includes institutional and corporate trust services, investment management services, and a full-service brokerage company. Net income increased 63 percent to \$58.0 million compared with the prior year. The net tangible return on average common equity was 36.6 percent in 1996, compared with 28.8 percent in 1995.

Corporate Trust net income increased over 1995 primarily due to the Company's strategy to grow its fee-based businesses including the full year impact of the BankAmerica Corporate Trust business acquisition. Institutional Financial Services net income increased reflecting growth in mutual fund balances due to successful marketing promotions and the acquisition of FirstTier. The efficiency ratio on a cash basis improved to 52.5 percent from 60.3 percent in 1995, reflecting the effective integration of acquisitions, process re-engineering efforts, and revenue growth.

STATEMENT OF INCOME ANALYSIS

NET INTEREST INCOME Net interest income on a taxable-equivalent basis was \$1.55 billion in 1996 compared with \$1.45 billion in 1995 and \$1.43 billion in 1994. The 1996 increase as compared with 1995 was attributable primarily to growth in average loans. During 1996, \$1.3 billion of residential mortgage loans were securitized and reclassified to available-for-sale securities to enhance liquidity and financial management flexibility. Excluding residential mortgage loan balances, 1996 average loans were higher by approximately \$3.1 billion than 1995, reflecting growth in core commercial and consumer loans, as well as the February 1996 acquisition of FirstTier. Average securities were higher than 1995, reflecting the transfer of securitized mortgage loan balances and the addition of securities acquired with FirstTier, partially offset by maturities and sales.

Partially offsetting the impact of higher average loan balances was the effect of a lower average yield on loans. The average yield on loans for 1996 was 8.75 percent, or 24 basis points lower than 8.99 percent in 1995 due to declining interest rates over the past year. The improvement in net interest income also reflected a decrease of 16 basis points on rates paid on interest-bearing liabilities.

The improvement in net interest income from 1994 to 1995 reflected an increase in the average yield on earning asset balances due to increases in market interest rates during 1994 and the first quarter of 1995 and a shift in the mix from securities and residential mortgage-related balances to other higher yielding commercial and consumer loan balances. Solid loan growth occurred in both nonmortgage consumer and commercial loans, offset primarily by a decrease in the balance of residential mortgage loans. Excluding these residential mortgage loan balances, average loans for the year increased by \$2.5 billion from 1994, as demand for small business and middle-market loans, credit cards, home equity, and other consumer loans remained strong.

TABLE 3 ANALYSIS OF NET INTEREST INCOME

(Dollars in Millions)	1996	1995	1994
Net interest income (taxable-equivalent basis).....	\$1,553.6	\$1,454.0	\$1,434.5
Average balances of earning assets supported by:			
Interest-bearing liabilities.....	\$ 24,677	\$23,527	\$23,618
Noninterest-bearing liabilities.....	7,077	6,076	6,647
Total earning assets.....	\$ 31,754	\$29,603	\$30,265
Average yields and weighted average rates (taxable-equivalent basis):			
Earning assets yield.....	8.42%	8.64%	7.61%
Rate paid on interest-bearing liabilities.....	4.54	4.70	3.68
Gross interest margin.....	3.88%	3.94%	3.93%
Net interest margin.....	4.89%	4.91%	4.74%
Net interest margin without taxable-equivalent increments.....	4.83%	4.87%	4.69%

TABLE 4 CHANGES IN RATE AND VOLUME

(In Millions)	1996 Compared with 1995			1995 Compared with 1994		
	Volume	Yield/Rate	Total	Volume	Yield/Rate	Total
Increase (decrease) in:						
Interest income:						
Loans.....	\$ 125.6	\$ (60.5)	\$ 65.1	\$ 127.6	\$ 230.0	\$ 357.6
Taxable securities.....	7.9	7.5	15.4	(131.7)	29.9	(101.8)
Nontaxable securities.....	25.8	(3.8)	22.0	(.5)	(.6)	(1.1)
Federal funds sold and resale agreements.....	11.9	(1.6)	10.3	(6.0)	5.7	(.3)
Other.....	5.0	(2.3)	2.7	--	1.4	1.4
Total.....	176.2	(60.7)	115.5	(10.6)	266.4	255.8
Interest expense:						
Savings deposits and time deposits less than \$100,000.....	2.1	(18.7)	(16.6)	(29.0)	146.2	117.2
Time deposits over \$100,000.....	(12.5)	(4.5)	(17.0)	(19.9)	12.1	(7.8)
Short-term borrowings.....	48.2	(13.7)	34.5	41.8	43.0	84.8
Long-term debt.....	26.3	(13.6)	12.7	21.4	20.7	42.1
Company-obligated mandatorily redeemable capital securities of FBS Capital I.....	2.3	--	2.3	--	--	--
Total.....	66.4	(50.5)	15.9	14.3	222.0	236.3
Increase (decrease) in net interest income.....	\$ 109.8	\$ (10.2)	\$ 99.6	\$ (24.9)	\$ 44.4	\$ 19.5

This table shows the components of the change in net interest income by volume and rate on a taxable-equivalent basis. The effect of changes in rates on volume changes is allocated based on the percentage relationship of changes in volume and changes in rate. This table does not take into account the level of noninterest-bearing funding, nor does it fully reflect changes in the mix of assets and liabilities.

Partially offsetting the 1995 increase in the average yield on earning assets was an increase in the average rate paid on interest-bearing liabilities as a result of increases in deposit rates and, to a lesser extent, a shift in mix from deposits to borrowings in 1995 as compared to 1994. Average interest-bearing deposits decreased reflecting the 1995 divestiture of \$848 million of deposits and consumers moving funds into alternative investment vehicles.

The net interest margin, on a taxable-equivalent basis, was 4.89 percent in 1996, essentially unchanged from 4.91 percent in 1995. The net interest margin was 4.74 percent in 1994. The improvement in the net interest margin in 1995 over 1994 resulted from a shift in the mix of earning assets from securities and lower-margin mortgage-related loans to higher yield consumer and commercial loans.

PROVISION FOR CREDIT LOSSES The provision for credit losses was \$136.0 million in 1996, up \$21.0 million from the provision of \$115.0 million in 1995 and \$12.4 million from the provision of \$123.6 million in 1994. Net charge-offs increased to \$152.8 million in 1996 from \$121.0 million in 1995 and 140.3 million in 1994. These increases resulted from increased loan volumes, higher credit card net charge-offs, and lower commercial loan net recoveries. The 1994 provision for credit losses included a \$16.5 million merger-related provision to provide for the Company's plans and policies with respect to MFC's commercial and consumer loan portfolios. Refer to "Corporate Risk Profile" for further information on credit quality.

TABLE 5 NONINTEREST INCOME

(Dollars in Millions)	1996	1995	1994
Credit card fees.....	\$ 292.6	\$232.7	\$ 179.0
Trust fees.....	230.7	175.3	159.2
Services charges on deposit accounts.....	141.5	123.7	127.3
Investment products fees and commissions.....	33.4	27.6	29.6
Trading account profits and commissions.....	13.0	11.1	9.3
Other.....	158.7	181.7	169.5
Subtotal.....	869.9	752.1	673.9
Termination fee, net.....	190.0	--	--
State income tax refund.....	65.0	--	--
Gain on sale of mortgage banking operations..	45.8	--	--
Gain on sale of branches.....	--	31.0	--
Securities gains (losses).....	15.0	--	(115.0)
Nonrecurring gains (losses).....	315.8	31.0	(115.0)
Total noninterest income.....	\$1,185.7	\$783.1	\$ 558.9

NONINTEREST INCOME Noninterest income was \$1.19 billion in 1996, compared with \$783.1 million in 1995, an increase of \$402.6 million (51 percent). Noninterest income was \$558.9 million in 1994. Nonrecurring gains included in noninterest income in 1996 totaled \$315.8 million, including a \$190 million termination fee received from the First Interstate transaction, net of \$10 million in costs; a \$65 million state tax refund, including interest; a \$45.8 million gain on the sale of the Company's mortgage banking operations; and, \$15 million in net securities gains. Noninterest income in 1995 included a \$31 million nonrecurring gain on the sale of 63 branches. Included in 1994 noninterest income was a \$115.0 million nonrecurring loss primarily related to securities sold in January 1995 as a result of MFC's actions to reduce interest rate risk consistent with prior regulatory requests and to align more closely the interest rate risk profile of MFC with that of the Company.

Excluding nonrecurring items, noninterest income in 1996 was \$869.9 million, a \$117.8 million (16 percent) increase from 1995. Noninterest income in 1995, excluding nonrecurring items, increased \$78.2 million (12 percent) from 1994. The improvements resulted primarily from continued growth in credit card and trust fees. Credit card fees increased due to higher sales volumes for Corporate and Purchasing Cards and the First Bank WorldPerks VISA card. Trust fees were up primarily on growth attributable to the Company's corporate trust acquisition strategy, including the acquisitions of the BankAmerica corporate trust business and FirstTier completed in 1996, and core growth in personal and institutional trust fees. Service charges on deposit accounts increased over 1995 primarily as a result of increased demand deposits and the acquisition of FirstTier. Other noninterest income decreased in 1996 as compared to 1995, reflecting the impact of the sale of the Company's mortgage banking operations, and increased in 1995 as compared to 1994, due to increased ATM network transaction volume.

First Bank System, Inc.

TABLE 6 NONINTEREST EXPENSE

(Dollars in Millions, Except Per Employee Data)	1996	1995	1994
Salaries**	\$ 456.4	\$ 441.0	\$ 450.7
Employee benefits**	104.1	96.4	105.7
Total personnel expense	560.5	537.4	556.4
Goodwill and other intangible assets**	77.0	57.1	50.4
Net occupancy	98.5	98.6	103.8
Furniture and equipment	89.0	94.2	88.3
Other personnel costs	55.8	40.9	35.7
Professional services**	39.9	36.9	38.5
Advertising and marketing	35.4	32.0	35.5
Telephone	27.3	25.1	25.9
Printing, stationery and supplies	23.4	22.4	23.0
Postage	22.8	22.5	23.0
Third party data processing	21.8	17.8	20.3
FDIC insurance	11.4	35.8	58.4
Other**	147.5	154.2	164.9
Subtotal	1,210.3	1,174.9	1,224.1
SAIF special assessment	51.0	--	--
Merger-related	31.3	--	125.3
Branch distribution resizing	38.6	--	--
Goodwill and other intangible assets valuation adjustment	29.5	--	--
Special employee bonus	10.1	--	--
Other	17.3	31.0	--
Nonrecurring charges	177.8	31.0	125.3
Total noninterest expense	\$1,388.1	\$1,205.9	\$1,349.4
Efficiency ratio*	51.0%	53.9%	64.0%
Efficiency ratio before merger-related items and nonrecurring items	49.9	53.3	58.1
Average number of full-time equivalent employees	12,976	13,231	14,725
Personnel expense per employee**	\$ 43,195	\$ 40,617	\$ 37,786

* Computed as noninterest expense divided by the sum of net interest income on a taxable-equivalent basis and noninterest income net of securities gains and losses.

**Before effect of nonrecurring items.

NONINTEREST EXPENSE Noninterest expense was \$1.39 billion in 1996, compared with \$1.21 billion in 1995, an increase of \$182.2 million (15 percent), and \$1.35 billion in 1994. Nonrecurring charges in 1996 totaled \$177.8 million, including merger and integration charges of \$31.3 million for the acquisitions of FirstTier and the BankAmerica corporate trust business and \$38.6 million in branch distribution resizing expenses; a \$29.5 million valuation adjustment to reduce the carrying value of credit card and core deposit intangibles to estimated fair value; \$10.1 million for a one-time \$750 per-employee bonus to thank employees for staying focused on customers and shareholder value during the bid for First Interstate; \$17.3 million to acquire credit card and revolving credit software and to write-off other miscellaneous assets; and, a \$51 million one-time special assessment by the FDIC on SAIF deposits. Nonrecurring charges in 1995 included the write-off of \$23 million of unamortized software costs related to a change in the Company's policy to expense software costs and an \$8 million write-off of other miscellaneous assets. Nonrecurring charges included in noninterest expense in 1994 were merger and integration charges of \$66.2 million and merger-related severance charges of \$56.5 million related to the MFC transaction. Refer to Note K for further information on merger, integration and resizing charges.

On a pro forma basis (adjusting for purchase acquisitions, divested businesses and nonrecurring items), noninterest expense in 1996 declined \$101.4 million (8 percent) compared with 1995, and 1995 decreased \$80.9 million (6 percent) compared with 1994. These reductions were achieved as a result of effective acquisition integration and ongoing expense control. Excluding nonrecurring items, the Company's efficiency ratio improved to 49.9 percent in 1996 from 53.3 percent in 1995 and 58.1 percent in 1994. The Company's efficiency ratio ranks second among its peer group. The keys to this high productivity are a tight cost control culture throughout the organization and the successful integration of acquisitions. Each acquisition has been integrated at a progressively faster pace, enabling substantial cost reductions.

Total salaries and benefits, excluding nonrecurring charges, increased \$23.1 million (4 percent) to \$560.5 million in 1996 compared with 1995, reflecting recent acquisitions. Average full-time equivalent employees decreased 2 percent to 12,976 in 1996 from 13,231 in 1995. Salaries and employee benefits expenses in 1995 were \$537.4 million, down from 1994's total of \$556.4 million, reflecting a decrease in full-time equivalent employees.

Amortization of goodwill and other intangible assets, excluding the valuation adjustment discussed above, was \$77.0 million in 1996, \$57.1 million in 1995, and \$50.4 million in 1994. The increases were primarily attributable to the additional goodwill and intangible assets resulting from the corporate trust business and bank acquisitions in 1994 through 1996.

The increase in other personnel expense for 1996 compared with 1995 related to several technology projects currently in process.

FDIC insurance premiums were \$11.4 million in 1996, \$35.8 million in 1995, and \$58.4 million in 1994. The current year decrease from 1995 resulted from the FDIC suspending the assessment of premiums on deposits covered by the Bank Insurance Fund ("BIF") effective January 1, 1996 and the receipt of a \$2.6 million SAIF premium rebate. The decrease in 1995 from 1994 was due to a reduction in the FDIC's assessment rate on BIF insured deposits from \$.23 to \$.04 per \$100, retroactive to June 1, 1995. In addition to the one-time special assessment discussed above, starting in 1997 BIF-insured institutions are required to assist in paying interest on the Financing Corp. ("FICO") bonds, which financed the resolution of the thrift industry series. The FICO assessment is approximately 1.3 basis points on BIF-insured deposits and 6.5 basis points on SAIF-insured deposits. The first quarter 1997 FICO assessment is approximately \$1.4 million.

INCOME TAX EXPENSE The provision for income taxes was \$454.8 million in 1996 compared with \$334.3 million in 1995 and \$191.8 million in 1994. The increases in 1996 and 1995 were primarily due to an increasing level of taxable income.

At December 31, 1996, the Company's net deferred tax asset was essentially unchanged at \$216.2 million, compared with a net deferred tax asset of \$216.3 million at December 31, 1995. In determining that realization of the deferred tax asset was more likely than not, the Company gave consideration to a number of factors, including its recent earnings history, its expectations for earnings in the future and, where applicable, the expiration dates associated with tax carryforwards. For further information on income taxes, refer to Note M.

DISCONTINUED OPERATIONS Because of regulatory restrictions on nonbanking activities, the Company sold Edina Realty, Inc. ("Edina"), its real estate brokerage subsidiary, on December 8, 1995. Edina's operations were reported in the Consolidated Statement of Income as discontinued operations, with income and expenses excluded from captions applicable to continuing operations. Edina's assets, liabilities, and cash flows were not material to the Company's financial statements. Edina's 1994 results included a \$12.5 million accrual for the settlement of two class action lawsuits against Edina, which was paid in 1995.

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TABLE 7 LOAN PORTFOLIO DISTRIBUTION

At December 31 (Dollars in Millions)	1996		1995		1994	
	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total
COMMERCIAL:						
Commercial	\$ 9,456	34.9%	\$ 8,271	31.3%	\$ 7,285	29.7%
Financial institutions	905	3.3	1,060	4.0	787	3.2
Real estate:						
Commercial mortgage	3,090	11.4	2,784	10.6	2,454	10.0
Construction	654	2.4	403	1.5	330	1.3
Total commercial	14,105	52.0	12,518	47.4	10,856	44.2
CONSUMER:						
Residential mortgage	3,019	11.1	4,655	17.6	5,098	20.8
Residential mortgage held for sale	42	.2	257	1.0	197	.8
Home equity and second mortgage	3,263	12.0	2,805	10.6	2,453	10.0
Credit card	2,858	10.6	2,586	9.8	2,409	9.8
Automobile	1,991	7.3	1,821	6.9	1,770	7.2
Revolving credit	737	2.7	757	2.9	725	2.9
Installment	607	2.2	607	2.3	712	2.9
Student*	506	1.9	394	1.5	336	1.4
Total consumer	13,023	48.0	13,882	52.6	13,700	55.8
Total loans	\$ 27,128	100.0%	\$26,400	100.0%	\$24,556	100.0%
1993						
1992						
COMMERCIAL:						
Commercial	\$ 6,170	26.3%	\$ 5,781	27.9%		
Financial institutions	2,004	8.5	1,132	5.5		
Real estate:						
Commercial mortgage	2,233	9.5	2,207	10.6		
Construction	241	1.0	239	1.2		
Total commercial	10,648	45.3	9,359	45.2		
CONSUMER:						
Residential mortgage	5,125	21.8	4,641	22.5		
Residential mortgage held for sale	1,149	4.9	856	4.1		
Home equity and second mortgage	1,932	8.2	1,482	7.2		
Credit card	1,757	7.5	1,782	8.6		
Automobile	1,159	4.9	1,050	5.1		
Revolving credit	695	3.0	605	2.9		
Installment	772	3.3	671	3.2		
Student*	260	1.1	246	1.2		
Total consumer	12,849	54.7	11,333	54.8		
Total loans	\$23,497	100.0%	\$20,692	100.0%		

* All or part of the student loan portfolio may be sold when the repayment period begins.

BALANCE SHEET ANALYSIS

LOANS The Company's loan portfolio increased \$728 million to \$27.1 billion at December 31, 1996, from \$26.4 billion at December 31, 1995. Growth in most commercial and consumer loan categories was partially offset by a decrease in residential mortgage-related balances. This decrease reflects the securitization of \$1.3 billion of residential mortgage loans, which were reclassified to available-for-sale securities during 1996. The securitization enhances liquidity and financial management flexibility. Excluding residential mortgages, total loans at December 31, 1996 were higher by approximately \$2.6 billion than December 31, 1995, reflecting growth in core commercial and consumer loans as well as the acquisition of FirstTier. The Company's loan portfolio carries credit risk, which may ultimately result in loan charge-offs. The Company manages this risk through stringent, centralized credit policies and review procedures, as well as diversification along geographic and customer lines. See "Corporate Risk Profile" for a more detailed discussion of the management of credit risk including the allowance for credit losses.

COMMERCIAL Commercial loans totaled \$9.5 billion at year-end 1996, up \$1.2 billion (14 percent), from year-end 1995. Year-end 1995 commercial loans were \$8.3 billion, up \$1.0 billion (14 percent), from year-end 1994. The increase in commercial loans was primarily attributable to acquisitions and growth in core middle-market business lending.

At December 31, 1996, the significant industry groups based on commercial loans outstanding were consumer cyclical products and services (20 percent), consumer staple product and services (18 percent), and capital goods (15 percent). This diverse mix of industries is similar to 1995 and 1994.

The geographical distribution of the commercial portfolio is concentrated in the Company's operating region, with approximately 80 percent of amounts outstanding to borrowers located in Minnesota, Colorado, Wisconsin, Illinois, Montana, North Dakota, South Dakota, Iowa, Kansas, Nebraska, and Wyoming.

FINANCIAL INSTITUTIONS The portfolio of loans to financial institutions was relatively unchanged at \$.9 billion at December 31, 1996, compared with \$1.1 billion at December 31, 1995. The outstandings fluctuate due to the cyclical nature of mortgage banking firms' loan volume.

The financial institutions group provides financing to institutions headquartered throughout the United States. Many of these institutions originate residential mortgages on a national basis. The Company secures these loans primarily with loans secured by first liens on single family residences.

TABLE 8 COMMERCIAL REAL ESTATE EXPOSURE BY PROPERTY TYPE AND GEOGRAPHY

PROPERTY TYPE	Percentage of Total at December 31	
	1996	1995
Retail.....	21.1%	19.0%
Mixed-use office.....	17.4	16.5
Office building.....	12.9	13.9
Multi-family.....	11.4	14.7
Hotel/motel.....	8.4	7.4
Single-family residential.....	5.5	4.2
Land.....	3.2	2.3
Other, primarily owner-occupied.....	20.1	22.0
	100.0%	100.0%
GEOGRAPHY		
Minnesota.....	27.8%	29.0%
Colorado.....	15.7	18.2
Iowa, Kansas and Nebraska.....	12.9	6.9
Montana, North Dakota, South Dakota and Wyoming.....	12.0	14.3
Wisconsin and Illinois.....	11.4	12.9
Total FBS region.....	79.8	81.3
West.....	8.9	7.8
Southeast.....	6.1	6.0
Southwest.....	2.2	2.2
Mid-Atlantic.....	1.8	.8
Other Midwest.....	1.2	1.9
	100.0%	100.0%

COMMERCIAL REAL ESTATE The Company's portfolio of commercial real estate mortgages and construction loans grew to \$3.7 billion at December 31, 1996, compared with \$3.2 billion at December 31, 1995, primarily due to acquisitions.

Commercial mortgages outstanding were \$3.1 billion at December 31, 1996, compared with \$2.8 billion at December 31, 1995. Real estate construction loans outstanding at December 31, 1996, totaled \$654 million compared with \$403 million from year-end 1995. Table 8 shows the breakdown of these real estate exposures by property type and geographic location. The Company maintains the real estate construction designation until the project is producing sufficient cash flow to service traditional mortgage financing, at which time the loan is transferred to the commercial mortgage portfolio. Approximately \$33 million of construction loans were transferred to the commercial mortgage portfolio in 1996.

At year-end 1996, real estate interests secured \$125 million of tax-exempt industrial development loans and \$318 million of standby letters of credit. At year-end 1995, these exposures totaled \$128 million and \$319 million, respectively. The Company's commercial real estate mortgages and construction loans had combined unfunded commitments of \$406 million at December 31, 1996, and \$409 million at December 31, 1995.

The Company also finances the operations of real estate developers and other entities with operations related to real estate. These loans are not secured directly by real estate and are subject to terms and conditions similar to commercial loans. These loans are included in the commercial category and totaled \$484 million at December 31, 1996, and \$356 million at December 31, 1995.

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CONSUMER Total consumer loan outstandings decreased \$859 million to \$13.0 billion at December 31, 1996, from \$13.9 billion at December 31, 1995. Excluding a \$1.85 billion (38 percent) decrease in residential mortgage loans, consumer loans increased \$992 million (11 percent).

Residential mortgage outstandings decreased to \$3.1 billion at December 31, 1996, reflecting the securitization discussed above.

Home equity and second mortgages increased \$458 million, primarily due to successful marketing promotions and acquisitions. Credit cards grew \$272 million primarily as a result of higher sales volumes for the First Bank WorldPerks VISA card.

Of total consumer balances outstanding, approximately 80 percent are to customers located in the Company's operating region. See "Corporate Risk Profile" for a discussion of the general economic conditions within the Company's operating region.

SECURITIES At December 31, 1996, securities totaled \$3.6 billion compared with \$3.3 billion at December 31, 1995, reflecting the securitization discussed above and the addition of approximately \$900 million of FirstTier securities, offset by maturities and sales. Mortgage-backed securities, as a percentage of the total securities portfolio, have also increased, reflecting the securitization discussed above. The relative mix of the remainder of the securities portfolio has not changed significantly from prior years.

SECURITIES PURCHASED AND SOLD UNDER RESALE AGREEMENTS The daily average outstanding amount of securities purchased under resale agreements for 1996 was \$451 million compared with \$241 million for 1995. The maximum 1996 month-end outstanding amount was \$795 million compared with \$380 million for 1995. The daily average outstanding amount of securities sold under resale agreements for 1996 was \$473 million compared with \$327 million for 1995. The maximum 1996 month-end outstanding amount was \$819 million compared with \$440 million in 1995. The Company maintains control of all securities underlying these agreements.

TABLE 9 AVAILABLE-FOR-SALE SECURITIES PORTFOLIO AVERAGE MATURITY

At December 31, 1996	Average Contractual Maturity
U.S. Treasury.....	2 years, 11 months
Other U.S. agencies.....	1 year, 5 months
State and political.....	11 years, 1 month
Other*.....	5 years, 5 months
Total.....	6 years, 5 months

* Excludes equity securities that have no stated maturity. The average effective life of the holdings is expected to be less than the average contractual maturities shown in the table because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. The table above does not include mortgage-backed securities.

TABLE 10 AVAILABLE-FOR-SALE SECURITIES PORTFOLIO AMORTIZED COST, FAIR VALUE AND YIELD BY MATURITY DATE

Maturing:	Within 1 Year			1-5 Years			5-10 Years		
	Amort-tized Cost	Fair Value	Yield	Amort-tized Cost	Fair Value	Yield	Amort-tized Cost	Fair Value	Yield
At December 31, 1996 (Dollars in Millions)									
U.S. Treasury.....	\$192.1	\$192.8	6.77%	\$158.2	\$157.4	5.49%	\$203.1	\$194.7	5.51%
Mortgage-backed*.....	--	--	--	--	--	--	--	--	--
Other U.S. agencies.....	31.5	31.5	5.57	4.5	4.4	5.77	5.5	5.4	5.57
State and political**.....	10.0	10.0	9.05	67.0	68.0	7.44	73.8	74.0	7.78
Other.....	5.7	5.8	6.95	6.1	6.1	7.48	2.2	2.2	6.62
	\$239.3	\$240.1	6.71%	\$235.8	\$235.9	6.10%	\$284.6	\$276.3	6.11%

Maturing:	Over 10 Years			Mortgage-Backed Securities			Total		
	Amort-tized Cost	Fair Value	Yield	Amort-tized Cost	Fair Value	Yield	Amort-tized Cost	Fair Value	Yield
At December 31, 1996 (Dollars in Millions)									
U.S. Treasury.....	\$ --	\$ --	--%	\$ --	\$ --	--%	\$ 553.4	\$ 544.9	5.94%
Mortgage-backed*.....	--	--	--	2,453.8	2,463.7	7.05	2,453.8	2,463.7	7.05
Other U.S. agencies.....	.2	.2	10.24	--	--	--	41.7	41.5	5.61
State and political**.....	315.1	313.3	8.06	--	--	--	465.9	465.3	7.94
Other.....	22.4	25.8	7.13***	--	--	--	36.4	39.9	7.13***
	\$337.7	\$339.3	8.05%***	\$ 2,453.8	\$2,463.7	7.05%	\$3,551.2	\$3,555.3	6.98%

*Variable rate mortgage-backed securities represented 32% of the balance of mortgage-backed securities.

**Yields on state and political obligations that are not subject to federal income tax have been adjusted to taxable-equivalent using a 35% tax rate.

***Average yield calculations exclude equity securities that have no stated yield

DEPOSITS Noninterest-bearing deposits were \$7.9 billion at December 31, 1996, up from \$6.4 billion at December 31, 1995. Interest-bearing deposits were \$16.5 billion at December 31, 1996, up from \$16.2 billion at December 31, 1995. The increases were primarily due to the acquisitions of FirstTier and the corporate trust business of BankAmerica.

BORROWINGS Short-term borrowings, which include federal funds purchased, securities sold under agreements to repurchase and other short-term borrowings, were \$4.1 billion at December 31, 1996, down \$288 million from \$4.4 billion at the end of 1995. The decrease was primarily due to a \$796 million reduction in federal funds purchased, partially offset by an increase in securities sold under agreement to repurchase.

Long-term debt was \$3.6 billion at December 31, 1996, up from \$3.2 billion at December 31, 1995. In March 1996, the Company placed \$125 million in 6.875 percent subordinated debt in the form of 10-year noncallable notes. The Company also issued \$500 million in medium-term bank notes, with original maturities of 12 to 60 months, during 1996. These issuances were partially offset by a net decrease of \$94 million in Federal Home Loan Bank Advances and \$174 million of medium-term notes.

The Company issued \$300 million of Company-obligated mandatorily redeemable capital securities in November 1996. See "Capital Management" for further information.

CORPORATE RISK PROFILE

OVERALL RISK PROFILE Managing risk is an essential part of successfully operating a financial services company. The most prominent risk exposures are credit quality, interest rate sensitivity, and liquidity. Credit quality risk is the risk of not collecting interest and/or the principal balance of a loan or investment when it is due. Interest rate risk is the potential reduction of net interest income as the result of changes in interest rates. Rate movements can affect the repricing of assets and liabilities differently, as well as their market value. Liquidity risk is the possible inability to fund obligations to depositors, investors and borrowers.

CREDIT MANAGEMENT In 1996 the Company maintained its high level of credit quality as nonperforming assets declined for the seventh consecutive year. The ratio of nonperforming assets to loans plus other real estate declined to .51 percent at year-end from .58 percent and .94 percent at year-end 1995 and 1994, respectively.

The Company's strategy for credit risk management includes stringent, centralized credit policies, and standard underwriting criteria for specialized lending categories, such as mortgage banking, real estate construction, and consumer credit. The strategy also emphasizes diversification on both a geographic and customer level, regular credit examinations, and quarterly management reviews of large loans and loans experiencing deterioration of credit quality. The Company strives to identify potential problem loans early, take any necessary charge-off promptly, and maintain strong reserve levels. In the Company's retail banking operations, a standard credit scoring system is used to assess consumer credit risks and to price consumer products accordingly. Commercial banking operations rely on a strong credit culture that combines prudent credit policies and individual lender accountability. In addition, the commercial lenders generally focus on middle-market companies within their regions.

In evaluating its credit risk, the Company considers the loan portfolio composition, the level of allowance coverage, and macroeconomic factors. Most economic indicators in the Company's operating regions compare favorably with national trends. Approximately 50 percent of the Company's loan portfolio consists of credit to businesses and consumers in Minnesota and Colorado. According to federal and state government agencies, unemployment rates in Minnesota and Colorado were 3.5 percent and 3.7 percent, respectively, for the month of December 1996, compared with the national unemployment rate of 5.3 percent. Through September 30, 1996, the national foreclosure rate was 1.00 percent, compared with .58 percent in Minnesota and .37 percent in Colorado.

The Company engages in non-lending activities that may give rise to credit risk, including interest rate swap contracts for balance sheet hedging purposes, foreign exchange transactions for customers, and the processing of credit card transactions for merchants. These activities are subject to the same credit review, analysis and approval processes as those applied to commercial loans. For additional information on interest rate swaps, see "Interest Rate Risk Management."

TABLE 11 SUMMARY OF ALLOWANCE FOR CREDIT LOSSES

(Dollars in Millions)	1996	1995	1994	1993	1992
Balance at beginning of year.....	\$473.5	\$474.7	\$466.1	\$483.8	\$453.2
CHARGE-OFFS:					
Commercial:					
Commercial.....	43.5	25.9	57.1	53.5	87.6
Financial institutions.....	--	--	1.1	6.5	--
Real estate:					
Commercial mortgage.....	12.1	15.3	34.4	59.8	48.7
Construction.....	1.0	.1	.2	.4	6.1
Total commercial.....	56.6	41.3	92.8	120.2	142.4
Consumer:					
Residential mortgage.....	4.6	5.2	4.7	3.0	6.8
Credit card.....	100.1	85.6	78.5	71.6	85.5
Other.....	91.7	77.0	50.8	44.4	50.5
Total consumer.....	196.4	167.8	134.0	119.0	142.8
Total.....	253.0	209.1	226.8	239.2	285.2
RECOVERIES:					
Commercial:					
Commercial.....	43.2	38.7	42.8	33.6	40.2
Financial institutions.....	--	.5	.4	7.0	--
Real estate:					
Commercial mortgage.....	22.0	15.6	17.7	11.7	6.3
Construction.....	.6	.1	.9	1.3	1.9
Total commercial.....	65.8	54.9	61.8	53.6	48.4
Consumer:					
Residential mortgage.....	1.0	.7	1.1	1.7	2.3
Credit card.....	10.5	10.9	9.1	9.7	8.0
Other.....	22.9	21.6	14.5	11.9	12.8
Total consumer.....	34.4	33.2	24.7	23.3	23.1
Total.....	100.2	88.1	86.5	76.9	71.5
NET CHARGE-OFFS:					
Commercial:					
Commercial.....	.3	(12.8)	14.3	19.9	47.4
Financial institutions.....	--	(.5)	.7	(.5)	--
Real estate:					
Commercial mortgage.....	(9.9)	(.3)	16.7	48.1	42.4
Construction.....	.4	--	(.7)	(.9)	4.2
Total commercial.....	(9.2)	(13.6)	31.0	66.6	94.0
Consumer:					
Residential mortgage.....	3.6	4.5	3.6	1.3	4.5
Credit card.....	89.6	74.7	69.4	61.9	77.5
Other.....	68.8	55.4	36.3	32.5	37.7
Total consumer.....	162.0	134.6	109.3	95.7	119.7
Total.....	152.8	121.0	140.3	162.3	213.7
Provision charged to operating expense.....	136.0	115.0	123.6	133.1	191.7
Additions related to acquisitions and other.....	59.8	4.8	25.3	11.5	52.6
Balance at end of year.....	\$516.5	\$473.5	\$474.7	\$466.1	\$483.8
Allowance as a percentage of period-end loans.....	1.90%	1.79%	1.93%	1.98%	2.34%
Allowance as a percentage of nonperforming loans.....	429	401	283	208	149
Allowance as a percentage of nonperforming assets....	375	308	204	137	95

TABLE 12 ALLOCATION OF ALLOWANCE FOR CREDIT LOSSES

(Dollars in Millions)	Allocation Amount at December 31					Allocation as a Percent of Loans Outstanding				
	1996	1995	1994	1993	1992	1996	1995	1994	1993	1992
COMMERCIAL:										
Commercial and financial institutions.....	\$ 85.2	\$ 68.8	\$ 78.8	\$ 80.1	\$105.9	.82%	.74%	.98%	.98%	1.53%
Real estate:										
Commercial mortgage.....	15.4	20.2	32.7	59.8	69.9	.50	.73	1.33	2.68	3.17
Construction.....	4.4	2.1	1.9	1.0	7.3	.67	.52	.58	.41	3.05
Total commercial.....	105.0	91.1	113.4	140.9	183.1	.74	.73	1.04	1.32	1.96
CONSUMER:										
Residential mortgage.....	7.2	7.8	10.6	13.8	14.9	.24	.16	.20	.22	.27
Credit card.....	41.0	34.0	32.5	22.0	38.9	1.43	1.31	1.35	1.25	2.18
Other.....	41.6	41.1	40.5	28.4	33.5	.59	.64	.68	.59	.83
Total consumer.....	89.8	82.9	83.6	64.2	87.3	.69	.60	.61	.50	.77
Total allocated.....	194.8	174.0	197.0	205.1	270.4	.72	.66	.80	.87	1.31
Unallocated portion.....	321.7	299.5	277.7	261.0	213.4	1.19	1.13	1.13	1.11	1.03
Total allowance.....	\$516.5	\$473.5	\$474.7	\$466.1	\$483.8	1.90%	1.79%	1.93%	1.98%	2.34%

ANALYSIS AND ALLOCATION OF ALLOWANCE FOR CREDIT LOSSES The allowance for credit losses provides coverage for losses inherent in the Company's loan portfolio. Management evaluates the allowance each quarter to determine that it is adequate to cover inherent losses. The evaluation is based on continuing assessment of problem loans and related off-balance sheet items, recent loss experience, and other factors, including current and anticipated economic conditions.

Management has determined that the allowance for credit losses is adequate. At December 31, 1996, the allowance was \$516.5 million, or 1.90 percent of loans. This compares with an allowance of \$473.5 million, or 1.79 percent of loans, at year-end 1995, and \$474.7 million, or 1.93 percent of loans, at December 31, 1994. The ratio of the allowance for credit losses to nonperforming loans increased to 429 percent at December 31, 1996, compared with 401 percent at year-end 1995 and 283 percent at year-end 1994.

Although the recent trend of slow, steady economic growth may contribute to the continued improvement in the credit portfolio, economic stagnation or reversals could increase the required level of the allowance for credit losses.

Management allocates part of the allowance to certain sectors based on relative risk characteristics of the loan portfolio. Table 12 shows the allocation of the allowance for credit losses by loan category. Commercial allocations are based on a quarterly review of individual loans outstanding and binding commitments to lend, including standby letters of credit. Consumer allocations are based on an analysis of historical and expected delinquency and charge-off statistics.

The unallocated portion of the allowance increased to \$321.7 million at year-end 1996 from \$299.5 million and \$277.7 million at December 31, 1995, and 1994. Although the allocation of the allowance is an important credit management tool, the entire allowance for credit losses is available for the entire loan portfolio.

ANALYSIS OF NET LOAN CHARGE-OFFS Net loan charge-offs increased \$31.8 million to \$152.8 million, compared with \$121.0 million in 1995. Commercial loan net recoveries for 1996 were \$9.2 million, compared with \$13.6 million in 1995. Consumer loan net charge-offs in 1996 were \$27.4 million higher than in 1995, reflecting higher average balances and higher loss ratios on unsecured consumer debt, including credit cards. Net charge-offs were \$140.3 million in 1994. The ratio of consumer net charge-offs to average loans in 1996 was 1.24 percent, up from .98 percent in 1995. The ratio of total net charge-offs to average loans was .57 percent in 1996, compared with .48 percent in 1995.

TABLE 13 NET CHARGE-OFFS AS A PERCENTAGE OF AVERAGE LOANS OUTSTANDING

	1996	1995	1994	1993	1992
COMMERCIAL:					
Commercial.....	--%	(.16)%	.21%	.34%	.86%
Financial institutions.....	--	(.06)	.06	(.03)	--
Real Estate:					
Commercial mortgage.....	(.33)	(.01)	.71	2.17	1.96
Construction.....	.08	--	(.26)	(.42)	1.56
Total commercial.....	(.07)	(.12)	.29	.68	1.04
CONSUMER:					
Residential mortgage.....	.10	.09	.06	.02	.10
Credit card.....	3.38	3.89	3.38	3.57	4.53
Other.....	1.00	.89	.66	.74	1.03
Total consumer.....	1.24	.98	.82	.79	1.19
Total.....	.57%	.48%	.59%	.74%	1.12%

ANALYSIS OF NONPERFORMING ASSETS Nonperforming assets include nonaccrual loans, restructured loans, other real estate and other nonperforming assets owned by the Company. At December 31, 1996, nonperforming assets totaled \$137.7 million, down \$16 million (10 percent) from \$153.7 million at year-end 1995 and down \$94.6 million (41 percent) from \$232.3 million at year-end 1994. During 1996 the Company conformed its reporting practice for nonperforming loans to that of most banks and has excluded restructured revolving consumer loans from nonperforming loans. At December 31, 1995, nonperforming loans included \$9.5 million of revolving consumer loans. Revolving consumer loans are charged off at specific delinquency dates (generally 150 days). The ratio of nonperforming assets to loans plus other real estate improved to .51 percent at December 31, 1996, compared with .58 percent at year-end 1995 and .94 percent at year-end 1994.

In 1996, the most significant reductions occurred in the following areas: commercial mortgage, \$11.5 million (27 percent); and other real estate, \$19.7 million (59 percent).

Interest payments are currently received on approximately 50 percent of the Company's nonperforming loans. The payments are typically applied against the principal balance and not recorded as income.

Accruing loans 90 days or more past due totaled \$49.6 million, compared with \$38.8 million at December 31, 1995, and \$23.4 million at December 31, 1994. These loans are not included in nonperforming assets and continue to accrue interest because they are secured by collateral and/or are in the process of collection and are reasonably expected to result in repayment or restoration to current status. Consumer loans 30 days or more past due were 2.12 percent of the total consumer portfolio at December 31, 1996 compared with 2.04 percent of the total consumer portfolio at December 31, 1995. Consumer loans 90 days or more past due totaled .63 percent of the consumer loan portfolio at December 31, 1996, compared with .62 percent at year-end 1995.

TABLE 14 DELINQUENT LOAN RATIOS*

90 days or more past due	At December 31				
	1996	1995	1994	1993	1992
COMMERCIAL:					
Commercial.....	.50%	.32%	.52%	1.05%	2.67%
Financial institutions.....	--	--	--	.04	.29
Real estate:					
Commercial mortgage.....	1.00	1.52	2.95	3.75	5.44
Construction.....	1.56	.37	.48	1.54	1.84
Total commercial.....	.63	.56	1.03	1.44	3.02
CONSUMER:					
Residential mortgage.....	1.28	.91	.93	1.03	.71
Credit card.....	.61	.73	.76	1.04	1.00
Other.....	.35	.36	.20	.38	.39
Total consumer.....	.63	.62	.58	.79	.64
Total.....	.63%	.59%	.78%	1.08%	1.72%

*Ratios include nonperforming loans and are expressed as a percent of ending loan balances.

TABLE 15 NONPERFORMING ASSETS*

(Dollars in Millions)	At December 31				
	1996	1995	1994	1993	1992
COMMERCIAL:					
Commercial.....	\$ 44.5	\$ 25.1	\$ 36.5	\$ 63.2	\$146.6
Financial institutions.....	--	--	--	.9	3.3
Real estate:					
Commercial mortgage.....	30.8	42.3	71.0	83.3	118.9
Construction.....	10.2	1.5	1.6	3.7	4.3
Total commercial.....	85.5	68.9	109.1	151.1	273.1
CONSUMER:					
Residential mortgage.....	31.2	37.3	43.5	58.2	36.8
Credit card.....	--	5.7	7.5	7.6	8.1
Other.....	3.7	6.3	7.8	7.6	7.5
Total consumer.....	34.9	49.3	58.8	73.4	52.4
Total nonperforming loans.....	120.4	118.2	167.9	224.5	325.5
OTHER REAL ESTATE.....	13.5	33.2	64.0	115.9	181.3
OTHER NONPERFORMING ASSETS.....	3.8	2.3	.4	1.0	3.7
Total nonperforming assets.....	\$137.7	\$153.7	\$232.3	\$341.4	\$510.5
Accruing loans 90 days or more past due.....	\$ 49.6	\$ 38.8	\$ 23.4	\$ 29.9	\$ 29.4
Nonperforming loans to total loans.....	.44%	.45%	.68%	.96%	1.57%
Nonperforming assets to total loans plus other real estate.....	.51	.58	.94	1.45	2.45
Net interest lost on nonperforming loans.....	\$ 6.8	\$ 9.2	\$ 11.0	\$ 15.6	\$ 18.1

*Throughout this document, nonperforming assets and related ratios do not include loans more than 90 days past due and still accruing.

INTEREST RATE RISK MANAGEMENT The Company's policy is to maintain a low interest rate risk position. The Company limits the exposure of net interest income to risks associated with interest rate movements through asset/liability management strategies. The Company's Asset and Liability Management Committee ("ALCO") uses three methods for measuring and managing interest rate risk: Net Interest Income Simulation Modeling, Market Value/Duration Analysis, and Repricing Mismatch Analysis. The Company is in compliance with Board-approved guidelines, established by ALCO, relating to the above methods for measuring and managing interest rate risk. These three methods are discussed in detail below.

NET INTEREST INCOME SIMULATION: The Company has developed a net interest income simulation model to measure near-term (next 12 months) risk due to changes in interest rates. The model is particularly useful because it incorporates substantially all the Company's assets and liabilities and off-balance sheet instruments, together with forecasted changes in the balance sheet mix and assumptions that reflect the current interest rate environment. The balance sheet changes are based on forecasted prepayments of loans and securities, loan and deposit growth, and historical pricing spreads. The model is updated monthly with the current balance sheet structure and the current forecast of expected balance sheet changes. ALCO uses the model to simulate the effect of immediate and sustained parallel shifts in the yield curve of 1 percent, 2 percent and 3 percent and flattening and steepening of the yield curve. ALCO also calculates the sensitivity of the simulation results to changes in the key assumptions, such as the Prime/LIBOR spread. The results from the simulation are reviewed by ALCO monthly and are used to guide ALCO's hedging strategies. ALCO has established guidelines, approved by the Company's Board of Directors, that limit the estimated change in net interest income, over the succeeding 12 months to approximately 3 percent of forecasted net interest income, assuming static Prime/LIBOR spreads and modest changes in deposit pricing lags, given a 1 percent parallel change in interest rates.

MARKET VALUE/DURATION ANALYSIS: One of the limiting factors of the net interest income simulation model is its dependence upon accurate forecasts of future business activity and the resulting effect on balance sheet assets and liabilities. As a result, its usefulness is greatly diminished for periods beyond two years. The Company measures this longer-term component of interest rate risk (referred to as market value or duration risk) by modeling the effect of interest rate changes on the estimated discounted future cash flows of the Company's current assets, liabilities and off-balance sheet instruments. The amount of market value risk is subject to limits approved by the Company's Board of Directors.

REPRICING MISMATCH ANALYSIS: A traditional gap analysis provides a point-in-time measurement of the relationship between the repricing amounts of the interest rate sensitive assets and liabilities. While the analysis provides a useful snapshot of interest rate risk, it does not capture all aspects of interest rate risk. As a result, ALCO uses the repricing mismatch analysis primarily for managing interest rate risk beyond one year and has established limits, approved by the Company's Board of Directors, for the gap positions in the one- to three-year time periods.

USE OF DERIVATIVES TO MANAGE INTEREST RATE RISK: While each of the interest rate risk measurements has limitations, taken together they represent a comprehensive view of the magnitude of the Company's interest rate risk over various time intervals. The Company mitigates its interest rate risk by entering into off-balance sheet transactions (primarily interest rate swaps), investing in fixed rate assets or increasing variable rate liabilities. To a lesser degree, the Company also uses interest rate caps and floors to hedge this risk. The Company does not enter into derivative contracts for speculative purposes.

Interest rate swap agreements involve the exchange of fixed and floating rate risk payments without the exchange of the underlying notional amount on which the interest payments are calculated. As of December 31, 1996, the Company received payments on \$2.7 billion notional amount of interest rate swap agreements, based on fixed interest rates, and made payments based on variable interest rates. These swaps had an average fixed rate of 6.51 percent and an average variable rate, which is tied to various LIBOR rates, of 5.59 percent. The remaining maturity of these agreements ranges from 1 month to 10.7 years with an average remaining maturity of 4.1 years. Swaps increased net interest income for the years ended December 31, 1996, 1995, and 1994 by \$28.5 million, \$20.5 million, and \$62.3 million, respectively.

The Company also purchases interest rate caps and floors to minimize the impact of fluctuating interest rates on earnings. Purchased caps can mitigate the effects of rising interest

TABLE 16 INTEREST RATE SENSITIVITY GAP ANALYSIS

At December 31, 1996 (In Millions)	Repricing Maturities						Total
	Less Than 3 Months	3-6 Months	6-12 Months	1-5 Years	More Than 5 Years	Non-Rate Sensitive	
Assets:							
Loans.....	\$13,815	\$1,532	\$2,000	\$7,086	\$2,695	\$ --	\$27,128
Available-for-sale securities.....	733	163	420	1,030	1,195	14	3,555
Other earning assets.....	1,157	5	11	98	43	--	1,314
Nonearning assets.....	941	4	130	365	1,518	1,534	4,492
Total assets.....	\$16,646	\$1,704	\$2,561	\$8,579	\$5,451	\$ 1,548	\$36,489
Liabilities and Equity:							
Deposits.....	\$ 9,572	\$1,395	\$1,364	\$7,429	\$4,611	\$ 8	\$24,379
Other purchased funds.....	4,076	--	--	8	13	--	4,097
Long-term debt.....	1,558	228	67	583	1,117	--	3,553
Company-obligated mandatorily redeemable capital securities of FBS Capital I..	--	--	--	--	300	--	300
Other liabilities.....	--	--	126	63	--	918	1,107
Equity.....	--	--	--	--	--	3,053	3,053
Total liabilities and equity.....	\$15,206	\$1,623	\$1,557	\$8,083	\$6,041	\$ 3,979	\$36,489
Effect of off-balance sheet hedging instruments:							
Receiving fixed.....	\$ 150	\$ --	\$ 125	\$1,456	\$ 925	\$ --	\$ 2,656
Paying floating.....	(2,656)	--	--	--	--	--	(2,656)
Total effect of off-balance sheet hedging instruments.....	\$(2,506)	\$ --	\$ 125	\$1,456	\$ 925	\$ --	\$ --
Repricing gap.....	\$(1,066)	\$ 81	\$1,129	\$1,952	\$ 335	\$(2,431)	\$ --
Cumulative repricing gap.....	(1,066)	(985)	144	2,096	2,431	--	--

This table estimates the repricing maturities of the Company's assets, liabilities, and hedging instruments based upon the Company's assessment of the repricing characteristics of contractual and non-contractual instruments. Non-contractual deposit liabilities are allocated among the various maturity categories as follows: Approximately 40 percent of regular savings, 30 percent of interest-bearing checking, 50 percent of money market checking, and 60 percent of money market savings balances are reflected in the Less Than 3 Months category, with the remainder placed in the 1-5 Years category. Approximately 69 percent of demand deposits and related nonearning asset accounts is allocated in the More Than 5 Years category, 14 percent is allocated in the 1-5 Years category with the remaining allocated in the Less Than 3 Months category.

TABLE 17 INTEREST RATE SWAP HEDGING PORTFOLIO NOTIONAL BALANCES AND YIELDS BY MATURITY DATE

At December 31, 1996 (Dollars in Millions)

Receive Fixed Swaps* Maturity Date	Notional Amount	Weighted Average Interest Rate Received	Weighted Average Interest Rate Paid
1997.....	\$ 275	6.42%	5.55%
1998.....	681	5.97	5.58
1999.....	450	6.40	5.61
2000.....	150	6.57	5.55
2001.....	175	6.54	5.62
After 2001**.....	925	6.96	5.60
Total.....	\$ 2,656	6.51%	5.59%

* At December 31, 1996, the Company had no hedging swaps in its portfolio that required it to pay fixed-rate interest.

** Amount maturing after the year 2001 hedges fixed rate subordinated notes.

rates. Counterparties of these agreements pay the Company when certain short-term rates rise above a specified point or strike level. The payment is based on the difference in current rates and strike rates and the contract's notional amount. The total notional amount of cap agreements purchased at December 31, 1996, was \$100 million. To hedge against falling interest rates, the Company uses interest rate floors. Floor counterparties pay the Company when specified rates fall below the strike level. Like caps, the payment is based on the difference in current rates and strike rates and the notional amount. The total notional amount of floor agreements purchased as of December 31, 1996 was \$1.25 billion. LIBOR-based floors totaled \$950 million and Constant Maturity Treasury floors totaled \$300 million. The impact of caps and floors on net interest income was not material for the years ended December 31, 1996, 1995 and 1994. See Note N for further information on interest rate swaps, caps, and floors.

LIQUIDITY MANAGEMENT The objective of liquidity management is to ensure the continuous availability of funds to meet the demands of depositors, investors and borrowers. ALCO is responsible for structuring the balance sheet to meet these needs. It regularly reviews current and forecasted funding needs as well as market conditions for issuing debt to wholesale investors. Based on this information, ALCO supervises wholesale funding activity, as well as the maintenance of contingent funding sources.

A majority of the Company's funding comes from retail deposits within its operating region. While the Company has funded incremental balance sheet growth with negotiated funds, its purchased funds index remained relatively low at 13.6 percent at December 31, 1996, compared with a peer group median of 19.2 percent at September 30, 1996. The index is calculated as negotiated funding (which includes FHLB borrowings, foreign branch time deposits, national federal funds purchased, bank and thrift notes and medium-term notes) and repurchase agreements, net of federal funds sold and resale agreements, divided by loans and securities.

The Company's ability to raise negotiated funding at competitive prices is influenced by rating agencies' views of the Company's credit quality, liquidity, capital, and earnings. As of December 31, 1996, Moody's Investors Services, Standard & Poors, and Thomson BankWatch rated the Company's senior debt as "A2," "A," and "A+," respectively. The strong debt ratings reflect the agencies' recognition of the consistent financial performance of the Company and strength of the balance sheet.

At the parent company, funding primarily consists of long-term debt and equity. During 1996, long-term debt, including medium-term notes, decreased to \$1.2 billion from \$1.3 billion at year-end 1995. The decrease was primarily due to maturing medium-term notes.

The parent company issued \$74 million of medium-term notes during 1996. Total parent company debt maturing in 1997 is \$187 million. These debt obligations are expected to be met through medium-term note or subordinated debt issuances, as well as from the approximately \$343 million of parent company cash and cash equivalents at December 31, 1996. It is the Company's practice to maintain liquid assets at the parent company sufficient to fund its operating cash needs, including debt repayment and common stock repurchases.

In 1995, four of the Company's bank subsidiaries established a \$4 billion bank note program. The Company's thrift subsidiary also established a \$1 billion thrift note program. Notes issued under these programs may mature within 30 days to 15 years and bear fixed or floating interest rates. Proceeds from note sales are used for general corporate purposes. At December 31, 1996, there was \$2.6 billion outstanding under these programs. The thrift subsidiary also had \$1.0 billion in long-term advances from the FHLB at December 31, 1996.

TABLE 18 CAPITAL RATIOS

At December 31 (Dollars in Millions)	1996	1995	1994
Tangible common equity*.....	\$ 2,385	\$2,184	\$2,082
As a percent of assets.....	6.7%	6.5%	6.2%
Tier 1 capital**.....	\$ 2,355	\$1,989	\$2,052
As a percent of risk-adjusted assets...	7.2%	6.5%	7.3%
Total risk-based capital**.....	\$ 3,943	\$3,367	\$3,227
As a percent of risk-adjusted assets...	12.0%	11.0%	11.4%
Leverage ratio**.....	6.8	6.1	6.2

* Defined as common equity less goodwill.

** In accordance with regulatory guidelines, unrealized securities gains and losses are excluded and Company-obligated mandatorily redeemable capital securities of FBS Capital I are included in these calculations. In addition, equity capital related to deferred tax assets is limited.

CAPITAL MANAGEMENT The Company is committed to managing capital for maximum shareholder benefit and maintaining strong protection for depositors and creditors. At December 31, 1996, tangible common equity (common equity less goodwill) was \$2.4 billion, or 6.7 percent of assets, compared with 6.5 percent at year-end 1995 and 6.2 percent at year-end 1994. The tier 1 capital ratio increased to 7.2 percent at December 31, 1996, compared with 6.5 percent at December 31, 1995. This ratio was 7.3 percent at December 31, 1994. The total risk-based capital ratio was 12.0 percent at December 31, 1996, compared with 11.0 percent at December 31, 1995 and 11.4 percent at December 31, 1994. The leverage ratio increased to 6.8 percent at December 31, 1996, compared with 6.1 percent and 6.2 percent at December 31, 1995 and December 31, 1994, respectively. The increase in the capital ratios reflects earnings retention as well as the issuance of common stock to complete the FirstTier acquisition and \$300 million of Company-obligated mandatorily redeemable capital securities, offset by common stock repurchases.

On February 21, 1996, the Board of Directors authorized the repurchase of up to 25.4 million common shares through December 1997. This new authorization replaced previous authorizations. Approximately 15.1 million shares have been repurchased under this authorization as of December 31, 1996. Under previous authorizations, the Company repurchased 11.9 million shares in 1995. During 1994, the Company repurchased approximately 6.3 million shares of its common stock.

On November 26, 1996, the Company, through FBS Capital I trust, became the first bank holding company to issue Company-obligated mandatorily redeemable capital securities. The \$300 million issue of the "trust preferred securities" qualifies as tier 1 capital for bank holding companies and pays distributions semi-annually at an annual rate of 8.09 percent.

On November 29, 1996, the Company called all remaining shares of its Series 1991A Convertible Preferred Stock. Series 1991A was convertible at the option of the holder at any time into common stock of the Company at the rate of 1.7256 shares of common stock for each share of preferred stock. As a result, at December 31, 1996, (the redemption date) all remaining shares had been converted into common stock or redeemed.

In 1994, the Company redeemed \$159.3 million of its preferred stock, consisting of \$89 million of Preferred Stock Series 1989A and \$70.3 million of Preferred Stock Series 1989B. In connection with the MFC acquisition, the entire \$12 million Series B Cumulative Perpetual Preferred Stock of MFC was redeemed on January 24, 1995.

The measures used to assess capital include the capital ratios established by the bank regulatory agencies, including the specific ratios for the "well capitalized" designation. The Company manages various capital ratios to maintain appropriate capital levels in accordance with Board-approved capital guidelines. While the Company intends to maintain sufficient capital in each of its bank/thrift subsidiaries to be "well capitalized" as defined by the regulatory agencies, management ascribes the most significance to the tangible common equity ratio.

DIVIDENDS During 1996, total dividends on common stock were \$227.7 million compared with \$191.7 million in 1995 and \$156.0 million in 1994. The Company has raised its quarterly dividend rate in each of the past five years. On a per share basis, dividends paid to common shareholders totaled \$1.65 in 1996, \$1.45 in 1995, and \$1.16 in 1994. On February 19, 1997, the Board of Directors increased the quarterly common dividend rate to \$.465 from \$.4125.

The Company's primary funding sources for common stock dividends are dividends received from its bank and nonbank subsidiaries. Payment of dividends to the Company by its depository subsidiaries is subject to ongoing review by banking regulators and to various statutory limitations. For further information, see Note R.

TABLE 19 SUBSIDIARY CAPITAL RATIOS

(Dollars in Millions)	At December 31, 1996			
	Tier 1 Capital	Total Risk-based Capital	Leverage	Total Assets
REGULATORY CAPITAL REQUIREMENTS:				
Minimum.....	4.0%	8.0%	3.0%	
Well-capitalized.....	6.0	10.0	5.0	
BANK AND THRIFT SUBSIDIARIES:				
First Bank National Association (Minnesota).....	7.0	11.4	7.3	\$17,055
Colorado National Bank.....	7.2	11.5	6.2	6,894
First Bank, fsb.....	*	15.5	7.7	4,937
First Bank National Association (Nebraska).....	9.6	12.7	6.9	3,511
First Bank of South Dakota (National Association)...	8.3	12.6	7.9	1,940
First Bank Montana, National Association.....	7.7	12.0	8.7	1,181
First Bank (N.A.) (Wisconsin).....	7.7	12.1	8.4	1,156
First Bank National Association (Illinois).....	10.6	13.7	7.0	928
Colorado National Bank Aspen.....	31.1	32.4	16.9	52
First National Bank of East Grand Forks.....	23.4	26.5	14.2	38

Note: These balances and ratios were prepared in accordance with regulatory accounting principles as disclosed in the subsidiaries' regulatory reports.

*At December 31, 1996, First Bank, fsb, a thrift subsidiary of the Company, had tangible capital of 7.7 percent, core capital of 11.2 percent and risk-based capital of 15.5 percent as compared with Thrift regulatory minimums of 1.5 percent, 3.0 percent and 8.0 percent, respectively.

ACCOUNTING CHANGES

SFAS 121, "ACCOUNTING FOR THE IMPAIRMENT OF LONG-LIVED ASSETS AND FOR LONG-LIVED ASSETS TO BE DISPOSED OF" The Company adopted Statement of Financial Accounting Standards No. ("SFAS") 121 on January 1, 1996, which requires that long-lived assets and certain identifiable intangibles be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset is not recoverable. During 1996, the Company recorded a \$24.1 million adjustment to the carrying value of certain bank premises following a decision to sell several buildings in connection with the streamlining of the branch distribution network. See Note K for further discussion.

SFAS 123, "ACCOUNTING FOR STOCK-BASED COMPENSATION" SFAS 123 establishes a new fair value based accounting method for stock-based compensation plans. As permitted by the Statement, the Company continues to apply the accounting provisions of Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees," in determining net income. Refer to Note L for the required pro forma disclosures of net income and earnings per share calculated as if the fair value based method of accounting defined in SFAS 123 had been applied.

SFAS 125, "ACCOUNTING FOR TRANSFERS AND SERVICING OF FINANCIAL ASSETS AND EXTINGUISHMENTS OF LIABILITIES" SFAS 125 addresses whether the transfer of financial assets should be accounted for as a sale and removed from the balance sheet, or as a financing recognized as a borrowing. The Statement uses a "financial components" approach which focuses on control to determine whether the assets have been sold. If the entity has surrendered control over the transferred assets, the transaction is considered a sale. Control is considered surrendered only if the seller has no legal rights to the assets, even in bankruptcy; the buyer has the right to pledge or exchange the assets; and the seller does not maintain effective control over the assets through an agreement to repurchase or redeem them. SFAS 125 is effective for transactions occurring after December 31, 1996, and is to be applied prospectively, with earlier or retroactive application not permitted. The adoption of SFAS 125 is not expected to have a material impact on the Company.

IMPACT OF INFLATION

The assets and liabilities of a financial institution are primarily monetary in nature. Therefore, future changes in prices do not affect the obligations to pay or receive fixed and determinable amounts of money. During periods of inflation, monetary assets lose value in terms of purchasing power while monetary liabilities have corresponding purchasing power gains. Since banks generally have an excess of monetary assets over monetary liabilities, inflation will, in theory, cause a loss of purchasing power in the value of shareholders' equity. However, the concept of purchasing power is not an adequate indicator of the effect of inflation on banks because it does not take into account changes in interest rates, which are a more important determinant of bank earnings.

Other sections of the Management's Discussion and Analysis provide the information necessary for an understanding of the Company's ability to react to changing interest rates.

TABLE 20 FOURTH QUARTER SUMMARY

(Dollars in Millions, Except Per Share Data)	Three Months Ended December 31	
	1996	1995
CONDENSED INCOME STATEMENT:		
Net interest income (taxable-equivalent basis).....	\$391.2	\$363.7
Provision for credit losses.....	35.0	31.0
Net interest income after provision for credit losses...	356.2	332.7
Noninterest income.....	222.0	197.3
Noninterest expense.....	302.0	287.3
Income before income taxes.....	276.2	242.7
Taxable-equivalent adjustment.....	5.0	3.4
Income taxes.....	99.8	88.6
Net income.....	\$171.4	\$150.7
Return on average assets.....	1.92%	1.80%
Return on average common equity.....	22.1	22.4
Net interest margin (taxable-equivalent basis).....	4.89	4.83
Efficiency ratio.....	49.2	51.2
PER SHARE DATA:		
Net income (primary).....	\$ 1.26	\$ 1.14
Net income (fully diluted).....	1.24	1.12
Common dividends paid.....	.4125	.3625

FOURTH QUARTER SUMMARY

In the fourth quarter of 1996, the Company reported net income of \$171.4 million (\$1.24 per fully diluted share) compared to \$150.7 million (\$1.12 per fully diluted share) in the fourth quarter of 1995. The strong results for the fourth quarter of 1996 reflected growth in net interest and noninterest income, controlled operating expenses, and effective capital management.

Fourth quarter net interest income on a taxable-equivalent basis increased \$27.5 million (8 percent) to \$391.2 million, compared with the fourth quarter of 1995. The increase was primarily attributable to growth in core commercial and consumer loans, as well as the FirstTier acquisition. The net interest margin on a taxable-equivalent basis increased to 4.89 percent, compared with 4.83 percent a year ago, reflecting increases in loan fees and noninterest-bearing deposit liabilities.

The provision for credit losses increased to \$35.0 million in the fourth quarter of 1996, compared with \$31.0 million in the fourth quarter of 1995.

Noninterest income increased \$24.7 million from the same quarter a year ago, to \$222.0 million. The improvement resulted primarily from growth in credit card and trust fees and the addition of FirstTier and other acquisitions, partially offset by the loss of revenues from the Company's mortgage banking operations, which were sold in the first quarter of 1996. Credit card fees were up as a result of higher sales volumes for Purchasing Card, Corporate Card and the FBS WorldPerks VISA Card. Trust fees increased due to recent acquisitions and core growth in personal and institutional trust revenues.

Fourth quarter noninterest expense in 1996 was \$302.0 million, an increase of \$14.7 million from the fourth quarter of 1995. On a pro forma basis, adjusted for acquisitions and divestitures, noninterest expense declined in the fourth quarter by \$16.8 million (5 percent), reflecting effective acquisition integration and ongoing expense control. The efficiency ratio for the fourth quarter of 1996 improved to 49.2 percent from 51.2 percent for the same quarter last year.

CONSOLIDATED BALANCE SHEET

At December 31 (In Millions, Except Shares)	1996	1995
ASSETS		
Cash and due from banks.....	\$ 2,413	\$ 1,837
Federal funds sold.....	32	35
Securities purchased under agreements to resell.....	795	230
Trading account securities.....	146	86
Available-for-sale securities.....	3,555	3,256
Loans.....	27,128	26,400
Less allowance for credit losses.....	517	474
Net loans.....	26,611	25,926
Bank premises and equipment.....	404	413
Interest receivable.....	202	197
Customers' liability on acceptances.....	169	223
Other assets.....	2,162	1,671
Total assets.....	\$ 36,489	\$33,874
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits:		
Noninterest-bearing.....	\$ 7,871	\$ 6,357
Interest-bearing.....	16,508	16,157
Total deposits.....	24,379	22,514
Federal funds purchased.....	1,204	2,000
Securities sold under agreements to repurchase.....	819	269
Other short-term funds borrowed.....	2,074	2,116
Long-term debt.....	3,553	3,201
Company-obligated mandatorily redeemable capital securities of FBS Capital I.....	300	--
Acceptances outstanding.....	169	223
Other liabilities.....	938	826
Total liabilities.....	33,436	31,149
Shareholders' equity:		
Preferred stock.....	--	103
Common stock, par value \$1.25 a share-authorized 200,000,000 shares; issued: 1996 - 141,747,738 shares; 1995 - 135,632,324 shares.....	177	170
Capital surplus.....	1,154	909
Retained earnings.....	2,165	1,918
Unrealized gain on securities, net of tax.....	3	23
Less cost of common stock in treasury: 1996 - 6,877,497 shares, 1995 - 8,297,756 shares.....	(446)	(398)
Total shareholders' equity.....	3,053	2,725
Total liabilities and shareholders' equity.....	\$ 36,489	\$33,874

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENT OF INCOME

Year Ended December 31 (In Millions, Except Per-Share Data)	1996	1995	1994
INTEREST INCOME			
Loans.....	\$ 2,339.3	\$ 2,273.4	\$ 1,914.7
Securities:			
Taxable.....	241.5	226.0	327.9
Exempt from federal income taxes.....	25.5	11.2	12.0
Other interest income.....	47.6	34.6	33.5
Total interest income.....	2,653.9	2,545.2	2,288.1
INTEREST EXPENSE			
Deposits.....	673.1	706.7	597.3
Federal funds purchased and repurchase agreements.....	122.4	118.1	103.1
Other short-term funds borrowed.....	120.4	90.2	20.4
Long-term debt.....	202.7	190.0	147.9
Company-obligated mandatorily redeemable capital securities of FBS Capital I.....	2.3	--	--
Total interest expense.....	1,120.9	1,105.0	868.7
Net interest income.....	1,533.0	1,440.2	1,419.4
Provision for credit losses.....	136.0	115.0	123.6
Net interest income after provision for credit losses.....	1,397.0	1,325.2	1,295.8
NONINTEREST INCOME			
Credit card fees.....	292.6	232.7	179.0
Trust fees.....	230.7	175.3	159.2
Service charges on deposit accounts.....	141.5	123.7	127.3
Investment products fees and commissions.....	33.4	27.6	29.6
Securities gains (losses).....	15.0	--	(115.0)
Termination fee.....	190.0	--	--
State income tax refund.....	65.0	--	--
Gain on sale of mortgage banking operations.....	45.8	--	--
Gain on sale of branches.....	--	31.0	--
Other.....	171.7	192.8	178.8
Total noninterest income.....	1,185.7	783.1	558.9
NONINTEREST EXPENSE			
Salaries.....	465.6	441.0	450.7
Employee benefits.....	105.0	96.4	105.7
Goodwill and other intangible assets.....	106.5	57.1	50.4
Net occupancy.....	98.5	98.6	103.8
Furniture and equipment.....	89.0	94.2	88.3
Other personnel costs.....	55.8	40.9	35.7
Professional services.....	39.9	36.9	38.5
Advertising and marketing.....	35.4	32.0	35.5
FDIC insurance.....	11.4	35.8	58.4
SAIF special assessment.....	51.0	--	--
Merger, integration, and resizing.....	69.9	--	66.2
Merger-related severance.....	--	--	56.5
Other.....	260.1	273.0	259.7
Total noninterest expense.....	1,388.1	1,205.9	1,349.4
Income from continuing operations before income taxes.....	1,194.6	902.4	505.3
Applicable income taxes.....	454.8	334.3	191.8
Income from continuing operations.....	739.8	568.1	313.5
Loss from discontinued operations.....	--	--	(8.5)
Net income.....	\$ 739.8	\$ 568.1	\$ 305.0
Net income applicable to common equity.....	\$ 733.6	\$ 560.6	\$ 292.4
EARNINGS PER COMMON SHARE			
Average common and common equivalent shares.....	137,415,619	133,936,030	136,274,991
Income from continuing operations.....	\$ 5.34	\$ 4.19	\$ 2.21
Loss from discontinued operations.....	--	--	(.06)
Net income.....	\$ 5.34	\$ 4.19	\$ 2.15

See Notes to Consolidated Financial Statements.

First Bank System, Inc.

CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY

(In Millions, Except Shares)	Common Shares Outstanding*	Preferred Stock	Common Stock	Capital Surplus	Retained Earnings	Unrealized Gains/(Losses) on Securities, Net of Tax	Treasury Stock**	Total
BALANCE DECEMBER 31, 1993.....	130,408,480	\$ 278.1	\$ 169.8	\$ 852.2	\$1,575.4	\$ 38.0	\$(169.4)	\$2,744.1
Net income.....					305.0			305.0
Dividends declared:								
Preferred.....					(12.6)			(12.6)
Common.....					(156.0)			(156.0)
Purchase and retirement of treasury stock...	(7,131,513)		(4.6)	(48.0)	(70.1)		(120.8)	(243.5)
Repurchase of stock warrants.....				(2.3)				(2.3)
Issuance of common stock:								
Acquisition of Boulevard Bancorp, Inc.....	6,227,649		1.9	54.9			149.4	206.2
Other acquisitions.....	1,385,806				(13.9)		48.1	34.2
Dividend reinvestment.....	185,890			.2			6.3	6.5
Stock option and stock purchase plans.....	2,068,922		1.0	7.7	(17.6)		42.7	33.8
Stock warrants exercised.....	687,175		.2	1.1	(10.4)		17.0	7.9
Redemption of preferred stock.....		(160.0)			(7.0)			(167.0)
Change in unrealized gains/(losses).....						(144.4)		(144.4)
BALANCE DECEMBER 31, 1994.....	133,832,409	118.1	168.3	865.8	1,592.8	(106.4)	(26.7)	2,611.9
Net income.....					568.1			568.1
Dividends declared:								
Preferred.....					(7.5)			(7.5)
Common.....					(191.7)			(191.7)
Purchase of treasury stock.....	(11,944,405)						(545.2)	(545.2)
Issuance of common stock:								
Acquisitions.....	2,788,619		.3	4.3	(3.7)		104.7	105.6
Dividend reinvestment.....	224,255			.5			9.3	9.8
Stock option and stock purchase plans.....	2,299,172		.9	38.7	(36.3)		54.6	57.9
Stock warrants exercised.....	42,039				(1.3)		1.6	.3
Redemption/conversion of preferred stock....	92,479	(14.9)			(2.2)		3.9	(13.2)
Change in unrealized gains/(losses).....						128.9		128.9
BALANCE DECEMBER 31, 1995.....	127,334,568	103.2	169.5	909.3	1,918.2	22.5	(397.8)	2,724.9
Net income.....					739.8			739.8
Dividends declared:								
Preferred.....					(6.2)			(6.2)
Common.....					(227.7)			(227.7)
Purchase and retirement of treasury stock...	(15,120,587)		(3.2)	(151.4)			(784.9)	(939.5)
Issuance of common stock:								
Acquisitions.....	16,460,215		10.7	361.7	(44.4)		384.2	712.2
Dividend reinvestment.....	193,621			.5			11.5	12.0
Stock option and stock purchase plans.....	2,440,730		.2	33.8	(96.6)		119.7	57.1
Redemption/conversion of preferred stock....	3,561,694	(103.2)			(118.2)		221.4	--
Change in unrealized gains/(losses).....						(20.0)		(20.0)
BALANCE DECEMBER 31, 1996.....	134,870,241	\$ --	\$ 177.2	\$1,153.9	\$2,164.9	\$ 2.5	\$(445.9)	\$3,052.6

*Defined as total common shares less common stock held in treasury.

**Ending treasury shares were 6,877,497 at December 31, 1996, 8,297,756 at December 31, 1995, and 767,000 at December 31, 1994.

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year Ended December 31 (In Millions)	1996	1995	1994
OPERATING ACTIVITIES			
Net income.....	\$ 739.8	\$ 568.1	\$ 305.0
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for credit losses.....	136.0	115.0	123.6
(Gains) losses on available-for-sale securities.....	(15.0)	--	111.2
Depreciation and amortization of bank premises and equipment.....	68.0	76.5	74.5
Provision for deferred income taxes.....	10.0	73.3	(1.1)
Amortization of goodwill and other intangible assets.....	106.5	57.1	50.4
Merger, integration and resizing.....	69.9	--	122.7
Gain on sale of mortgage banking operations.....	(45.8)	--	--
Changes in operating assets and liabilities, excluding the effects of purchase acquisitions:			
(Increase) decrease in trading account securities.....	(59.6)	12.3	(22.6)
Decrease (increase) in loans held for sale.....	103.1	(100.6)	580.8
(Increase) decrease in accrued receivables.....	(148.9)	(29.4)	42.0
Increase (decrease) in accrued liabilities.....	41.9	(41.1)	(11.7)
Other - net.....	(24.0)	(20.7)	14.5
Net cash provided by operating activities.....	981.9	710.5	1,389.3
INVESTING ACTIVITIES			
Net cash (used) provided by:			
Interest-bearing deposits with banks.....	--	29.3	63.3
Loans outstanding.....	(138.4)	(1,487.9)	(1,200.5)
Securities purchased under agreements to resell.....	(525.2)	105.9	(30.5)
Available-for-sale securities:			
Sales.....	1,226.7	2,058.9	1,607.1
Maturities.....	1,059.6	527.5	1,083.7
Purchases.....	(420.8)	(309.6)	(1,143.2)
Investment securities:			
Maturities.....	--	--	271.4
Purchases.....	--	--	(283.4)
Proceeds from sales of other real estate.....	48.7	56.8	109.3
Proceeds from sales of bank premises and equipment.....	20.1	54.1	8.2
Purchases of bank premises and equipment.....	(77.6)	(55.6)	(73.3)
Sales of loans.....	77.4	97.5	1.7
Purchases of loans.....	(19.5)	(4.6)	(496.3)
Cash and cash equivalents of acquired subsidiaries.....	116.5	55.4	74.5
Acquisitions, net of cash received.....	(38.3)	(117.5)	(107.2)
Sales of subsidiary operations.....	162.1	11.7	--
Other - net.....	(62.9)	6.6	10.2
Net cash provided (used) by investing activities.....	1,428.4	1,028.5	(105.0)
FINANCING ACTIVITIES			
Net cash (used) provided by:			
Deposits.....	(903.7)	(1,519.9)	(4,135.6)
Federal funds purchased and securities sold under agreements to repurchase.....	(430.6)	(298.9)	1,340.4
Short-term borrowings.....	(30.9)	1,447.6	226.2
Sales of deposits.....	--	(858.0)	--
Purchases of deposits.....	--	--	11.1
Long-term debt transactions:			
Proceeds.....	964.8	954.6	1,877.8
Principal payments.....	(632.9)	(745.1)	(1,027.7)
Issuance of Company-obligated mandatorily redeemable capital securities of FBS Capital I....	300.0	--	--
Redemption of preferred stock.....	--	(13.2)	(167.0)
Proceeds from dividend reinvestment, stock option, and stock purchase plans.....	69.1	67.7	40.3
Purchase of treasury stock and stock warrants.....	(939.5)	(545.2)	(245.8)
Stock warrants exercised.....	--	.3	7.9
Cash dividends.....	(233.9)	(199.2)	(168.6)
Net cash used by financing activities.....	(1,837.6)	(1,709.3)	(2,241.0)
Change in cash and cash equivalents.....	572.7	29.7	(956.7)
Cash and cash equivalents at beginning of year.....	1,871.6	1,841.9	2,798.6
Cash and cash equivalents at end of year.....	\$ 2,444.3	\$ 1,871.6	\$ 1,841.9

See Notes to Consolidated Financial Statements.

First Bank System, Inc.

NOTE A SIGNIFICANT ACCOUNTING POLICIES

First Bank System, Inc. (the "Company") is a regional multibank holding company that provides banking and other financial services principally to domestic markets. The Company has five primary businesses that operate principally in the 11 states of Minnesota, Colorado, Wisconsin, Illinois, Montana, North Dakota, South Dakota, Iowa, Kansas, Nebraska, and Wyoming. Retail Banking delivers products and services to the broad consumer market and small-business through branch offices, telemarketing, direct mail, and automated teller machines ("ATMs"). Payment Systems includes consumer and business credit cards, corporate and purchasing card services, card-accessed secured and unsecured lines of credit, ATM processing and merchant processing. Business Banking and Private Financial Services includes middle-market banking services, private banking and personal trust. Commercial Banking provides lending, treasury management, and other financial services to middle-market, large corporate, and mortgage banking companies. Corporate Trust and Institutional Financial Services includes institutional and corporate trust services, investment management services, and a full-service brokerage company. Based on earnings, Retail Banking is the largest business, followed by Business Banking and Private Financial Services, Commercial Banking, Payment Systems, and Corporate Trust and Institutional Financial Services.

BASIS OF PRESENTATION The consolidated financial statements include the accounts of the Company and its subsidiaries. The consolidation eliminates all significant intercompany accounts and transactions. Certain items in prior periods have been reclassified to conform to the current presentation.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual experience could differ from those estimates.

SECURITIES

TRADING ACCOUNT SECURITIES Debt and equity securities held for resale in anticipation of short-term market movements are classified as trading account securities and reported at fair value. Realized and unrealized gains or losses are recorded in noninterest income.

AVAILABLE-FOR-SALE SECURITIES These securities are not trading account securities but may be sold before maturity in response to changes in interest rates, prepayment risk, and funding sources or terms, or to meet liquidity needs. They are carried at fair value with unrealized net gains or losses reported in shareholders' equity. When sold, the amortized cost of the specific securities is used to compute the gain or loss.

LOANS

Loans are reported net of unearned income. Interest income is accrued on the unpaid principal balances. Loan and commitment fees are deferred and recognized over the loan and/or commitment period as yield adjustments.

ALLOWANCE FOR CREDIT LOSSES Management determines the adequacy of the allowance based on evaluations of the loan portfolio and related off-balance sheet commitments, recent loss experience, and other pertinent factors, including economic conditions. This evaluation is inherently subjective as it requires estimates, including amounts of future cash collections expected on nonaccrual loans that may be susceptible to significant change. The allowance for credit losses relating to impaired loans is based on the loans' observable market price, the collateral for certain collateral-dependent loans, or the discounted cash flows using the loans' effective interest rate. The allowance is increased through provisions charged to operating earnings and reduced by net charge-offs.

NONACCRUAL LOANS Generally loans (including impaired loans) are placed on nonaccrual status when the collection of interest or principal has become 90 days past due or is otherwise considered doubtful. When a loan is placed on nonaccrual status, unpaid interest is reversed. Future interest payments are generally applied against principal.

LEASES Certain subsidiaries engage in both direct and leveraged lease financing. The net investment in direct financing leases is the sum of all minimum lease payments and estimated residual values, less unearned income and investment tax credits. Unearned income is added to interest income over the terms of the leases to produce a level yield.

The investment in leveraged leases is the sum of all lease payments (less nonrecourse debt payments) plus estimated residual values, less unearned income. Unearned income is added to loan interest income over the positive years of the net investment.

LOANS AND MORTGAGES HELD FOR SALE These loans are carried at the lower of cost or market value as determined on an aggregate basis by type of loan.

OTHER REAL ESTATE Other real estate ("ORE"), which is included in other assets, is property acquired through foreclosure or other proceedings. ORE is initially recorded at fair value and

First Bank System, Inc.

carried at the lower of cost or fair value, less estimated selling costs. The property is evaluated regularly and any decreases in the carrying amount are included in noninterest expense.

DERIVATIVE FINANCIAL INSTRUMENTS

INTEREST RATE SWAPS AND CONTRACTS The Company uses interest rate swaps and contracts (forwards, options, caps and floors) to manage its interest rate risk, as a financial intermediary, and in its trading operations. The Company does not enter into these contracts for speculative purposes. Income or expense on swaps and contracts designated as hedges of assets, liabilities or commitments is recorded as an adjustment to interest income or expense. If the swap or contract is terminated, the gain or loss is deferred and amortized over the remaining life of the underlying asset or liability. If the hedged instrument is disposed of, the swap or contract agreement is marked to market with any resulting gain or loss included with the gain or loss from the disposition. The initial bid/offer spread on intermediated swaps is deferred and recognized in trading account profits and commissions over the life of the agreement. Intermediated swaps and all other interest rate contracts are marked to market and resulting gains or losses are recorded in trading account profits and commissions.

OTHER SIGNIFICANT POLICIES

BANK PREMISES AND EQUIPMENT Bank premises and equipment are stated at cost less accumulated depreciation and amortized primarily on a straight-line method basis.

Capital leases, less accumulated amortization, are included in bank premises and equipment. The lease obligations are included in long-term debt. Capitalized leases are amortized on a straight-line basis over the lease term and the amortization is included in depreciation expense.

INTANGIBLE ASSETS Goodwill, the price paid over the book value of acquired businesses, is included in other assets and is amortized over periods ranging up to 25 years. Other intangible assets are amortized over their estimated useful lives, which range from seven to fifteen years, using straight-line and accelerated methods, as appropriate.

INCOME TAXES Deferred taxes are recorded to reflect the tax consequences on future years of differences between the tax bases of assets and liabilities and the financial reporting amounts at each year-end.

STATEMENT OF CASH FLOWS For the purposes of reporting cash flows, cash equivalents include cash and due from banks and federal funds sold.

STOCK-BASED COMPENSATION The Company grants stock options for a fixed number of shares to employees with an exercise price equal to the fair value of the shares at the date of grant. The Company accounts for stock option grants in accordance with APB Opinion No. 25, "Accounting for Stock Issued to Employees," and accordingly recognizes no compensation expense for the stock option grants.

PER SHARE CALCULATIONS Primary earnings per share is computed by dividing net income (less preferred stock dividends) by the average number of common shares and dilutive common stock equivalents outstanding during the year. To compute the dilutive effect of restricted common shares, the treasury stock method is applied to the unvested portion of the shares granted and the related unamortized expense. Fully diluted earnings per share computations assume the conversion of the Series 1991A preferred stock during the period that the stock was outstanding.

NOTE B Accounting Changes

ACCOUNTING FOR THE IMPAIRMENT OF LONG-LIVED ASSETS AND FOR LONG-LIVED ASSETS TO BE DISPOSED OF Effective January 1, 1996, the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of," which requires that long-lived assets and certain identifiable intangibles be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset is not recoverable. During 1996, the Company recorded a \$24.1 million adjustment to the carrying value of certain bank premises following a decision to sell several buildings in connection with the streamlining of the branch distribution network. See Note K for further discussion.

The Company also performed an evaluation of those intangible assets not covered by SFAS 121 and recorded a charge of \$29.5 million to reduce the carrying value of credit card holder and core deposit intangibles to their fair value. The Company performed this analysis of the fair value following its reassessment of business alternatives for a segment of its credit card portfolio and a change in the mix of deposits at certain acquired entities, respectively.

ACCOUNTING FOR STOCK-BASED COMPENSATION SFAS 123, "Accounting for Stock-Based Compensation," establishes a new fair value based accounting method for stock-based compensation plans. As permitted by the Statement, the Company continues to apply the accounting provisions of APB 25, "Accounting for Stock Issued to Employees," in determining net income. Refer to Note L for the required pro forma disclosures had SFAS 123 been applied.

ACCOUNTING FOR TRANSFERS AND SERVICING OF FINANCIAL ASSETS AND EXTINGUISHMENTS OF LIABILITIES SFAS 125, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities," addresses whether the

transfer of financial assets should be accounted for as a sale and removed from the balance sheet, or as a financing recognized as a borrowing. The Statement uses a "financial components" approach which focuses on control to determine whether assets have been sold. If the entity has surrendered control over the transferred assets, the transaction is considered a sale. Control is considered surrendered only if the seller has no legal right to the assets, even in bankruptcy; the buyer has the right to pledge or exchange the assets; and the seller does not maintain effective control over the assets through an agreement to repurchase or redeem them. SFAS 125 is effective for transactions occurring after December 31, 1996, and is to be applied prospectively, with earlier or retroactive application not permitted. The adoption of SFAS 125 is not expected to have a material effect on the Company.

NOTE C BUSINESS COMBINATIONS AND DIVESTITURES

FIRSTIER FINANCIAL, INC. On February 16, 1996, the Company issued 16.5 million shares to complete its acquisition of Omaha-based FirstTier Financial, Inc. ("FirstTier"). FirstTier had \$3.7 billion in assets, \$2.9 billion in deposits, and 63 offices in Nebraska and Iowa. Under terms of the purchase agreement, the Company exchanged .8829 shares of its common stock for each common share of FirstTier. In addition, FirstTier's outstanding stock options were converted into stock options for the Company's common stock.

The acquisition of FirstTier was accounted for under the purchase method of accounting, and accordingly, the purchase price of \$717 million was allocated to assets acquired and liabilities assumed based on their fair market values at the date of acquisition. The excess of the purchase price over the fair market values of net assets acquired was recorded as goodwill. Goodwill of \$286 million will be amortized over an average of 24 years and core deposit intangibles of \$63 million will be amortized over the estimated lives of the deposits of approximately 10 years. The results of operations of FirstTier have been included in the Company's Consolidated Statement of Income since the date of acquisition.

The following pro forma operating results of the Company assume that the FirstTier acquisition had occurred at the beginning of each period presented. In addition to combining the historical results of operations of the two companies, the pro forma results include adjustments for the estimated effect of purchase accounting on the Company's results.

(In Millions, Except Per-Share Amounts)	Year Ended December 31	
	1996	1995
Net interest income.....	\$1,550.0	\$1,556.6
Net income.....	737.6	587.3
Net income per share.....	5.27	4.04

The pro forma information may not be indicative of the results that actually would have occurred if the combination had been in effect on the dates indicated or which may be obtained in the future.

BANKAMERICA CORPORATE TRUST BUSINESS During the fourth quarter of 1995 and the first quarter of 1996 the Company acquired the corporate trust business of BankAmerica Corporation. After the acquisition, the Company became one of the nation's leading providers of domestic corporate trust services.

SALE OF MORTGAGE BANKING OPERATIONS During 1996, the Company sold its servicing and mortgage loan production business to three parties. Bank of America, fsb, a subsidiary of BankAmerica Corporation, purchased approximately \$14 billion in mortgage servicing rights. Columbia National, Inc., of Maryland, and Knutson Mortgage Co., of Minnesota, agreed to purchase Company's loan production business. The Company will now deliver mortgage loan products through bank branches and telemarketing. These transactions resulted in a net gain of \$45.8 million.

FIRST INTERSTATE BANCORP On November 6, 1995, the Company and First Interstate Bancorp ("First Interstate") announced that they had entered into a definitive agreement whereby the Company would exchange 2.6 shares of its common stock for each share of First Interstate common stock. On January 24, 1996, First Interstate announced that it had terminated the merger agreement with the Company and had entered into a definitive agreement with Wells Fargo & Company ("Wells Fargo"). Under the terms of a settlement agreement, the Company received \$125 million on January 24, 1996. The Company received an additional \$75 million on April 1, 1996, upon consummation of the merger of First Interstate and Wells Fargo. In addition, all litigation among the parties related to the acquisition of First Interstate has been settled. The Company incurred transaction costs of approximately \$10 million in connection with the proposed merger.

METROPOLITAN FINANCIAL CORPORATION On January 24, 1995, the Company issued 21.7 million shares to complete its merger with Metropolitan Financial Corporation ("MFC"). The regional financial services holding company, headquartered in Minneapolis, Minnesota, had approximately \$7.9 billion in assets and \$5.5 billion in deposits. MFC's 211 offices were principally located in North Dakota, Minnesota, Nebraska, Iowa, Kansas, South Dakota, Wisconsin, and Wyoming. The Company used the pooling of interests method to account for the transaction. Accordingly, the Company's financial statements for all periods have been restated to include MFC's accounts and operations.

First Bank System, Inc.

OTHER ACQUISITIONS During 1995, the Company acquired several smaller financial institutions in its existing markets, all of which further strengthen the Company's retail banking franchise. These acquisitions, accounted for as purchases, were not material to the financial condition or operating results of the Company. These acquisitions include the November 1, 1995, acquisition of two commercial bank holding companies - Midwestern Services, Inc. and Southwest Holdings, Inc. - both of Omaha, Nebraska. Together, the two companies had total assets of \$424 million, total deposits of \$380 million, and 12 branches in Omaha. In addition, on March 16, 1995, the Company acquired First Western Corporation, parent company of Western bank, with \$317 million in assets, \$267 million in deposits, and nine branches in and around Sioux Falls, South Dakota.

COMERICA CORPORATE TRUST BUSINESS On January 31, 1997, the Company completed its acquisition of the bond indenture services and paying agency business of Comerica Incorporated. This business serves approximately 860 municipal and corporate clients with about 2,400 bond issues.

SALE OF EDINA REALTY, INC. On December 8, 1995, the Company sold Edina Realty, Inc., its real estate brokerage subsidiary, to a local investor group. The subsidiary was accounted for as discontinued operations. Edina's assets, liabilities and cash flows were not material to the Company's financial statements and were not segregated.

NOTE D RESTRICTIONS ON CASH AND DUE FROM BANKS

Bank subsidiaries are required to maintain minimum average reserve balances with the Federal Reserve Bank. The amount of those reserve balances was approximately \$245 million at December 31, 1996.

NOTE E SECURITIES

The detail of the amortized cost, gross unrealized holding gains and losses, and fair value of available-for-sale securities at December 31 was as follows:

(In Millions)	1996				1995			
	Amortized Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Fair Value	Amortized Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Fair Value
U.S. Treasury.....	\$ 553	\$ 1	\$ (9)	\$ 545	\$ 921	\$ 8	\$ (4)	\$ 925
Mortgage-backed.....	2,454	30	(20)	2,464	1,703	13	(23)	1,693
Other U.S. agencies...	42	--	(1)	41	157	1	(1)	157
State and political...	466	3	(4)	465	174	5	--	179
Other.....	36	4	--	40	265	38	(1)	302
Total.....	\$3,551	\$38	\$(34)	\$3,555	\$3,220	\$65	\$(29)	\$3,256

Securities carried at \$1.7 billion at December 31, 1996, and \$1.2 billion at December 31, 1995, were pledged to secure public, private and trust deposits and for other purposes required by law. Securities carried at \$1.0 billion at December 31, 1996, and \$1.3 billion at December 31, 1995, were pledged to secure Federal Home Loan Bank advances. Securities sold under agreements to repurchase were collateralized by securities and securities purchased under agreements to resell with an amortized cost of \$.8 billion and \$.3 billion at December 31, 1996, and 1995, respectively.

Gross realized gains and losses are shown in the table below. Included in the 1994 gross realized losses is \$111.2 million related to the sale of \$1.6 billion of securities as a result of MFC's actions to reduce interest rate risk consistent with prior regulatory requests and to align more closely the interest rate risk profile of MFC with that of the Company.

(In Millions)	1996	1995	1994
Gross realized gains.....	\$ 33.3	\$ 1.7	\$ 3.1
Gross realized losses.....	(18.3)	(1.7)	(118.1)
Net realized gains (losses).....	\$ 15.0	\$ --	\$(115.0)
Income taxes (credit) on realized gains or losses..	\$ 5.7	\$ --	\$ (43.7)

For amortized cost, fair value and yield by maturity date of available-for-sale securities outstanding as of December 31, 1996, see Table 10 on page 30 from which such information is incorporated by reference into these Notes to Consolidated Financial Statements.

NOTE F LOANS AND ALLOWANCE FOR CREDIT LOSSES

The composition of the loan portfolio at December 31 was as follows:

(In Millions)	1996	1995
COMMERCIAL:		
Commercial.....	\$ 9,456	\$8,271
Financial institutions.....	905	1,060
Real estate:		
Commercial mortgage.....	3,090	2,784
Construction.....	654	403
Total commercial.....	14,105	12,518
CONSUMER:		
Residential mortgage.....	3,019	4,655
Residential mortgage held for sale.....	42	257
Home equity and second mortgage.....	3,263	2,805
Credit card.....	2,858	2,586
Automobile.....	1,991	1,821
Revolving credit.....	737	757
Installment.....	607	607
Student*.....	506	394
Total consumer.....	13,023	13,882
Total loans.....	\$ 27,128	\$26,400

* All or part of the student loan portfolio may be sold when the repayment period begins.

Certain directors and executive officers of the Company, including their immediate families, companies in which they are principal owners, and trusts in which they are involved, are loan customers of the Company and its subsidiaries. These loans were made in the ordinary course of business at the subsidiaries' normal credit terms, including interest rate and collateralization, and were all current as to their terms at December 31, 1996, and 1995. The aggregate dollar amounts of these loans were \$12.3 million and \$13.1 million at December 31, 1996, and 1995, respectively. During 1996, additions totaled \$43.8 million and repayments totaled \$44.6 million.

Nonaccrual and renegotiated loans totaled \$120 million, \$118 million, and \$168 million at December 31, 1996, 1995, and 1994, respectively. At December 31, 1996, and 1995, the Company had \$86 million, and \$69 million, respectively, in loans considered impaired under SFAS 114 included in its nonaccrual loans. The carrying value of the impaired loans was less than or equal to the present value of expected future cash flows and, accordingly, no allowance for credit losses was specifically allocated to impaired loans. For the years ended December 31, 1996, 1995, and 1994, the average recorded investment in impaired loans was approximately \$78 million, \$77 million, and \$118 million, respectively. The effect of nonaccrual and renegotiated loans on interest income was as follows:

(In Millions)	Year ended December 31		
	1996	1995	1994
Interest income that would have been accrued at original contractual rates.....	\$10.9	\$11.5	\$13.7
Amount recognized as interest income.....	4.1	2.3	2.7
Forgone revenue.....	\$ 6.8	\$ 9.2	\$11.0

First Bank System, Inc.

Commitments to lend additional funds to customers whose loans were classified as nonaccrual or renegotiated at December 31, 1996, totaled \$45.0 million. During 1996, there were no loans that were restructured at market interest rates and returned to a fully performing status.

Activity in the allowance for credit losses was as follows:

(In Millions)	1996	1995	1994
Balance at beginning of year.....	\$ 473.5	\$474.7	\$466.1
Add:			
Provision charged to operating expense.....	136.0	115.0	123.6
Deduct:			
Loans charged off.....	253.0	209.1	226.8
Less recoveries of loans charged off.....	100.2	88.1	86.5
Net loans charged off.....	152.8	121.0	140.3
Additions from acquisitions and other.....	59.8	4.8	25.3
Balance at end of year.....	\$ 516.5	\$473.5	\$474.7

NOTE G BANK PREMISES AND EQUIPMENT

Bank premises and equipment at December 31 consisted of the following:

(In Millions)	1996	1995
Land.....	\$ 72	\$ 70
Buildings and improvements.....	408	386
Furniture, fixtures and equipment.....	401	373
Capitalized building leases.....	48	35
Capitalized equipment leases.....	40	37
	969	901
Less accumulated depreciation and amortization.....	565	488
Total.....	\$ 404	\$ 413

First Bank System, Inc.

NOTE H LONG-TERM DEBT

Long-term debt (debt with original maturities of more than one year) at December 31 consisted of the following:

(In Millions)	1996	1995
FIRST BANK SYSTEM (Parent Company):		
Fixed-rate subordinated notes:		
6.625% due May 15, 2003.....	\$ 100	\$ 100
8.00% due July 2, 2004.....	125	125
7.625% due May 1, 2005.....	150	150
6.875% due September 15, 2007.....	250	250
Floating-rate subordinated notes - due November 30, 2010.....	107	107
Medium-term notes.....	406	580
Capitalized lease obligations and other.....	32	14
	1,170	1,326
SUBSIDIARIES:		
Fixed-rate subordinated notes:		
6.00% due October 15, 2003.....	100	100
7.55% due June 15, 2004.....	100	100
8.35% due November 1, 2004.....	100	100
6.875% due April 1, 2006.....	125	--
Step-up subordinated notes - due August 15, 2005.....	100	100
Federal Home Loan Bank advances.....	1,005	1,099
Bank notes.....	800	300
Capitalized lease obligations.....	39	35
Mortgage indebtedness and other.....	14	41
	3,553	\$3,201

The floating-rate subordinated notes due November 30, 2010, may be redeemed at par at the Company's option. The annual interest rate for each quarterly period is one-eighth of 1 percent above the London Interbank Offered Rate ("LIBOR") for three-month Eurodollar deposits, subject to a minimum of 5.25 percent. At December 31, 1996, the interest rate was 5.69 percent.

The step-up subordinated notes due August 15, 2005, are issued by the Company's subsidiary bank, First Bank National Association (the "Bank"). The interest rate on these notes is 6.25 percent through August 14, 2000, and 7.30 percent thereafter. The notes have a one-time call feature at the option of the Bank on August 15, 2000.

The medium-term notes outstanding at December 31, 1996, mature from March 1997 through August 1999. The notes bear floating interest rates ranging from 5.67 percent to 5.82 percent. The weighted average interest rate at December 31, 1996, was 5.75 percent.

The Federal Home Loan Bank advances outstanding at December 31, 1996, mature from January 1997 through March 2011. The advances bear fixed or floating interest rates ranging from 4.93 percent to 7.34 percent. The weighted average interest rate at December 31, 1996, was 5.72 percent.

The bank notes outstanding at December 31, 1996, mature from July 1997 through March 2001. The notes bear fixed or floating interest rates ranging from 5.53 percent to 6.38 percent. The weighted average interest rate at December 31, 1996, was 5.72 percent.

Maturities of long-term debt outstanding at December 31, 1996 were:

(In Millions)	Consolidated	Parent Company
1997.....	\$1,072	\$ 187
1998.....	442	99
1999.....	327	125
2000.....	40	1
2001.....	105	2
Thereafter.....	1,567	756
	\$3,553	\$1,170

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NOTE I COMPANY-OBLIGATED MANDATORILY REDEEMABLE CAPITAL SECURITIES OF FBS
CAPITAL I

On November 26, 1996, FBS Capital I (the "Trust"), a Delaware business trust wholly-owned by the Company, completed the sale of \$300 million of 8.09 percent Capital Securities (the "Capital Securities"). The Trust used the net proceeds from the offering to purchase a like amount of 8.09 percent Junior Subordinated Deferrable Interest Debentures (the "Debentures") of the Company. The Debentures are the sole assets of the Trust and are eliminated, along with the related income statement effects, in the consolidated financial statements. The Company used the proceeds from the sale of the Debentures for general corporate purposes.

The Capital Securities accrue and pay distributions semi-annually at an annual rate of 8.09 percent of the stated liquidation amount of \$1,000 per Capital Security. The Company has fully and unconditionally guaranteed all of the obligations of the Trust. The guarantee covers the semi-annual distributions and payments on liquidation or redemption of the Capital Securities, but only to the extent of funds held by the Trust.

The Capital Securities are mandatorily redeemable upon the maturity of the Debentures, on November 15, 2026 or upon earlier redemption as provided in the Indenture. The Company has the right to redeem the Debentures, in whole (but not in part), on or after November 15, 2006, at a redemption price specified in the Indenture plus any accrued but unpaid interest to the redemption date.

NOTE J SHAREHOLDERS' EQUITY

COMMON STOCK At December 31, 1996, the Company had 11,155,479 shares of common stock reserved for future issuances under the Dividend Reinvestment Plan, Employee Stock Purchase Plan, and the Stock Option Plans (see Note L).

On February 21, 1996, the Board of Directors authorized the repurchase of up to 25.4 million shares through December 1997. Approximately 15.1 million shares have been repurchased under the 1996 authorization. In addition, the Board of Directors authorized the retirement of 2.6 million shares repurchased in the second quarter of 1996. Under previous authorizations, the Company repurchased 11.9 million shares in 1995.

Approximately 5.8 million common shares sold through private placements in July 1990 remain outstanding. Periodic stock purchase rights ("PSPRs") and risk event warrants were also issued in such private placements. The PSPRs become exercisable if the Company fails to pay quarterly dividends equal to at least \$.205 per share of common stock in any twelve-month period between July 1990 and July 2000. Upon exercise, PSPR holders will receive cash or the Company's common or preferred shares equal to the dividend shortfall. The risk event warrants become exercisable when a change in control occurs and the value received by common shareholders is less than \$13.875 per share. If exercised, the Company has the option to pay warrant holders the shortfall in cash, common or preferred stock.

The Company's Dividend Reinvestment Plan provides for automatic reinvestment of dividends and optional cash purchases of up to \$5,000 worth of additional shares per calendar quarter at market price.

PREFERRED STOCK The Company has six classes of cumulative preferred stock, with 10 million shares authorized. Since 1992, the Company has redeemed or called the four classes of \$1.00 par value cumulative preferred stock and redeemed both classes of \$.01 par value cumulative preferred stock.

On November 29, 1996, the Company called the remaining 1,543,025 shares of its Series 1991A Cumulative Convertible Preferred Stock. As a result, at December 31, 1996, (the redemption date) all remaining shares had been redeemed or converted into common stock. Prior to conversion, dividends on the Series 1991A shares, which had a \$1.00 par value, were 7.125 percent per year.

In January 1995, the Company redeemed for \$27.00 per share in cash, plus accumulated and unpaid dividends, 488,750 shares of Series B, \$2.875 Cumulative Perpetual Preferred Stock. Dividends on the Series B shares, which had a \$.01 par value, were \$2.875 per share prior to redemption.

NOTE K MERGER, INTEGRATION AND RESIZING CHARGES

The Company recorded merger, integration and resizing charges of \$69.9 million and \$66.2 million in 1996 and 1994, respectively. Merger and integration charges of \$31.3 million recorded in 1996 were associated with the acquisitions of FirstTier and the BankAmerica corporate trust business. Resizing charges of \$38.6 million were associated with the Company's streamlining of the branch distribution network and trust operations as the Company expands its alternative distribution channels, including telemarketing, automated teller machines and in-store branches. Merger and integration charges of \$66.2 million recorded in 1994 related to the acquisition of MFC. The components of the charges are shown below:

(In Millions)	Year ended December 31	
	1996	1994
Systems conversions, required		
customer communications and professional services.....	\$29.7	\$40.4
Premises writedowns.....	26.0	19.6
Severance.....	14.2	6.2

Total merger, integration and resizing charges.....	\$69.9	\$66.2

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Systems conversions, required customer communications and professional services relate to preparation and mailing of numerous customer communications for the acquisitions and conversion of customer accounts, printing and distribution of training materials and policy and procedure manuals, outside consulting fees, and similar expenses relating to the conversions and integration of acquired branches and operations. Premises writedowns relate to premise and equipment write-offs for redundant office space and branches. The writedowns recorded in 1996 include valuation adjustments associated with the planned sale of bank-owned properties as the Company consolidates and reduces the space requirements of the branch facilities. Severance charges include the cost of terminations, other benefits, and outplacement costs associated with the elimination of employees primarily in branch offices and in centralized corporate support and data processing functions. The following table presents a summary of activity with respect to the Company's merger, integration and resizing accrual:

(In Millions)	Year Ended December 31 1996

BALANCE AT DECEMBER 31, 1995.....	\$12.6
Provision charged to operating expense.....	69.9
Cash outlays.....	(43.8)
Noncash writedowns.....	(26.0)

Balance at December 31, 1996.....	\$12.7

The Company expects that substantially all remaining costs will be paid in early 1997. Additional noncash writedowns are not expected to be significant.

In December 1994, the Company recorded a \$111.2 million loss on the sale of \$1.6 billion of securities in January 1995 as a result of MFC's actions to reduce interest rate risk consistent with prior regulatory requests and to align more closely the interest rate risk profile of MFC with that of the Company. The Company also recorded additional provision for credit losses of \$16.5 million and a \$56.5 million severance-related charge related to MFC's pre-existing change in control plan. A provision for other real estate related reserves of \$2.6 million was also recorded to provide for the Company's strategy of accelerated disposition of problem assets.

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NOTE L EMPLOYEE BENEFITS

PENSION PLAN Pension benefits are provided to substantially all employees based on years of service and employees' compensation while employed with the Company. Employees are fully vested after five years of service. The Company's funding policy is to contribute amounts to its plans sufficient to meet the minimum funding requirements of the Employee Retirement Income Security Act of 1974, plus such additional amounts as the Company determines to be appropriate. The actuarial cost method used to compute the pension contribution is the projected unit credit method.

Prior to their acquisition dates, employees of acquired companies were covered by separate, noncontributory pension plans that provided benefits based on years of service and compensation. As of December 31, 1996, the Company has merged the acquired companies' plans into its own plan with the exception of the MFC and FirstTier plans, which are expected to be merged in 1997. The funded status and income statement effects of the MFC plan have been aggregated with the Company's plan for all years in the table below and the FirstTier plan is included in 1996.

(In Millions)	1996	1995	1994
Actuarial present value of benefit obligations:			
Accumulated benefit obligation, including vested benefits of \$306.6 million in 1996, \$287.9 million in 1995, and \$265.4 million in 1994.....	\$(318.6)	\$(297.5)	\$(274.0)
Projected benefit obligation for service rendered to date.....	\$(331.3)	\$(312.3)	\$(280.3)
Plan assets at fair value, primarily listed stocks and U.S. bonds.....	412.0	314.3	287.4
Excess of plan assets over projected benefit obligation.....	80.7	2.0	7.1
Unrecognized net (gain) loss from past experience different from that assumed and effects of changes in assumptions	(33.3)	20.5	18.8
Unrecognized net asset at end of year (amortized over 15 years).....	(19.1)	(23.1)	(26.4)
Prepaid (accrued) pension cost included in other assets.....	\$ 28.3	\$ (.6)	\$ (.5)

The Company also maintains several unfunded, nonqualified, supplemental executive retirement programs that provide additional defined pension benefits for certain officers. The following table summarizes the status of these supplemental plans.

(In Millions)	1996	1995	1994
Actuarial present value of benefit obligations:			
Accumulated benefit obligation, including vested benefits of \$14.7 million in 1996, \$10.4 million in 1995, and \$5.7 million in 1994.....	\$(15.3)	\$(11.1)	\$(7.2)
Projected benefit obligation for service rendered to date.....	\$(23.8)	\$(16.8)	\$(11.2)
Plan assets at fair value.....	--	--	--
(Deficiency) of plan assets over projected benefit obligation.....	(23.8)	(16.8)	(11.2)
Unrecognized net loss from past experience different from that assumed and effects of changes in assumptions	2.5	5.2	1.9
Unrecognized net asset at end of year (amortized over 15 years).....	1.1	1.3	1.3
Accrued pension cost included in other liabilities.....	\$(20.2)	\$(10.3)	\$(8.0)

Net pension cost for all funded and unfunded plans is as follows:

Year Ended December 31 (In Millions)	1996	1995	1994
Service cost-benefits earned during the period.....	\$ 22.5	\$ 17.7	\$ 20.4
Interest cost on projected benefit obligation	25.7	24.6	21.8
Actual return on plan assets	(73.3)	(57.3)	(10.9)
Net amortization and deferral.....	38.9	26.1	(18.7)
Net periodic pension benefit cost.....	\$ 13.8	\$ 11.1	\$ 12.6

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The aggregate disclosures reflect the following weighted average assumptions for the Company and acquired companies that sponsored plans.

	1996	1995	1994
Weighted average discount rate in determining expense.....	7.0%	8.0%	7.0%
Weighted average discount rate in determining benefit obligations at year-end.....	7.5	7.0	8.0
Expected long-term rate of return.....	9.5	9.5	9.5
Rate of increase in future compensation.....	5.6	5.6	5.6

OTHER POSTRETIREMENT PLANS In addition to providing pension benefits, the Company provides certain health care and death benefits to retired employees. Nearly all employees may become eligible for health care benefits at or after age 55 if they have completed at least five years of service and their age plus years of service is equal to or exceeds 65 while working for the Company.

The Company subsidizes the cost of coverage for employees who retire before age 65 with at least 10 years of service. The amount of the subsidy is based on the employee's age and service at the time of retirement and remains frozen until the retiree reaches age 65. After age 65 the retiree assumes responsibility for the full cost of the coverage.

The plan also contains other cost-sharing features such as deductibles and coinsurance. The Company continues to subsidize the coverage for employees over age 65 who retired before a plan change eliminated such subsidy.

The Company accrues the estimated cost of retiree benefit payments, other than pensions, during the employees' active service and in prior years funded the postretirement benefit costs as they were incurred. In 1996, the Company funded the tax deductible portion of its outstanding liability. The following table sets forth the plan's funded status recognized in the Company's balance sheet and statement of income at December 31:

Year Ended December 31 (In Millions)	1996	1995	1994
Accumulated postretirement benefit obligation:			
Retirees	\$(48.9)	\$(47.9)	\$(41.7)
Fully eligible active plan participants	(2.6)	(2.4)	(3.6)
Other active plan participants.....	(11.7)	(12.2)	(11.3)
Total accumulated postretirement benefit obligation.....	(63.2)	(62.5)	(56.6)
Plan assets.....	7.1	--	--
Total unfunded accumulated postretirement benefit obligation.....	(56.1)	(62.5)	(56.6)
Unrecognized net gain from past experience different from that assumed and from changes in assumptions	(9.5)	(5.5)	(10.1)
Unrecognized implementation obligation.....	4.0	4.2	4.4
Accrued postretirement benefit cost.....	\$ (61.6)	\$ (63.8)	\$ (62.3)
Net periodic postretirement benefit cost includes the following components:			
Service cost-benefits attributed to service during the period	\$ 1.3	\$ 1.1	\$ 1.4
Interest cost on accumulated postretirement benefit obligation	4.5	4.3	4.2
Net amortization and deferral.....	.2	(.1)	.3
Total postretirement benefit cost.....	\$ 6.0	\$ 5.3	\$ 5.9

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In 1996 the assumed annual rates of increase in the cost of health care benefits for participants under 65 and 65 and older, were 9.1 percent and 6.0 percent, respectively. For 1997 the annual rate of increase assumptions are 8.1 percent and 5.5 percent, respectively. Both rates were assumed to decrease gradually to 5.5 percent by 2004 and remain at that level thereafter. Trends in health care costs have a significant effect on the amounts reported. For example, increasing the health care cost trend rate assumptions by 1 percent each year increases the accumulated postretirement benefit obligation as of December 31, 1996, by \$6.2 million. In addition, the aggregate of the service and interest cost components of net periodic postretirement benefit cost for the year then ended would increase by \$.6 million.

The weighted average discount rate used in determining the accumulated postretirement benefit obligation was 7.5 percent as of December 31, 1996, and 7.0 percent as of December 31, 1995.

STOCK INCENTIVE AND PURCHASE PLANS The Company has elected to follow Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25") in accounting for its employee stock incentive and purchase plans. Under APB 25, because the exercise price of the Company's employee stock options equals the market price of the underlying stock on the date of the grant, no compensation expense is recognized. On the date exercised, the option proceeds equal to the par value of the shares are credited to common stock and additional proceeds are credited to capital surplus.

The 1984 Employee Stock Purchase Plan ("ESPP"), as amended in 1989, 1991 and 1996, permits all eligible employees with at least one year of service and directors to purchase common stock. Plan participants can purchase stock for 85 percent to 100 percent of the fair market value, which is based on the price at the beginning or the end of the purchase period, whichever is lower. Any discount is determined by a committee of the Board of Directors. In 1996, the purchase price was 85 percent of fair market value. The plan results in no compensation expense to the Company.

In April, 1996, the Board of Directors approved the 1996 Stock Incentive Plan ("1996 Plan") which amends and restates the 1991 Stock Incentive Plan and 1994 Stock Incentive Plan. Seventeen million shares are authorized and available for granting awards under the 1996 Stock Incentive Plan (including five million which were previously authorized under the 1991 Stock Incentive plan and five million under the 1994 Stock Incentive Plan). The 1996 Plan, as amended, allows for the granting of nonqualified stock options, incentive stock options, stock appreciation rights ("SARs"), restricted stock or stock units ("RSUs"), performance awards, and other stock-based awards at or above 100 percent of the market price at the date of grant. The 1991 Stock Incentive Plan, as amended by the 1996 Plan, also provides automatic grants of stock options to nonemployee directors. The rights of restricted stock and RSU holders to transfer shares are generally limited during the restriction period. At December 31, 1996, there were 2,898,541 shares (subject to adjustment for forfeitures), available for grant under the Plans.

Options granted are generally exercisable up to 10 years from the date of grant and vest over three to five years. Restricted shares vest over three to seven years. The vesting of certain options and restricted shares are subject to acceleration based on the performance of the Company in comparison to the performance of a predetermined group of regional banks. Compensation expense for restricted stock is based on the market price of the Company stock at the time of the grant and amortized on a straight-line basis over the vesting period. For the performance-based restricted shares, compensation expense is amortized using the estimated vesting period. Compensation expense related to the restricted stock was \$4.4 million, \$3.4 million and \$1.5 million in 1996, 1995, and 1994.

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The stock incentive plans of acquired companies were terminated at the respective merger closing dates. Option holders under such plans received the Company's common stock, or options to buy the Company's stock, based on the conversion terms of the various merger agreements. The historical option information presented below has been restated to reflect the options originally granted under the acquired companies' plans.

	Options Outstanding	Weighted Average Price Per Share	Restricted Shares Outstanding
DECEMBER 31, 1993.....	4,208,589	\$19.47	261,296
Granted:			
Stock options.....	6,576,268	29.75	--
Restricted stock.....	--		192,732
Exercised.....	(2,052,389)	20.33	--
Canceled/vested.....	(340,319)	28.61	(26,084)
DECEMBER 31, 1994.....	8,392,149	\$26.70	427,944
Granted:			
Stock options.....	2,083,807	45.05	--
Restricted stock.....	--		149,806
Exercised.....	(3,545,183)	27.48	--
Canceled/vested.....	(1,044,808)	16.43	(22,882)
DECEMBER 31, 1995.....	5,885,965	\$34.33	554,868
Granted:			
Stock options.....	8,553,170	67.49	--
Restricted stock.....	--		114,898
FirstTier options converted.....	270,164	29.42	--
Exercised.....	(4,356,559)	36.37	--
Canceled/vested.....	(137,497)	50.69	(246,917)
DECEMBER 31, 1996.....	10,215,243	\$60.99	422,849

At December 31, 1996, 1995, and 1994 exercisable options were 2.7 million, 2.9 million, and 3.7 million, and had a weighted average price of \$41.50, \$31.40, and \$28.31. For options outstanding at December 31, 1996, the exercise prices ranged from \$8.41 to \$73.00, with a weighted average remaining contractual life of 8.5 years.

Pro forma information regarding net income and earnings per share is required by SFAS 123, "Accounting and Disclosure of Stock-Based Compensation" and has been determined as if the Company had accounted for its employee stock option and stock purchase plans ("options") under the fair value method of that Statement. The fair value of the options was estimated at the grant date using a Black-Scholes option pricing model. Option valuation models require the input of highly subjective assumptions. Because the Company's employee stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its employee stock options.

The following weighted average assumptions were used in the valuation model: risk-free interest rates of 6.1 percent and 6.0 percent in 1996 and 1995; dividend yield of 3.0 percent in both 1996 and 1995; stock price volatility factors of .20 and .18 in 1996 and 1995; and, expected life of options of 4 years and 2 years in 1996 and 1995, respectively.

The pro forma disclosures include options granted in 1996 and 1995 and are not likely to be representative of the pro forma disclosures for future years. The estimated fair value of the options is amortized to expense over the options' vesting period.

(In Millions, Except Per-Share Data)	Year Ended December 31	
	1996	1995
Pro forma net income (primary).....	\$719.7	\$553.6
Pro forma net income (fully diluted).....	725.9	561.1
Pro forma earning per share:		
Primary.....	\$5.24	\$4.13
Fully diluted.....	5.15	4.06

NOTE M INCOME TAXES

The components of income tax expense were:

(Dollars in Millions)	1996	1995	1994
FEDERAL:			
Current tax.....	\$403.4	\$234.7	\$156.3
Deferred tax provision.....	13.3	68.3	8.3
Federal income tax.....	416.7	303.0	164.6
STATE:			
Current tax.....	41.4	26.3	36.6
Deferred tax (credit) provision.....	(3.3)	5.0	(9.4)
State income tax.....	38.1	31.3	27.2
Total income tax provision.....	\$454.8	\$334.3	\$191.8

The reconciliation between income tax expense and the amount computed by applying the statutory federal income tax rate was as follows:

(Dollars in Millions)	1996	1995	1994
Tax at statutory rate (35%).....	\$418.1	\$315.8	\$176.9
State income tax, at statutory rates, net of federal tax benefit.....	24.8	20.4	17.7
Tax effect of:			
Tax-exempt interest:			
Loans.....	(4.5)	(5.1)	(6.0)
Securities.....	(8.9)	(3.9)	(4.1)
Amortization of goodwill.....	29.7	12.4	10.3
Other items.....	(4.4)	(5.3)	(3.0)
Applicable income taxes.....	\$454.8	\$334.3	\$191.8

During 1996, the Company received a tax refund of \$65 million, including interest, from the State of Minnesota relating to the exemption of interest income received on investments in U.S. government securities for the period 1979 to 1983.

At December 31, 1996, for income tax purposes, the Company had federal net operating loss carryforwards of \$29.5 million available, which expire in year 2009. In addition, the Company had state net operating loss carryforwards of \$43.7 million available, primarily in one taxing jurisdiction. These carryforwards expire in years 2006 through 2008.

Deferred income tax assets and liabilities reflect the tax effect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for the same items for income tax reporting purposes. Significant components of the Company's deferred tax assets and liabilities as of December 31 were as follows:

(Dollars in Millions)	1996	1995
DEFERRED TAX ASSETS:		
Loan loss reserves.....	\$ 186.0	\$ 162.2
Real estate and other asset basis differences.....	78.3	48.1
Postretirement liability.....	27.7	25.4
Deferred loan fees.....	21.9	9.1
Alternative minimum tax credit carryforward.....	11.4	10.5
Federal operating loss carryforward.....	10.3	31.0
Contingent liabilities and other miscellaneous accruals.....	69.3	85.2
Gross deferred tax assets.....	404.9	371.5
DEFERRED TAX LIABILITIES:		
Leasing activities.....	(77.4)	(63.1)
Other investment basis differences.....	(17.8)	(22.3)
Accelerated depreciation.....	(11.8)	5.0
Accrued severance, pension and retirement benefits.....	(9.7)	8.8
Adjustment of available-for-sale securities to market value.....	(1.5)	(13.8)
Other deferred liabilities and reserves.....	(68.3)	(64.3)
Gross deferred tax liabilities.....	(186.5)	(149.7)
Deferred tax assets valuation reserve.....	(2.2)	(5.5)
NET DEFERRED TAX ASSETS.....	\$ 216.2	\$ 216.3

Realization of the deferred tax asset over time is dependent upon the Company generating sufficient taxable earnings in future periods. In determining that realization of the deferred tax asset was more likely than not, the Company gave consideration to a number of factors, including its recent earnings history, its expectations for earnings in the future and, where applicable, the expiration dates associated with tax carryforwards. The Company's valuation allowance decreased \$3.3 million from December 31, 1995, to December 31, 1996, due to utilization of net operating losses.

NOTE N FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK AND CREDIT CONCENTRATIONS

In the normal course of business, the Company uses various off-balance sheet financial instruments to meet the financing needs of its customers and to manage its interest rate risk. These instruments carry varying degrees of credit, interest rate or liquidity risk. The contract or notional amounts of these financial instruments at December 31, 1996, and 1995, were as follows:

(Dollars in Millions)	1996	1995

Commitments to extend credit:		
Commercial.....	\$ 8,944	\$7,240
Corporate and purchasing cards.....	13,820	5,220
Consumer credit card.....	10,245	9,247
Other consumer.....	3,066	3,264
Letters of credit:		
Standby.....	1,447	1,412
Commercial.....	182	161
Interest rate swap contracts:		
Hedges.....	2,656	2,839
Intermediated.....	174	169
Options contracts:		
Hedge interest rate floors purchased.....	1,250	1,250
Hedge interest rate caps purchased.....	100	200
Intermediated interest rate and foreign exchange caps and floors purchased.....	122	126
Intermediated interest rate and foreign exchange caps and floors written.....	122	126
Liquidity support guarantees.....	81	142
Forward contracts.....	22	294
Commitments to sell loans.....	3	223
Mortgages sold with recourse.....	114	242
Foreign currency commitments:		
Commitments to purchase.....	870	792
Commitments to sell.....	867	785

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COMMITMENTS TO EXTEND CREDIT Commitments to extend credit are legally binding and generally have fixed expiration dates or other termination clauses. The contractual amount represents the Company's exposure to credit loss, in the event of default by the borrower. The Company manages this credit risk by using the same credit policies it applies to loans. Collateral is obtained to secure commitments based on management's credit assessment of the borrower. The collateral may include marketable securities, receivables, inventory, equipment, and real estate. Since the Company expects many of the commitments to expire without being drawn, total commitment amounts do not necessarily represent the Company's future liquidity requirements. In addition, the commitments include consumer credit lines that are cancelable upon notification to the consumer.

LETTERS OF CREDIT Standby letters of credit are conditional commitments the Company issues to guarantee the performance of a customer to a third party. The guarantees frequently support public and private borrowing arrangements, including commercial paper issuances, bond financings, and other similar transactions. The Company issues commercial letters of credit on behalf of customers to ensure payment or collection in connection with trade transactions. In the event of a customer's nonperformance, the Company's credit loss exposure is the same as in any extension of credit, up to the letter's contractual amount. Management assesses the borrower's credit to determine the necessary collateral, which may include marketable securities, real estate, accounts receivable, and inventory. Since the conditions requiring the Company to fund letters of credit may not occur, the Company expects its liquidity requirements to be less than the total outstanding commitments.

INTEREST RATE OPTIONS AND SWAPS Interest rate swaps are contracts to exchange fixed and floating rate interest payment obligations based on a notional principal amount. The Company enters into swaps to hedge its balance sheet against fluctuations in interest rates and as an intermediary for customers. At December 31, 1996, and 1995, interest rate swaps totaling \$2.7 billion and \$2.8 billion, respectively, hedged commercial loans, medium-term notes, subordinated debt, notes, wholesale certificates of deposit, deposit accounts, and savings certificates.

The Company receives fixed rate interest and pays floating rate interest on all hedges as of December 31, 1996. Activity with respect to interest rate swap hedges was as follows:

(In Millions)	1996	1995	1994
Notional amount outstanding at beginning of year.....	\$2,838.8	\$2,673.8	\$3,010.8
Additions.....	550.0	625.0	1,275.0
Maturities.....	(433.0)	(460.0)	(824.1)
Terminations.....	(300.0)	--	(787.9)
Notional amount outstanding at end of year.....	\$2,655.8	\$2,838.8	\$2,673.8
Weighted average interest rates paid.....	5.59%	5.86%	6.09%
Weighted average interest rates received.....	6.51	6.83	6.91

For the hedging portfolio's notional balances and yields by maturity date as of year-end 1996, see Table 17 on page 37. For a description of the Company's objectives for using derivative financial instruments, refer to Interest Rate Risk Management on pages 35 through 37. Such information is incorporated by reference into these Notes to Consolidated Financial Statements.

Interest rate caps are also used to minimize the impact of fluctuating interest rates on earnings. The total notional amount of cap agreements purchased at December 31, 1996, was \$100 million with a 3-month LIBOR strike rate of 6.00 percent. The total notional amount of cap agreements purchased at December 31, 1995, was \$200 million with a 3-month LIBOR strike rate of 6.00 percent. The premium on caps is amortized over the life of the contract. The impact of the caps on net interest income was not material for the years ended December 31, 1996, 1995 and 1994.

At December 31, 1996, and 1995, LIBOR based interest rate floors totaling \$950 million with an average remaining maturity of 1.0 years and 2.0 years, respectively, hedged floating rate commercial loans. The strike rate on these LIBOR based floors ranged from 3.25 percent to 4.00 percent at December 31, 1996 and December 31, 1995. At December 31, 1996, and 1995, Constant Maturity Treasury (CMT) interest rate floors totaling \$300 million with an average remaining maturity of 18 months and 9 months, respectively,

First Bank System, Inc.

hedged the repayment risk of fixed rate residential mortgage loans. The strike rate on these CMT floors ranged from 5.60 percent to 5.70 percent at December 31, 1996, and from 6.25 percent to 6.36 percent at December 31, 1995.

In addition to utilizing swaps and options as part of its asset/liability management strategy, the Company acts as an intermediary for swap and option agreements on behalf of its customers. To reduce its market risk exposure, the Company enters into generally matching or offsetting positions. The total notional amount of customer swap agreements, including the offsetting positions, was \$174 million and \$169 million at December 31, 1996, and 1995, respectively. The total notional amount of customer option agreements, including the offsetting positions, was \$244 million and \$252 million at December 31, 1996, and 1995, respectively.

Interest rate swap and option contracts will result in gains and losses subsequent to the date of the contract, due to interest rate movements. For customer intermediated swaps and options, the Company records these gains and losses as they occur in trading income. For swaps and options used as hedges, the Company recognizes gains or losses by adjusting interest income or expense over the terms of the hedge. The gain or loss on a terminated hedge is amortized over the life of the original swap or the life of the hedged item, whichever is shorter. The amortization of deferred gains and losses increased net interest income by \$2.2 million and \$6.3 million during 1996, and 1995, respectively. Unamortized deferred gains were \$6.0 million at December 31, 1996. The Company will amortize these net gains through the year 2000.

The credit risk related to interest rate swap and option agreements is that counterparties may be unable to meet the contractual terms. The Company estimates this risk by calculating the present value of the cost to replace all outstanding contracts in a gain position at current market rates, reported on a net basis by counterparty. At December 31, 1996, and 1995, the gain position of these contracts, in the aggregate, was approximately \$48 million and \$124 million, respectively.

The Company manages the credit risk of its interest rate swap and option contracts through credit approvals, limits, bilateral collateral agreements, and monitoring procedures. Commercial lending officers perform credit analyses to establish counterparty limits. Senior management approves counterparty limits and periodically reviews the limits to monitor compliance. In addition, the Company reduces the assumed counterparty credit risk through master netting agreements that permit the Company to settle interest rate contracts with the same counterparty on a net basis.

LIQUIDITY SUPPORT GUARANTEES Through liquidity support guarantees, the Company agrees to provide market support for its customers' commercial paper or tax-exempt bonds. These contracts are secured by notes receivable, bonds or private insurance, guaranteeing payment of principal and interest on any unreimbursed funds advanced. Since the conditions that require the Company to fund the guarantees may not occur, total guarantee amounts do not necessarily represent the Company's future funding obligation.

FORWARD CONTRACTS AND COMMITMENTS TO SELL MORTGAGE LOANS Forward contracts are agreements for the delayed delivery of securities or cash settlement money market instruments. The Company enters into these contracts to hedge the interest rate risk of its mortgage loans held for sale. At December 31, 1996, and 1995, forward contracts outstanding were \$22 million and \$294 million, respectively. At December 31, 1996, net unamortized deferred gains on the forward agreements were not material. The Company manages its credit risk on forward contracts, which arises from nonperformance by counterparties, through credit approval and limit procedures. The Company is committed under agreements to sell mortgage loans pursuant to master delivery commitments. The remaining balance on those commitments was \$3 million at December 31, 1996, and \$223 million at December 31, 1995.

MORTGAGES SOLD WITH RECOURSE The Company is obligated under recourse provisions related to the sale of certain residential mortgages. The contract amount of these mortgages, excluding the Government National Mortgage Association ("GNMA") agreements, was \$114 million at December 31, 1996, and \$172 million at December 31, 1995. Mortgages sold with recourse under sale/servicing agreements with GNMA totaled \$6 million at December 31, 1996, and \$700 million at December 31, 1995. The Company has secondary recourse obligations under these agreements, but the liability is not material.

FOREIGN CURRENCY COMMITMENTS The Company uses foreign currency commitments to help customers reduce the risks associated with changes in foreign currency exchange rates. Through these contracts, the Company exchanges currencies at specified rates on specified dates with various counterparties. The Company minimizes the market and liquidity risks by taking offsetting positions. In addition, the Company controls the market risks by limiting the net exposure through policies, procedures, and monitoring. The Company manages its credit risk, or potential risk of loss from default by a counterparty, through credit limit approval and monitoring procedures. The aggregate replacement cost of contracts in a gain position at December 31, 1996, was not significant.

CREDIT CONCENTRATIONS The Company primarily lends to borrowers in the 11 states where it has banking offices. Approximately 80 percent of the Company's commercial and financial institutions loans were made to borrowers in this operating region representing a diverse range of industries. Collateral may include marketable securities, accounts receivable, inventory, and equipment.

For detail of the Company's real estate portfolio by property type and geography as of December 31, 1996, and 1995, see Table 8 on page 28. This information is incorporated by reference into these Notes to Consolidated Financial Statements. Such loans are collateralized by the related property.

Approximately 80 percent of the total consumer portfolio consists of loans to customers in the Company's operating region. Residential mortgages, home equity, and auto loans are secured, but other consumer loans are generally not secured. For detail of the Company's consumer loan portfolio referenced here, see Table 7 on page 27 under the category "Consumer" as of December 31, 1996, and 1995, which is incorporated by reference into these Notes to Consolidated Financial Statements.

NOTE 0 FAIR VALUES OF FINANCIAL INSTRUMENTS

SFAS 107, "Disclosures about Fair Value of Financial Instruments," requires the disclosure of the fair value, where practically estimable, of all financial instruments, both on and off balance sheet. Financial instruments are generally defined as cash, equity instruments or investments, and contractual obligations to pay or receive cash or another financial instrument. The Statement indicates that quoted market prices are the preferred means of estimating value. When market quotes are unavailable, valuation techniques including discounted cash flow calculations and pricing models or services should be used.

Due to the nature of its business and its customers' needs, the Company offers a large number of financial instruments, most of which are not actively traded. Accordingly, the Company uses several valuation techniques and aggregation methods for valuing various products. The Company also uses various assumptions, such as the discount rate and cash flow timing and amounts. As a result, the fair value estimates can neither be substantiated by independent market comparisons, nor realized by the immediate sale or settlement of the financial instrument. Also, the estimates reflect a point in time and could change significantly based on changes in economic factors, such as interest rates. Furthermore, the required disclosures exclude the estimated values of certain financial instruments and all nonfinancial instrument cash flows. Finally, the fair value disclosure is not intended to estimate a market value of the Company as a whole. A summary of the Company's valuation techniques and assumptions follows.

CASH AND CASH EQUIVALENTS: The carrying value of cash, federal funds sold, and securities under resale agreements was assumed to approximate fair value.

SECURITIES: Generally, trading securities and available-for-sale securities were valued using available market quotes. In some instances, for securities that are not widely traded, market quotes for comparable securities were used.

LOANS: The loan portfolio consists of both variable and fixed rate loans, the fair value of which was estimated using discounted cash flow analyses and other valuation techniques. To calculate discounted cash flows, the loans were aggregated into pools of similar types and expected repayment terms. The expected cash flows were reduced for estimated historical prepayment experience. Projected cash flows on nonaccrual loans were further reduced by the amount of the estimated losses on the portfolio and discounted over an assumed average remaining life of one to two years.

COMMERCIAL AND FINANCIAL INSTITUTIONS: The fixed rate loans in the commercial and financial institutions portfolio (excluding nonaccrual loans) had a weighted average interest rate of 8.1 percent in 1996 and 8.0 percent in 1995. The weighted average maturity was 1.6 years in 1996 and 1.8 years in 1995. The floating rate loans had a weighted average rate of 7.9 percent in 1996 and 8.2 percent in 1995. The high-grade corporate bond yield curve was used to arrive at the discount rates applied to these loans.

COMMERCIAL REAL ESTATE AND CONSTRUCTION: The fixed rate portion of this portfolio (excluding nonaccrual loans) had a weighted average interest rate of 8.9 percent in 1996 and 1995 and a weighted average contractual remaining maturity of 4.2 years in 1996 and 1995. The floating rate loans (excluding nonaccrual loans) had a weighted average interest rate of 8.4 percent in 1996 and 8.6 percent in 1995. The weighted average contractual remaining maturity was 4.4 years in 1996 and 3.6 years in 1995. The high-grade corporate bond yield curve was used to arrive at the discount rates applied to these loans.

RESIDENTIAL FIRST MORTGAGES: These loans were segregated into pools of similar coupons and maturities. The pools were matched to similar mortgage-backed securities, and market quotes were obtained. The estimated value also reflects the related fair value of mortgage servicing rights, which was calculated using a discounted cash flow analysis. The fixed rate portion of this portfolio had a weighted average interest rate of 7.8 percent in 1996 and 7.7 percent in 1995. The weighted average contractual remaining maturity was 14.5 years in 1996 and 16.0 years in 1995.

CONSUMER INSTALLMENT: The fair value of the consumer installment portfolio was based on an approach the Company uses in evaluating potential acquisitions. Prepayment assumptions ranging from 20 to 25 percent were applied to scheduled cash flows, based upon the Company's experience. On the fixed rate portion, the weighted average rate was 9.3 percent in 1996 and 8.9 percent in 1995. The weighted average contractual remaining maturity was 2.0 years in 1996 and 1.8 years in 1995. The floating rate portion of the consumer installment portfolio had a weighted average interest rate of 8.2 percent in 1996 and 9.6 percent in 1995.

REVOLVING HOME EQUITY LINES, SECOND MORTGAGES AND CONSUMER LINES: The fair value of revolving home equity lines, second mortgages, and consumer lines was based on the approach the Company uses in evaluating potential acquisitions of similar portfolios. In 1996, estimated net income adjusted for account attrition was discounted using an estimated cost of capital of 11.3 percent for secured lines and loans and 14.1 percent for unsecured. In 1995, the estimated cost of capital was 12.4 percent for secured and 14.4 percent for unsecured. The home equity lines had a weighted average interest rate of 9.4 percent in 1996 and 10.0 percent in 1995, with a weighted average life of 4.1 years in 1996 and 5.0 years in 1995. Fixed rate second mortgages had a weighted average interest rate of 9.8 percent in 1996 and 9.6 percent in 1995. The weighted average contractual remaining maturity was 3.6 years in 1996 and 3.1 years in 1995. Retail credit cards had a weighted average interest rate of 11.4 percent in 1996 and 12.6 percent in 1995, with an estimated weighted average life of 4.4 years in 1996 and 6.0 years in 1995. Other revolving lines had a weighted average interest rate of 10.8 percent in 1996 and 12.6 percent in 1995, with an estimated weighted average life of 6.6 years in 1996 and 7.8 years in 1995.

CORE DEPOSIT INTANGIBLE: Core deposits provide a stable, low-cost source of funds that can be invested to earn a return that exceeds their cost. The fair value of the Company's core deposit intangible was calculated using a discounted cash flow model that estimates the present value of the difference between the ongoing cost of the core deposits and alternative funds at current market rates. This is the same method the Company uses in calculating the value of the core deposit intangible of an acquired bank.

DEPOSIT LIABILITIES: The fair value of demand deposits, savings accounts, and certain money market deposits is equal to the amount payable on demand at year-end. Fair values for fixed rate certificates of deposits were estimated using a discounted cash flow analysis based on the discount rates of the high-grade corporate bond yield curve. The weighted average interest rate for the certificates of deposits was 5.7 percent in 1996 and 1995 and the weighted average maturity was 1.1 years in 1996 and 1.2 years in 1995.

SHORT-TERM BORROWINGS: Federal funds purchased, borrowings under repurchase agreements, and other short-term borrowings are at variable rates or have short-term maturities. Their carrying value is assumed to approximate their fair value.

LONG-TERM DEBT: Medium-term notes, Federal Home Loan Bank Advances, capital lease obligations, and mortgage note obligations totaled \$2,273 million in 1996 and \$2,067 million in 1995. Their estimated fair value was determined using a discounted cash flow analysis based on current market rates of similar maturity debt securities to discount cash flows. The weighted average interest rate was 6.0 percent in 1996 and 1995, with a weighted average contractual remaining maturity of 3.2 years in 1996 and 2.1 years in 1995. Other long-term debt instruments were valued using available market quotes.

LOAN COMMITMENTS, LETTERS OF CREDIT AND GUARANTEES: The Company's commitments have variable rates and do not expose the Company to interest rate risk. No premium or discount was ascribed to the loan commitments because virtually all funding would be at current market rates.

INTEREST RATE SWAPS, OPTIONS, FLOORS, AND CAPS: The interest rate options and swap cash flows were estimated using a third party pricing model and discounted based on appropriate LIBOR, Eurodollar future, and Treasury Note yield curves.

The estimated fair values of the Company's financial instruments are shown in the table below.

(Dollars in Millions)	1996		1995	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
FINANCIAL ASSETS:				
Cash and due from banks.....	\$ 2,413	\$ 2,413	\$ 1,837	\$ 1,837
Federal funds sold and resale agreements.....	827	827	265	265
Trading account securities.....	146	146	86	86
Available-for-sale securities.....	3,555	3,555	3,256	3,256
Loans:				
Commercial:				
Commercial.....	9,456	9,731	8,271	8,523
Financial institutions.....	905	833	1,060	1,015
Commercial real estate and construction.....	3,744	4,023	3,187	3,531
Consumer:				
Residential mortgage.....	3,019	3,009	4,655	4,742
Residential mortgage held for sale.....	42	42	257	257
Home equity and second mortgage.....	3,263	3,367	2,805	2,909
Credit card and revolving lines.....	3,595	3,759	3,343	3,586
Other consumer installment.....	3,104	3,104	2,822	2,828
Allowance for credit losses.....	(517)	--	(474)	--
Total loans.....	26,611	27,868	25,926	27,391
Total financial assets.....	33,552	34,809	31,370	32,835
NONFINANCIAL ASSETS:				
Core deposit intangible.....	108	383	77	269
Mortgage servicing portfolio.....	2	3	40	148
Total.....	33,662	\$35,195	31,487	\$33,252
Other assets.....	2,827		2,387	
Total Assets.....	\$ 36,489		\$33,874	
FINANCIAL LIABILITIES:				
Deposits:				
Noninterest-bearing.....	\$ 7,871	\$ 7,871	\$ 6,357	\$ 6,357
Interest-bearing checking and other savings.....	8,962	8,962	8,399	8,399
Savings certificates and certificates > \$100,000.....	7,546	7,507	7,758	7,799
Total deposits.....	24,379	24,340	22,514	22,555
Federal funds purchased.....	1,204	1,204	2,000	2,000
Securities sold under agreements to repurchase.....	819	819	269	274
Other short-term funds borrowed.....	2,074	2,074	2,116	2,116
Long-term debt.....	3,553	3,596	3,201	3,267
Company-obligated mandatorily redeemable capital securities of FBS Capital I.....	300	314	--	--
Total financial liabilities.....	32,329	\$32,347	30,100	\$30,212
NONFINANCIAL LIABILITIES.....	1,107		1,049	
SHAREHOLDERS' EQUITY.....	3,053		2,725	
Total Liabilities and Shareholders' Equity.....	\$ 36,489		\$33,874	
Off-Balance Sheet Financial Instruments:				
Unrecognized gain on interest rate swaps and options.....	N/A	\$ 22	N/A	\$ 101
Unrecognized loss on interest rate swaps and options.....	N/A	--	N/A	--
Loan commitments.....	N/A	--	N/A	--
Letters of credit.....	N/A	--	N/A	--

NOTE P COMMITMENTS AND CONTINGENT LIABILITIES

Rental expense for operating leases amounted to \$68.1 million in 1996, \$61.2 million in 1995, and \$77.5 million in 1994. Future minimum payments, net of sublease rentals, under capitalized leases and noncancelable operating leases with initial or remaining terms of one year or more, consisted of the following at December 31, 1996:

(In Millions)	Capitalized Leases	Operating Leases
1997.....	\$ 13.2	\$ 62.5
1998.....	6.2	57.1
1999.....	6.2	52.4
2000.....	6.2	46.5
2001.....	6.2	47.0
Thereafter.....	66.0	289.9
Total minimum lease payments.....	104.0	\$555.4
Less amount representing interest.....	51.2	
Present value of net minimum lease payments.....	\$ 52.8	

A wholly-owned subsidiary of First Bank National Association (the "Bank") is a partner in a joint venture that owns and operates a twin-tower office complex known as Pilsbury Center. The Bank and the Parent Company have long-term agreements to occupy space in one of the towers. Approximately two-thirds of the space has been sublet for the remaining life of the long-term lease obligation and the remaining space has been sublet through the year 2001. The unamortized portion of the capitalized lease was \$22.4 million at December 31, 1996 and \$22.7 million at December 31, 1995. Minimum annual payments required under the leases are approximately \$2.7 million.

Various legal proceedings are currently pending against the Company. Due to their complex nature, it may be years before some matters are resolved. In the opinion of management, the aggregate liability, if any, will not have a material adverse effect on the Company's financial position, liquidity or results of operations.

NOTE Q SUPPLEMENTAL DISCLOSURES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEET - Time certificates of deposit in denominations of \$100,000 or more totaled \$866 million and \$900 million at December 31, 1996, and 1995, respectively.

CONSOLIDATED STATEMENT OF CASH FLOWS - Listed below are supplemental disclosures to the Consolidated Statement of Cash Flows.

Year Ended December 31 (In Millions)	1996	1995	1994
Income taxes paid.....	\$ 316.1	\$ 253.8	\$ 155.6
Interest paid.....	1,098.6	1,072.8	833.1
Net noncash transfers to foreclosed property.....	23.2	19.5	41.4
Change in unrealized gain (loss) on available-for-sale securities, net of taxes of \$12.2 in 1996, \$79.2 in 1995 and \$89.6 in 1994.....	(20.0)	128.9	(144.4)
Cash acquisitions of businesses:			
Fair value of noncash assets acquired.....	\$ 38.3	\$ 120.2	\$ 805.9
Liabilities assumed.....	--	(2.7)	(698.7)
Net.....	\$ 38.3	\$ 117.5	\$ 107.2
Stock acquisitions of businesses:			
Fair value of noncash assets acquired.....	\$ 3,627.9	\$ 746.9	\$ 1,805.8
Net cash acquired.....	116.5	55.4	74.5
Liabilities assumed.....	(3,032.2)	(696.7)	(1,648.0)
Net value of common stock issued.....	\$ 712.2	\$ 105.6	\$ 232.3

REGULATORY CAPITAL - The measures used to assess capital include the capital ratios established by bank regulatory agencies, including the specific ratios for the "well capitalized" designation. For a description of the regulatory capital requirements and the actual ratios as of December 31, 1996 for the Company and its bank and thrift subsidiaries, see Tables 18 and 19 from which such information is incorporated by reference into these Notes to Consolidated Financial Statements.

CONDENSED BALANCE SHEET

December 31 (In Millions)	1996	1995
ASSETS		
Deposits with subsidiary banks, principally interest-bearing.....	\$ 343	\$ 244
Available-for-sale securities.....	60	209
Investments in:		
Bank and thrift affiliates.....	3,370	2,940
Nonbank affiliates.....	402	115
Advances to:		
Bank and thrift affiliates.....	528	372
Nonbank affiliates.....	102	61
Other assets.....	277	382
Total assets.....	\$ 5,082	\$ 4,323
LIABILITIES AND SHAREHOLDERS' EQUITY		
Short-term funds borrowed.....	\$ --	\$ 21
Advances from subsidiaries.....	334	40
Long-term debt.....	1,170	1,326
Company-obligated mandatorily redeemable capital securities of FBS Capital I.....	300	--
Other liabilities.....	225	211
Shareholders' equity.....	3,053	2,725
Total liabilities and shareholders' equity.....	\$ 5,082	\$ 4,323

CONDENSED STATEMENT OF INCOME

Year Ended December 31 (In Millions)	1996	1995	1994
INCOME			
Dividends from subsidiaries (including \$526.1, \$613.7 and \$447.9 from bank and thrift subsidiaries).....	\$ 572.9	\$ 633.2	\$ 480.9
Interest from subsidiaries.....	51.9	40.3	19.0
Service and management fees from subsidiaries.....	92.0	88.2	103.4
Other income.....	256.6	25.4	23.7
Total income.....	973.4	787.1	627.0
EXPENSES			
Interest on short-term funds borrowed.....	3.7	3.0	2.8
Interest on long-term debt.....	81.7	80.5	55.0
Interest on Company-obligated mandatorily redeemable capital securities of FBS Capital I..	2.3	--	--
Operating expenses paid to subsidiaries.....	7.9	8.4	8.3
Other expenses.....	110.3	103.3	193.3
Total expenses.....	205.9	195.2	259.4
Income before income taxes and equity in undistributed income of subsidiaries.....	767.5	591.9	367.6
Income tax expense (credit).....	71.4	(20.2)	(41.4)
Income of parent company.....	696.1	612.1	409.0
Equity (deficiency) in undistributed income of subsidiaries:			
Bank and thrift affiliates.....	60.5	(44.4)	(81.5)
Nonbank affiliates.....	(16.8)	.4	(22.5)
	43.7	(44.0)	(104.0)
Net income.....	\$ 739.8	\$ 568.1	\$ 305.0

First Bank System, Inc.

CONDENSED STATEMENT OF CASH FLOWS

Year Ended December 31 (In Millions)	1996	1995	1994
OPERATING ACTIVITIES			
Net income.....	\$ 739.8	\$ 568.1	\$ 305.0
Adjustments to reconcile net income to net cash provided by operating activities:			
(Equity) deficiency in undistributed income of subsidiaries.....	(43.7)	44.0	104.0
(Gains) losses on available-for-sale securities.....	(31.3)	.4	.5
Decrease (increase) in accrued receivables, net.....	119.2	(36.0)	46.1
Increase (decrease) in accrued liabilities, net.....	19.4	(114.1)	(21.4)
Amortization of goodwill and other intangibles.....	2.7	5.6	5.5
Deferred tax (credit) provision.....	(9.3)	37.8	27.5
Provision for merger and integration.....	--	--	72.8
Other - net.....	34.0	(.2)	(38.6)
Net cash provided by operating activities.....	830.8	505.6	501.4
INVESTING ACTIVITIES			
Securities transactions:			
Sales and maturities.....	158.5	88.5	20.4
Purchases.....	(2.7)	(126.9)	(47.1)
Investments in subsidiaries.....	(315.8)	(121.9)	(83.7)
Equity distributions from subsidiaries.....	323.0	150.0	235.0
Net (increase) decrease in short-term advances to affiliates.....	(54.7)	52.3	(50.0)
Long-term advances made to affiliates.....	(150.0)	(259.7)	--
Principal collected on long-term advances made to affiliates.....	10.0	25.2	.3
Other - net.....	(11.1)	5.6	(31.6)
Net cash (used) provided by investing activities.....	(42.8)	(186.9)	43.3
FINANCING ACTIVITIES			
Net decrease in short-term advances from subsidiaries.....	(17.1)	(27.7)	(27.2)
Net (decrease) increase in short-term funds borrowed.....	(12.1)	14.8	2.1
Proceeds from long-term advances from subsidiaries.....	309.3	--	--
Proceeds from long-term debt.....	84.0	654.1	405.1
Principal payments on long-term debt.....	(248.9)	(424.7)	(145.1)
Issuance of Company-obligated mandatorily redeemable capital securities of FBS Capital I... Redemption of preferred stock.....	300.0	--	--
Proceeds from dividend reinvestment, stock option, and stock purchase plans.....	--	(13.2)	(167.0)
Purchase of treasury stock and stock warrants.....	69.1	67.7	40.3
Stock warrants exercised.....	(939.5)	(545.2)	(245.8)
Cash dividends.....	--	.3	7.9
Cash dividends.....	(233.9)	(199.2)	(168.6)
Net cash used by financing activities.....	(689.1)	(473.1)	(298.3)
Change in cash and cash equivalents.....	98.9	(154.4)	246.4
Cash and cash equivalents at beginning of year.....	243.8	398.2	151.8
Cash and cash equivalents at end of year.....	\$ 342.7	\$ 243.8	\$ 398.2

Transfer of funds -- dividends, loans or advances -- from bank and thrift subsidiaries to the Company is restricted. Federal law prohibits loans unless they are secured and generally limits any loan to the Company or individual affiliate to 10 percent of the bank's or thrift's equity. In aggregate, loans to the Company and all affiliates cannot exceed 20 percent of the bank's or thrift's equity.

Dividend payments to the Company by its subsidiary banks and thrift are subject to regulatory review and statutory limitations and, in some instances, regulatory approval. The approval of the Comptroller of the Currency is required if total dividends by a national bank in any calendar year exceed the bank's net profits (as defined) for that year combined with its retained net profits for the preceding two calendar years or if the bank's retained earnings are less than zero. Furthermore, dividends are restricted by the Comptroller of the Currency's minimum capital constraints for all national banks. Within these guidelines, all bank subsidiaries have the ability to pay dividends without prior regulatory approval except one bank, which bank represented three percent of total assets at December 31, 1996.

First Bank, fsb (the "Thrift") is required to give the Office of Thrift Supervision ("OTS") 30-day notice prior to declaration of a cash dividend to the parent company. The Thrift's dividends to the parent company are generally limited to earnings in the calendar year plus 50 percent of the surplus capital (the percentage by which the Thrift's regulatory capital ratios exceed the minimum capital ratios required by the OTS) at the beginning of the year. In addition, dividends are restricted by the OTS's minimum capital constraints for all thrifts.

REPORT OF MANAGEMENT

The financial statements of First Bank System, Inc. were prepared by management, which is responsible for their integrity and objectivity. The statements have been prepared in conformity with generally accepted accounting principles appropriate in the circumstances and include amounts that are based on management's best estimates and judgment. All financial information throughout the annual report is consistent with that in the financial statements.

The Company maintains accounting and internal control systems that are believed to provide reasonable assurance that assets are safeguarded and transactions are properly authorized and recorded. To monitor compliance, the Company carries out an extensive audit program. This program includes a review for compliance with written policies and procedures and a comprehensive review of the adequacy and effectiveness of internal control systems. However, there are limits inherent in all systems of internal accounting control and management recognizes that errors or irregularities may occur. Based on the recognition that the costs of such systems should not exceed the benefits to be derived, management believes the Company's system provides an appropriate cost/benefit balance.

The Company's independent auditors, Ernst & Young LLP, have been engaged to render an opinion on the financial statements and to assist in carrying out the audit program described above. Their opinion on the financial statements is based on procedures performed in accordance with generally accepted auditing standards, including tests of the accounting records to the extent necessary to allow them to report on the fairness of the financial statements. Ernst & Young LLP has full access to the Audit Committee and the Board of Directors.

The management of the Company is committed to and has always maintained and enforced a philosophy of high ethical standards in the conduct of its business. Written policies covering conflicts of interest and other subjects are formulated in a Code of Ethics which is uniformly applicable to all officers and employees of the Company.

/s/ John F. Grundhofer

John F. Grundhofer
Chairman, President and Chief Executive Officer

/s/ Richard A. Zona

Richard A. Zona
Vice Chairman-Finance

REPORT OF INDEPENDENT AUDITORS

The Board of Directors and Shareholders
First Bank System, Inc.

We have audited the accompanying consolidated balance sheets of First Bank System, Inc. and subsidiaries as of December 31, 1996 and 1995, and the related consolidated statements of income, shareholders' equity and cash flows for each of the three years in the period ended December 31, 1996. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material mis-statement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of First Bank System, Inc. and subsidiaries at December 31, 1996 and 1995, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 1996, in conformity with generally accepted accounting principles.

/s/ Ernest & Young LLP

Minneapolis, Minnesota
January 9, 1997

CONSOLIDATED BALANCE SHEET -- FIVE-YEAR SUMMARY

December 31 (Dollars In Millions)	1996	1995	1994	1993	1992	% Change 1995-1996
ASSETS						
Cash and due from banks.....	\$ 2,413	\$ 1,837	\$ 1,707	\$ 1,767	\$ 2,011	31.4%
Federal funds sold and resale agreements.....	827	265	471	1,338	1,710	*
Interest-bearing deposits with banks.....	--	--	28	82	484	*
Trading account securities.....	146	86	77	55	94	69.8
Securities held for sale.....	--	--	--	--	295	*
Securities:						
U.S. Treasury.....	545	925	1,113	1,554	1,827	(41.1)
Mortgage-backed.....	2,464	1,693	3,297	2,861	3,196	45.5
State and political.....	465	179	181	196	188	*
U.S. agencies and other.....	81	459	594	419	586	(82.4)
Total securities.....	3,555	3,256	5,185	5,030	5,797	9.2
Loans.....	27,128	26,400	24,556	23,497	20,692	2.8
Less allowance for credit losses.....	517	474	475	466	484	9.1
Net loans.....	26,611	25,926	24,081	23,031	20,208	2.6
Other assets.....	2,937	2,504	2,579	2,067	2,159	17.3
Total assets.....	\$36,489	\$33,874	\$34,128	\$33,370	\$32,758	7.7%
LIABILITIES AND SHAREHOLDERS' EQUITY						
Deposits:						
Noninterest-bearing.....	\$ 7,871	\$ 6,357	\$ 5,933	\$ 7,743	\$ 6,243	23.8%
Interest-bearing.....	16,508	16,157	18,323	18,643	20,152	2.2
Total deposits.....	24,379	22,514	24,256	26,386	26,395	8.3
Short-term borrowings.....	4,097	4,385	3,226	1,334	1,540	(6.6)
Long-term debt.....	3,553	3,201	2,981	2,070	1,151	11.0
Company-obligated mandatorily redeemable capital securities of FBS Capital I.....	300	--	--	--	--	*
Other liabilities.....	1,107	1,049	1,053	836	927	5.5
Total liabilities.....	33,436	31,149	31,516	30,626	30,013	7.3
Shareholders' equity.....	3,053	2,725	2,612	2,744	2,745	12.0
Total liabilities and shareholders' equity..	\$36,489	\$33,874	\$34,128	\$33,370	\$32,758	7.7%

*Not meaningful

First Bank System, Inc.

CONSOLIDATED STATEMENT OF INCOME -- FIVE-YEAR SUMMARY

Year Ended December 31 (In Millions)	1996	1995	1994	1993	1992	% Change 1995-1996
INTEREST INCOME						
Loans.....	\$2,339.3	\$2,273.4	\$1,914.7	\$1,730.7	\$1,687.2	2.9%
Securities:						
Taxable.....	241.5	226.0	327.9	352.1	336.5	6.9
Exempt from federal income taxes.....	25.5	11.2	12.0	14.6	12.0	*
Other interest income.....	47.6	34.6	33.5	37.1	70.4	37.6
Total interest income.....	2,653.9	2,545.2	2,288.1	2,134.5	2,106.1	4.3
INTEREST EXPENSE						
Deposits.....	673.1	706.7	597.3	648.3	797.7	(4.8)
Federal funds purchased and repurchase agreements.....	122.4	118.1	103.1	31.8	37.1	3.6
Other short-term funds borrowed.....	120.4	90.2	20.4	20.1	17.1	33.5
Long-term debt.....	202.7	190.0	147.9	96.1	101.2	6.7
Company-obligated mandatorily redeemable capital securities of FBS Capital I.....	2.3	--	--	--	--	*
Total interest expense.....	1,120.9	1,105.0	868.7	796.3	953.1	1.4
Net interest income.....	1,533.0	1,440.2	1,419.4	1,338.2	1,153.0	6.4
Provision for credit losses (1994 and 1992 include \$16.5 and \$13.6, respectively, in merger-related provisions)....	136.0	115.0	123.6	133.1	191.7	18.3
Net interest income after provision for credit losses.....	1,397.0	1,325.2	1,295.8	1,205.1	961.3	5.4
NONINTEREST INCOME						
Credit card fees.....	292.6	232.7	179.0	137.1	116.9	25.7
Trust fees.....	230.7	175.3	159.2	146.1	127.8	31.6
Service charges on deposit accounts.....	141.5	123.7	127.3	126.0	114.8	14.4
Investment products fees and commissions.....	33.4	27.6	29.6	24.3	21.8	21.0
Securities gains (losses).....	15.0	--	(115.0)	.3	46.3	*
Termination fee.....	190.0	--	--	--	--	*
State income tax refund.....	65.0	--	--	--	--	*
Gain on sale of mortgage banking operations.....	45.8	--	--	--	--	*
Gain on sale of branches.....	--	31.0	--	--	--	*
Other.....	171.7	192.8	178.8	185.1	186.1	(10.9)
Total noninterest income.....	1,185.7	783.1	558.9	618.9	613.7	51.4
NONINTEREST EXPENSE						
Salaries.....	465.6	441.0	450.7	439.8	426.3	5.6
Employee benefits.....	105.0	96.4	105.7	99.1	94.9	8.9
Goodwill and other intangible assets.....	106.5	57.1	50.4	41.3	34.0	86.5
Net occupancy.....	98.5	98.6	103.8	109.7	97.7	(.1)
Furniture and equipment.....	89.0	94.2	88.3	80.7	72.7	(5.5)
Other personnel costs.....	55.8	40.9	35.7	31.0	23.3	36.4
Professional services.....	39.9	36.9	38.5	41.5	43.8	8.1
Advertising and marketing.....	35.4	32.0	35.5	25.6	26.7	10.6
FDIC insurance.....	11.4	35.8	58.4	57.5	51.5	(68.2)
SAIF special assessment.....	51.0	--	--	--	--	*
Merger, integration, and resizing.....	69.9	--	66.2	72.2	84.0	*
Merger-related severance.....	--	--	56.5	--	--	*
Other (1992 includes \$26.4 in merger-related other real estate expense).....	260.1	273.0	259.7	266.3	291.4	(4.7)
Total noninterest expense.....	1,388.1	1,205.9	1,349.4	1,264.7	1,246.3	15.1
Income from continuing operations before income taxes and cumulative effect of changes in accounting principles..	1,194.6	902.4	505.3	559.3	328.7	32.4
Applicable income taxes.....	454.8	334.3	191.8	198.6	115.7	36.0
Income from continuing operations before cumulative effect of changes in accounting principles.....	739.8	568.1	313.5	360.7	213.0	30.2
Income (loss) from discontinued operations.....	--	--	(8.5)	2.5	2.7	*
Income before cumulative effect of changes in accounting principles.....	739.8	568.1	305.0	363.2	215.7	30.2
Cumulative effect of changes in accounting principles.....	--	--	--	--	233.2	*
Net income.....	\$ 739.8	\$ 568.1	\$ 305.0	\$ 363.2	\$ 448.9	30.2%
Net income applicable to common equity.....	\$ 733.6	\$ 560.6	\$ 292.4	\$ 334.0	\$ 417.3	30.9%

*Not meaningful

First Bank System, Inc.

QUARTERLY CONSOLIDATED FINANCIAL DATA

(In Millions, Except Per Share Data)	1996				1995			
	Fourth Quarter	Third Quarter	Second Quarter	First Quarter	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
INTEREST INCOME								
Loans.....	\$ 594.5	\$ 588.1	\$ 582.0	\$ 574.7	\$ 580.4	\$ 573.8	\$ 572.0	\$ 547.2
Securities:								
Taxable.....	54.8	59.3	63.6	63.8	50.8	52.6	56.1	66.5
Exempt from federal income taxes.....	6.4	6.8	7.4	4.9	2.8	2.8	2.8	2.8
Other interest income.....	12.3	12.4	11.7	11.2	8.2	8.3	9.0	9.1
Total interest income.....	668.0	666.6	664.7	654.6	642.2	637.5	639.9	625.6
INTEREST EXPENSE								
Deposits.....	166.0	169.2	170.9	167.0	168.5	173.0	186.8	178.4
Federal funds purchased and repurchase agreements.....	31.8	31.6	27.6	31.4	30.5	24.8	31.9	30.9
Other short-term funds borrowed.....	30.6	29.2	28.5	32.1	33.4	34.6	15.7	6.5
Long-term debt.....	51.1	50.7	51.4	49.5	49.5	48.0	46.0	46.5
Company-obligated mandatory redeemable capital securities of FBS Capital I.....	2.3	--	--	--	--	--	--	--
Total interest expense.....	281.8	280.7	278.4	280.0	281.9	280.4	280.4	262.3
Net interest income.....	386.2	385.9	386.3	374.6	360.3	357.1	359.5	363.3
Provision for credit losses.....	35.0	35.0	35.0	31.0	31.0	31.0	27.0	26.0
Net interest income after provision for credit losses..	351.2	350.9	351.3	343.6	329.3	326.1	332.5	337.3
NONINTEREST INCOME								
Credit card fees.....	76.8	79.5	73.5	62.8	61.7	62.7	56.7	51.6
Trust fees.....	58.9	57.1	58.5	56.2	47.8	42.8	43.0	41.7
Service charges on deposit accounts.....	36.0	36.9	34.7	33.9	30.4	30.9	30.3	32.1
Investment products fees and commissions.....	8.8	7.4	8.7	8.5	7.6	7.8	6.7	5.5
Securities gains.....	--	--	.4	14.6	--	--	--	--
Termination fee.....	--	--	75.0	115.0	--	--	--	--
State income tax refund.....	--	--	65.0	--	--	--	--	--
Gain on sale of mortgage banking operations.....	--	--	--	45.8	--	--	--	--
Gain on sale of branches.....	--	--	--	--	--	31.0	--	--
Other.....	41.5	39.4	44.1	46.7	49.8	41.3	53.0	48.7
Total noninterest income.....	222.0	220.3	359.9	383.5	197.3	216.5	189.7	179.6
NONINTEREST EXPENSE								
Salaries.....	114.3	113.4	114.5	123.4	111.1	108.0	109.8	112.1
Employee benefits.....	24.2	25.5	26.4	28.9	20.4	22.1	25.4	28.5
Goodwill and other intangible assets.....	19.6	19.6	19.9	47.4	14.9	13.9	14.2	14.1
Net occupancy.....	24.3	24.2	24.2	25.8	24.3	24.3	24.3	25.7
Furniture and equipment.....	22.0	21.1	22.1	23.8	22.4	23.5	24.8	23.5
Other personnel costs.....	15.4	16.7	14.0	9.7	12.5	11.0	9.8	7.6
Professional services.....	12.4	8.3	10.9	8.3	11.3	8.5	10.5	6.6
Advertising and marketing.....	9.3	9.1	10.2	6.8	8.1	8.4	9.2	6.3
FDIC insurance.....	.8	3.5	3.6	3.5	5.6	2.8	13.8	13.6
SAIF special assessment.....	--	51.0	--	--	--	--	--	--
Merger, integration, and resizing.....	--	--	--	69.9	--	--	--	--
Other.....	59.7	63.1	60.4	76.9	56.7	88.6	61.4	66.3
Total noninterest expense.....	302.0	355.5	306.2	424.4	287.3	311.1	303.2	304.3
Income before income taxes.....	271.2	215.7	405.0	302.7	239.3	231.5	219.0	212.6
Applicable income taxes.....	99.8	78.2	150.9	125.9	88.6	85.8	81.1	78.8
Net income.....	\$ 171.4	\$ 137.5	\$ 254.1	\$ 176.8	\$ 150.7	\$ 145.7	\$ 137.9	\$ 133.8
Net income applicable to common equity.....	\$ 170.1	\$ 135.9	\$ 252.5	\$ 175.1	\$ 148.8	\$ 143.9	\$ 136.0	\$ 131.9
Primary net income per common share.....	\$ 1.26	\$.99	\$ 1.81	\$ 1.28	\$ 1.14	\$ 1.08	\$ 1.00	\$.97
Fully diluted net income per common share.....	\$ 1.24	\$.98	\$ 1.78	\$ 1.26	\$ 1.12	\$ 1.06	\$.99	\$.96
SELECTED AVERAGE BALANCES								
Loans.....	\$27,189	\$26,771	\$26,932	\$26,329	\$26,022	\$25,536	\$25,364	\$24,592
Earning assets.....	31,840	31,698	32,105	31,371	29,904	29,480	29,559	29,466
Total assets.....	35,573	35,367	35,922	35,044	33,160	32,768	32,905	32,702
Deposits.....	23,276	23,410	24,041	23,047	21,995	22,107	23,181	23,575
Long-term debt.....	3,437	3,397	3,462	3,264	3,146	2,892	2,876	2,935
Common equity.....	3,066	3,110	3,132	3,032	2,640	2,693	2,670	2,531

First Bank System, Inc.

CONSOLIDATED DAILY AVERAGE BALANCE SHEET AND RELATED

Year ended December 31	1996			1995		
(Dollars In Millions)	Balance	Interest	Interest Yields and Rates	Balance	Interest	Interest Yields and Rates
ASSETS						
Securities:						
U.S. Treasury.....	\$ 688	\$ 42.5	6.18%	\$ 973	\$ 60.6	6.23%
Mortgage-backed.....	2,636	183.3	6.95	1,989	135.5	6.81
State and political.....	462	40.3	8.72	176	18.6	10.57
U.S. agencies and other.....	234	14.3	6.11	474	28.3	5.97
Total securities.....	4,020	280.4	6.98	3,612	243.0	6.73
Unrealized loss on available-for-sale securities.....	(12)			(45)		
Net securities.....	4,008			3,567		
Trading account securities.....	94	5.1	5.43	92	5.0	5.43
Federal funds sold and resale agreements.....	503	26.5	5.27	280	16.2	5.79
Loans:						
Commercial:						
Commercial.....	9,264	735.0	7.93	8,013	687.8	8.58
Financial institutions.....	943	39.0	4.14	774	31.7	4.10
Real estate:						
Commercial mortgage.....	3,001	268.0	8.93	2,474	223.4	9.03
Construction.....	515	46.1	8.95	358	33.7	9.41
Total commercial.....	13,723	1,088.1	7.93	11,619	976.6	8.41
Consumer:						
Residential mortgage.....	3,398	265.5	7.81	4,904	371.9	7.58
Residential mortgage held for sale.....	127	9.3	7.32	265	20.3	7.66
Home equity and second mortgage.....	3,034	291.0	9.59	2,620	253.5	9.68
Credit card.....	2,654	300.6	11.33	2,341	290.5	12.41
Other.....	3,870	391.9	10.13	3,634	368.5	10.14
Total consumer.....	13,083	1,258.3	9.62	13,764	1,304.7	9.48
Total loans.....	26,806	2,346.4	8.75	25,383	2,281.3	8.99
Allowance for credit losses.....	522			473		
Net loans.....	26,284			24,910		
Other earning assets.....	331	16.1	4.86	236	13.5	5.72
Total earning assets*.....	31,754	2,674.5	8.42	29,603	2,559.0	8.64
Cash and due from banks.....	1,815			1,664		
Other assets.....	2,442			2,137		
Total assets.....	\$35,477			\$32,886		
LIABILITIES and SHAREHOLDERS' EQUITY						
Noninterest-bearing deposits.....	\$ 6,466			\$ 5,584		
Interest-bearing deposits:						
Interest checking.....	2,974	39.8	1.34	2,825	44.5	1.58
Money market accounts.....	4,277	153.5	3.59	3,858	145.3	3.77
Other savings accounts.....	1,635	34.8	2.13	1,712	42.1	2.46
Savings certificates.....	7,230	392.0	5.42	7,669	404.8	5.28
Certificates over \$100,000.....	861	53.0	6.16	1,060	70.0	6.60
Total interest-bearing deposits.....	16,977	673.1	3.96	17,124	706.7	4.13
Short-term borrowings.....	4,278	242.8	5.68	3,440	208.3	6.06
Long-term debt.....	3,393	202.7	5.97	2,963	190.0	6.41
Company-obligated mandatorily redeemable capital securities of FBS Capital I.....	29	2.3	8.09	--	--	--
Total interest-bearing liabilities.....	24,677	1,120.9	4.54	23,527	1,105.0	4.70
Other liabilities.....	1,159			1,036		
Preferred equity.....	90			105		
Common equity.....	3,092			2,664		
Unrealized loss on available-for-sale securities, net of tax.....	(7)			(30)		
Total liabilities and shareholders' equity.....	\$35,477			\$32,886		
Net interest income.....		\$1,553.6			\$1,454.0	
Gross interest margin.....			3.88%			3.94%
Gross interest margin without taxable-equivalent increments.....			3.82%			3.90%
PERCENT OF EARNING ASSETS						
Interest income.....			8.42%			8.64%
Interest expense.....			3.53			3.73
Net interest margin.....			4.89			4.91
Net interest margin without taxable-equivalent						

Interest and rates are presented on a fully taxable-equivalent basis under a tax rate of 35 percent for 1996, 1995, 1994 and 1993 and 34 percent for 1992. Interest income and rates on loans include loan fees. Nonaccrual loans are included in average loan balances.

* Before deducting the allowance for credit losses and excluding the unrealized loss on available-for-sale securities.

**Not meaningful

First Bank System, Inc.

YIELDS AND RATES

1994			1993			1992		1995-1996	
Balance	Interest	Interest Yields and Rates	Balance	Interest	Interest Yields and Rates	Balance	Interest	Interest Yields and Rates	% Change Average Balance
\$ 1,574	\$ 82.8	5.26%	\$ 1,797	\$ 101.5	5.65%	\$ 1,557	\$ 98.2	6.31%	(29.3)%
3,288	208.7	6.35	3,323	207.8	6.25	2,673	207.3	7.76	32.5
188	20.0	10.64	202	22.4	11.09	153	18.1	11.83	**
619	34.4	5.56	630	38.1	6.05	444	26.2	5.90	(50.6)
5,669	345.9	6.10	5,952	369.8	6.21	4,827	349.8	7.25	11.3
(69)			--			--			73.3
5,600			5,952			4,827			12.4
73	3.4	4.66	117	4.7	4.02	137	6.5	4.74	2.2
405	16.5	4.07	755	22.3	2.95	1,318	45.1	3.42	79.6
6,832	506.6	7.42	5,804	403.6	6.95	5,490	407.1	7.42	15.6
1,146	30.1	2.63	1,534	42.5	2.77	1,096	40.8	3.72	21.8
2,365	202.2	8.55	2,213	190.5	8.61	2,164	194.5	8.99	21.3
268	21.4	7.99	213	15.5	7.28	270	20.4	7.56	43.9
10,611	760.3	7.17	9,764	652.1	6.68	9,020	662.8	7.35	18.1
5,345	385.6	7.21	4,860	384.6	7.91	3,851	347.7	9.03	(30.7)
387	27.4	7.08	1,040	72.4	6.96	867	70.5	8.13	(52.1)
2,223	193.2	8.69	1,539	127.1	8.26	1,135	100.5	8.85	15.8
2,054	248.9	12.12	1,733	233.1	13.45	1,709	243.0	14.22	13.4
3,243	308.3	9.51	2,872	272.6	9.49	2,526	279.2	11.05	6.5
13,252	1,163.4	8.78	12,044	1,089.8	9.05	10,088	1,040.9	10.32	(4.9)
23,863	1,923.7	8.06	21,808	1,741.9	7.99	19,108	1,703.7	8.92	5.6
486			489			496			10.4
23,377			21,319			18,612			5.5
255	13.7	5.37	275	13.5	4.91	509	23.7	4.66	40.3
30,265	2,303.2	7.61	28,907	2,152.2	7.45	25,899	2,128.8	8.22	7.3
1,749			1,786			1,558			9.1
2,086			1,987			1,876			14.3
\$33,545			\$32,191			\$28,837			7.9
\$ 6,310			\$ 6,688			\$ 5,000			15.8
2,940	44.4	1.51	2,789	45.2	1.62	2,553	59.5	2.33	5.3
4,035	110.2	2.73	4,077	106.8	2.62	3,980	129.4	3.25	10.9
2,245	49.5	2.20	2,157	49.2	2.28	1,666	59.0	3.54	(4.5)
7,750	315.4	4.07	8,297	357.4	4.31	7,836	426.0	5.44	(5.7)
1,381	77.8	5.63	1,629	89.7	5.51	1,918	123.8	6.45	(18.8)
18,351	597.3	3.25	18,949	648.3	3.42	17,953	797.7	4.44	(.9)
2,658	123.5	4.65	1,307	51.9	3.97	1,179	54.2	4.60	24.4
2,609	147.9	5.67	1,633	96.1	5.88	1,453	101.2	6.96	14.5
--	--	--	--	--	--	--	--	--	**
23,618	868.7	3.68	21,889	796.3	3.64	20,585	953.1	4.63	4.9
871			845			757			11.9
143			360			405			(14.3)
2,646			2,409			2,090			16.1
(43)			--			--			76.7
\$33,545			\$32,191			\$28,837			7.9
	\$1,434.5			\$1,355.9			\$1,175.7		
		3.93%			3.81%			3.59%	
		3.88%			3.75%			3.50%	
		7.61%			7.45%			8.22%	
		2.87			2.76			3.68	
		4.74			4.69			4.54	
		4.69%			4.63%			4.45%	

SUPPLEMENTAL FINANCIAL DATA

EARNINGS PER SHARE SUMMARY

	1996	1995	1994	1993	1992
Primary income from continuing operations before cumulative effect of changes in accounting principles.....	\$5.34	\$4.19	\$2.21	\$2.46	\$1.46
Income (loss) from discontinued operations.....	--	--	(.06)	.02	.02
Cumulative effect of changes in accounting principles....	--	--	--	--	1.87
Primary net income.....	\$5.34	\$4.19	\$2.15	\$2.48	\$3.35
Fully diluted income from continuing operations before cumulative effect of changes in accounting principles.....	\$5.25	\$4.11	\$2.20	\$2.45	\$1.45
Income (loss) from discontinued operations.....	--	--	(.06)	.02	.02
Cumulative effect of changes in accounting principles....	--	--	--	--	1.79
Fully diluted net income.....	\$5.25	\$4.11	\$2.14	\$2.47	\$3.26

RATIOS

	1996	1995	1994	1993	1992
Return on average assets.....	2.09%	1.73%	.91%	1.13%	1.56%
Return on average common equity.....	23.8	21.3	11.2	13.9	20.0
Average total equity to average assets.....	8.9	8.3	8.2	8.6	8.7
Dividends per share to net income per share.....	30.9	34.6	54.0	40.3	26.3

OTHER STATISTICS

	1996	1995	1994	1993	1992
Common shares outstanding - year end*.....	134,870,241	127,334,568	133,832,409	130,408,480	131,568,900
Average common shares outstanding and common stock equivalents:					
Primary.....	137,415,619	133,936,030	136,274,991	134,588,664	124,670,657
Fully diluted.....	140,821,194	138,148,158	140,128,566	138,328,002	130,497,272
Number of shareholders - year-end**.....	22,264	21,033	25,481	25,653	28,572
Average number of employees (full-time equivalents).....	12,976	13,231	14,725	14,867	14,596
Common dividends paid (millions).....	\$227.7	\$191.7	\$156.0	\$121.8	\$80.8

*Defined as total common shares less common stock held in treasury.

**Based on number of common stock shareholders of record.

STOCK PRICE RANGE AND DIVIDENDS

	1996			1995		
	Sales Price		Dividends	Sales Price		Dividends
	High	Low	Paid	High	Low	Paid
First quarter.....	\$59.88	\$46.00	\$.4125	\$40.50	\$32.63	\$.3625
Second quarter.....	63.75	56.25	.4125	44.63	38.88	.3625
Third quarter.....	68.00	55.38	.4125	48.25	39.50	.3625
Fourth quarter.....	74.00	63.75	.4125	53.75	47.63	.3625
Closing price - December 31.....	68.25			49.63		

The common stock of First Bank System, Inc. is traded on the New York Stock Exchange, under the ticker symbol, "FBS."

First Bank System, Inc.

COMMERCIAL LOAN MATURITIES AND SENSITIVITY TO CHANGES IN INTEREST RATES

At December 31, 1996 (In Millions)	Maturing		
	In 1 Year or Less	After 1 Year Through 5 Years	After 5 Years
Commercial.....	\$ 7,088	\$ 2,197	\$ 171
Financial institutions.....	743	139	23
Real estate:			
Commercial mortgage.....	1,722	1,103	265
Construction.....	595	43	16
Total.....	\$10,148	\$ 3,482	\$ 475

	Due in One Year	Due After One Year	Total
Loans at fixed interest rates.....	\$ 1,395	\$ 2,514	\$ 3,909
Loans at variable interest rates.....	8,753	1,443	10,196
Total.....	\$10,148	\$ 3,957	\$14,105

The maturities of loans shown above are based on remaining scheduled repayments.

TIME CERTIFICATES OF DEPOSIT AND OTHER TIME DEPOSITS IN DENOMINATIONS OF \$100,000 OR MORE AT DECEMBER 31

(In Millions)	Maturing				Total
	Under Three Months	Three to Six Months	Six to Twelve Months	Over Twelve Months	
1996.....	\$395	\$144	\$106	\$221	\$866
1995.....	349	124	164	263	900
1994.....	399	138	266	515	1,318

SHORT-TERM FUNDS BORROWED

(In Millions)	Outstanding at Year-End	Average Daily Amount Outstanding	Maximum Outstanding Month-End Balance	Average Interest Rate Paid During the Year	Weighted Average Interest Rate at Year-End
1996					
Federal funds purchased and securities sold under agreements to repurchase.....	\$2,023	\$2,145	\$2,258	5.71%	5.63%
Other.....	2,074	2,133	2,700	5.64	5.57
Total.....	\$4,097	\$4,278	4,703	5.68	5.60
1995					
Federal funds purchased and securities sold under agreements to repurchase.....	\$2,269	\$1,969	\$2,562	6.00%	5.11%
Other.....	2,116	1,471	2,554	6.13	5.77
Total.....	\$4,385	\$3,440	4,763	6.06	5.43
1994					
Federal funds purchased and securities sold under agreements to repurchase.....	\$2,568	\$2,264	\$3,223	4.55%	5.49%
Other.....	658	394	864	5.18	5.72
Total.....	\$3,226	\$2,658	3,680	4.65	5.53

ANNUAL REPORT ON FORM 10-K

Securities and Exchange Commission
Washington, D.C. 20549

Annual Report Pursuant to Section 13 or 15(d) of the
Securities Exchange Act of 1934 for the fiscal year ended December 31, 1996.

Commission File Number 1-6880

FIRST BANK SYSTEM, INC.

Incorporated in the State of Delaware
IRS Employer Identification #41-0255900

Address: 601 Second Avenue South
Minneapolis, Minnesota 55402-4302
Telephone: (612) 973-1111

Securities registered pursuant to Section 12(b) of the Act (and listed on
the New York Stock Exchange): Common Stock, Par Value \$1.25.

Securities registered pursuant to Section 12(g) of the Act: Warrants to
Purchase Shares of Common Stock.

As of January 31, 1997, First Bank System, Inc. had 133,740,046 shares of
common stock outstanding. The aggregate market value of common stock held by
non-affiliates as of January 31, 1997, was approximately \$10,007,000,000.

First Bank System, Inc. (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 and (2) has been subject to such filing requirements for the past 90
days.

Disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is
contained in the Company's definitive proxy statement incorporated by reference
herein.

This Annual Report and Form 10-K incorporates into a single document the
requirements of the accounting profession and the Securities and Exchange
Commission. Only those sections of the Annual Report referenced in the following
cross-reference index are incorporated in the Form 10-K.

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*First Bank System's definitive proxy statement for the 1997 Annual Meeting of
Shareholders is incorporated herein by reference, other than the sections
entitled "Report of the Compensation and Human Resources Committee on Executive
Compensation" and "Comparative Stock Performance."

GENERAL First Bank System, Inc. (the "Company") is a regional, multi-state bank holding company headquartered in Minneapolis, Minnesota. The Company was incorporated in Delaware in 1929 and owns more than 99 percent of the capital stock of each of nine banks, a savings association and seven trust companies, having 356 banking offices in Minnesota, Colorado, Wisconsin, Illinois, Montana, North Dakota, South Dakota, Iowa, Kansas, Nebraska, and Wyoming. The Company also has various nonbank subsidiaries engaged in financial services, principally in the Upper Midwest.

The banks are engaged in general commercial banking business, principally in domestic markets. They range in size from \$31 million to \$11.1 billion in deposits and provide a wide variety of services to individuals, businesses, industry, institutional organizations, governmental entities, and other financial institutions. Depository services include checking accounts, savings accounts, and time certificate contracts. Ancillary services such as treasury management and receivable lockbox collection are provided for corporate customers. Nine banks, a savings association, and seven trust companies provide a full range of fiduciary activities for individuals, estates, foundations, business corporations, and charitable organizations.

The Company provides banking services through its subsidiary banks to both domestic and foreign customers and correspondent banks. These services include consumer banking, commercial lending, financing of import/export trade, foreign exchange, and investment services.

The Company, through its subsidiaries, also provides services in mortgage banking, trust, commercial and agricultural finance, data processing, leasing, and brokerage services.

On a full-time equivalent basis, employment during 1996 averaged a total of 12,976 employees.

COMPETITION The commercial banking business is highly competitive. Subsidiary banks compete with other commercial banks and with other financial institutions, including savings and loan associations, mutual savings banks, finance companies, mortgage banking companies, credit unions, and investment companies. In recent years, competition has increased from institutions not subject to the same regulatory restrictions as domestic banks and bank holding companies.

GOVERNMENT POLICIES The operations of the Company's various operating units are affected by state and federal legislative changes and by policies of various regulatory authorities, including those of the several states in which they operate, the United States and foreign governments. These policies include, for example, statutory maximum legal lending rates, domestic monetary policies of the Board of Governors of the Federal Reserve System, United States fiscal policy, international currency regulations and monetary policies, and capital adequacy and liquidity constraints imposed by bank regulatory agencies.

SUPERVISION AND REGULATION The Company is a registered bank holding company under the Bank Holding Company Act of 1956 (the "Act") and is subject to the supervision of, and regulation by, the Board of Governors of the Federal Reserve System (the "Board").

Under the Act, a bank holding company may engage in banking, managing or controlling banks, furnishing or performing services for banks it controls, and conducting activities that the Board has determined to be closely related to banking. The Company must obtain the prior approval of the Board before acquiring more than 5 percent of the outstanding shares of another bank or bank holding company, and must provide notice to, and in some situations obtain the prior approval of, the Board in connection with the acquisition of more than 5 percent of the outstanding shares of a company engaged in a "bank-related" business.

Under the Act, as amended by the Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994 (the "Interstate Act"), the Company may acquire banks throughout the United States, subject only to state or federal deposit caps and state minimum-age requirements. Effective June 1, 1997, the Interstate Act authorizes interstate branching by acquisition and consolidation in those states that have not opted out by that date.

First Bank System, Inc.

National banks are subject to the supervision of, and are examined by, the Comptroller of the Currency. All subsidiary banks of the Company are members of the Federal Deposit Insurance Corporation ("FDIC"), and as such, are subject to examination thereby. In practice, the primary federal regulator makes regular examinations of each subsidiary bank subject to its regulatory review or participates in joint examinations with other federal regulators. Areas subject to regulation by federal authorities include the allowance for credit losses, investments, loans, mergers, issuance of securities, payment of dividends, establishment of branches and other aspects of operations.

The Company's saving association subsidiary is subject to the supervision of and is examined by the OTS. The savings association is a member of SAIF, which is administered and is subject to examination by the FDIC. As a saving association, the Company's subsidiary must meet the requirements of a qualified thrift lender to avoid certain restrictions relating to dividends, branching and certain new activities. As of December 31, 1996, the savings association was a "qualified thrift lender." Similar to the Company's banking subsidiaries, the savings association is also subject to regulation by the OTS in the areas of credit losses, investments, loans, mergers, issuance of securities, payment of dividends, establishment of branches, and other aspects of operations.

PROPERTIES The Company and its significant subsidiaries occupy their headquarter offices under long-term leases. The Company also leases a freestanding operations center in St. Paul and owns an operations center in Fargo, North Dakota. At December 31, 1996, the Company's subsidiaries owned and operated a total of 261 facilities and leased an additional 238 facilities, all of which are well maintained. Additional information with respect to premises and equipment is presented in Notes G and P.

EXHIBITS

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Schedules to the consolidated financial statements required by Article 9 of Regulation S-X are omitted since the required information is included in the footnotes or is not applicable.

During the three months ended December 31, 1996, the Company did not file any Current Reports on Form 8-K.

The following Exhibit Index lists the Exhibits to Annual Report on Form 10-K.

- /(1)/3A Restated Certificate of Incorporation, as amended. Filed as Exhibit 2.1 to Form 8-A/A-2 dated October 6, 1994.
- /(1)/3B By-laws. Filed as Exhibit 3 to Form 10-Q for the quarter ended September 30, 1996.
- 4A [Pursuant to Item 601(b)(4)(iii)(A) of Regulation S-K, copies of instruments defining the rights of holders of long-term debt are not filed. First Bank System, Inc. agrees to furnish a copy thereof to the Securities and Exchange Commission upon request.]
- /(1)/4B Certificate of Designation for First Bank System, Inc. Series 1990A Preferred Stock. Filed as Exhibit 4.4 to Amendment No. 1 to Registration Statement on Form S-3, File No. 33-42650.
- /(1)/4C Certificate of Designation for First Bank System, Inc. Series 1991A Convertible Preferred Stock. Filed as Exhibit 4.3 to Registration Statement on Form S-4, File No. 33-50700.
- /(1)/4D Warrant Agreement, dated as of October 2, 1995, between First Bank System, Inc. and First Chicago Trust Company of New York, as Warrant Agent, and Form of Warrant. Filed as Exhibits 4.18 and 4.19 to Registration Statement on Form S-3, File No. 33-61667.
- 4E Warrant Agreement, dated as of November 20, 1990, between Metropolitan Financial Corporation and American Stock Transfer and Trust Company, as Warrant Agent; Supplemental Warrant Agreement, dated as of January 24, 1995, between First Bank System, Inc. and American Stock Transfer and Trust Company, as Warrant Agent; and Form of Warrant.
- /(1)/10A Stock Purchase Agreements dated as of May 30, 1990, among Corporate Partners, L.P.; Corporate Offshore Partners, L.P.; The State Board of Administration of Florida and First Bank System, Inc. and related documents. Filed as Exhibits 4.8-4.15 to Registration Statement on Form S-3, File No. 33-42650.
- /(2)/10B First Bank System, Inc. 1987 Stock Option Plan.

- (1) Exhibit has heretofore been filed with the Securities and Exchange Commission and is incorporated herein as an exhibit by reference.
- (2) Items that are management contracts or compensatory plans or arrangements required to be filed as an exhibit pursuant to Item 14(c) of this Form 10-K.

First Bank System, Inc.

- /(1)(2)/10C First Bank System, Inc. Nonqualified Supplemental Executive Retirement Plan. Filed as Exhibit 10C to report on Form 10-Q for quarter ended March 31, 1995.
- /(2)/10D First Bank System, Inc. Executive Deferral Plan, as amended.
- /(2)/10E First Bank System, Inc. Annual Incentive Plan, as amended.
- /(2)/10F First Bank System, Inc. Independent Director Retirement and Death Benefit Plan, as amended.
- /(1)(2)/10G First Bank System, Inc. Deferred Compensation Plan for Directors. Filed as Exhibit 10J to report on Form 10-K for fiscal year ended December 31, 1992.
- /(1)(2)/10H First Bank System, Inc. 1995 Executive Incentive Plan. Filed as Exhibit 10B to report on Form 10-Q for quarter ended March 31, 1995.
- /(1)(2)/10I First Bank System, Inc. Restated Employee Stock Purchase Plan, as amended. Filed as Exhibit 10B to report on Form 10-Q for quarter ended September 30, 1996.
- /(2)/10J Form of Change-in-Control Agreement between First Bank System, Inc. and certain officers of the Company.
- /(2)/10K First Bank System, Inc. 1996 Stock Incentive Plan, as amended.
- /(2)/10L Agreement between First Bank System, Inc. and John F. Grundhofer dated January 18, 1995, as amended.
- /(2)/10M Description of First Bank System, Inc. Stock Option Loan Policy.
- /(1)(2)/10N Consulting Agreement dated as of January 23, 1995, by and between First Bank System, Inc. and Norman M. Jones. Filed as Exhibit 10T to report on Form 10-K for fiscal year ended December 31, 1994.
- /(1)/100 Agreement of Merger and Consolidation dated August 6, 1995 by and between First Bank System, Inc. and FirstTier Financial, Inc. Filed as Exhibit 2.1 to Registration Statement on Form S-4, File No. 333-00299.
- /(1)/10P Settlement Agreement, dated as of January 23, 1996, between First Bank System, Inc., First Interstate Bancorp and Wells Fargo & Co. Filed as Exhibit 2.1 to Form 8-K filed January 26, 1996.
- 11 Statement re: Computation of Primary and Fully Diluted Net Income per Common Share.
- 12 Statement re: Computation of Ratio of Earnings to Fixed Charges.
- 13 Annual Report to Shareholders for the year ended December 31, 1996.
- 21 Subsidiaries of the Registrant.
- 23 Consent of Ernst & Young LLP.
- 27 Financial Data Schedule.

Copies of the Exhibits will be furnished upon request and payment of the Company's reasonable expenses in furnishing the Exhibits.

- (1) Exhibit has heretofore been filed with the Securities and Exchange Commission and is incorporated herein as an exhibit by reference.
- (2) Items that are management contracts or compensatory plans or arrangements required to be filed as an exhibit pursuant to Item 14(c) of this Form 10-K.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on February 19, 1997, on its behalf by the undersigned thereunto duly authorized.

First Bank System, Inc.
 By: John F. Grundhofer
 Chairman, President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below on February 19, 1997, by the following persons on behalf of the registrant and in the capacities indicated.

JOHN F. GRUNDHOFER
 Chairman, President, Chief Executive Officer, and Director
 (principal executive officer)

RICHARD A. ZONA
 Vice Chairman-Finance

SUSAN E. LESTER
 Executive Vice President and Chief Financial Officer
 (principal financial officer)

DAVID J. PARRIN
 Senior Vice President and Controller
 (principal accounting officer)

ARTHUR D. COLLINS, JR.
 Director

PETER H. COORS
 Director

ROGER L. HALE
 Director

DELBERT W. JOHNSON
 Director

NORMAN M. JONES
 Director

RICHARD L. KNOWLTON
 Director

JERRY W. LEVIN

Director

KENNETH A. MACKE
Director

MARILYN CARLSON NELSON
Director

EDWARD J. PHILLIPS
Director

JAMES J. RENIER
Director

S. WALTER RICHEY
Director

RICHARD L. ROBINSON
Director

RICHARD L. SCHALL
Director

WALTER SCOTT, JR.
Director

First Bank System, Inc.

EXECUTIVE OFFICERS

JOHN F. GRUNDHOFER

Mr. Grundhofer, 58, has been Chairman of the Board, President and Chief Executive Officer of First Bank System since 1990.

PHILIP G. HEASLEY

Mr. Heasley, 47, has served as Vice Chairman since 1993. He is responsible for Retail Banking, Payment Systems, and operations and technology. In February 1996, Mr. Heasley assumed responsibility for consumer and small business sales and services carried out through bank branches in addition to his previous responsibility for retail bank products.

RICHARD A. ZONA

Mr. Zona, 52, was named Vice Chairman-Finance in February 1996, and assumed responsibility for Business Banking and Private Financial Services, and Corporate Trust. Mr. Zona previously served as Vice Chairman and Chief Financial Officer.

J. ROBERT HOFFMANN

Mr. Hoffmann, 51, has been Executive Vice President and Chief Credit Officer since 1990.

SUSAN E. LESTER

Ms. Lester, 40, was named Executive Vice President and Chief Financial Officer in February 1996. She had served as Executive Vice President, Finance, since December 1995. From May 1994 to November 1995, Ms. Lester was Executive Vice President and Chief Financial Officer of Shawmut National Corporation. Before that, she served as Executive Vice President and Controller at First Bank System.

LEE R. MITAU

Mr. Mitau, 48, was named Executive Vice President, General Counsel and Secretary in 1995. Previously, he was a Senior Partner at Dorsey & Whitney LLP.

JOHN M. MURPHY, JR.

Mr. Murphy, 55, has been Chairman and Chief Investment Officer, First Trust National Association, since 1990.

DANIEL C. ROHR

Mr. Rohr, 50, has served as Executive Vice President of Commercial Banking since 1990.

ROBERT H. SAYRE

Mr. Sayre, 57, has served as Executive Vice President of Human Resources since 1990.

JOHN R. DANIELSON

Mr. Danielson, 52, was named Senior Vice President of Investor and Corporate Relations in 1996. He previously served as Senior Vice President of Investor Relations.

DAVID P. GRANDSTRAND

Mr. Grandstrand, 41, was named Senior Vice President and Treasurer in 1996. He previously served as Senior Vice President of Asset/Liability Management and Funding, and Senior Vice President of Funding and Treasury Operations.

DAVID J. PARRIN

Mr. Parrin, 41, has been Senior Vice President and Controller since 1994. Previously, he was a Partner at Ernst & Young LLP.

DIRECTORS

JOHN F. GRUNDHOFER

Chairman, President and Chief Executive Officer First Bank System, Inc. Minneapolis, Minnesota

ARTHUR D. COLLINS, JR.

President and Chief Operating Officer Medtronic, Inc. Minneapolis, Minnesota

PETER H. COORS

Vice Chairman and Chief Executive Officer Coors Brewing Company Golden, Colorado

ROGER L. HALE

President and Chief Executive Officer TENNANT Company Minneapolis, Minnesota

DELBERT W. JOHNSON

Chairman and Chief Executive Officer Pioneer Metal Finishing Minneapolis, Minnesota

NORMAN M. JONES

Chairman First Bank, fsb Minneapolis, Minnesota

RICHARD L. KNOWLTON

Chairman The Hormel Foundation Austin, Minnesota

JERRY W. LEVIN

Chairman Revlon, Inc. New York, New York Chairman The Coleman Company, Inc. Golden, Colorado

KENNETH A. MACKE

General Partner Macke Partners Golden Valley, Minnesota

MARILYN CARLSON NELSON

Vice Chair Carlson Companies, Inc. Minneapolis, Minnesota

EDWARD J. PHILLIPS
Chairman and Chief Executive Officer Phillips Beverage Company Minneapolis,
Minnesota

JAMES J. RENIER
Retired Chairman and Chief Executive Officer Honeywell Inc. Minneapolis,
Minnesota

S. WALTER RICHEY
Chairman and Chief Executive Officer Meritex, Inc. Minneapolis, Minnesota

RICHARD L. ROBINSON
Chairman and Chief Executive Officer Robinson Dairy, Inc. Denver, Colorado

RICHARD L. SCHALL
Retired Vice Chairman Dayton Hudson Corporation Minneapolis, Minnesota

WALTER SCOTT, JR.
Chairman, President and Chief Executive Officer Peter Kiewit Sons', Inc. Omaha,
Nebraska

First Bank System, Inc.

FBS LOCATIONS*

MINNESOTA	COLORADO	Holton
Albert Lea	Arvada	Iola
Alexandria	Aspen	Lawrence (2)
Amboy	Aurora (5)	Manhattan
Apple Valley	Boulder (2)	Overland Park
Austin	Breckenridge	Prairie Village
Babbitt	Broomfield	Pratt
Blaine	Canon City	Topeka
Blooming Prairie	Carbondale	Wichita (4)
Bloomington (5)	Colorado Springs (6)	
Brainerd	Denver (17)	MONTANA
Brooklyn Park	Englewood (3)	Billings (2)
Burnsville (2)	Evergreen	Bozeman
Chanhausen	Fort Collins (2)	Butte
Chisago City	Glenwood Springs	Great Falls (3)
Cloquet	Golden	Havre
Columbia Heights	Grand Junction (2)	Helena
Coon Rapids	Greeley	Miles City
Cottage Grove	Highlands Ranch	Missoula (2)
Duluth (6)	La Junta	
Eagan (2)	Lakewood (3)	NEBRASKA
East Grand Forks	Littleton (4)	Beatrice
Eden Prairie (2)	Longmont	Bellevue (2)
Edina (4)	Louisville	Blair
Elk River	Loveland	Columbus
Fairmont	Northglenn	David City
Fergus Falls	Parker	Elkhorn
Forest Lake	Pueblo (5)	Fremont (2)
Golden Valley	Westminster (2)	Gering
Grand Rapids	Wheat Ridge	Grand Island (2)
Hibbing		Hastings
Hopkins	ILLINOIS	Kearney (2)
Lamberton	Chicago (4)	La Vista
Little Canada	Des Plaines (2)	Lincoln (10)
Mankato (2)	Downers Grove	Millard
Maple Grove		Norfolk (2)
Minneapolis (13)	IOWA	North Platte
Minnetonka (2)	Altoona	Omaha (22)
Monticello	Ankeny	Scottsbluff (3)
Moorhead	Carlisle	
New Prague	Clear Lake	NORTH DAKOTA
Oakdale	Council Bluffs (4)	Beulah
Owatonna	Davenport	Bismarck (4)
Pine City	Des Moines (6)	Devils Lake
Pine River	Doon	Dickinson
Plymouth (2)	Hampton	Fargo (5)
Princeton	Iowa Falls	Grafton
Prior Lake	Knoxville	Grand Forks (2)
Robbinsdale	Mason City (3)	Jamestown
Rochester (3)	Nevada	Langdon
Roseville	Pella	Lisbon
Sauk Rapids	Red Oak	Minot (2)
Shoreview	Rock Valley	Valley City
St. Anthony	Wellman	Wahpeton
St. Cloud (2)	West Des Moines (2)	Williston
St. Louis Park	Williamsburg	
St. Paul (7)		SOUTH DAKOTA
Stillwater	KANSAS	Aberdeen
Virginia	Andover	Colton
Wayzata	Augusta	Hartford
West St. Paul	Clay Center	Mitchell
White Bear Lake (2)	El Dorado	Pierre
Willmar	Emporia	Rapid City (4)
Woodbury	Eureka	Sioux Falls (7)
	Garden City	
	Gardner	

WISCONSIN
 Appleton
 Brookfield
 Brown Deer
 Hudson
 La Crosse
 Milwaukee (2)
 Onalaska
 Wauwatosa

WYOMING
 Casper
 Cheyenne (2)
 Cody
 Evanston
 Gillette
 Green River
 Lander
 Laramie
 Riverton
 Rock Springs
 Sheridan
 Torrington
 Worland

CORPORATE TRUST OFFICES

Billings, Montana
Chicago, Illinois
Denver, Colorado
Detroit, Michigan/**/
Lansing, Michigan/**/
Los Angeles, California
New York, New York
Phoenix, Arizona
Portland, Oregon
San Francisco, California
Seattle, Washington
Sioux Falls, South Dakota
St. Paul, Minnesota

REPUBLIC ACCEPTANCE
CORPORATION
Des Plaines, Illinois
Lakewood, Colorado
Milwaukee, Wisconsin
Minneapolis, Minnesota
Omaha, Nebraska/**/
St. Louis, Missouri

/**/ As of December 31, 1996, FBS
had 359 banking locations and 12
nonbank offices.

/**/ Added in 1997.

First Bank System, Inc.

CORPORATE DATA

EXECUTIVE OFFICES

First Bank Place
601 Second Avenue South
Minneapolis, Minnesota 55402-4302
(612) 973-1111

ANNUAL MEETING

The annual meeting of shareholders will be held at the Minneapolis Convention Center, 1301 Second Avenue South, Minneapolis, Minnesota 55403, at 10:00 a.m. on Thursday, April 24, 1997.

COMMON STOCK TRANSFER AGENT AND REGISTRAR

First Chicago Trust Company of New York acts as transfer agent and registrar, dividend paying agent, and dividend reinvestment plan agent for First Bank System and maintains all shareholder records for the corporation. For information about First Bank System stock, or if you have questions regarding your stock certificates (including transfers), address or name changes, lost dividend checks, lost stock certificates, or Form 1099s, please call First Chicago's Shareholder Services Center at (800) 446-2617, weekdays, 8:00 a.m. to 10:00 p.m. EST, and Saturdays, 8:00 a.m. to 3:30 p.m. EST. The TDD telephone number for the hearing impaired is (201) 222-4955.

First Chicago Trust Company of New York, P.O. Box 2500, Jersey City, New Jersey 07303-2500.

Telephone: (201) 324-0498
Fax: (201) 222-4892
Internet address: <http://www.fctc.com>
E-mail address: fctc@em.fcncd.com

COMMON STOCK LISTING AND TRADING

First Bank System Common Stock is listed and traded on the New York Stock Exchange under the ticker symbol FBS and also may be found under FtBkSy.

DIVIDENDS

First Bank System currently pays quarterly dividends on its Common Stock on or about the 15th of March, June, September and December, subject to prior Board approval. Shareholders may choose to have dividends electronically deposited directly into their bank accounts. For enrollment information, please call First Chicago at (800) 446-2617.

DIVIDEND REINVESTMENT PLAN

First Bank System shareholders can take advantage of a plan that provides automatic reinvestment of dividends and/or optional cash purchases of additional shares of FBS Common Stock up to \$5,000 per calendar quarter. If you would like more information, please contact First Chicago Trust Company of New York, P.O. Box 2598, Jersey City, New Jersey 07303-2598, (800) 446-2617.

INVESTMENT COMMUNITY CONTACTS

John R. Danielson
Senior Vice President, Investor and Corporate Relations
(612) 973-2261

General Information, Investor and Corporate Relations
(612) 973-2263
First Bank System, Inc.
P.O. Box 522
Minneapolis, Minnesota 55480

FINANCIAL INFORMATION

FBS news and financial results are available by fax, mail and the internet.

FAX. To access our fax-on-demand service, call (800) 758-5804. When asked, enter FBS's extension number, "312402." Enter "1" for the most current news release or "2" for a menu of recent releases. Enter your fax and telephone numbers as directed. The information will be faxed to you promptly.

MAIL. On your request we will mail to you our quarterly earnings news releases. To be added to FBS's mailing list, please contact Investor and Corporate Relations, First Bank System, First Bank Place, 601 Second Avenue South, Minneapolis, Minnesota 55402-4302, (612) 973-2434.

INTERNET. For information about FBS, including news and financial results, product information, and service locations, access FBS's home page on the World Wide Web. The address is <http://www.fbs.com>.

For additional annual reports, quarterly financial data on Form 10-Q, or information about the 1997 annual meeting of shareholders, please contact Investor and Corporate Relations, First Bank System, First Bank Place, 601 Second Avenue South, Minneapolis, Minnesota 55402-4302, (612) 973-2434.

COMMUNITY ANNUAL REPORT

For information about FBS's community reinvestment activities, call FBS Community Relations, (612) 973-2322.

First Bank System, Inc. and each of its subsidiaries is an Equal Opportunity Employer and a Drug-Free Workplace.

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[LOGO] FIRST BANK SYSTEM

P.O. Box 522
Minneapolis, Minnesota
55480

<http://www.fbs.com>

Inside Front Cover
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Map of the United States. The 11 Midwest and Rocky Mountain states (Minnesota, Colorado, Illinois, Iowa, Kansas, Montana, Nebraska, North Dakota, South Dakota, Wisconsin and Wyoming) in which FBS has retail banking offices are shaded.

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Graphs illustrate the following information:

Return on average common equity (percent)

1992: 12.6
1993: 15.8
1994: 17.6
1995: 21.3
1996: 21.4

Return on average assets (percent)

1992: 1.02
1993: 1.28
1994: 1.40
1995: 1.73
1996: 1.88

Earnings per share (dollars and fully diluted)

1992: 2.08
1993: 2.82
1994: 3.32
1995: 4.11
1996: 4.74

Efficiency ratio (percent)

1992: 65.2
1993: 60.4
1994: 58.1
1995: 53.3
1996: 49.9

Shareholders' equity to assets ratio (percent)

1992: 8.4
1993: 8.2
1994: 7.7
1995: 8.0
1996: 8.4

Allowance coverage of nonperforming loans ratio (percent)

1992: 149
1993: 208
1994: 283
1995: 401
1996: 429

Graphs before nonrecurring and merger-related items.

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Photo of John F. Grundhofer, chairman, president and chief executive officer

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Pie chart illustrating what business lines contribute to FBS operating earnings:

Retail Banking: 31 percent
Business Banking and Private Financial Services: 28 percent
Commercial Banking: 16 percent
Payment Systems: 16 percent
Corporate Trust and Institutional Financial Services: 9 percent

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Graph illustrates the following information: Seven-year total return*

Index: 12/31/89 = \$100
FBS = FBS Common Stock
KBW 50 = Keefe, Bruyette & Woods 50 Bank Index
S&P 500 = Standard & Poor's Index of 500 Stocks

1989: FBS/100, S&P 500/100, KBW 50/100
1990: FBS/83, S&P 500/97, KBW 50/72
1991: FBS/159, S&P 500/126, KBW 50/114
1992: FBS/193, S&P 500/136, KBW 50/145
1993: FBS/217, S&P 500/150, KBW 50/153
1994: FBS/243, S&P 500/152, KBW 50/145
1995: FBS/375, S&P 500/209, KBW 50/232
1996: FBS/529, S&P 500/257, KBW 50/329

*Capital appreciation plus dividends

\$100 invested in FBS common stock at December 31, 1989, would have been worth \$529 at year-end 1996. That compares with \$329 for the KBW 50 Bank Index and \$257 for the S&P 500 stock index.

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Pie chart illustrating that Retail Banking accounts for 31 percent of FBS operating earnings.

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Pie chart illustrating that Payment Systems accounts for 16 percent of FBS operating earnings.

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Pie chart illustrating that Business Banking and Private Financial Services accounts for 28 percent of FBS operating earnings.

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Pie chart illustrating that Commercial Banking accounts for 16 percent of FBS operating earnings.

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Pie chart illustrating that Corporate Trust and Institutional Financial Services accounts for 9 percent of FBS operating earnings.

METROPOLITAN FINANCIAL CORPORATION

AND

AMERICAN STOCK TRANSFER AND TRUST COMPANY

WARRANT AGENT

WARRANT AGREEMENT

Dated as of November 20, 1990

WARRANT AGREEMENT, dated as of November 20, 1990, between Metropolitan Financial Corporation, a Delaware corporation (the "Company"), and American Stock Transfer and Trust Company, a New York corporation (said corporation, and any successor which shall become such in the manner prescribed in this Agreement, being herein called the "Warrant Agent").

WHEREAS, the Company proposes to issue and sell up to 488,750 Units (the "Units"), each Unit consisting of one share of \$2.875 Cumulative Perpetual Preferred Stock, Series B, of the Company, par value \$.01 per share (the class or series of such Preferred Stock being hereinafter called the "Preferred Stock" and the Preferred Stock comprising part of a Unit being hereinafter called the "Unit Preferred Stock"), and one Warrant (the "Warrant") entitling the holder thereof to purchase one-half of one share of Common Stock of the Company, par value \$.01 per share (the class of such Common Stock being hereinafter called the "Common Stock") and the Common Stock issuable upon exercise of a Warrant comprising part of a Unit being hereinafter called the "Warrant Common Stock"); and

WHEREAS, the Company desires to enter into this Agreement to set forth the terms and conditions of the Warrants and the rights of the holders thereof; and

WHEREAS, the Company desires the Warrant Agent to act on behalf of the Company, and the Warrant Agent is willing so to act, in connection with the issuance, transfer, exchange and replacement of the certificates evidencing the Warrants to be issued under this Agreement (the "Warrant Certificates") and the exercise of the Warrants; and

WHEREAS, it is desired that the Warrants and the Unit Preferred Stock will not be separately transferable until after the close of business on the Distribution Date (as hereinafter defined), after which the Warrant Agent shall mail the certificates for the Unit Preferred Stock to the registered holders of the Warrants as of the close of business on such Distribution Date; prior to the close of business on such Distribution Date, each holder of one Warrant will be the beneficial owner of one share of Unit Preferred Stock;

NOW, THEREFORE, in consideration of the premises and the mutual agreements herein set forth, the parties hereto agree as follows:

Section 1. Appointment of Warrant Agent. The Company hereby appoints the

Warrant Agent to act as agent for the Company in accordance with the instructions in this Agreement hereinafter set forth, and the Warrant Agent hereby accepts such appointment.

Section 2. Issue of Preferred Stock Certificates. The certificates for

the Preferred Stock until after the close of business on February 19, 1991 or such earlier date as the Company may publicly announce with the consent of Dain Bosworth Incorporated and Piper, Jaffray & Hopwood Incorporated, with written notice of

such determination to be given by the Company to the Warrant Agent (the earlier of such dates herein called the "Distribution Date"), will be held by the Warrant Agent as custodian for the holders of the Units unless the Distribution Date is earlier than the close of business on the date of issue and sale of the Units by the Company (the "Closing"). Until after the close of business on the Distribution Date (unless the Distribution Date is prior to the Closing), the Unit Preferred Stock will be evidenced by the Warrant Certificates registered in the names of the holders of the Warrants, which certificates shall bear a legend substantially of the following tenor and purport:

"Under the terms of the Warrant Agreement, dated as of November 20, 1990, between the Company and American Stock Transfer and Trust Company, as Warrant Agent, the Company has deposited with the Warrant Agent one share of \$2.875 Cumulative Perpetual Preferred Stock, Series B, of the Company, par value \$.01 per share, for each Warrant to purchase one-half of one share of Common Stock of the Company represented hereby. Until 4:00 p.m., Minneapolis, Minnesota time, on the "Distribution Date" (as defined below), the registered owner of Warrants represented by this certificate is the beneficial owner of such number of shares of Preferred Stock. As soon as practicable after 4:00 p.m., Minneapolis, Minnesota time, on February 19, 1991 or such earlier date as may be publicly announced by the Company with the consent of Dain Bosworth Incorporated and Piper, Jaffray & Hopwood Incorporated (the earlier of such dates being the "Distribution Date"), the Warrant Agent will mail (by first-class, insured, postage prepaid mail) to the holder in whose name the Warrants represented by this Certificate are registered as of 4:00 p.m., Minneapolis, Minnesota time, on the Distribution Date, at the address of such holder as such address shall appear on the records of the Warrant Agent, a certificate evidencing such shares of Preferred Stock registered in the name of such holder. Ownership of such Preferred Stock is not transferable until after the 4:00 p.m., Minneapolis, Minnesota time, on the Distribution Date, except by and in connection with the transfer of the Warrants represented by this certificate, and every transfer hereof by the holder hereof at or prior to such time on the Distribution Date shall effect the transfer of the beneficial interest of such holder in the Preferred Stock. After 4:00 p.m., Minneapolis, Minnesota time, on the Distribution Date, the holder of the Warrants represented by this certificate is not, by virtue of being such holder, the beneficial owner for the Preferred Stock. By accepting the warrants represented by this Certificate, the holder hereof shall (prior to 4:00 p.m., Minneapolis, Minnesota time on the Distribution Date) possess all other rights and obligations of a holder of Preferred Stock as fully and effectually as if he had received the same."

Until after the close of business on the Distribution Date (unless the Distribution Date is prior to the Closing), the right to receive Unit Preferred Stock will be transferable only in connection with the transfer of the Warrants represented by certificates bearing the above legend.

For purposes of this Agreement, the term "close of business" on any given date shall mean 4:00 p.m., Minneapolis, Minnesota time, on such date; provided, however, that if such date is not a business day it shall mean 4:00 p.m. Minneapolis, Minnesota time, on the next succeeding business day. For purposes of this Agreement the term "business day" shall mean any day other than a Saturday, Sunday or a day on which banking institutions in Minneapolis, Minnesota are authorized or obligated by law to be closed.

Section 3. Distribution of Preferred Stock Certificates. As soon as practicable after the Distribution Date (unless the Distribution Date is prior to the Closing in which case the Closing Date shall control), the Warrant Agent, as custodian, will mail, by first-class, insured, postage prepaid mail, to record holders of the Warrants as of the close of business on the Distribution Date, as shown by the records maintained by the Warrant Agent in accordance with Section 7 hereof, at the address of such holders shown on such records, a certificate evidencing one share of Unit Preferred Stock for each Warrant so held.

Section 4. Date, Denomination and Execution of Warrant Certificates. The Warrant Certificates (and the Form of Election to Purchase and the Form of Assignment to be printed on the reverse thereof) shall be in registered form only and shall be substantially of the tenor and purport recited in Exhibit A hereto together with the legend set forth in Section 2 hereof, if issued prior to the close of business on the Distribution Date, and may have such letters, numbers or other marks of identification or designation and such legends, summaries or endorsements printed, lithographed or engraved thereon as the Company may deem appropriate and as are not inconsistent with the provisions of this Agreement, or as may be required to comply with any law, or with any rule or regulation made pursuant thereto, or with any rule or regulation of any stock exchange on which the Unit Preferred Stock or the Warrants may be listed, or to conform to usage. The Warrant Certificates, whenever issued, shall be dated as of November 20, 1990 and shall entitle the registered holders thereof, subject to the provisions of this Agreement and of the Warrant Certificate, to purchase, subject to adjustment as provided in Section 10 hereof, one-half of one fully paid and nonassessable share of Common Stock for each Warrant evidenced by such Warrant Certificates at the price per share set forth therein.

The Warrant Certificates shall be executed on behalf of the Company by its Chairman of the Board, the President or a Vice President either manually or by facsimile signature printed thereon, which shall be attested by the Treasurer or an

Assistant Treasurer or the Secretary or an Assistant Secretary of the Company, either manually or by facsimile signature. The Warrant Certificates shall be manually countersigned by the Warrant Agent and shall not be valid for any purpose unless so countersigned. In case any officer of the Company who shall have signed any of the Warrant Certificates shall cease to be such officer of the Company before countersignature by the Warrant Agent and issue and delivery thereof by the Company, such Warrant Certificates, nevertheless, may be countersigned by the Warrant Agent, issued and delivered with the same force and effect as though the person who signed such Warrant Certificates had not ceased to be such officer of the Company.

Section 5. Maintenance of Office or Agency. The Warrant Agent, or, if

there shall be no such Warrant Agent, the Company, shall at all times maintain an office or agency at which shall be kept and maintained books for registration of ownership and transfer of ownership in accordance with Section 7 hereof and at which Warrants may be exercised in accordance with Section 9 hereof. Such office or agency shall initially be the corporate trust office of the Warrant Agent.

Section 6. Issuance of Warrant Certificates. Upon execution of this

Agreement, Warrant Certificates shall be countersigned and delivered by the Warrant Agent only upon written order of the Company signed by its Chairman, President or a Vice President, and its Treasurer or any Assistant Treasurer or its Secretary or any Assistant Secretary.

Subsequent to their original issuance, no Warrant Certificates shall be reissued except (i) Warrant Certificates issued upon transfer thereof in accordance with Section 7 hereof, (ii) Warrant Certificates issued upon any combination, split-up or exchange of Warrant Certificates pursuant to Section 7 hereof, (iii) Warrant Certificates issued in replacement of mutilated, destroyed, lost or stolen Warrant Certificates pursuant to Section 8 hereof, (iv) Warrant Certificates issued upon the partial exercise of Warrant Certificates to evidence the unexercised portion of such Warrant Certificates pursuant to Section 9 hereof and (v) Warrant Certificates issued to reflect any adjustment or change in the Purchase Price or the number or kind of shares purchasable thereunder pursuant to Section 25 hereof. The Warrant Agent is hereby irrevocably authorized to countersign and deliver, in accordance with the provisions of said Sections 7, 8, 9 and 25, the new Warrant Certificates required for the purposes thereof, and the Company, whenever required by the Warrant Agent, will supply the Warrant Agent with Warrant Certificates duly executed on behalf of the Company for such purposes.

Section 7. Transfers and Exchanges of Warrant Certificates. The Warrant

Agent will keep or cause to be kept books for registration of ownership and transfer of ownership of the Warrant Certificates issued hereunder. Such registers shall

show the names and addresses of the respective holders of the Warrant Certificates and the number of Warrants evidenced by each such Warrant Certificate.

The Warrant Agent shall transfer, from time to time, any outstanding Warrants upon the books to be maintained by the Warrant Agent for that purpose, upon surrender of the Warrant Certificate evidencing such Warrants, with the Form of Assignment duly filled in and executed, to the Warrant Agent, at its principal corporate trust offices in New York, New York or at an office maintained for such purpose at any time prior to the close of business on November 20, 2000 (herein called the "Expiration Date"), and upon payment to the Warrant Agent for the account of the Company of an amount equal to any applicable transfer tax, any other taxes or governmental charges which the Company may be required by law to collect in respect of such exercise and any other amounts required pursuant to the Warrant Certificate. Such payment may be made in cash or by check, bank draft or money order, payable in lawful money of the United States of America to the order of the Warrant Agent.

Upon receipt of a Warrant Certificate, with the Form of Assignment duly filled in and executed, accompanied by the required payment, the Warrant Agent shall promptly countersign and deliver to the transferee a new Warrant Certificate for the number of full Warrants transferred to such transferee; provided, however, in case the registered holder of any Warrant Certificate shall elect to transfer fewer than all of the Warrants evidenced by such Warrant Certificate, the Warrant Agent in addition shall promptly countersign and deliver to such registered holder a new Warrant Certificate or Certificates for the number of full Warrants not so transferred.

Any Warrant Certificate or Certificates may be exchanged at the option of the holder thereof for another Warrant Certificate or Certificates of different denominations, of like tenor and representing in the aggregate the same number of Warrants, upon surrender of such Warrant Certificate or Certificates, with the Form of Assignment duly filled in and executed, to the Warrant Agent, at any time or from time to time after the close of business on the Distribution Date and prior to the close of business on the Expiration Date.

Section 8. Mutilated, Destroyed, Lost or Stolen Warrant Certificates.

Upon receipt by the Company and the Warrant Agent of evidence reasonably satisfactory to them of the loss, theft, destruction or mutilation of any Warrant Certificate, and, in case of loss, theft or destruction, of indemnity or security reasonably satisfactory to them and reimbursement to them of all reasonable expenses incidental thereto, and, in the case of mutilation, upon surrender and cancellation of the Warrant Certificate, the Warrant Agent shall countersign and deliver a new Warrant Certificate of like tenor for the same number of Warrants.

Section 9. Duration and Exercise of Warrants. The Purchase Price for

the Common Stock purchasable pursuant to the exercise of Warrants (each of which shall be exercisable to purchase one-half of one share of Common Stock), commencing as of the date hereof, shall be \$12.50 per share of Common Stock in lawful money of the United States of America, which Purchase Price shall hereafter be subject to adjustment as provided in Section 10 hereof. Except as the context otherwise requires, the term "Purchase Price" as used in this Agreement shall mean the Purchase Price then in effect as of the relevant date and shall reflect all adjustments made in accordance with the provisions of Section 10 hereof. Each Purchase Price shall continue in effect until further adjusted pursuant to the provisions of Section 10 hereof.

The registered holder of any Warrant Certificates may, subject to Section 11 hereof, exercise each Warrant evidenced thereby, to purchase one-half of one share of Common Stock at any time or in part from time to time, after the close of business on the Distribution Date, and at or prior to the close of business on November 20, 2000 (at which time the Warrant Certificates shall be and become wholly void and of no value).

Exercise of Warrants shall be accomplished upon surrender of the Warrant Certificate evidencing such Warrants, with the Form of Election to Purchase on the reverse side thereof duly filled in and executed, to the Warrant Agent at its principal corporate trust offices in New York, New York or at an office maintained for such purpose together with payment to the Warrant Agent for the account of the Company of the Purchase Price (as of the date of such surrender) for each share of Common Stock then being purchased and an amount equal to any applicable transfer tax, and, if requested by the Company, any other taxes or governmental charges which the Company may be required by law to collect in respect of such exercise and any other charges required pursuant to the Warrant Certificate. Payment of the Purchase Price and other charges may be made in cash or by check, bank draft or money order payable in lawful money of the United States of America to the order of the Warrant Agent. No adjustment shall be made for any cash dividends, whether paid or declared, on any shares of Common Stock issuable upon exercise of a Warrant.

Upon receipt of a Warrant Certificate, with the Form of Election to Purchase duly filled in and executed, accompanied by payment of the Purchase Price for the Common Stock to be purchased (and of an amount equal to any applicable taxes, governmental or other charges as aforesaid), the Warrant Agent shall promptly requisition from the Transfer Agent of the Common Stock of the Company and deliver to or upon the order of the registered holder of such Warrant Certificate, in such name or names as such registered holder may designate, a certificate or certificates for the number of full shares of Common Stock to be purchased, together

with cash made available by the Company pursuant to Section 11 hereof in respect of any fraction of a share of such stock otherwise issuable upon such exercise.

In case the registered holder of any Warrant Certificate shall exercise fewer than all of the Warrants evidenced by such Warrant Certificate, the Warrant Agent shall promptly countersign and deliver to the registered holder of such Warrant Certificate, or to his duly authorized assigns, a new Warrant Certificate or Certificates evidencing the number of Warrants that were not so exercised. The Warrant Agent may deem and treat the person named as the registered holder on the face of the Warrant Certificate and of the Common Stock as the true and lawful owner thereof for all purposes.

Each person in whose name any certificate for shares of Common Stock is issued upon the exercise of Warrants shall for all purposes be deemed to have become the holder of record of such shares represented thereby and such certificate shall be dated the date upon which the Warrant Certificate was duly surrendered in proper form and payment of the Purchase Price (and of any applicable taxes, governmental or other charges) was made; provided, however, that if the date of such surrender and payment is a date on which the stock transfer books of the Company are closed, such person shall be deemed to have become the record holder of such shares on, and such certificate shall be dated, the next succeeding business day on which the stock transfer books of the Company are open. The Company covenants and agrees that it shall not cause its stock transfer books to be closed for a period of more than ten consecutive business days except upon consolidation, merger, sale of all or substantially all of its assets, dissolution or liquidation.

Section 10. Adjustments of Number and Kind of Shares Purchasable and

Purchase Price. The initial number of shares of Common Stock purchasable upon

exercise of a Warrant and the Purchase Price shall be subject to adjustment from time to time upon the occurrence, after the date hereof, of the following events:

(A) In case the Company shall (1) pay a dividend in, or make a distribution of, shares of Common Stock or of the Company's capital stock convertible into Common Stock on its outstanding Common Stock, (2) subdivide its outstanding shares of Common Stock into a greater number of such shares or (3) combine its outstanding shares of Common Stock into a smaller number of such shares, the total number of shares of Common Stock and the number of shares of capital stock convertible into Common Stock purchasable upon the exercise of each Warrant outstanding immediately prior thereto shall be adjusted so that the holder of any Warrant Certificate thereafter surrendered for the purchase of Common Stock shall be entitled to receive at the same aggregate Common Stock Purchase Price the number of shares of Common Stock and the number of shares of the Company's capital stock convertible into Common Stock which he would have owned or have been entitled to receive immediately following any of the events described above

had such Warrant been exercised in full immediately prior to any such event. An adjustment made pursuant to this Subsection shall, in the case of a stock dividend or distribution, become effective as of the record date therefor and, in the case of a subdivision or combination, be made as of the effective date thereof. If, as a result of an adjustment made pursuant to this Subsection, the holder of any Warrant thereafter surrendered for exercise shall become entitled to receive shares of two or more classes of capital stock of the Company, the Board of Directors of the Company (whose determination shall be conclusive and shall be evidenced by a Board resolution filed with the Warrant Agent) shall determine the allocation of the Adjusted Purchase Price between or among shares of such classes of capital stock.

(B) In the event of any adjustment of the total number of shares of Common Stock purchasable upon the exercise of the then outstanding Warrants pursuant to Subsection (A) above, the Purchase Price per share applicable to each such outstanding Warrant shall be adjusted to be the amount resulting from dividing the number of shares (including fractional share interests) covered by such Warrant immediately after such adjustment into the total amount payable upon exercise of such Warrant in full immediately prior to such adjustment.

(C) In case the Company shall issue rights or warrants to all holders of its Common Stock entitling them (for a period expiring within forty-five days after the record date mentioned below) to subscribe for or purchase shares of Common Stock at a price per share less than the current market price per share of Common Stock (as defined in Subsection (F) below) at the record date mentioned below, the Purchase Price shall be adjusted so that the same shall equal the price determined by multiplying the Purchase Price in effect immediately prior thereto by a fraction, of which the numerator shall be the number of shares of Common Stock outstanding on the record date mentioned below plus the number of additional shares of Common Stock which the aggregate offering price of the total number of shares of Common Stock offered for subscription or purchase would purchase at such current market price per share of Common Stock, and of which the denominator shall be the number of shares of Common Stock outstanding on such record date plus the number of shares of Common Stock offered for subscription or purchase. Such adjustments shall be made whenever such rights or warrants are issued, and shall become effective as of the record date for the determination of stockholders entitled to receive such rights or warrants.

(D) In case the company shall distribute to all holders of its Common Stock shares of its capital stock (other than Common Stock or shares of capital stock convertible into Common Stock), evidences of its indebtedness or assets, or rights or warrants (excluding those referred to in Subsection (C) above) to subscribe or purchase such shares, evidences of indebtedness or assets, then in each such case the Purchase Price in effect thereafter shall be determined by multiplying the Purchase Price in effect immediately prior thereto by a fraction, of which the numerator shall

be the total number of outstanding shares of Common Stock multiplied by the current market price per share of Common Stock (as determined in accordance with the provisions of Subsection (F) below) on the record date mentioned below, less the fair market value (as determined by the Board of Directors of the Company, whose determination shall be conclusive and evidenced by a Board resolution filed with the Warrant Agent) of the capital stock, assets or evidences of indebtedness or of such rights or warrants so distributed to all such holders, and of which the denominator shall be the total number of outstanding shares of Common Stock multiplied by such current market price per share of Common Stock. Such adjustments shall be made whenever any such distribution is made, and shall become effective as of the record date for the determination of stockholders entitled to receive such distribution.

(E) In the event of any capital reorganization or any reclassification of the Common Stock (except as provided in Subsection (A) above or Subsection (I) below), any holder of Warrants upon exercise thereof shall be entitled to receive, in lieu of the Common Stock to which he would have become entitled upon exercise immediately prior to such reorganization or reclassification, the shares (of any class or classes) or other securities or property of the Company that he would have been entitled to receive at the same aggregate Purchase Price upon such reorganization or reclassification if his Warrants had been exercised immediately prior thereto; and in any such case, appropriate provision (as determined by the Board of Directors of the Company, whose determination shall be conclusive and shall be evidenced by a Board resolution filed with the Warrant Agent) shall be made for the application of this Section 10 with respect to the rights and interests thereafter of the holders of Warrants (including but not limited to the allocation of the adjusted Purchase Price between or among shares of classes of capital stock), to the end that this Section 10 (including the adjustments of the number of shares of Common Stock or other securities purchasable and the Purchase Price thereof) shall thereafter be reflected, as nearly as reasonably practicable, in all subsequent exercises of the Warrants for any shares or securities or other property thereafter deliverable upon the exercise of the Warrants.

(F) For the purpose of any computation under Subsections (C) and (D) above, the current market price per share of Common Stock at any date shall be deemed to be the average of the daily closing market prices, if the Common Stock is traded on a national securities exchange or the NASDAQ national market system, or the average of the last daily bid and asked quotation if traded on NASDAQ, for the ten consecutive trading days immediately prior to the day in question.

(G) No adjustment in the Purchase Price under this Section 10 shall be made unless such adjustment would require an increase or decrease of at least one per cent (1%) in the Purchase Price; provided, however, that any adjustments which by reason of this Subsection are not required to be made shall be carried forward and

taken into account in any subsequent adjustment; provided, further, that any adjustments which are so carried forward shall be made no later than the earlier of (i) three years after the date of the particular event on account of which an adjustment would be required or (ii) the date as to which the aggregate adjustments not previously made would require a total increase or decrease of 1% in the Purchase Price. All calculations under this Section 10 shall be made to the nearest cent or to the nearest one-hundredth of a share, as the case may be.

(H) Whenever the number of shares of Common Stock or other securities purchasable upon exercise of a Warrant or the Purchase Price is adjusted as provided in this Section 10, the Company will promptly file with the Warrant Agent a certificate signed by the Chairman of the Board, the President or a Vice President of the Company and by the Treasurer or an Assistant Treasurer or the Secretary or an Assistant Secretary of the Company setting forth the number and kind of shares purchasable and the Purchase Price, as so adjusted, stating that such adjustments in the number or kind of shares or other securities, or in the Purchase Price, conform to the requirements of this Section 10, and setting forth a brief statement of the facts accounting for such adjustments. Such certificates shall be conclusive evidence of the correctness of such adjustments. Promptly after receipt of such certificate, the Company, or the Warrant Agent at the Company's request, will mail a brief summary thereof (to be supplied by the Company) to the registered holders of the Warrants; provided, however, that failure to file or to give any notice required under this Subsection, or any defect therein, shall not affect the legality or validity of any such adjustments under this Section 10; and provided further, that, where appropriate, such notice may be given in advance and included as part of the notice required to be given pursuant to Section 15 hereof.

(I) In case of any consolidation or merger of the Company with or into another corporation (other than a consolidation or merger which does not result in any reclassification or change of the outstanding Common Stock), or in case of any sale or conveyance to another corporation of the property of the Company as an entirety or substantially as an entirety, the corporation formed by such consolidation or merger or the corporation which shall have acquired such assets, as the case may be, shall execute and deliver to the Warrant Agent a supplemental warrant agreement providing that the holder of each Warrant then outstanding shall have the right thereafter (until the expiration of such Warrant) to receive, upon exercise of such Warrant, the kind and amount of shares of stock and other securities and property receivable upon such consolidation, merger, sale or transfer by a holder of the number of shares of Common Stock of the Company for which such Warrant might have been exercised immediately prior to such consolidation, merger, sale or transfer. Such supplemental warrant agreement shall provide for adjustments which shall be as nearly equivalent as may be practicable to the adjustments provided in this Section. The above provision of this Subsection shall similarly apply to successive consolidations, mergers, sales or transfers.

The Warrant Agent shall not be under any responsibility to determine the correctness of any provisions contained in any such supplemental warrant agreement relating to either the kind or amount of shares of stock or securities or property purchasable by holders of Warrant Certificates upon the exercise of their Warrants after any such consolidation, merger, sale or transfer or to any adjustment to be made with respect thereto, but subject to the provisions of Section 23 hereof, may accept as conclusive evidence of the correctness of any such provisions, and shall be protected in relying upon, a certificate of a firm of independent certified public accountants with respect thereto.

(J) Irrespective of any adjustments in the Purchase Price or in the number or kind of shares issuable upon exercise of Warrants, Warrant Certificates theretofore or thereafter issued may continue to express the same price and number and kind of shares as are stated in the similar Warrant Certificates initially issuable pursuant to this Warrant Agreement.

(K) The Company may retain a firm of independent public accountants of recognized standing, which may be the firm regularly retained by the Company, selected by the Board of Directors of the Company or the Executive Committee of said Board, and not disapproved by the Warrant Agent, to make any computation required under this Section, and a certificate signed by such firm shall be conclusive evidence of the correctness of any computation made under this Section.

(L) For the purpose of this Section, the term "Common Stock" shall mean (i) the class of stock designated as Common Stock in the Certificate of Incorporation of the Company, as amended, at the date of this Agreement or (ii) any other class of stock resulting from successive changes or reclassifications of such Common Stock consisting solely of changes in par value, or from par value to no par value or from no par value to par value. In the event that at any time as a result of an adjustment made pursuant to this Section, the holder of any Warrant thereafter surrendered for exercise shall become entitled to receive any shares of capital stock of the Company other than the shares of the Common Stock, thereafter the number of such other shares so receivable upon exercise of any Warrant shall be subject to adjustment from time to time in a manner and on terms as nearly equivalent as practicable to the provisions with respect to the Common Stock contained in this Section, and all other provisions of this Agreement, with respect to the Common Stock shall apply on like terms to any such other shares.

(M) Anything in this Section 10 to the contrary notwithstanding, if the Company or any subsidiary of the Company grants options or other rights to purchase shares of Common Stock to any of its employees or directors, or if such employees or directors otherwise receive shares of Common Stock under any employee benefit plan of, or compensation agreement or arrangement with, the Company or its subsidiaries, or if the Company offers any dividend reinvestment

plans, the granting of such options or rights, the issuance of shares of Common Stock upon the exercise of such options or other rights or pursuant to such plans, agreements or arrangements, and subscriptions for purchases of shares of Common Stock under any such dividend reinvestment plan are not to be taken into consideration for adjustments under this Section 10.

Section 11. Fractional Interests. The Company shall not be required to

issue any Warrant Certificate evidencing a fraction of a Warrant or to issue fractions of shares of Common Stock on the exercise of the Warrants. If any fraction (calculated to the nearest one-hundredth) of a share of Common Stock would, except for the provisions of this Section, be issuable on the exercise of any Warrant, the Company shall purchase such fraction for an amount in cash equal to the current value of such fraction computed on the basis of the closing market price on the trading day immediately preceding the day upon which such Warrant Certificate was surrendered for exercise in accordance with Section 9 hereof. By accepting a Warrant Certificate, the holder thereof expressly waives any right to receive a Warrant Certificate evidencing any fraction of a Warrant or to receive any fractional share of Common Stock upon exercise of a Warrant.

Section 12. Reservation of Common Stock. The Company covenants that it

will at all times reserve and keep available, free from any pre-emptive rights, out of its authorized Common Stock, solely for the purpose of issue upon exercise of the Warrants, such number of shares of Common Stock as shall then be issuable upon the exercise of all outstanding Warrants. The Company covenants that all shares of Common Stock which shall be so issuable shall upon such issue be duly authorized, validly issued, fully paid and nonassessable. Promptly after the Expiration Date of the Warrants, the Warrant Agent shall certify to the Company the aggregate number of Warrants then outstanding, and thereafter no shares of stock shall be subject to reservation in respect of such Warrants.

The Warrant Agent is hereby irrevocably authorized to requisition from time to time from the transfer agent of the Common Stock and any subsequent transfer agent of any shares of the Company's capital stock issuable upon the exercise of the Warrants, for stock certificates required to honor outstanding Warrants. The Company hereby irrevocably authorizes its present and any future transfer agent to comply with all such requests. The Company will supply such transfer agent with duly executed stock certificates for such purpose and will itself provide or otherwise make available any cash which may be payable as provided in Section 11 of this Agreement.

The Company covenants that if any shares of Common Stock required to be reserved for the purposes of issue upon exercise of the Warrants hereunder require registration with or approval of any governmental authority under any federal or state law, or listing on any national securities exchange, before such shares may be

issued upon exercise, the Company will, when and if the fair market value of one share of Common Stock (as defined in Section 11) exceeds the Purchase Price, in good faith and as expeditiously as possible endeavor to cause such shares to be duly registered, approved or listed on the relevant national securities exchange, as the case may be; provided, however, that in no event shall shares of Common Stock be issued, and the Company is authorized to suspend the exercise of all Warrants, for the period during which it is endeavoring to obtain such registration, approval or listing.

Section 13. Reduction of Conversion Price Below Par Value. Before taking

any action which would cause an adjustment pursuant to Section 10 hereof reducing the Purchase Price below the then par value (if any) of the shares of Common Stock issuable upon exercise of the Warrants, the Company will use its best efforts to take any corporate action which, in the opinion of its counsel, may be necessary in order that the Company may validly and legally issue fully paid and nonassessable shares of such Common Stock at such adjusted Purchase Price.

Section 14. Payment of Taxes. The Company covenants and agrees that it

will pay when due and payable any and all Federal and state original issue taxes which may be payable in respect of the issue of the Warrant Certificates, or any shares of Common Stock or other securities upon the exercise of Warrants. The Company shall not, however, be required (i) to pay any tax which may be payable in respect of any transfer involved in the transfer and delivery of Warrant Certificates or the issuance or delivery of certificates for Common Stock or other securities in a name other than that of the registered holder of the Warrant Certificate surrendered for purchase or (ii) to issue or deliver any certificate for shares of Common Stock or other securities upon the exercise of any Warrant Certificate until any such tax shall have been paid, all such tax being payable by the holder of such Warrant Certificate at the time of surrender.

Section 15. Notice of Certain Corporate Action. In case the Company after

the date hereof shall propose (i) to offer to all of the holders of Common Stock rights to subscribe to or purchase any additional shares of any class of its capital stock, any evidences of its indebtedness or assets, or any other rights or options in a manner causing an adjustment pursuant to Section 10(A) or (ii) to effect any reclassification of Common Stock (other than a reclassification involving merely the subdivision or combination of outstanding shares of Common Stock) or any capital reorganization, or any consolidation or merger to which the Company is a party and for which approval of any stockholders of the Company is required, or any sale, transfer or other disposition of its property and assets substantially as an entirety, or the liquidation, voluntary or involuntary dissolution or winding up of the Company, in a manner causing an adjustment pursuant to Section 10(E), then, in each such case, the Company shall file with the Warrant Agent and the Company, or the Warrant Agent on its behalf, shall mail by first-class, postage prepaid mail to all

registered holders of the Warrant Certificates notice of such proposed action, which notice shall specify the date on which the books of the Company shall close or a record be taken for such offer of rights or options, or the date on which such reclassification, reorganization, consolidation, merger, sale, transfer, other deposition, liquidation, voluntary or involuntary dissolution or winding up shall take place or commence, as the case may be, and which shall also specify any record date for determination of holders of Common Stock entitled to vote thereon or participate therein and shall set forth such facts with respect thereto as shall be reasonably necessary to indicate any adjustments in the Purchase Price and the number or kind of shares or other securities purchasable upon exercise of Warrants which will be required as a result of such action. Such notice shall be filed and mailed in the case of any action covered by clause (i) above, at least ten days prior to the record date for determining holders of the Common Stock for purposes of such action or, if a record is not to be taken, the date as of which the holders of shares of Common Stock of record are to be entitled to such offering; and, in the case of any action covered by clause (ii) above, at least twenty days prior to their earlier of the date on which such reclassification, reorganization, consolidation, merger, sale, transfer, other deposition, liquidation, voluntary or involuntary dissolution or winding up is expected to become more effective and the date as of which it is expected that holders of shares of Common Stock of record on such date shall be entitled to exchange their shares for securities or other property deliverable upon such reclassification, reorganization, consolidation, merger, sale, transfer, other disposition, liquidation, voluntary or involuntary dissolution or winding up.

Failure to give any such notice or any defect therein shall not affect the legality or validity of any transaction listed in this Section 15.

Section 16. Disposition of Proceeds on Exercise of Warrant Certificates,

etc. The Warrant Agent shall account promptly to the Company with respect to

Warrants exercised and concurrently pay to the Company all moneys received.

The Warrant Agent shall keep copies of this Agreement available for inspection by holders of Warrants during normal business hours at its principal corporate trust offices, 40 Wall Street, 46th Floor, New York, New York 10005 and at any office or agency maintained by it in accordance with Section 5 hereof. Copies of this Agreement may be obtained upon written request addressed to Chief Financial Officer, Metropolitan Financial Corporation, 1500 Lincoln Centre, Minneapolis, Minnesota 55402.

Section 17. Warrant Certificate Holder Not Deemed a Stockholder. Except

as otherwise provided in Section 2, prior to the Distribution Date, no holder, as such, of any Warrant Certificate shall be entitled to vote or be deemed the holder of Common Stock or any other securities of the Company which may at any time be issuable on the exercise of the Warrants represented thereby for any purpose

whatever, nor shall anything contained herein or in any Warrant Certificate be construed to confer upon the holder of any Warrant Certificate, as such, any of the rights of a stockholder of the Company or any right to vote for the election of directors or upon any matter submitted to stockholders at any meeting thereof, or to give or withhold consent to any corporate action (whether upon any recapitalization, issue of stock, reclassification of stock, change of par value or change of stock to no par value, consolidation, merger, conveyance or otherwise), or to receive notice of meetings or other actions affecting stockholders (except as provided in Section 15 hereof), or to receive dividends or subscription rights, or otherwise, until such Warrant Certificate shall have been exercised in accordance with the provisions hereof and the receipt of the Purchase Price and any other amounts payable upon such exercise by the Warrant Agent as provided herein.

Section 18. Right of Action. All rights of action in respect to this

Agreement are vested in the respective registered holders of the Warrant Certificates; and any registered holder of any Warrant Certificate, without the consent of the Warrant Agent or of the holder of any Warrant Certificate, may, in his own behalf and for his own benefit, enforce, and may institute and maintain any suit, action or proceeding against the Company suitable to enforce, or otherwise in respect of, his right to exercise the Warrants evidenced by such Warrant Certificate, for the purchase of shares of the Common Stock in the manner provided in the Warrant Certificate and in this Agreement.

Section 19. Agreement of Holders of Warrant Certificates. Every holder

of a Warrant Certificate, by accepting the same, consents and agrees with the Company, the Warrant Agent and with every other holder of a Warrant Certificate that:

(A) The Warrant Certificates are transferable on the registry books of the Warrant Agent only upon the terms and conditions set forth in this Agreement; and

(B) The Company and the Warrant Agent may deem and treat the person in whose name the Warrant Certificate is registered as the absolute owner for all purposes whatever and neither the Company nor the Warrant Agent shall be affected by any notice to the contrary.

Section 20. Cancellation of Warrant Certificates. In the event that the

Company shall purchase or otherwise acquire any Warrant Certificate or Certificates after the issuance thereof, such Warrant Certificate or Certificates shall thereupon be delivered to the Warrant Agent and be cancelled by it and retired. The Warrant Agent shall also cancel any Warrant Certificate delivered to it for exercise, in whole or in part, or delivered to it for transfer, split up, combination or exchange. Warrant

Certificates so cancelled shall be delivered by the Warrant Agent to the Company from time to time, or disposed of in accordance with the instructions of the Company.

Section 21. Concerning the Warrant Agent. The Company agrees to pay to

the Warrant Agent from time to time, on demand of the Warrant Agent, reasonable compensation for all services rendered by it hereunder and also its reasonable expenses, including counsel fees, and other disbursements incurred in the administration and execution of this Agreement and the exercise and performance of its duties hereunder. The Company also agrees to indemnify the Warrant Agent for, and to hold it harmless against, any loss, liability or expense, incurred without negligence, bad faith or willful misconduct on the part of the Warrant Agent, arising out of or in connection with the acceptance and administration of this Agreement, including the costs and expenses of defending against any claim of liability in the premises.

Section 22. Merger or Consolidation or Change of Name of Warrant Agent.

Any corporation into which the Warrant Agent may be merged or with which it may be consolidated, or any corporation resulting from any merger or consolidation to which the Warrant Agent shall be a party, or any corporation succeeding to the corporate trust business of the Warrant Agent, shall be the successor to the Warrant Agent hereunder without the execution or filing of any paper or any further act on the part of any of the parties hereto, provided that such corporation would be eligible for appointment as a successor warrant agent under the provisions of Section 24 hereof. In case at the time such successor to the Warrant Agent shall succeed to the agency created by this Agreement, any of the Warrant Certificates shall have been countersigned but not delivered, any such successor to the Warrant Agent may adopt the countersignature of the original warrant agent and deliver such Warrant Certificates so countersigned; and in case at that time any of the Warrant Certificates shall not have been countersigned, any successor to the Warrant Agent may countersign such Warrant Certificates either in the name of the predecessor warrant agent or in the name of the successor warrant agent; and in all such cases such Warrant Certificates shall have the full force provided in the Warrant Certificates and in this Agreement.

In case at any time the name of the Warrant Agent shall be changed and at such time any of the Warrant Certificates shall have been countersigned but not delivered, the Warrant Agent may adopt the countersignature under its prior name and deliver Warrant Certificates so countersigned; and in case at that time any of the Warrant Certificates shall not have been countersigned, the Warrant Agent may countersign such Warrant Certificates either in its prior name or in its changed name; and in all such cases such Warrant Certificates shall have the full force provided in the Warrant Certificates and in this Agreement.

The provisions of this Section 22 shall also apply to any agent appointed pursuant to Section 5 hereof.

Section 23. Duties of Warrant Agent. The Warrant Agent undertakes the

duties and obligations imposed by this Agreement upon the following terms and conditions, by all of which the Company and the holders of Warrant Certificates by their acceptance thereof, shall be bound:

(A) The Warrant Agent may consult with counsel (who may be counsel for the Company) and the opinion of such counsel shall be full and complete authorization and protection to the Warrant Agent as to any action taken, suffered or omitted by it in good faith and in accordance with such opinion; provided, however, that the Warrant Agent shall have exercised reasonable care in the selection of such counsel.

(B) Whenever in the performance of its duties under this Agreement the Warrant Agent shall deem it necessary or desirable that any fact or matter be proved or established by the Company prior to taking or suffering any action hereunder, such fact or matter (unless other evidence in respect thereof be herein specifically prescribed) may be deemed to be conclusively proved and established by a certificate signed by the Chairman of the Board, the President, the Chief Financial Officer, the Treasurer or the Secretary of the Company and delivered to the Warrant Agent; and such certification shall be full authorization to the Warrant Agent for any action taken or suffered in good faith by it under the provisions of this Agreement in reliance upon such certificate.

(C) The Warrant Agent shall be liable hereunder only for its own negligence, bad faith or willful misconduct.

(D) The Warrant Agent shall not be liable for or by reason of any of the statements of fact or recitals contained in this Agreement or in the Warrant Certificates (except its countersignature on the Warrant Certificates and such statements or recitals as describe the Warrant Agent or action taken or to be taken by it) or be required to verify the same, but all such statements and recitals are and shall be deemed to have been made by the Company only.

(E) The Warrant Agent shall not be under any responsibility in respect of the validity of this Agreement or the execution and deliver hereof (except the due execution hereof by the Warrant Agent) or in respect of the validity or execution of any Warrant Certificate (except its countersignature thereof), or for any breach by the Company of any covenant or condition contained in this Agreement or in any Warrant Certificate, or for the adjustment of the Purchase Price or the making of any change in the number of shares of Common Stock required under the provisions of Section 10 or for the manner, method or amount of any such change

or the ascertaining of the existence of facts that would require any such adjustment or change (except with respect to the exercise of Warrant Certificates after actual notice of any adjustment of the Purchase Price), and it shall not by act hereunder be deemed to make any representation or warranty as to the authorization or reservation of any shares of Common Stock to be issued pursuant to this Agreement or any Warrant Certificate or as to whether any shares of Common Stock will when issued be validly issued, fully paid and nonassessable.

(F) The Warrant Agent and any stockholder, director, officer, employee or agent appointed pursuant to Section 5 hereof of the Warrant Agent may buy, sell or deal in any of the Warrants or other securities of the Company or become pecuniarily interested in any transaction in which the Company may be interested, or contract with or lend money to or otherwise act as fully and freely as though it was not Warrant Agent under this Agreement. Nothing herein shall preclude the Warrant Agent from acting in any other capacity for the Company or for any other legal entity.

(G) The Warrant Agent is hereby authorized and directed to accept instructions with respect to the performance of its duties hereunder from the Chairman of the Board, the President, the Chief Financial Officer, the Treasurer or the Secretary of the Company, and to apply to such officers for advice or instructions in connection with the Warrant Agent's duties, and it shall not be liable for any action taken or suffered or omitted by it in good faith in accordance with instructions of any such officer.

(H) The Warrant Agent will not be responsible for any failure of the Company to comply with any of the covenants contained in this Agreement or in the Warrant Certificates to be complied with by the Company.

(I) The Warrant Agent may execute and exercise any of the rights or powers hereby vested in it or perform any duty hereunder either itself or by or through its attorneys, agents or employees, and the Warrant Agent shall not be answerable or accountable for any act, default, neglect or misconduct of any such attorneys, agents or employees or for any loss to the Company resulting from such neglect or misconduct; provided, however, that reasonable care shall have been exercised in the selection and continued employment of such attorneys, agents and employees.

(J) The Warrant Agent will not incur any liability or responsibility to the Company or to any holder of any Warrant Certificate for any action taken, or any failure to take action, in reliance on any notice, resolution, waiver, consent, order, certificate, or other paper, document or instrument reasonably believed by the Warrant Agent to be genuine and to have been signed, sent or presented by the proper party or parties.

(K) The Warrant Agent will act hereunder solely as agent of the Company in a ministerial capacity, and its duties will be determined solely by the provisions hereof. The Warrant Agent will not be liable for anything which it may do or refrain from doing in connection with this Agreement except for its own negligence, bad faith or fulfill misconduct.

Section 24. Change of Warrant Agent. The Warrant Agent may resign and be

discharged from its duties under this Agreement upon thirty days' prior notice in writing mailed to the Company by registered or certified mail, and to each registered holder of Warrant Certificates. The Company may remove the Warrant Agent or any successor warrant agent upon thirty days' prior notice in writing, mailed to the Warrant Agent or successor warrant agent, as the case may be, by registered or certified mail. If the Warrant Agent shall resign or be removed or shall otherwise become incapable of acting, the Company shall appoint a successor to the Warrant Agent and shall, within fifteen days following such appointment, give notice thereof in writing to each of the registered holders of the Warrant Certificates. If the Company shall fail to make such appointment within a period of fifteen days after giving notice of such removal or after it has been notified in writing of such resignation or incapacity by the resigning or incapacitated Warrant Agent, then (i) the Company agrees to perform the duties of the Warrant Agent hereunder and (ii) the registered holder of any Warrant Certificate may apply to any court of competent jurisdiction for the appointment of a new warrant agent. Any successor warrant agent, whether appointed by the Company or by such a court, shall be a bank or trust company, in good standing, having its principal corporate trust office in Minneapolis or St. Paul, Minnesota, or in New York, New York, and having at the time of its appointment as successor warrant agent a combined capital and surplus of at least \$25,000,000. After appointment the responsibilities as if it had been originally named as warrant agent without further act or deed; but the former warrant agent shall deliver and transfer to the successor warrant agent any property at the time held by in hereunder, and execute and deliver any further assurance, conveyance, act or deed necessary for the purpose. Failure to give any notice provided for in this Section, however, or any defect therein shall not affect the legality or validity of the resignation or removal of the Warrant Agent or the appointment of the Warrant Agent or the appointment of the successor warrant agent, as the case may be.

Any agent appointed pursuant to Section 5 hereof may resign and be discharged from its duties under this Agreement upon thirty days' prior notice in writing mailed to the Warrant Agent at its principal corporate trust offices by registered or certified mail. The Warrant Agent may remove any such agent upon thirty days' prior notice in writing, mailed to such agent by registered or certified mail. In the event a successor agent shall be appointed or another office shall be maintained by the Warrant Agent pursuant to Section 5 hereof, the Warrant Agent

shall within fifteen days thereafter give notice thereof in writing to each of the registered holders of Warrant Certificates.

Section 25. Issuance of New Warrant Certificates. Notwithstanding any of

the provisions of this Agreement or the several Warrant Certificates to the contrary, the Company may, at its option, issue new Warrant Certificates in such form as may be approved by its Board of Directors to reflect any adjustment or change in the Purchase Price or the number or kind of shares purchasable under the several Warrant Certificates made in accordance with the provisions of this Agreement.

Section 26. Notices. Any notice or demand pursuant to this Agreement to

be given to or made on the Company by the Warrant Agent or by the registered holder of any Warrant Certificate shall be sufficiently given or made if sent by first-class or registered mail, postage prepaid, addressed (until another address is filed in writing by the Company with the Warrant Agent) as follows:

Metropolitan Financial Corporation
1500 Lincoln Centre
Minneapolis, Minnesota 55402
Attention: Chief Financial Officer

Any notice pursuant to this Agreement to be given or made by the Company or by the holder of any Warrant Certificate to or on the Warrant Agent shall be sufficiently given or made if sent by first-class mail, postage prepaid, addressed (until another address is filed in writing by the Warrant Agent with the Company) as follows:

American Stock Transfer and Trust Company
40 Wall Street, 46th Floor
New York, New York 10005
Attention: Stock Transfer Department

Any notice or demand authorized to be given or made to the registered holder of any Warrant Certificate under this Agreement shall be sufficiently given or made if sent by first-class or registered, postage prepaid mail, to the last address of such holder as it shall appear on the registers maintained by the Warrant Agent.

Section 27. Modification of Agreement. The Warrant Agent may, without

the consent or concurrence of the holders of the Warrant Certificates, by supplemental agreement or otherwise, concur with the Company in making any changes or corrections in this Agreement that the Warrant Agent shall have been advised by counsel (who may be counsel for the Company) are necessary or desirable to cure any ambiguity or to correct any defective or inconsistent provision or clerical omission or mistake or manifest error herein contained, or to make any other

provisions in regard to matters or questions arising hereunder and which shall not be inconsistent with the provisions of the Warrant Certificates and which shall not adversely affect the interests of the holders of Warrant Certificates.

Section 28. Successors. All the covenants and provisions of this

Agreement by or for the benefit of the Company or the Warrant Agent shall bind and inure to the benefit of their respective successors and assigns hereunder.

Section 29. Minnesota Contract. This Agreement and each Warrant

Certificate issued hereunder shall be deemed to be a contract made under the laws of the State of Minnesota and for all purposes shall be construed in accordance with the laws of said State.

Section 30. Benefits of This Agreement. Nothing in this Agreement or in

the Warrant Certificates shall be construed to give to any person or corporation other than the Company, the Warrant Agent, their respective successors and assigns hereunder and the registered holders of the Warrant Certificates any legal or equitable right, remedy or claim under this Agreement, and this Agreement shall be for the sole and exclusive benefit of the Company, the Warrant Agent, their respective successors and assigns hereunder and the registered holders of the Warrant Certificates.

Section 31. Descriptive Headings. The descriptive headings of the

several Sections of this Agreement are inserted for convenience only and shall not control or affect the meaning or construction of any of the provisions hereof.

Section 32. Counterparts. This Agreement may be executed in any number

of counterparts, each of which shall be an original; but such counterparts shall together constitute one and the same instrument.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed and their respective seals to be hereunto affixed and attested, all as of the day and year first above written.

METROPOLITAN FINANCIAL
CORPORATION

By [SIGNATURE]
Its [TITLE]

AMERICAN STOCK TRANSFER AND
TRUST COMPANY

By [SIGNATURE]
Its [TITLE]

and

By [SIGNATURE]
Its [TITLE]

FIRST BANK SYSTEM, INC.

AND

AMERICAN STOCK TRANSFER AND TRUST COMPANY

WARRANT AGENT

SUPPLEMENTAL WARRANT AGREEMENT

DATED AS OF JANUARY 24, 1995

SUPPLEMENTAL WARRANT AGREEMENT, dated as of January 24, 1995, between First Bank System, Inc., a Delaware corporation (the "Company"), and American Stock Transfer and Trust Company, a New York corporation (said corporation, and any successor which shall become such in the manner prescribed in this Agreement, being herein called the "Warrant Agent").

WHEREAS, the Warrant Agent is a party to a Warrant Agreement, dated November 20, 1990 (the "Warrant Agreement"), with Metropolitan Financial Corporation, a Delaware corporation ("Metropolitan"); and

WHEREAS, the Company and Metropolitan are parties to an Agreement of Merger and Consolidation, dated July 21, 1994 (the "Merger Agreement"), pursuant to which Metropolitan was merged (the "Merger") with and into the Company, effective as of the date hereof; and

WHEREAS, Section 10(I) of the Warrant Agreement provides, among other things, that if Metropolitan is merged into another corporation, the corporation formed by such merger will enter into a supplemental warrant agreement with the Warrant Agent providing that each holder of a warrant (individually, a "Warrant" and collectively the "Warrants") outstanding under the Warrant Agreement shall have the right thereafter (until the expiration of such Warrant) to receive, upon exercise of such Warrant, the kind and amount of shares of stock and other securities or property receivable upon such merger by a holder of the number of shares of common stock, par value \$.01 per share ("Metropolitan Common Stock"), for which such Warrant might have been exercised immediately prior to such merger; and

WHEREAS, it is the intention of the parties that this Agreement serve as the supplemental warrant agreement required by the Warrant Agreement; and

WHEREAS, the Company desires the Warrant Agent to act on behalf of the Company, and the Warrant Agent is willing so to act, in connection with the issuance, transfer, exchange and replacement of the certificates evidencing the Warrants issued under the Warrant Agreement (the "Warrant Certificates") and the exercise of the Warrants.

NOW, THEREFORE, in consideration of the premises and the mutual agreements herein set forth, the parties hereto agree as follows:

Section 1. Appointment of Warrant Agent. The Company hereby appoints the

Warrant Agent to act as agent for the Company in accordance with the instructions in this Agreement hereinafter set forth, and the Warrant Agent hereby accepts such appointment.

Section 2. Date, Denomination and Execution of Warrant Certificates.

The Warrant Certificates (and the Form of Election to Purchase and the Form of Assignment to be printed on the reverse thereof) shall be in registered form only and shall be substantially of the tenor and purport recited in Exhibit A to the Warrant Agreement, except the Warrant Certificates issued after the date hereof (the "Effective Date") shall, subject to the provisions of Section 10(j) of the Warrant Agreement, refer to the Company as the issuer thereof, and may have such letters, numbers or other marks of identification or designation and such legends, summaries or endorsements printed, lithographed or engraved thereon as the Company may deem appropriate and as are not inconsistent with the provisions of this Agreement, or as may be required to comply with any law, or with any rule or regulation made pursuant thereto, or with any rule or regulation of any stock exchange on which the Warrants may be listed, or to conform to usage. The Warrant Certificates shall entitle the registered holders thereof, subject to the provisions of this Agreement and of the Warrant Certificate, to purchase, subject to adjustment as provided in Section 8 hereof, 0.90 of a fully paid and nonassessable share of the common stock, par value \$1.25 per share (the "Common Stock"), of the Company for each Warrant evidenced by such Warrant Certificates at the price of \$6.94 per share.

Warrant Certificates issued after the Effective Date shall, subject to Section 10(j) of the Warrant Agreement, be executed on behalf of the Company by its Chairman of the Board, the President or a Vice President either manually or by facsimile signature printed thereon, which shall be attested by the Treasurer or an Assistant Treasurer or the Secretary or an Assistant Secretary of the Company, either manually or by facsimile signature. The Warrant Certificates shall be manually countersigned by the Warrant Agent and shall not be valid for any purpose unless so countersigned. In case any officer of the Company who shall have signed any of the Warrant Certificates shall cease to be such officer of the Company before countersignature by the Warrant Agent and issue and delivery thereof by the Company, such Warrant Certificates, nevertheless, may be countersigned by the Warrant Agent, issued and delivered with the same force and effect as though the person who signed such Warrant Certificates had not ceased to be such officer of the Company.

Section 3. Maintenance of Office or Agency. The Warrant Agent, or, if

there shall be no such Warrant Agent, the Company, shall at all times maintain an office or agency at which shall be kept and maintained books for registration of ownership and transfer of ownership in accordance with Section 5 hereof and at which warrants may be exercised in accordance with Section 7 hereof. Such office or agency shall initially be the corporate trust office of the Warrant Agent.

Section 4. Issuance of Warrant Certificates. Subsequent to the original

issuance of the Warrant Certificates pursuant to Section 6 of the Warrant

Agreement, no Warrant Certificates shall be reissued except (i) Warrant Certificates issued upon transfer thereof in accordance with Section 5 hereof, (ii) Warrant Certificates issued upon any combination, split-up or exchange of Warrant Certificates pursuant to Section 5 hereof, (iii) Warrant Certificates issued in replacement of mutilated, destroyed, lost or stolen Warrant Certificates pursuant to Section 6 hereof, (iv) Warrant Certificates issued upon the partial exercise of Warrant Certificates to evidence the unexercised portion of such Warrant Certificates pursuant to Section 7 hereof and (v) Warrant Certificates issued to reflect any adjustment or change in the Purchase Price or the number or kind of shares purchasable thereunder pursuant to Section 23 hereof. The Warrant Agent is hereby irrevocably authorized to countersign and deliver, in accordance with the provisions of said Sections 5, 6, 7 and 23, the new Warrant Certificates required for purposes thereof, and the Company, whenever required by the Warrant Agent, will supply the Warrant Agent with Warrant Certificates duly executed on behalf of the Company for such purposes.

Section 5. Transfers and Exchanges of Warrant Certificates. The Warrant

Agent will keep or cause to be kept books for registration of ownership and transfer of ownership of the Warrant Certificates issued hereunder. Such registers shall show the names and addresses of the respective holders of the Warrant Certificates and the number of Warrants evidenced by each such Warrant Certificate.

The Warrant Agent shall transfer, from time to time, any outstanding Warrants upon the books to be maintained by the Warrant Agent for that purpose, upon surrender of the Warrant Certificate evidencing such Warrants, with the Form of Assignment duly filled in and executed, to the Warrant Agent, at its principal corporate trust offices in New York, New York or at an office maintained for such purpose at any time prior to the close of business on November 20, 2000 (herein called the "Expiration Date"), and upon payment to the Warrant Agent for the account of the Company of an amount equal to any applicable transfer tax, any other taxes or governmental charges which the Company may be required by law to collect in respect of such exercise and any other amounts required pursuant to the Warrant Certificate. Such payment may be made in cash or by check bank draft or money order, payable in lawful money of the United States of America to the order of the Warrant Agent.

For purposes of this Agreement, the term "close of business" on any given date shall mean 4:00 p.m., Minneapolis, Minnesota time, on such date; provided, however, that if such date is not a business day it shall mean 4:00 p.m., Minneapolis, Minnesota time, on the next succeeding business day. For purposes of this Agreement the term "business day" shall mean any day other than a Saturday, Sunday or a day on which banking institutions in Minneapolis, Minnesota are authorized or obligated by law to be closed.

Upon receipt of a Warrant Certificate, with the Form of Assignment duly filled in and executed, accompanied by the required payment, the Warrant Agent shall promptly countersign and deliver to the transferee a new Warrant Certificate for the number of full Warrants transferred to such transferee; provided, however, that in case the registered holder of any Warrant Certificate shall elect to transfer fewer than all of the Warrants evidenced by such Warrant Certificate, the Warrant Agent in addition shall promptly countersign and deliver to such registered holder a new Warrant Certificate or Certificates for the number of full Warrants not so transferred.

Any Warrant Certificate or Certificates may be exchanged at the option of the holder thereof for another Warrant Certificate or Certificates of different denominations, of like tenor and representing in the aggregate the same number of Warrants, upon surrender of such Warrant Certificate or Certificates, with the Form of Assignment duly filed in and executed, to the Warrant Agent, at any time or from time to time prior to the close of business on the Expiration Date.

Section 6. Mutilated, Destroyed, Lost or Stolen Warrant Certificates.

Upon receipt by the Company and the Warrant Agent of evidence reasonably satisfactory to them of the loss, theft, destruction or mutilation of any Warrant Certificate, and, in case of loss, theft or destruction, of indemnity or security reasonably satisfactory to them and reimbursement to them of all reasonable expenses incidental thereto, and, in the case of mutilation, upon surrender and cancellation of the Warrant Certificate, the Warrant Agent shall countersign and deliver a new Warrant Certificate of like tenor for the same number of Warrants.

Section 7. Duration and Exercise of Warrants. The Purchase Price for the

Common Stock purchasable pursuant to the exercise of Warrants (each of which shall be exercisable to purchase 0.90 of a share of Common Stock), commencing as of the date hereof, shall be \$6.94 per share of Common Stock in lawful money of the United States of America, which Purchase Price shall hereafter be subject to adjustment as provided in Section 8 hereof. Except as the context otherwise requires, the term "Purchase Price" as used in this Agreement shall mean the Purchase Price then in effect as of the relevant date and shall reflect all adjustments made in accordance with the provisions of Section 8 hereof. Each Purchase Price shall continue in effect until further adjusted pursuant to the provisions of Section 8 hereof.

The registered holder of any Warrant Certificates may, subject to Section 9 hereof, exercise each Warrant evidenced thereby, to purchase 0.90 of a share of Common Stock at any time or in part from time to time prior to the close of business on November 20, 2000 (at which time the Warrant Certificates shall be and become wholly void and of no value).

Exercise of Warrants shall be accomplished upon surrender of the Warrant Certificate evidencing such Warrants, with the Form of Election to Purchase on the reverse side thereof duly filled in and executed, to the Warrant Agent at its principal corporate trust offices in New York, New York or at an office maintained for such purpose together with payment to the Warrant Agent for the account of the Company of the Purchase Price (as of the date of such surrender) for each share of Common Stock then being purchased and an amount equal to any applicable transfer tax, and, if requested by the Company, any other taxes or governmental charges which the Company may be required by law to collect in respect of such exercise and any other charges required pursuant to the Warrant Certificate. Payment of the Purchase Price and other charges may be made in cash or by check, bank draft or money order payable in lawful money of the United States of America to the order of the Warrant Agent. No adjustment shall be made for any cash dividends, whether paid or declared, on any shares of Common Stock issuable upon exercise of a Warrant.

Upon receipt of a Warrant Certificate, with the Form of Election to Purchase duly filled in and executed, accompanied by payment of the Purchase Price for the Common Stock to be purchased (and of an amount equal to any applicable taxes, governmental or other charges as aforesaid), the Warrant Agent shall promptly requisition from the Transfer Agent of the Common Stock of the Company and deliver to or upon the order of the registered holder of such Warrant Certificate in such name or names as such registered holder may designate, a certificate or certificates for the number of full shares of Common Stock to be purchased, together with cash made available by the Company pursuant to Section 9 hereof in respect of any fraction of a share of such stock otherwise issuable upon such exercise.

In case the registered holder of any Warrant Certificate shall exercise fewer than all of the Warrants evidenced by such Warrant Certificate, the Warrant Agent shall promptly countersign and deliver to the registered holder of such Warrant Certificate, or to his duly authorized assigns, a new Warrant Certificate or Certificates evidencing the number of Warrants that were not so exercised. The Warrant Agent may deem and treat the person named as the registered holder on the face of the Warrant Certificate and of the Common Stock as the true and lawful owner thereof for all purposes.

Each person in whose name any certificate for shares of Common Stock is issued upon the exercise of Warrants shall for all purposes be deemed to have become the holder of record of such shares represented thereby and such certificate shall be dated the date upon which the Warrant Certificate was duly surrendered in proper form and payment of the Purchase Price (and of any applicable taxes, governmental or other charges) was made; provided, however,

that if the date of such surrender and payment is a date on which the stock transfer books of the Company are closed, such person shall be deemed to have become the record holder

of such shares on, and such certificate shall be dated, the next succeeding business day on which the stock transfer books of the Company are open. The Company covenants and agrees that it shall not cause its stock transfer books to be closed for a period of more than ten consecutive business days except upon consolidation, merger, sale of all or substantially all of its assets, dissolution or liquidation.

Section 8. Adjustments of Number and Kind of Shares Purchasable and

Purchase Price. The initial number of shares of Common Stock purchasable upon

exercise of a Warrant and the Purchase Price shall be subject to adjustment from time to time upon the occurrence, after the Effective Date, of the following events:

(A) In case the Company shall (1) pay a dividend in, or make a distribution of, shares of Common Stock or of the Company's capital stock convertible into Common Stock on its outstanding Common Stock, (2) subdivide its outstanding shares of Common on Stock into a greater number of such shares or (3) combine its outstanding shares of Common Stock into a smaller number of such shares, the total number of shares of Common Stock and the number of shares of capital stock convertible into Common Stock purchasable upon the exercise of each Warrant outstanding immediately prior thereto shall be adjusted so that the holder of any Warrant Certificate thereafter surrendered for the purchase of Common Stock shall be entitled to receive at the same aggregate Common Stock Purchase Price the number of shares of Common Stock and the number of shares of the Company's capital stock convertible into Common Stock which he would have owned or have been entitled to receive immediately following any of the events described above had such Warrant been exercised in full immediately prior to any such event. An adjustment made pursuant to this Subsection shall, in the case of a stock dividend or distribution, become effective as of the record date therefor and, in the case of a subdivision or combination, be made as of the effective date thereof. If, as a result of an adjustment made pursuant to this Subsection, the holder of any Warrant thereafter surrendered for exercise shall become entitled to receive shares of two or more classes of capital stock of the Company, the Board of Directors of the Company (whose determination shall be conclusive and shall be evidenced by a Board resolution filed with the Warrant Agent) shall determine the allocation of the adjusted Purchase Price between or among shares of such classes of capital stock

(B) In the event of any adjustment of the total number of shares of Common Stock purchasable upon the exercise of the then outstanding Warrants pursuant to Subsection (A) above, the Purchase Price per share applicable to each such outstanding Warrant shall be adjusted to be the amount resulting from dividing the number of shares (including fractional share interests) covered by such Warrant immediately after such adjustment into the total amount payable upon exercise of such Warrant in full immediately prior to such adjustment.

(C) In case the Company shall issue rights or warrants to all holders of its Common Stock entitling them (for a period expiring within forty-five days after the record date mentioned below) to subscribe for or purchase shares of Common Stock at a price per share less than the current market price per share of Common Stock (as defined in Subsection (F) below) at the record date mentioned below, the Purchase Price shall be adjusted so that the same shall equal the price determined by multiplying the Purchase Price in effect immediately prior thereto by a fraction, of which the numerator shall be the number of shares of Common Stock outstanding on the record date mentioned below plus the number of additional shares of Common Stock which the aggregate offering price of the total number of shares of Common Stock offered for subscription or purchase would purchase at such current market price per share of Common Stock, and of which the denominator shall be the number of shares of Common Stock outstanding on such record date plus the number of shares of Common Stock offered for subscription or purchase. Such adjustments shall be made whenever such rights or warrants are issued, and shall become effective as of the record date for the determination of stockholders entitled to receive such rights or warrants.

(D) In case the Company shall distribute to all holders of its Common Stock shares of its capital stock (other than Common Stock or shares of capital stock convertible into Common Stock), evidences of its indebtedness or assets, or rights or warrants (excluding those referred to in Subsection (C) above) to subscribe for or purchase such shares, evidences of indebtedness or assets, then in each such case the Purchase Price in effect thereafter shall be determined by multiplying the Purchase Price in effect immediately prior thereto by a fraction, of which the numerator shall be the total number of outstanding shares of Common Stock multiplied by the current market price per share of Common Stock (as determined in accordance with the provisions of Subsection (F) below) on the record date mentioned below, less the fair market value (as determined by the Board of Directors of the Company, whose determination shall be conclusive and evidenced by a Board resolution filed with the Warrant Agent) of the capital stock, assets or evidences of indebtedness or of such rights or warrants so distributed to all such holders, and of which the denominator shall be the total number of outstanding shares of Common Stock multiplied by such current market price per share of Common Stock. Such adjustments shall be made whenever any such distribution is made, and shall become effective as of the record date for the determination of stockholders entitled to receive such distribution.

(E) In the event of any capital reorganization or any reclassification of the Common Stock (except as provided in Subsection (A) above or Subsection (I) below), any holder of Warrants upon exercise thereof shall be entitled to receive, in lieu of the Common Stock to which he would have become entitled upon exercise immediately prior to such reorganization or reclassification, the shares (of any class or classes) or other securities or property of the Company that he would have been

entitled to receive at the same aggregate Purchase Price upon such reorganization or reclassification if his Warrants had been exercised immediately prior thereto and in any such case, appropriate provision (as determined by the Board of Directors of the Company, whose determination shall be conclusive and shall be evidenced by a Board resolution filed with the Warrant Agent) shall be made for the application of this Section 8 with respect to the rights and interests thereafter of the holders of Warrants (including but not limited to the allocation of the adjusted Purchase Price between or among shares of classes of capital stock) to the end that this Section 8 (including the adjustments of the number of shares of Common Stock or other securities purchasable) and the Purchase Price thereof shall thereafter be reflected, as nearly as reasonably practicable in all subsequent exercises of the Warrants for any shares or securities or other property thereafter deliverable upon the exercise of the Warrants.

(F) For the purpose of any computation under Subsections (C) and (D) above, the current market price per share of Common Stock at any date shall be deemed to be the average of the daily closing market prices, if the Common Stock is traded on a national securities exchange or the NASDAQ National Market, or the average of the last daily bid and asked quotation if traded on NASDAQ, for the ten consecutive trading days immediately prior to the day in question.

(G) No adjustment in the Purchase Price under this Section 8 shall be made unless such adjustment would require an increase or decrease of at least one per cent (1%) in the Purchase Price; provided, however, that any adjustments which

by reason of this Subsection are not required to be made shall be carried forward and taken into account in any subsequent adjustment; and provided,

further, that any adjustments which are so carried forward shall be made no

later than the earlier of (i) three years after the date of the particular event on account of which an adjustment would be required or (ii) the date as to which the aggregate adjustments not previously made would require a total increase or decrease of 1% in the Purchase Price. All calculations under this Section 8 shall be made to the nearest cent or to the nearest one hundredth of a share, as the case may be.

(H) Whenever the number of shares of Common Stock or other securities purchasable upon exercise of a Warrant or the Purchase Price is adjusted as provided in this Section 8, the Company will promptly file with the Warrant Agent a certificate signed by the Chairman of the Board, the President or a Vice President of the Company and by the Treasurer or an Assistant Treasurer or the Secretary or an Assistant Secretary of the Company setting forth the number and kind of shares purchasable and the Purchase Price, as so adjusted, stating that such adjustments in the number or kind of shares or other securities, or in the Purchase Price, conform to the requirements of this Section 8, and setting forth a brief statement of the facts accounting for such adjustments. Such certificates shall be conclusive evidence of the correctness of such adjustments. Promptly after receipt of such certificate, the

Company, or the Warrant Agent at the Company's request, will mail a brief summary thereof (to be supplied by the Company) to the registered holders of the Warrants; provided, however, that failure to file or to give any notice required

under this Subsection, or any defect therein, shall not affect the legality or validity of any such adjustments under this Section 8; and, provided, further,

that, where appropriate, such notice may be given in advance and included as part of the notice required to be given pursuant to Section 13 hereof.

(I) In case of any consolidation or merger of the Company with or into another corporation (other than a consolidation or merger which does not result in any reclassification or change of the outstanding Common Stock), or in case of any sale or conveyance to another corporation of the property of the Company as an entirety or substantially as an entirety, the corporation formed by such consolidation or merger or the corporation which shall have acquired such assets, as the case may be, shall execute and deliver to the Warrant Agent a supplemental warrant agreement providing that the holder of each Warrant then outstanding shall have the right thereafter (until the expiration of such Warrant) to receive, upon exercise of such Warrant, the kind and amount of shares of stock and other securities and property receivable upon such consolidation, merger, sale or transfer by a holder of the number of shares of Common Stock of the Company for which such Warrant might have been exercised immediately prior to such consolidation, merger, sale or transfer. Such supplemental warrant agreement shall provide for adjustments which shall be as nearly equivalent as may be practicable to the adjustments provided in this Section. The above provision of this Subsection shall similarly apply to successive consolidations, mergers, sales or transfers.

The Warrant Agent shall not be under any responsibility to determine the correctness of any provisions contained in any such supplemental warrant agreement requiring to either the kind or amount of shares of stock or securities or property purchasable by holders of Warrant Certificates upon the exercise of their Warrants after any such consolidation, merger, sale or transfer or to any adjustment to be made with respect thereto, but subject to the provisions of Section 21 hereof, may accept as conclusive evidence of the correctness of any such provisions, and shall be protected in relying upon, a certificate of a firm of independent certified public accountants with respect thereto.

(J) Irrespective of any adjustments in the Purchase Price or in the number or kind of shares issuable upon exercise of Warrants, Warrant Certificates theretofore or thereafter issued may continue to express the same price and number and kind of shares as are stated in the similar Warrant Certificates initially issued pursuant to this Warrant Agreement.

(K) The Company may retain a firm of independent public accountants of recognized standing, which may be the firm regularly retained by the Company,

selected by the Board of Directors of the Company or the Executive Committee of said Board, and not disapproved by the Warrant Agent, to make any computation required under this Section, and a certificate signed by such firm shall be conclusive evidence of the correctness of any computation made under this Section.

(L) For the purpose of this Section, the term "Common Stock" shall mean (i) the class of stock designated as Common Stock in the Certificate of Incorporation of the Company, as amended, at the Effective Date or (ii) any other class of stock resulting from successive changes or reclassifications of such Common Stock consisting solely of changes in par value, or from par value to no par value or from no par value to par value. In the event that at any time as a result of an adjustment made pursuant to this Section, the holder of any Warrant thereafter surrendered for exercise shall become entitled to receive any shares of capital stock of the Company other than shares of the Common Stock, thereafter the number of such other shares so receivable upon exercise of any Warrant shall be subject to adjustment from time to time in a manner and on terms as nearly equivalent as practicable to the provisions with respect to the Common Stock contained in this Section, and all other provisions of this Agreement with respect to the Common Stock shall apply on like terms to any such other shares.

(M) Anything in this Section 8 to the contrary notwithstanding, if the Company or any subsidiary of the Company grants options or other rights to purchase shares of Common Stock to any of its employees or directors, or if such employees or directors otherwise receive shares of Common Stock under any employee benefit plan of, or compensation agreement or arrangement with, the Company or its subsidiaries, or if the Company offers any dividend reinvestment plans, the granting of such options or rights, the issuance of shares of Common Stock upon the exercise of such options or other rights or pursuant to such plans, agreements or arrangements, and subscriptions for purchases of shares of Common Stock under any such dividend reinvestment plan are not to be taken into consideration for adjustments under this Section 8.

Section 9. Fractional Interests. The Company shall not be required to

issue any Warrant Certificate evidencing a fraction of a Warrant or to issue fractions of shares of Common Stock on the exercise of the Warrants. If any fraction (calculated to the nearest one hundredth) of a share of Common Stock would, except for the provisions of this Section, be issuable on the exercise of any Warrant, the Company shall purchase such fraction for an amount in cash equal to the current value of such fraction computed on the basis of the closing market price on the trading day immediately preceding the day upon which such Warrant Certificate was surrendered for exercise in accordance with Section 7 hereof. By accepting a Warrant Certificate, the holder thereof expressly waives any right to receive a Warrant Certificate evidencing any fraction of a Warrant or to receive any fractional share of Common Stock upon exercise of a Warrant.

Section 10. Reservation of Common Stock. The Company covenants that it

will at all times from an after the Effective Time reserve and keep available, free from any pre-emptive rights, out of its authorized Common Stock, solely for the purpose of issue upon exercise of the Warrants, such number of shares of Common Stock as shall then be issuable upon the exercise of all outstanding Warrants. The Company covenants that all shares of Common Stock which shall be so issuable shall upon such issue be duly authorized, validly issued, fully paid and nonassessable. Promptly after the Expiration Date of the Warrants, the Warrant Agent shall certify to the Company the aggregate number of Warrants then outstanding, and thereafter no shares of stock shall be subject to reservation in respect of such Warrants.

The Warrant Agent is hereby irrevocably authorized to requisition from time to time from the transfer agent of the Common Stock, and any subsequent transfer agent of any shares of the Company's capital stock issuable upon the exercise of the Warrants, stock certificates required to honor outstanding Warrants. The Company hereby irrevocably authorizes its present and any future transfer agent to comply with all such requests. The Company will supply such transfer agent with duly executed stock certificates for such purpose and will itself provide or otherwise make available any cash which may be payable as provided in Section 9 of this Agreement.

The Company covenants that if any shares of Common Stock required to be reserved for the purposes of issue upon exercise of the Warrants hereunder require registration with or approval of any governmental authority under any federal or state law, or listing on any national securities exchange, before such shares may be issued upon exercise, the Company will, in good faith and as expeditiously as possible endeavor to cause such shares to be duly registered, approved or listed on the relevant national securities exchange, as the case may be; provided, however, that in no event shall shares of Common Stock be issued,

and the Company is authorized to suspend the exercise of all Warrants, for the period during which it is endeavoring to obtain such registration, approval or listing.

Section 11. Reduction of Conversion Price Below Par Value. Before taking

any action which would cause an adjustment pursuant to Section 8 hereof reducing the Purchase Price below the then par value (if any) of the shares of Common Stock issuable upon exercise of the Warrants, the Company will use its best efforts to take any corporate action which, in the opinion of its counsel, may be necessary in order that the Company may validly and legally issue fully paid and nonassessable shares of such Common Stock at such adjusted Purchase Price.

Section 12. Payment of Taxes. The Company covenants and agrees that it

will pay when due and payable any and all Federal and state original issue taxes which may be payable in respect of the issue of any shares of Common Stock or

other securities upon the exercise of Warrants. The Company shall not, however, be required (i) to pay any tax which may be payable in respect of any transfer involved in the transfer and delivery of Warrant Certificates or the issuance or delivery of certificates for Common Stock or other securities in a name other than that of the registered holder of the Warrant Certificate surrendered for purchase or (ii) to issue or deliver any certificate for shares of Common Stock or other securities upon the exercise of any Warrant Certificate until any such tax shall have been paid, all such tax being payable by the holder of such Warrant Certificate at the time of surrender.

Section 13. Notice of Certain Corporate Action. In case the Company after

the Effective Date shall propose (i) to offer to all of the holders of Common Stock rights to subscribe to or purchase any additional shares of any class of its capital stock, any evidences of its indebtedness or assets, or any other rights or options in a manner causing an adjustment pursuant to Section 8(A) or (ii) to effect any reclassification of Common Stock (other than a reclassification involving merely the subdivision or combination of outstanding shares of Common Stock) or any capital reorganization, or any consolidation or merger to which the Company is a party and for which approval of any stockholders of the Company is required, or any sale, transfer or other disposition of its property and assets substantially as an entirety, or the liquidation, voluntary or involuntary dissolution or winding up of the Company, in a manner causing an adjustment pursuant to Section 8(E), then, in each such case, the Company shall file with the Warrant Agent and the Company, or the Warrant Agent on its behalf, shall mail by first class postage prepaid mail to all registered holders of the Warrant Certificates notice of such proposed action, which notice shall specify the date on which the books of the Company shall close or a record be taken for such offer of rights or options, or the date on which such reclassification, reorganization, consolidation, merger, sale, transfer, other disposition, liquidation, voluntary or involuntary dissolution or winding up shall take place or commence, as the case may be, and which shall also specify any record date for determination of holders of Common Stock entitled to vote thereon or participate therein and shall set forth such facts with respect thereto as shall be reasonably necessary to indicate any adjustments in the Purchase Price and the number or kind of shares or other securities purchasable upon exercise of Warrants which will be required as a result of such action. Such notice shall be filed and mailed in the case of any action covered by clause (i) above, at least ten days prior to the record date for determining holders of the Common Stock for purposes of such action or, if a record is not to be taken, the date as of which the holders of shares of Common Stock of record are to be entitled to such offering; and, in the case of any action covered by clause (ii) above, at least twenty days prior to the earlier of the date on which such reclassification, reorganization, consolidation, merger, sale, transfer, other disposition, liquidation, voluntary or involuntary dissolution or winding up is expected to become effective and the date as of which it is expected that holders of shares of Common Stock of record on such date shall be entitled to exchange their

shares for securities or other property deliverable upon such reclassification, reorganization, consolidation, merger, sale, transfer, other disposition, liquidation, voluntary or involuntary dissolution or winding up.

Failure to give any such notice or any defect therein shall not affect the legality or validity of any transaction listed in this Section 13.

Section 14. Disposition of Proceeds on Exercise of Warrant Certificates,

Etc. The Warrant Agent shall account promptly to the Company with respect to
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Warrants exercised and concurrently pay to the Company all moneys received.

The Warrant Agent shall keep copies of this Agreement available for inspection by holders of Warrants during normal business hours at its principal corporate trust offices, 40 Wall Street, 46th Floor, New York, New York 10005 and at any office or agency maintained by it in accordance with Section 3 hereof. Copies of this Agreement may be obtained upon written request addressed to Corporate Secretary, First Bank System, Inc., First Bank Place, 601 Second Avenue South, Minneapolis, Minnesota 55402.

Section 15. Warrant Certificate Holder Not Deemed a Stockholder. No

holder, as such, of any Warrant Certificate shall be entitled to vote or be deemed the holder of Common Stock or any other securities of the Company which may at any time be issuable on the exercise of the Warrants represented thereby for any purpose whatever, nor shall anything contained herein or in any Warrant Certificate be construed to confer upon the holder of any Warrant Certificate, as such, any of the rights of a stockholder of the Company or any right to vote for the election of directors or upon any matter submitted to stockholders at any meeting thereof, or to give or withhold consent to any corporate action (whether upon any recapitalization, issue of stock reclassification of stock, change of par value or change of stock to no par value, consolidation, merger, conveyance or otherwise), or to receive notice of meetings or other actions affecting stockholders (except as provided in Section 13 hereof, or to receive dividends or subscription rights, or otherwise, until such Warrant Certificate shall have been exercised in accordance with the provisions hereof and the receipt of the Purchase Price and any other amounts payable upon such exercise by the Warrant Agent as provided herein.

Section 16. Right of Action. All rights of action in respect to this

Agreement are vested in the respective registered holders of the Warrant Certificates; and any registered holder of any Warrant Certificate, without the consent of the Warrant Agent or of the holder of any Warrant Certificate, may, in his own behalf and for his own benefit, enforce, and may institute and maintain any suit, action or proceeding against the Company suitable to enforce, or otherwise in respect of, his right to exercise the Warrants evidenced by such Warrant Certificate, for the purchase of

shares of the Common Stock in the manner provided in the Warrant Certificate and in this Agreement.

Section 17. Agreement of Holders of Warrant Certificates. Every holder of

a Warrant Certificate, by accepting the same, consents and agrees with the Company, the Warrant Agent and with every other holder of a Warrant Certificate that:

(A) The Warrant Certificates are transferable on the registry books of the Warrant Agent only upon the terms and conditions set forth in this Agreement: and

(B) The Company and the Warrant Agent may deem and treat the person in whose name the Warrant Certificate is registered as the absolute owner for all purposes whatever and neither the Company nor the Warrant Agent shall be affected by any notice to the contrary.

Section 18. Cancellation of Warrant Certificate. In the event that the

Company shall purchase or otherwise acquire any Warrant Certificate or Certificates after the issuance thereof, such Warrant Certificate or Certificates shall thereupon be delivered to the Warrant Agent and be canceled by it and retired. The Warrant Agent shall also cancel any Warrant Certificate delivered to it for exercise, in whole or in part, or delivered to it for transfer, split up, combination or exchange. Warrant Certificates so canceled shall be delivered by the Warrant Agent to the Company from time to time, or disposed of in accordance with the instructions of the Company.

Section 19. Concerning the Warrant Agent. The Company agrees to pay to

the Warrant Agent from time to time, on demand of the Warrant Agent, reasonable compensation for all services rendered by it hereunder and also its reasonable expenses, including counsel fees, and other disbursements incurred in the administration and execution of this Agreement and the exercise and performance of its duties hereunder. The Company also agrees to indemnify the Warrant Agent for, and to hold it harmless against, any loss, liability or expense, incurred without negligence, bad faith or willful misconduct on the part of the Warrant Agent, arising out of or in connection with the acceptance and administration of this Agreement, including the costs and expenses of defending against any claim of liability in the premises.

Section 20. Merger or Consolidation or Change of Name of Warrant Agent.

Any corporation into which the Warrant Agent may be merged or with which it may be consolidated, or any corporation resulting from any merger or consolidation to which the Warrant Agent shall be a party, or any corporation succeeding to the corporate trust business of the Warrant Agent, shall be the successor to the Warrant Agent hereunder without the execution or filing of any paper or any further act on

the part of any of the parties hereto, provided that such corporation would be eligible for appointment as a successor warrant agent under the provisions of Section 22 hereof. In case at the time such successor to the Warrant Agent shall succeed to the agency created by this Agreement, any of the Warrant Certificates shall have been countersigned but not delivered, any such successor to the Warrant Agent may adopt the countersignature of the original warrant agent and deliver such Warrant Certificates so countersigned; and in case at that time any of the Warrant Certificates shall not have been countersigned, any successor to the Warrant Agent may countersign such Warrant Certificates either in the name of the predecessor warrant agent or in the name of the successor warrant agent; and in all such cases such Warrant Certificates shall have the full force provided in the Warrant Certificates and in this Agreement.

In case at any time the name of the Warrant Agent shall be changed and at such time any of the Warrant Certificates shall have been countersigned but not delivered, the Warrant Agent may adopt the countersignature under its prior name and deliver Warrant Certificates so countersigned; and in case at that time any of the Warrant Certificates shall not have been countersigned, the Warrant Agent may countersign such Warrant Certificates either in its prior name or in its changed name; and in all such cases such Warrant Certificates shall have the full force provided in the Warrant Certificates and in this Agreement.

The provisions of this Section 20 shall also apply to any agent appointed pursuant to Section 3 hereof.

Section 21. Duties of Warrant Agent. The Warrant Agent undertakes the

duties and obligations imposed by this Agreement upon the following terms and conditions, by all of which the Company and the holders of Warrant Certificates by their acceptance thereof, shall be bound;

(A) The Warrant Agent may consult with counsel (who may be counsel for the Company) and the opinion of such counsel shall be full and complete authorization and protection to the Warrant Agent as to any action taken, suffered or omitted by it in good faith and in accordance with such opinion; provided, however, that the Warrant Agent shall have exercised reasonable care

in the selection of such counsel.

(B) Whenever in the performance of its duties under this Agreement the Warrant Agent shall deem it necessary or desirable that any fact or matter be proved or established by the Company prior to taking or suffering any action hereunder, such fact or matter (unless other evidence in respect thereof be herein specifically prescribed) may be deemed to be conclusively proved and established by a certificate signed by the Chairman of the Board, the President, the Chief Financial Officer, the Treasurer or the Secretary of the Company and delivered to the Warrant Agent; and

such certification shall be full authorization to the Warrant Agent for any action taken or suffered in good faith by it under the provisions of this Agreement in reliance upon such certificate.

(C) The Warrant Agent shall be liable hereunder only for its own negligence, bad faith or willful misconduct.

(D) The Warrant Agent shall not be liable for or by reason of any of the statements of fact or recitals contained in this Agreement or in the Warrant Certificates (except its countersignature on the Warrant Certificates and such statements or recitals as describe the Warrant Agent or action taken or to be taken by it) or be required to verify the same, but all such statements and recitals are and shall be deemed to have been made by the Company only.

(E) The Warrant Agent shall not be under any responsibility in respect of the validity of this Agreement or the execution and delivery hereof (except the due execution hereof by the Warrant Agent) or in respect of the validity or execution of any Warrant Certificate (except its countersignature thereof), or for any breach by the Company of any covenant or condition contained in this Agreement or in any Warrant Certificate, or for the adjustment of the Purchase Price or the making of any change in the number of shares of Common Stock required under the provisions of Section 8 or for the manner, method or amount of any such change or the ascertaining of the existence of facts that would require any such adjustment or change (except with respect to the exercise of Warrant Certificates after actual notice of any adjustment of the Purchase Price), and it shall not by any act hereunder be deemed to make any representation or warranty as to the authorization or reservation of the shares of Common Stock to be issued pursuant to this Agreement or any Warrant Certificate or as to whether any shares of Common Stock will when issued be validly issued, fully paid and nonassessable.

(F) The Warrant Agent and any stockholder, director, officer, employee or agent appointed pursuant to Section 3 hereof of the Warrant Agent may buy, sell or deal in any of the Warrants or other securities of the Company or become pecuniarily interested in any transaction in which the Company may be interested, or contract with or lend money to or otherwise act as fully and freely as though it was not Warrant Agent under this Agreement. Nothing herein shall preclude the Warrant Agent from acting in any other capacity for the Company or for any other legal entity.

(G) The Warrant Agent is hereby authorized and directed to accept instructions with respect to the performance of its duties hereunder from the Chairman of the Board, the President, the Chief Financial Officer, the Treasurer or the Secretary of the Company, and to apply to such officers for advice or instructions in connection with the Warrant Agent's duties, and it shall not be liable for any

action taken or suffered or omitted by it in good faith in accordance with instructions of any such officer.

(H) The Warrant Agent will not be responsible for any failure of the Company to comply with any of the covenants contained in this Agreement or in the Warrant Certificates to be complied with by the Company.

(I) The Warrant Agent may execute and exercise any of the rights or powers hereby vested in it or perform any duty hereunder either itself or by or through its attorneys, agents or employees, and the Warrant Agent shall not be answerable or accountable for any act, default, neglect or misconduct of any such attorneys, agents or employees or for any loss to the Company resulting from such neglect or misconduct; provided, however, that reasonable care shall -----
have been exercised in the selection and continued employment of such attorneys, agents and employees.

(J) The Warrant Agent will not incur any liability or responsibility to the Company or to any holder of any Warrant Certificate for any action taken, or any failure to take action, in reliance on any notice, resolution waiver, consent, order, certificate, or other paper, document or instrument reasonably believed by the Warrant Agent to be genuine and to have been signed, sent or presented by the proper party or parties.

(K) The Warrant Agent will act hereunder solely as agent of the Company in a ministerial capacity, and its duties will be determined solely by the provisions hereof. The Warrant Agent will not be liable for anything which it may do or refrain from doing in connection with this Agreement except for its own negligence, bad faith or willful misconduct.

Section 22. Change of Warrant Agent. The Warrant Agent may resign and be -----

discharged from its duties under this Agreement upon thirty days prior notice in writing mailed to the Company by registered or certified mail, and to each registered holder of Warrant Certificates. The Company may remove the Warrant Agent or any successor warrant agent upon thirty days' prior notice in writing, made to the Warrant Agent or successor warrant agent, as the case may be, by registered or certified mail. If the Warrant Agent shall resign or be removed or shall otherwise become incapable of acting, the Company shall appoint a successor to the Warrant Agent and shall, within fifteen days following such appointment, give notice thereof in writing to each of the registered holders of the Warrant Certificates. If the Company shall fail to make such appointment within a period of fifteen days after giving notice of such removal or after it has been notified in writing of such resignation or incapacity by the resigning or incapacitated Warrant Agent, then (i) the Company agrees to perform the duties of the Warrant Agent hereunder and (ii) the registered holder of any Warrant Certificate may apply to any court of

competent jurisdiction for the appointment of a new warrant agent. Any successor warrant agent, whether appointed by the Company or by such a court, shall be a bank or trust company, in good standing, having its principal corporate trust office in Minneapolis or St. Paul, Minnesota, or in New York, New York, and having at the time of its appointment as successor warrant agent a combined capital and surplus of at least \$25,000,000. After appointment the successor warrant agent shall be vested with the same powers, rights, duties and responsibilities as if it had been originally named as warrant agent without further act or deed; but the former warrant agent shall deliver and transfer to the successor warrant agent any property at the time held by it hereunder, and execute and deliver any further assurance, conveyance, act or deed necessary for the purpose. Failure to give any notice provided for in this Section, however, or any defect therein shall not affect the legality or validity of the resignation or removal of the Warrant Agent or the appointment of the successor warrant agent, as the case may be.

Any agent appointed pursuant to Section 3 hereof may resign and be discharged from its duties under this Agreement upon thirty days' prior notice in writing mailed to the Warrant Agent at its principal corporate trust offices by registered or certified mail. The Warrant Agent may remove any such agent upon thirty days' prior notice in writing, mailed to such agent by registered or certified mail in the event a successor agent shall be appointed or another office shall be maintained by the Warrant Agent pursuant to Section 3 hereof, the Warrant Agent shall within fifteen days thereafter given notice thereof in writing to each of the registered holders of Warrant Certificates.

Section 23. Issuance of New Warrant Certificates. Notwithstanding any of -----
the provisions of this Agreement or the several Warrant Certificates to the contrary, the Company may, at its option, issue new Warrant Certificates in such form as may be approved by its Board of Directors to reflect any adjustment or change in the Purchase Price or the number or kind of shares purchasable under the several Warrant Certificates made in accordance with the provisions of this Agreement.

Section 24. Notices. Any notice or demand pursuant to this Agreement to -----
be given to or made on the Company by the Warrant Agent or by the registered holder of any Warrant Certificate shall be sufficiently given or made if sent by first-class or registered mail, postage prepaid, addressed (until another address is filed in writing by the Company with the Warrant Agent) as follows:

First Bank System, Inc.
First Bank Place
601 Second Avenue South
Minneapolis, Minnesota 55402
Attention: Corporate Secretary

Any notice pursuant to this Agreement to be given or made by the Company or by the holder of any Warrant Certificate to or on the Warrant Agent shall be sufficiently given or made if sent by first-class mail, postage prepaid, addressed (until another address is filed in writing by the Warrant Agent with the Company) as follows:

American Stock Transfer and Trust Company
40 Wall Street, 46th Floor
New York, New York 10005
Attention: Stock Transfer Department

Any notice or demand authorized to be given or made to the registered holder of any Warrant Certificate under this Agreement shall be sufficiently given or made if sent by first-class or registered, postage prepaid mail, to the last address of such holder as it shall appear on the registers maintained by the Warrant Agent.

Section 25. Modification of Agreement. The Warrant Agent may, without the

consent or concurrence of the holders of the Warrant Certificates, by supplemental agreement or otherwise, concur with the Company in making any changes or corrections in this Agreement that the Warrant Agent shall have been advised by counsel (who may be counsel for the Company) are necessary or desirable to cure any ambiguity or to correct any defective or inconsistent provision or clerical omission or mistake or manifest error herein contained, or to make any other provisions in regard to matters or questions arising hereunder and which shall not be inconsistent with the provisions of the Warrant Certificates and which shall not adversely affect the interests of the holders of Warrant Certificates.

Section 26. Successors. All the covenants and provisions of this

Agreement by or for the benefit of the Company or the Warrant Agent shall bind and inure to the benefit of their respective successors and assigns hereunder.

Section 27. Minnesota Contract. This Agreement and each Warrant

Certificate issued hereunder shall be deemed to be a contract made under the laws of the State of Minnesota and for all purposes shall be construed in accordance with the laws of said State.

Section 28. Benefits of This Agreement. Nothing in this Agreement or in

the Warrant Certificates shall be construed to give to any person or corporation other than the Company, the Warrant Agent, their respective successors and assigns hereunder and the registered holders of the Warrant Certificates any legal or equitable right, remedy or claim under this Agreement, and this Agreement shall be for the sole and exclusive benefit of the Company, the Warrant Agent, their respective successors and assigns hereunder and the registered holders of the Warrant Certificates.

Section 29. Descriptive Headings. The descriptive headings of the several

Sections of this Agreement are inserted for convenience only and shall not control or affect the meaning or construction of any of the provisions hereof.

Section 30. Counterparts. This Agreement may be executed in any number of

counterparts, each of which shall be an original; but such counterparts shall together constitute one and the same instrument.

Section 31. Effectiveness. This Agreement shall become effective on the

Effective Date, at which time the Warrant Agreement shall be deemed to have been superseded in its entirety by this Agreement.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed and their respective seals to be hereunto affixed and attested, all as of the day and year first above written.

FIRST BANK SYSTEM, INC.

By [SIGNATURE]
Its [TITLE]

AMERICAN STOCK TRANSFER AND
TRUST COMPANY

By [SIGNATURE]
Its [TITLE]

and

By [SIGNATURE]
Its [TITLE]

[FRONT OF WARRANT]

VOID AFTER 4 P.M.,
MINNEAPOLIS, MINNESOTA TIME ON NOVEMBER 20, 2000

Certificate Number

Number of Warrants

METROPOLITAN FINANCIAL CORPORATION
WARRANT CERTIFICATE FOR PURCHASE OF COMMON STOCK

THIS CERTIFIES THAT:

or registered assigns, is the registered holder of the number of Warrants set forth above. Each Warrant entitles the holder thereof to purchase from Metropolitan Financial Corporation, a corporation incorporated under the laws of the State of Delaware (the "Company"), subject to the terms and conditions set forth hereinafter and in the Warrant Agreement hereinafter referred to, one-half of one fully paid and nonassessable share of Common Stock, par value \$.01 per share of the Company (the "Common Stock"), upon presentation and surrender of this Warrant Certificate, with the form of election to purchase duly executed, the instructions for the registration and delivery of Common Stock filled in, at any time at or prior to 4:00 p.m., Minneapolis, Minnesota time, on November 20, 2000, at the principal corporate trust offices of American Stock Transfer and Trust Company, 40 Wall Street, New York, New York 10005, the Warrant Agent of the Company (the "Warrant Agent") or of its successor warrant agent or, if there be no successor warrant agent at the corporate offices of the Company, or at an office or agency maintained for such purpose, and upon payment of the purchase price (as hereinafter defined) and any applicable taxes and charges. The purchase price per share of Common Stock is \$12.50 (the "Purchase Price"). The Purchase Price and the number and kind of shares of stock of the Company, purchasable upon the exercise of the Warrants represented hereby are subject to modification and adjustment upon the happening of certain events set forth in the Warrant Agreement.

This Warrant Certificate is subject to all of the terms, provisions and conditions of the Warrant Agreement, dated as of November 20, 1990 (the "Warrant Agreement"), between the Company and the Warrant Agent, to all of which terms, provisions and conditions the registered holder of this Warrant Certificate consents by acceptance hereof. The Warrant Agreement is hereby incorporated herein by reference and made a part hereof and to which Warrant Agreement reference is hereby made for a full description of the rights, limitations of rights, obligations,

duties and immunities hereunder of the Warrant Agent, the Company and the holders of the Warrant Certificates. Copies of the Warrant Agreement are available for inspection at the corporate trust office of the Warrant Agent or at the office or agency maintained for such purpose referred to above.

The Company shall not be required upon the exercise of the Warrants evidenced by this Warrant Certificate to issue fractions of shares, but shall make adjustment therefor to cash on the basis of the current market value of any fractional interest (computed as provided in the Warrant Agreement). In no event shall the Company be required to issue fractions of Warrants.

The Warrant Certificate, with or without other certificates, upon surrender to the Warrant Agent, any successor warrant agent or, in the absence of any successor warrant agent, at the corporate offices of the Company, or at the office or agency maintained for such purposes referred to above, may be exchanged for another Warrant Certificate or Certificates evidencing in the aggregate the same number of Warrants as the Warrant Certificate or Certificates so surrendered. If the Warrants evidenced by this Warrant Certificate shall be exercised in part, the holder hereof shall be entitled to receive upon surrender hereof another Warrant Certificate or Certificates evidencing the number of Warrants not so exercised.

No holder of this Warrant Certificate, as such, shall be entitled to vote on or be deemed the holder of Common Stock or any other securities of the Company which may at any time be issuable on the exercise hereof for any purpose, nor shall anything contained in the Warrant Agreement or herein be construed to confer upon the holder of this Warrant Certificate, as such, any of the rights of a stockholder of the Company or any right to vote for the election of directors or upon any matter submitted to stockholders at any meeting thereof, or give or withhold consent to any corporate action hereunder upon any recapitalization, issue of stock, reclassification of stock, change or par value or change of stock to no par value, consolidation, merger, conveyance or otherwise or to reserve notice of meetings or other actions affecting stockholders (except as provided in the Warrant Agreement), or to receive dividends or subscription rights or otherwise, until the Warrants evidenced by this Warrant Certificate shall have been exercised and the Common Stock or any other securities of the Company purchasable upon the exercise thereof shall have become deliverable as provided in the Warrant Agreement.

If the Warrant Certificate shall be surrendered for exercise within any period during which the transfer books for the Company's Common Stock or any other securities of the Company purchasable upon the exercise of the Warrants evidenced by this Warrant Certificate are closed for any purpose, the Company shall not be required to make delivery of certificates for shares or other securities purchasable upon such exercise until the date of the reopening of said transfer books.

Every holder of this Warrant Certificate by accepting the same consents and agrees with the Company, the Warrant Agent, and with every other holder of a Warrant Certificate that:

- (a) the Warrant Certificate is transferable on the registry books of the Warrant Agent and upon the terms and conditions set forth in the Warrant Agreement; and
- (b) the Company and the Warrant Agent may deem and treat the person in whose name this Warrant Certificate is registered as the absolute owner hereof for all purposes whatever and neither the Company nor the Warrant Agent shall be affected by any notice to the contrary.

The Company shall not be required to issue or deliver any certificate for shares of Common Stock or other securities upon the exercise of Warrants evidenced by this Warrant Certificate until any tax which may be payable in respect thereof shall have been paid, such tax being payable by the holder of this Warrant Certificate at the time of surrender.

This Warrant Certificate shall not be valid or obligatory for any purpose until it shall have been countersigned by the Warrant Agent.

In Witness Whereof, Metropolitan Financial Corporation has caused this Certificate to bear the facsimile signatures of its duly authorized officers and to be sealed with the facsimile seal of the Company.

Dated: November 28, 1990

Countersigned:

AMERICAN STOCK TRANSFER &
TRUST COMPANY
(NEW YORK, NY) WARRANT AGENT

METROPOLITAN FINANCIAL
CORPORATION

By _____
Authorized Signature

Chairman and Chief Executive Officer

Treasurer

[BACK OF WARRANT]

Under the terms of the Warrant Agreement, dated as of November 20, 1990, between the Company and American Stock Transfer and Trust Company, as Warrant Agent, the Company has deposited with the Warrant Agent one share of \$2.875 Cumulative Perpetual Preferred Stock, Series B, of the Company, par value \$.01 per share, for each Warrant to purchase one-half of one share of Common Stock of the Company represented hereby. Until 4:00 p.m., Minneapolis, Minnesota time, on the "Distribution Date" (as defined below), the registered owner of Warrants represented by this certificate is the beneficial owner of such number of shares of Preferred Stock. As soon as practicable after 4:00 p.m., Minneapolis, Minnesota time, on February 19, 1991 or such earlier date as may be publicly announced by the Company with the consent of Dain Bosworth Incorporated and Piper, Jaffray & Hopwood Incorporated (the earlier of such dates being the "Distribution Date"), the Warrant Agent will mail (by first-class, insured, postage prepaid mail) to the holder in whose name the Warrants represented by this Certificate are registered as of 4:00 p.m., Minneapolis, Minnesota time, on the Distribution Date, at the address of such holder as such address shall appear on the records of the Warrant Agent, a certificate evidencing such shares of Preferred Stock registered in the name of such holder. Ownership of such Preferred Stock is not transferable until after 4:00 p.m., Minneapolis, Minnesota time, on the Distribution Date, except by and in connection with the transfer of the Warrants represented by this certificate, and every transfer hereof by the holder hereof at or prior to such time on the Distribution Date shall effect the transfer of the beneficial interest of such holder in the Preferred Stock. After 4:00 p.m., Minneapolis, Minnesota time, on the Distribution Date, the holder of the Warrants represented by this certificate is not, by virtue of being such holder, the beneficial owner of the Preferred Stock. By accepting the Warrants represented by this certificate, the holder hereof shall (prior to 4:00 p.m., Minneapolis, Minnesota time, on the Distribution Date) possess all other rights and obligations of a holder of Preferred Stock as fully and effectually as if he had received the same.

FORM OF ASSIGNMENT

(To Be Executed by the Registered Holder if He Desires to Assign Warrants Evidenced by the Within Warrant Certificate.)

FOR VALUE RECEIVED _____ hereby sells, assigns and transfers unto _____ Warrants, evidenced by the within Warrant Certificate, and does hereby irrevocably constitute and appoint _____ Attorney to transfer the said Warrants evidenced by the within Warrant Certificate on the books of the Company, with full power of substitution.

Dated: _____ Signature

NOTICE: THE ABOVE SIGNATURE MUST CORRESPOND WITH THE NAME AS WRITTEN UPON THE FACE OF THE WITHIN WARRANT CERTIFICATE IN EVERY PARTICULAR, WITHOUT ALTERATION OR ENLARGEMENT OR ANY CHANGE WHATSOEVER.

Signature Guaranteed: FORM OF ELECTION TO PURCHASE

(To Be Executed by the Holder if He Desires to Exercise Warrants Evidenced by the Within Warrant Certificate.)

To: METROPOLITAN FINANCIAL CORPORATION.

The undersigned hereby irrevocably elects to exercise _____ Warrants evidenced by the within Warrant Certificate for, and to purchase thereunder, _____ full shares of Common Stock issuable upon exercise of said Warrants and delivery of \$_____ and any applicable taxes and other charges.

The undersigned requests that certificates for such shares be issued in the name of

PLEASE PRINT NAME AND ADDRESS PLEASE INSERT SOCIAL SECURITY OR TAX IDENTIFICATION NUMBER

If said number of Warrants shall not be all the Warrants evidenced by the within Warrant Certificate, the undersigned requests that a new Warrant Certificate evidencing the Warrants not so exercised be issued in the name of and delivered to

(Please print name and address)

Dated: _____ Signature

NOTICE: The above signature must correspond with the name as written upon the face of the within Warrant Certificate in every particular, without alteration or enlargement or any change whatsoever, or if signed by any other person the Form of Assignment hereon must be duly executed, and if the certificate representing the shares or any Warrant Certificate representing Warrants not exercised is to be registered in a name other than that in which the within Warrant Certificate is registered, the signature of the holder hereof must be guaranteed.

Signature Guaranteed:

FIRST BANK SYSTEM
1987 STOCK OPTION PLAN
(AS AMENDED)

FIRST BANK SYSTEM
1987 STOCK OPTION PLAN
(as amended)

Section 1. Purpose and Effect

(a) The purpose of this Plan is to promote the interest of First Bank System, Inc. (the "Company") and its shareholders by providing a method whereby officers and other key employees of the Company and its subsidiaries may be encouraged to invest in the Company's Common Stock and thereby increase their proprietary interest in its business, encourage them to remain in the employ of the Company and increase their personal interest in its continued success and progress.

(b) This plan is subject to approval by the shareholders of the Company on or before January 1, 1987. No options shall be granted and the Company shall have no obligation of any nature whatsoever to any employee or other person arising out of either this plan or any options to be granted hereunder unless the shareholders shall have approved the plan.

(c) Options granted under the plan may be either "incentive stock options" as defined in Section 422A of the Internal Revenue Code of 1954, as amended (the "Code") or options which do not so qualify (herein called "nonqualified options").

(d) The plan will not confer upon any optionee any right with respect to continuance of employment by the Company or by a subsidiary of the Company, nor will it affect in any way the right of the optionee's employer to terminate the employment of the optionee.

Section 2. Administration

(a) The Board of Directors shall designate from its members a committee (hereinafter referred to as the "Committee"), which Committee shall have full power and authority, subject to such orders or resolutions not inconsistent with the provisions of the plan as may from time to time be issued or adopted by the Board, to interpret the provisions and supervise the administration of the plan. None of the Committee members shall be eligible to receive options. All determinations by the Committee shall be made by the affirmative vote of a majority of its members, but any determination reduced to writing and signed by a majority of the members shall be fully as effective as if it had been made by a majority vote at a meeting duly called and held.

(b) Each option shall be evidenced by an option agreement which shall contain such terms and conditions as may be approved by the Committee and shall be signed by an officer of the Company and the employee.

(c) All decisions made by the Committee pursuant to the provisions of the plan and related orders or resolutions of the Board shall be final, conclusive and binding on all persons, including the Company, shareholders, employees and optionees.

Section 3. Shares Subject to the Plan

(a) The shares to be delivered upon exercise of options granted under the plan shall be made available, at the discretion of the Board of Directors, either from the authorized but unissued shares of the Company's Common Stock or from shares of Common Stock reacquired by the Company, including shares purchased in the open market.

(b) Subject to adjustments made pursuant to the provisions of paragraph (c) of this Section 3, the aggregate number of shares of Common Stock to be delivered upon exercise of all options which may be granted under this plan shall not exceed 1,300,000 shares. If an option granted under the plan shall expire or terminate for any reason during the term of the plan and prior to exercise in full, the shares which were subject to but not delivered under such option shall be available for the grant of other options thereafter.

(c) In the event of a merger, reorganization, consolidation, recapitalization, stock dividend, stock split, or other change in corporate structure affecting the Company's Common Stock, such adjustment shall be made in the aggregate number of shares subject to the plan, and the number and option prices of shares subject to options granted under the plan as may be determined to be appropriate by the Board of Directors upon recommendation by the Committee.

Section 4. Eligibility and Participation

The employees eligible to receive options shall consist of salaried officers and other key employees of the Company and its subsidiaries (whether or not directors of the Company). "Subsidiary" means any corporation (other than the Company) in an unbroken chain of corporations beginning with the Company if, at the time of the granting of the option, each of the corporations other than the last corporation in the unbroken chain owns stock possessing 50 percent or more of the total combined voting power of all classes of stock in one of the other corporations in such chain. Subject to the limitations of the plan, the Committee shall select the employees to be granted options, determine the number and option price of the shares subject to each option, determine the times or rates at which each option

shall become exercisable and determine the time when each option shall be granted. More than one option may be granted to the same employee.

Section 5. Term of the Plan and Option Period

The term during which options may be granted under this plan shall commence on January 1, 1987 and shall expire on February 28, 1992. The maximum period during which each option may be exercised shall be fixed by the Committee at the time such option is granted but shall in no event exceed ten years.

Section 6. Option Price

The price at which shares may be purchased upon exercise of a particular option shall be not less than 100 percent of the fair market value of such shares at the time such option is granted, as determined by the Committee. For this purpose such fair market value shall be the closing price as reported in the composite quotations for the principal stock exchange on which the Company's Common Stock is traded on the day the option is granted.

Section 7. Maximum Option Grants

(a) The aggregate fair market value of the shares (determined in accordance with Section 6 of the plan as of the time an option is granted) for which any employee may be granted incentive stock options in any calendar year shall not exceed \$100,000 (or such larger maximums as may hereafter be permitted under Section 422A of the Code) plus any "unused limit carry-over" as defined in Section 422A of the Code and the regulations issued thereunder.

(b) Nonqualified options may be granted without regard to the foregoing annual limitation; and any option which is intended to be treated as an incentive stock option but would exceed such limitation shall, to the extent of the excess, be treated as a nonqualified stock option. Each option or portion of an option which is intended to be treated as an incentive stock option and which qualifies under Section 422A of the Code will be clearly identified as an incentive stock option and each option or portion of an option not so qualifying will be clearly identified as a nonqualified stock option. Upon exercise of an option which is in part an incentive stock option and in part a nonqualified option, separate stock certificates will be issued for the qualifying portion and the nonqualified portion.

Section 8. Exercise of Option

(a) Except in case of death, disability, retirement or termination of employment as hereinafter provided, each option granted under this plan may be exercised only during the continuance of the optionee's employment with the

Company or its subsidiaries (or a corporation or a subsidiary of such corporation issuing or assuming a stock option in a transaction to which Code Section 425(a) applies). Subject to the foregoing limitation, each option shall be exercisable at such time or times and with respect to such number of shares as shall be fixed by the Committee and set forth in the option agreement.

(b) No incentive stock option granted hereunder to an employee shall be exercisable at any time while there is outstanding any option, qualifying as an incentive stock option under Section 422A of the Code, previously granted to such employee to purchase stock in the Company or in a corporation which (at the time of the granting of such option) is a parent or subsidiary corporation of the Company, or in a predecessor corporation of any such corporation. Any incentive stock option shall be treated as outstanding until such option is exercised in full or expires by reason of lapse in time.

(c) No shares shall be delivered pursuant to the exercise of an option, in whole or in part, until qualified for delivery under such laws and regulations as may be deemed by the Committee to be applicable thereto and until payment in full of the option price therefore is received by the Company. When exercising options in whole or in part, under rules established by the Committee, optionee may be permitted to pay the exercise price either in cash or in shares of the Company's Common Stock or any combination thereof. Stock used to pay the exercise price of any option in whole or in part shall be valued at the closing price as reported in the composite quotations for the principal stock exchange on which the Company's Common Stock is traded on the date of payment. No optionee, or the legal representative, legatee, or distributee of an optionee, shall be deemed to be a holder of any shares subject to such option unless and until the certificate or certificates therefor have been issued.

(d) The Committee may, in its discretion, accelerate the exercise date for any unexercisable option when the Committee deems such action to be appropriate under the circumstances.

Section 9. Nontransferability of Options

An option granted under the plan may not be transferred except by will or the laws of descent and distribution and, during the lifetime of the employee to whom granted, may be exercised only by such employee.

Section 10. Death, Retirement and Termination of Employment

(a) In the event that an optionee shall cease to be employed by the Company or its subsidiaries for any reason other than gross and willful misconduct, death, disability or retirement, such optionee shall have the right to exercise the

option at any time within three months after such termination of employment to the extent of the full number of shares the optionee was entitled to purchase under the option on the date of termination, subject to the condition that no option shall be exercisable after the expiration of the term of the option.

(b) In the event that an optionee shall cease to be employed by the Company or its subsidiaries by reason of gross and willful misconduct during the course of employment, including but not limited to wrongful appropriation of funds of the employer or the commission of a gross misdemeanor or felony, the option shall be terminated as of the date of the misconduct.

(c) Upon termination of employment by reason of disability or retirement, an optionee may purchase all or part of the shares with respect to which such optionee becomes entitled to exercise such option in accordance with the provisions of Section 8 hereof as though such retirement or disability never occurred.

(d) If the optionee shall die while in the employ of the Company or a subsidiary or within three months after termination of employment for any reason other than gross and willful misconduct, and such optionee shall not have fully exercised the option, such option may be exercised at any time within twelve months after the date of death by the personal representatives, administrators, or by any person or persons to whom the option is transferred by will or the applicable laws of descent and distribution, to the extent of the full number of shares the optionee was entitled to purchase under the option on the date of death or termination of employment, if earlier, and subject to the condition that no option shall be exercisable after the expiration of the term of the option.

Section 11. Change in Control

In the event of a change in control, all options granted under this plan shall be immediately exercisable, notwithstanding any other provision of this plan. For this purpose, a change in control shall mean any of the following events:

(a) The merger or consolidation of the Company with, the sale of all or substantially all the assets of the Company to, or the ownership of twenty percent (20%) or more of the total voting capital stock of the Company then issued and outstanding by, any person, or group of associated persons or entities not affiliated with the Company as of the date of this Agreement, either with or without the consent of the Company, or

(b) A situation where individuals who were members of the Board of the Company or Subsidiary immediately prior to a meeting of the shareholders of the Company or Subsidiary involving a contest for the election of directors do not

constitute a majority of the Board immediately following such election, unless the election of such new directors was recommended to the shareholders by management of the Company or such Subsidiary.

(c) A tender offer for the Company's stock.

Section 12. Amendments and Discontinuance

The Board of Directors may amend, suspend or discontinue the plan, but may not, without the approval of the Company's shareholders, make any amendment which would (a) abolish the Committee, change the qualifications of its members, or withdraw the administration of the plan from its supervision, (b) make any material change in the class of eligible employees as defined in the plan, (c) increase the total number of shares for which options may be granted under the plan, (d) extend the term of the plan or the maximum option period, (e) decrease the minimum option price, or (f) permit adjustments in the number and option price of the shares granted under the plan except as permitted by the provisions of paragraph (c) of Section 3 above.

COMPOSITE COPY

FIRST BANK SYSTEM, INC.
EXECUTIVE DEFERRAL PLAN
(1992 STATEMENT)

First Effective January 1, 1992

AND

As Amended By

The FIRST AMENDMENT Adopted October 20, 1993
But Effective January 1, 1994

FIRST BANK SYSTEM, INC.
EXECUTIVE DEFERRAL PLAN
(1992 STATEMENT)

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FIRST BANK SYSTEM, INC.
EXECUTIVE DEFERRAL PLAN
(1992 STATEMENT)

SECTION 1

INTRODUCTION

1.1. STATEMENT OF PLAN. Effective January 1, 1992, FIRST BANK SYSTEM, INC., a Delaware corporation (hereinafter sometimes referred to as "Principal Sponsor") hereby creates a nonqualified, unfunded, elective deferral plan for the purpose of allowing a select group of management and highly compensated employees of the Principal Sponsor and other Employers to defer the receipt of incentive compensation which would otherwise be paid to those employees.

1.2. DEFINITIONS. When the following terms are used herein with initial capital letters, they shall have the following meanings:

1.2.1. ACCOUNT -- the separate bookkeeping account representing the unfunded and unsecured general obligation of Principal Sponsor established with respect to each Participant to which is credited the dollar amounts specified in Section 3 and from which are subtracted payments and forfeitures made pursuant to Section 6. To the extent necessary to accommodate and effect the distribution elections made by Participants pursuant to Section 2, separate bookkeeping sub-accounts shall be established with respect to each of the several annual deferral elections made by Participants.

1.2.2. AFFILIATE -- a business entity which is affiliated in ownership with the Principal Sponsor or an Employer and is recognized as an Affiliate by the Principal Sponsor for the purposes of this Plan.

1.2.3. ANNUAL VALUATION DATE -- each December 31.

1.2.4. BENEFICIARY -- a person designated by a Participant (or automatically by operation of this Plan Statement) to receive all or a part of the Participant's Account in the event of the Participant's death prior to full distribution thereof. A person so designated shall not be considered a Beneficiary until the death of the Participant.

1.2.5. CHANGE IN CONTROL -- an event defined as a Change in Control in the form of nonqualified stock option agreement adopted by the Organization Committee of the Board of Directors under the "First Bank System, Inc. 1991 Stock Incentive Plan" or any comparable successor plan most recently before such event. FBS shall determine the date on which a Change in Control has occurred.

1.2.6. EARLIEST RETIREMENT AGE -- the earlier of:

(i) the earliest date that a Participant who is at least age fifty-five (55) years has a sum of his or her age (in whole years) and Service (also in whole years) that equals at least sixty-five (65), or

(ii) the date a Participant attains Normal Retirement Age.

1.2.7. EFFECTIVE DATE -- January 1, 1992.

1.2.8. EMPLOYER -- the Principal Sponsor and any business entity affiliated with the Principal Sponsor that employs persons who are designated for participation in this Plan.

1.2.9. EVENT OF MATURITY -- any of the occurrences described in Section 5 by reason of which a Participant or Beneficiary may become entitled to a distribution from the Plan.

1.2.10. FBS -- FIRST BANK SYSTEM, INC., a Delaware corporation.

1.2.11. NORMAL RETIREMENT AGE -- the last day of the calendar month in which a Participant attains age sixty-five (65) years.

1.2.12. PARTICIPANT -- an employee of the Employer who is designated as eligible to participate in this Plan by the Organization Committee of the Board of Directors and elects to participate in accordance with the terms of this Plan and becomes a Participant in the Plan in accordance with the provisions of Section 2. An employee shall not be eligible to become a Participant unless the employee is a member of a select group of management or highly compensated employees. No employee is presumed or automatically eligible to participate in this Plan. An employee who has become a Participant shall be considered to continue as a Participant in the Plan until the date of the Participant's death or, if earlier, the date when the Participant is no longer employed by an Employer or an Affiliate and upon which the Participant no longer has any Account under the Plan (that is, the Participant has received a distribution of all of the Participant's Account).

1.2.13. PLAN -- the nonqualified, income deferral program maintained by the Principal Sponsor established for the benefit of Participants eligible to participate therein, as set forth in this Plan Statement. (As used herein, "Plan" does not refer to the documents pursuant to which the Plan is maintained. Those documents are referred to herein as the "Plan Statement"). The Plan shall be referred to as the "FIRST BANK SYSTEM, INC. EXECUTIVE DEFERRAL PLAN."

1.2.14. PLAN STATEMENT -- this document entitled "FIRST BANK SYSTEM, INC. EXECUTIVE DEFERRAL PLAN (1992 Statement)" as adopted by the Organization Committee of the Board of Directors of FIRST BANK SYSTEM, INC. effective as of January 1, 1992, as the same may be amended from time to time thereafter.

1.2.15. PLAN YEAR -- the twelve (12) consecutive month period ending on any Annual Valuation Date.

1.2.16. PRINCIPAL SPONSOR -- FIRST BANK SYSTEM, INC., a Delaware corporation.

1.2.17. TERMINATION OF EMPLOYMENT -- a complete severance of an employee's employment relationship with the Employer and all Affiliates, if any, for any reason other than the employee's death. A transfer from employment with the Employer to employment with an Affiliate of the Employer shall not constitute a Termination of Employment. If an Employer who is an Affiliate ceases to be an Affiliate because of a sale of substantially all the stock or assets of the Employer, then Participants who are employed by that Employer and who cease to be employed by the Principal Sponsor or an Employer on account of the sale of substantially all the stock or assets of the Employer shall be deemed to have thereby had a Termination of Employment for the purpose of commencing distributions from this Plan.

1.2.18. VALUATION DATE -- the last day of each calendar month of the Plan Year.

1.2.19. SERVICE -- a measure of an employee's service with the Employer and all Affiliates (stated as a number of years) which is equal to the number of years of "Vesting Service" determined under the rules of the "First Bank System Personal Retirement Account" (or any similar successor plan) as those rules may exist at the time the Participant's Service is being determined.

1.3. RULES OF INTERPRETATION. An individual shall be considered to have attained a given age on such individual's birthday for that age (and not on the day before). Individuals born on February 29 in a leap year shall be considered to have their birthdays on February 28 in each year that is not a leap year. Notwithstanding any other provision of this Plan Statement or any election or designation made under the Plan, any individual who feloniously and intentionally kills a Participant or Beneficiary shall be deemed for all purposes of this Plan and all elections and designations made under this Plan to have died before such Participant or Beneficiary. A final judgment of conviction of felonious and intentional killing is conclusive for the purposes of this section. In the absence of a conviction of felonious and intentional killing, the Principal Sponsor shall determine whether the killing was felonious and intentional for the purposes of this section. Whenever appropriate, words used herein in the singular may be read in the plural, or words used herein in the plural may be read in the singular; the masculine may include the feminine; and the words "hereof," "herein" or "hereunder" or other similar compounds of the word "here" shall mean and refer to this entire Plan Statement and not to any particular paragraph or section of this Plan Statement unless the context clearly indicates to the contrary. The titles given to the various sections of this Plan Statement are inserted for convenience of reference only and are not part of this Plan Statement, and they shall not be considered in determining the purpose, meaning or intent of any provision hereof. This Plan Statement shall be construed and this Plan shall be administered to create an unfunded plan providing deferred compensation to a select group of management or highly compensated employees so that it is exempt from the requirements of Parts 2, 3 and 4 of Title I of ERISA and qualifies for a form of simplified, alternative compliance with the reporting and disclosure requirements of Part 1 of Title I of ERISA. Any reference in this Plan Statement to a statute or regulation shall be considered also to mean and refer to any subsequent amendment or replacement of that statute or regulation. This document has been executed and delivered in the State of MINNESOTA and has been drawn in conformity to the laws of that State and shall be construed and enforced in accordance with the laws of the State of MINNESOTA.

SECTION 2

PARTICIPATION

2.1. PARTICIPATION. Each employee of the Employer designated by the Organization Committee of the Board of Directors as eligible to enroll in this Plan shall be a participant in the Plan as of the first day of the Plan Year with respect to which the employee first enrolls as Participant. Employees shall be designated as eligible to enroll on a Plan Year by Plan Year basis. Eligibility to enroll one Plan Year does not entitle the employee to enroll the next Plan Year.

2.2. ENROLLMENT. Prior to the first day of any Plan Year, an employee who has been designated as eligible to enroll may make an enrollment for that Plan Year. A separate enrollment shall be made for each Plan Year. Each such enrollment:

- (a) Shall be irrevocable for the remainder of the Plan Year with respect to which it is made once it has been accepted by the Principal Sponsor.

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- (b) Shall designate the amount or portion of the Participant's incentive compensation or base compensation or both which is earned during that Plan Year (without regard to whether it would be paid during that or a subsequent Plan Year) which shall not be paid to the Participant but instead shall be accumulated in this Plan under Section 3 and distributed from this Plan under Section 6. The amount or portion may be designed as a dollar amount or a percentage. The amount or portion of the base compensation

that can be designated shall not exceed fifty percent (50%) of the Participant's base compensation.

- (c) Shall specify the form in which distribution of the portion of the Account attributable to that enrollment shall be made under Section 6 upon the occurrence of an Event of Maturity (and if such designation is not clearly made to the contrary shall be deemed to have been an election of a single lump sum distribution).
- (d) Shall specify whether and what amount of the Account attributable to that enrollment shall be distributed before an Event of Maturity in accordance with Section 6.2.
- (e) Shall be made upon forms furnished by the Principal Sponsor, shall be made at such time as the Principal Sponsor shall determine, shall be made before the beginning of the Plan Year with respect to which it is made and shall conform to such other procedural and substantive rules as the Principal Sponsor shall make.

2.3. SPECIFIC EXCLUSION. Notwithstanding anything apparently to the contrary in this Plan Statement or in any written communication, summary, resolution or document or oral communication, no individual shall be a Participant in this Plan, develop benefits under this Plan or be entitled to receive benefits under this Plan (either for himself or herself or his or her survivors) unless such individual is a member of a select group of management or highly compensated employees (as that expression is used in ERISA). If a court of competent jurisdiction, any representative of the U.S. Department of Labor or any other governmental, regulatory or similar body makes any direct or indirect, formal or informal, determination that an individual is not a member of a select group of management or highly compensated employees (as that expression is used in ERISA), such individual shall not be (and shall not have ever been) a Participant in this Plan at any time. If any person not so defined has been erroneously treated as a Participant in this Plan, upon discovery of such error such person's erroneous participation shall immediately terminate ab initio and the Employer shall distribute the individual's Account immediately.

SECTION 3

ADJUSTMENT OF ACCOUNTS

3.1. ESTABLISHMENT OF ACCOUNTS. There shall be established for each Participant an unfunded, bookkeeping Account which shall be adjusted each Valuation Date.

3.2. ADJUSTMENTS OF ACCOUNTS. As of each Valuation Date (the "current Valuation Date"), the value of each Account determined as of the immediately preceding Valuation Date (the "initial Account value") shall be increased (or decreased) by the following adjustments made in the following sequence:

3.2.1. INTERMEDIATE DISTRIBUTIONS SUBTRACTION. The initial Account value shall be reduced by the total amount distributed in fact to (or with respect to) the Participant (or forfeited in connection with a distribution) from such Account as of a date subsequent to the immediately preceding Valuation Date but prior to the current Valuation Date.

3.2.2. INVESTMENT ADDITION. The initial Account value (as adjusted above) shall be increased by interest.

- (a) The rate shall be determined from time to time by the Principal Sponsor. Except as provided in Section 8, the rate may be changed by the Principal

Sponsor by amendment of the Plan Statement without notice to or the consent of any Participant, former Participant or any Beneficiary.

- (b) Beginning January 1, 1992, the rate for each month shall be determined annually for each Plan Year and shall be equal to the monthly equivalent of one hundred percent (100%) of the 10-year Treasury Note 120 month rolling average (as established on the September 30 of the preceding Plan Year).
- (c) This rate shall be uniform for all Participants for the same Valuation Date but may change from Valuation Date to Valuation Date.

3.2.3. DEFERRAL ADDITION. The initial Account value (as adjusted above) shall be increased by the total amount of incentive compensation, if any, which would have been paid to the Participant as of a date subsequent to the immediately preceding Valuation Date but prior to or coincident with the current Valuation Date but for the enrollment agreement signed by the Participant pursuant to Section 2.

3.2.4. FINAL DISTRIBUTIONS SUBTRACTION. The initial Account value (as adjusted above) shall be reduced by the total amount distributed in fact to (or with respect to) the Participant (or forfeited in connection with a distribution) from such Account as of the current Valuation Date.

SECTION 4

VESTING OF ACCOUNT

Except as provided in Section 6.2 and Section 6.4 (relating to the forfeiture for hardship or Change in Control distributions) and Section 8 (relating to the ability to amend the Plan Statement and terminate the Plan), the Account of each Participant shall be fully (100%) vested and nonforfeitable at all times.

SECTION 5

MATURITY

5.1. EVENTS OF MATURITY. A Participant's Account shall mature and shall become distributable in accordance with Section 6 upon the earliest occurrence of any of the following events while in the employment of the Employer or an Affiliate:

- (a) his or her death, or
- (b) his or her Termination of Employment from the Employer, or
- (c) termination of the Plan;

provided, however, that a termination of the opportunity to make an enrollment by action of the Organization Committee of the Board of Directors pursuant to Section 2 or a transfer of employment to an Affiliate that is not an Employer shall not constitute an Event of Maturity.

5.2. EFFECT OF MATURITY UPON FURTHER PARTICIPATION IN PLAN. On the occurrence of an Event of Maturity, a Participant shall cease to have any interest in the Plan other than the right to receive payment of his or her Account as provided in Section 6 hereof, adjusted from time to time as provided in Section 3.

SECTION 6

DISTRIBUTION

6.1. FORM OF DISTRIBUTION. Upon the occurrence of an Event of Maturity effective as to a Participant, the Principal Sponsor shall commence payment of such Participant's Account (reduced by the amount of any applicable payroll, withholding and other taxes) in the form designated by the Participant in his or her enrollment. A Participant shall not be required to make application to receive payment. Distribution shall not be made to any Beneficiary, however, until such Beneficiary shall have filed a written application for benefits in a form acceptable to the Principal Sponsor and such application shall have been approved by the Principal Sponsor.

6.1.1. FORM OF DISTRIBUTION. Distribution shall be made in whichever of the following forms as the Participant shall have designated in writing at the time of his or her enrollment (to the extent that such election is consistent with the rules of this Plan Statement):

- (a) TERM CERTAIN INSTALLMENTS TO PARTICIPANT. If the Distributee is a Participant and the Account at the Termination of Employment is at least Twenty Thousand Dollars (\$20,000), in a series of annual installments payable over fifteen (15) years. (For the purpose of applying this dollar limitation, all portions of the Account distributable in fifteen annual installments shall be considered together notwithstanding that such amounts may have been attributable to enrollments relating to more than one Plan Year.)
- (b) CONTINUED TERM CERTAIN INSTALLMENTS TO BENEFICIARY. If the Distributee is a Beneficiary of a deceased Participant and distribution had commenced to the deceased Participant before his or her death over a fifteen (15) year period as specified in paragraph (a) above, in a series of annual installments payable over the remainder of the fifteen (15) year period.
- (c) LUMP SUM. If the Distributee is either a Participant or a Beneficiary of a deceased Participant, in a single lump sum payment.

6.1.2. TIME OF PAYMENT. Payment shall be made or commenced to a Participant in accordance with the following rules:

- (a) RETIREMENT. If the Participant's Termination of Employment is on a date on or after the Participant's Earliest Retirement Age, payment shall be made or commenced as of the Annual Valuation Date coincident with or immediately following the Participant's Termination of Employment and shall be made or commenced as soon as practicable after such Annual Valuation Date.
- (b) DEATH. If the payment is made or commenced on account of the Participant's death, payment shall be made or commenced as of the Annual Valuation Date coincident with or immediately following the Participant's Termination of Employment and shall be made or commenced as soon as practicable after such Annual Valuation Date.
- (c) OTHER. In all other cases, payment to the Participant shall be made as of the second Valuation Date subsequent to the Participant's Termination of Employment and shall be made as soon as practicable after such second Valuation Date.

6.1.3. **INSTALLMENT AMOUNTS.** The amount of the annual installments shall be determined by dividing the amount of the Account as of the Annual Valuation Date as of which the installment is being paid by the number of remaining installment payments to be made (including the payment being determined).

6.1.4. **DEFAULT.** If for any reason a Participant shall have failed to make a timely written designation of form for distribution (including reasons entirely beyond the control of the Participant), the distribution shall be made in a single lump sum. No spouse, former spouse, Beneficiary or other person shall have any right to participate in the Participant's selection of a form of benefit.

6.2. PREVIOUSLY SCHEDULED DISTRIBUTION.

6.2.1. **ENROLLING FOR THE DISTRIBUTION.** At the time of enrollment for each Plan Year, each enrolling Participant shall have the opportunity to elect to cause the Plan to make a scheduled distribution to the Participant from the Account of a fixed dollar amount or percentage of Account (not less than \$2,000) as of an Annual Valuation Date designated by the Participant in the enrollment which distribution shall be made as soon as practicable after such Annual Valuation Date. The failure to make such a scheduled distribution election one Plan Year shall not preclude an election in a subsequent Plan Year. Making a scheduled distribution election for one Plan Year shall not require any such election in a subsequent Plan Year. The scheduled distribution election that is made with each Plan Year's enrollment shall relate only to the portion of the Account that is attributable to that Plan Year's deferrals.

6.2.2. **SCHEDULED DISTRIBUTION.** As of the Annual Valuation Date designated by the Participant in his or her enrollment, there shall be distributed from the Account to the Participant such amount as the Participant shall have elected to receive from the Account when the Participant enrolled. Notwithstanding the dollar amount designated by the Participant in his or her enrollment, if a scheduled distribution is required as of an Annual Valuation Date and the value of the portion of the Account that is attributable to the Plan Year's deferrals on such Annual Valuation Date is less than Five Thousand Dollars (\$5,000) the entire Account attributable to that Plan Year's deferrals shall be distributed. In no event shall such scheduled distributions occur after the death of the Participant or after any other Event of Maturity with respect to the Participant. In no event shall such scheduled distributions made pursuant to an enrollment for a Plan Year exceed the Account attributable to that Plan Year.

6.3. HARDSHIP DISTRIBUTIONS.

6.3.1. **WHEN AVAILABLE.** A Participant may receive a hardship distribution from his or her Account if the Principal Sponsor determines that such hardship distribution is for a purpose described in Section 6.3.2 and the conditions in Section 6.3.3 and Section 6.3.4 have been fulfilled. To receive such a distribution, the Participant must file a written hardship distribution application with the Principal Sponsor and furnish such documentation as the Principal Sponsor may require. In the application, the Participant shall specify the basis for the distribution and the dollar amount to be distributed. If such hardship distribution is approved by the Principal Sponsor, distribution shall be made as of the Valuation Date coincident with or next following the approval of a completed application by the Principal Sponsor and such hardship distribution shall be made in a lump sum cash payment as soon as administratively feasible after such Valuation Date. The amount of each hardship distribution shall be taken from the portion of the Account attributable to the earliest enrollment (including related earnings) first.

6.3.2. **PURPOSES.** Hardship distributions shall be allowed under Section 6.3.1 only if the Participant establishes that the hardship distribution is to be made on account of an immediate and heavy financial need of the Participant for which the Participant does not have other available resources.

6.3.3. LIMITATIONS. The amount of the hardship distribution shall not exceed the amount of the Participant's proven immediate and heavy financial need. A hardship distribution shall not be made after the death of the Participant or after the occurrence of any other Event of Maturity. The amount of approved hardship distribution (and the forfeiture described below) shall not exceed the value of the Account.

6.3.4. FORFEITURE. Upon the approval of a hardship distribution, there shall be irrevocably forfeited from the Account of the Participant an amount equal to ten percent (10%) of the amount approved for distribution.

6.4. CHANGE IN CONTROL DISTRIBUTIONS.

6.4.1. WHEN AVAILABLE. A Participant or Beneficiary may receive a distribution of his or her entire Account (after reduction for the forfeiture described in Section 6.4.3) if a Change in Control has occurred and the condition in Section 6.4.2 has been fulfilled. To receive such a distribution, the Participant or Beneficiary must file a written distribution application with the Principal Sponsor. The Principal Sponsor shall approve the Change in Control distribution if such application has been filed and a Change in Control has occurred. Distribution of the entire Account (after reduction for the forfeiture described in Section 6.4.3) shall be made as of the Valuation Date coincident with or next following the approval of a completed application by the Principal Sponsor. Such distribution shall be made in a lump sum cash payment as soon as administratively feasible after such Valuation Date.

6.4.2. LIMITATIONS. The amount of approved Change in Control distribution (and the forfeiture described below) shall not exceed the value of the Account.

6.4.3. FORFEITURE. Upon the approval of a Change in Control distribution, there shall be irrevocably forfeited from the Account of the Participant or Beneficiary an amount equal to five percent (5%) of the Account.

6.5. ACCELERATION OF ANNUAL INSTALLMENTS.

6.5.1. WHEN AVAILABLE. A Participant or Beneficiary who is receiving annual installments may receive an accelerated payment of his or her entire Account (after reduction for the forfeiture described in Section 6.5.2). To receive such an accelerated payment, the Participant or Beneficiary must file a written payment application with the Principal Sponsor. Payment of the accelerated payment (after reduction for the forfeiture described in Section 6.5.2) shall be made as of the Annual Valuation Date coincident with or next following the approval of a completed application by the Principal Sponsor. Such accelerated payment shall be made in a lump sum cash payment as soon as administratively feasible after such Valuation Date. The amount of the accelerated payment shall be equal to the value of the Account as of such Annual Valuation Date (after reduction for the forfeiture described below).

6.5.2. FORFEITURE. Upon the approval of an accelerated payment, there shall be irrevocably forfeited from the Account of the Participant or Beneficiary an amount equal to ten percent (10%) of the Account.

6.6. DESIGNATION OF BENEFICIARIES.

6.6.1. RIGHT TO DESIGNATE. Each Participant may designate, upon forms to be furnished by and filed with the Principal Sponsor, one or more primary Beneficiaries or alternative Beneficiaries to receive all or a specified part of such Participant's Account in the event of such Participant's death. The Participant may change or revoke any such designation from time to time without notice to or consent from any Beneficiary. No such designation, change or revocation shall be effective unless executed by the Participant and received by the Principal Sponsor during the Participant's lifetime.

6.6.2. FAILURE OF DESIGNATION. If a Participant:

- (a) fails to designate a Beneficiary,
- (b) designates a Beneficiary and thereafter revokes such designation without naming another Beneficiary, or
- (c) designates one or more Beneficiaries and all such Beneficiaries so designated fail to survive the Participant,

such Participant's Account, or the part thereof as to which such Participant's designation fails, as the case may be, shall be payable to the first class of the following classes of automatic Beneficiaries with a member surviving the Participant and (except in the case of surviving issue) in equal shares if there is more than one member in such class surviving the Participant:

- Participant's surviving spouse
- Participant's surviving issue per stirpes and not per capita
- Participant's surviving parents
- Participant's surviving brothers and sisters
- Representative of Participant's estate.

6.6.3. DISCLAIMERS BY BENEFICIARIES. A Beneficiary entitled to a distribution of all or a portion of a deceased Participant's Account may disclaim an interest therein subject to the following requirements. To be eligible to disclaim, a Beneficiary must be a natural person, must not have received a distribution of all or any portion of the Account at the time such disclaimer is executed and delivered, and must have attained at least age twenty-one (21) years as of the date of the Participant's death. Any disclaimer must be in writing and must be executed personally by the Beneficiary before a notary public. A disclaimer shall state that the Beneficiary's entire interest in the undistributed Account is disclaimed or shall specify what portion thereof is disclaimed. To be effective, duplicate original executed copies of the disclaimer must be both executed and actually delivered to the Principal Sponsor after the date of the Participant's death but not later than one hundred eighty (180) days after the date of the Participant's death. A disclaimer shall be irrevocable when delivered to the Principal Sponsor. A disclaimer shall be considered to be delivered to the Principal Sponsor only when actually received by the Principal Sponsor. The Principal Sponsor shall be the sole judge of the content, interpretation and validity of a purported disclaimer. Upon the filing of a valid disclaimer, the Beneficiary shall be considered not to have survived the Participant as to the interest disclaimed. A disclaimer by a Beneficiary shall not be considered to be a transfer of an interest in violation of the provisions of Section 6 and shall not be considered to be an assignment or alienation of benefits in violation of federal law prohibiting the assignment or alienation of benefits under this Plan. No other form of attempted disclaimer shall be recognized by the Principal Sponsor.

6.6.4. DEFINITIONS. When used herein and, unless the Participant has otherwise specified in the Participant's Beneficiary designation, when used in a Beneficiary designation, "issue" means all persons who are lineal descendants of the person whose issue are referred to, including legally adopted descendants and their descendants but not including illegitimate descendants and their descendants; "child" means an issue of the first generation; "per stirpes" means in equal shares among living children of the person whose issue are referred to and the issue (taken collectively) of each deceased child of such person, with such issue taking by right of representation of such deceased child; and "survive" and "surviving" mean living after the death of the Participant.

6.6.5. SPECIAL RULES. Unless the Participant has otherwise specified in the Participant's Beneficiary designation, the following rules shall apply:

- (a) If there is not sufficient evidence that a Beneficiary was living at the time of the death of the Participant, it shall be deemed that the Beneficiary was not living at the time of the death of the Participant.
- (b) The automatic Beneficiaries specified in Section 6.6.2 and the Beneficiaries designated by the Participant shall become fixed at the time of the Participant's death so that, if a Beneficiary survives the Participant but dies before the receipt of all payments due such Beneficiary hereunder, such remaining payments shall be payable to the representative of such Beneficiary's estate.
- (c) If the Participant designates as a Beneficiary the person who is the Participant's spouse on the date of the designation, either by name or by relationship, or both, the dissolution, annulment or other legal termination of the marriage between the Participant and such person shall automatically revoke such designation. (The foregoing shall not prevent the Participant from designating a former spouse as a Beneficiary on a form executed by the Participant and received by the Principal Sponsor after the date of the legal termination of the marriage between the Participant and such former spouse, and during the Participant's lifetime.)
- (d) Any designation of a nonspouse Beneficiary by name that is accompanied by a description of relationship to the Participant shall be given effect without regard to whether the relationship to the Participant exists either then or at the Participant's death.
- (e) Any designation of a Beneficiary only by statement of relationship to the Participant shall be effective only to designate the person or persons standing in such relationship to the Participant at the Participant's death.

A Beneficiary designation is permanently void if it either is executed or is filed by a Participant who, at the time of such execution or filing, is then a minor under the law of the state of the Participant's legal residence. The Principal Sponsor shall be the sole judge of the content, interpretation and validity of a purported Beneficiary designation.

6.6.6. NO SPOUSAL RIGHTS. No spouse or surviving spouse of a Participant and no person designated to be a Beneficiary shall have any rights or interest in the benefits accumulated under this Plan including, but not limited to, the right to be the sole Beneficiary or to consent to the designation of Beneficiaries (or the changing of designated Beneficiaries) by the Participant.

6.7. DEATH PRIOR TO FULL DISTRIBUTION. If, at the death of the Participant, any payment to the Participant was due or otherwise pending but not actually paid, the amount of such payment shall be included in the Account which are payable to the Beneficiary (and shall not be paid to the Participant's estate).

6.8. FACILITY OF PAYMENT. In case of the legal disability, including minority, of a Participant or Beneficiary entitled to receive any distribution under the Plan, payment shall be made, if the Principal Sponsor shall be advised of the existence of such condition:

- (a) to the duly appointed guardian, conservator or other legal representative of such Participant or Beneficiary, or
- (b) to a person or institution entrusted with the care or maintenance of the incompetent or disabled Participant or Beneficiary, provided such person or institution has satisfied the Principal Sponsor that the payment will be used for the best interest and assist in the care of such Participant or Beneficiary, and provided further, that no prior claim for said payment has been made by

a duly appointed guardian, conservator or other legal representative of such Participant or Beneficiary.

Any payment made in accordance with the foregoing provisions of this section shall constitute a complete discharge of any liability or obligation of the Principal Sponsor therefor.

SECTION 7

FUNDING OF PLAN

7.1. UNFUNDED AGREEMENT. The obligation of the Employer to make payments under this Plan constitutes only the unsecured (but legally enforceable) promise of the Employer to make such payments. The Participant shall have no lien, prior claim or other security interest in any property of the Employer. The Employer is not required to establish or maintain any fund, trust or account (other than a bookkeeping account or reserve) for the purpose of funding or paying the benefits promised under this Plan. If such a fund is established, the property therein shall remain the sole and exclusive property of the Employer. The Employer will pay the cost of this Plan out of its general assets. All references to accounts, accruals, gains, losses, income, expenses, payments, custodial funds and the like are included merely for the purpose of measuring the Employer's obligation to Participants in this Plan and shall not be construed to impose on the Employer the obligation to create any separate fund for purposes of this Plan.

If the Employer elects to finance all or a portion of its costs in connection with this Plan through the purchase of life insurance or other similar investments, the Participant agrees, as a condition of participation in this Plan, to cooperate with the Employer in the purchase of such investment to any extent reasonably required by the Employer and relinquishes any claim he or she may have either for himself or herself or any beneficiary to the proceeds of any such investment or any other rights or interests in such investment. If a Participant fails or refuses to cooperate, then notwithstanding any other provision of this Plan Statement (including, without limiting the generality of the foregoing, Section 4) the Employer shall distribute the individual's Account immediately and the Participant shall not be eligible to enroll in the Plan again.

7.2. SPENDTHRIFT PROVISION. No Participant or Beneficiary shall have any interest in any Account which can be transferred nor shall any Participant or Beneficiary have any power to anticipate, alienate, dispose of, pledge or encumber the same while in the possession or control of the Employer, nor shall the Employer recognize any assignment thereof, either in whole or in part, nor shall any Account be subject to attachment, garnishment, execution following judgment or other legal process while in the possession or control of the Employer.

The power to designate Beneficiaries to receive the Account of a Participant in the event of such Participant's death shall not permit or be construed to permit such power or right to be exercised by the Participant so as thereby to anticipate, pledge, mortgage or encumber such Participant's Account or any part thereof, and any attempt of a Participant so to exercise said power in violation of this provision shall be of no force and effect and shall be disregarded by the Employer.

This section shall not prevent the Employer from exercising, in its discretion, any of the applicable powers and options granted to it upon the occurrence of an Event of Maturity, as such powers may be conferred upon it by any applicable provision hereof.

SECTION 8

AMENDMENT AND TERMINATION

The Principal Sponsor reserves the power to amend the Plan Statement or terminate the Plan prior to a Change in Control. No such amendment of the Plan Statement or termination of the Plan, however, shall reduce a Participant's Account earned as of the date of such amendment unless the Participant so affected consents in writing to the amendment. After a Change in Control, the Plan cannot be amended or terminated (as applied to Participants who are Participants on the date of the Change in Control) unless:

- (a) all Accounts of all Participants as of the date of the Change in Control have been paid, or
- (b) eighty percent (80%) of all the Participants as of the date of the Change in Control give written consent to such amendment or termination.

SECTION 9

DETERMINATIONS -- RULES AND REGULATIONS

9.1. DETERMINATIONS. The Principal Sponsor shall make such determinations as may be required from time to time in the administration of the Plan. The Principal Sponsor shall have the discretionary authority and responsibility to interpret and construe the Plan Statement and to determine all factual and legal questions under the Plan, including but not limited to the entitlement of Participants and Beneficiaries, and the amounts of their respective interests. Each interested party may act and rely upon all information reported to them hereunder and need not inquire into the accuracy thereof, nor be charged with any notice to the contrary.

9.2. RULES AND REGULATIONS. Any rule not in conflict or at variance with the provisions hereof may be adopted by the Principal Sponsor.

9.3. METHOD OF EXECUTING INSTRUMENTS. Information to be supplied or written notices to be made or consents to be given by the Principal Sponsor pursuant to any provision of this Plan Statement may be signed in the name of the Principal Sponsor by any officer who has been authorized to make such certification or to give such notices or consents.

9.4. CLAIMS PROCEDURE. The claims procedure set forth in this Section 9.4 shall be the exclusive procedure for the disposition of claims for benefits arising under the Plan until such time as a Change in Control occurs.

9.4.1. ORIGINAL CLAIM. Any employee, former employee or beneficiary of such employee or former employee may, if he or she so desires, file with the Principal Sponsor a written claim for benefits under the Plan. Within ninety (90) days after the filing of such a claim, the Principal Sponsor shall notify the claimant in writing whether the claim is upheld or denied in whole or in part or shall furnish the claimant a written notice describing specific special circumstances requiring a specified amount of additional time (but not more than one hundred eighty days from the date the claim was filed) to reach a decision on the claim. If the claim is denied in whole or in part, the Principal Sponsor shall state in writing:

- (a) the specific reasons for the denial;
- (b) the specific references to the pertinent provisions of this Plan Statement on which the denial is based;
- (c) a description of any additional material or information necessary for the claimant to perfect the claim and an explanation of why such material or information is necessary; and

- (d) an explanation of the claims review procedure set forth in this section.

9.4.2. CLAIMS REVIEW PROCEDURE. Within sixty (60) days after receipt of notice that the claim has been denied in whole or in part, the claimant may file with the Principal Sponsor a written request for a review and may, in conjunction therewith, submit written issues and comments. Within sixty (60) days after the filing of such a request for review, the Principal Sponsor shall notify the claimant in writing whether, upon review, the claim was upheld or denied in whole or in part or shall furnish the claimant a written notice describing specific special circumstances requiring a specified amount of additional time (but not more than one hundred twenty days from the date the request for review was filed) to reach a decision on the request for review.

9.4.3. GENERAL RULES.

- (a) No inquiry or question shall be deemed to be a claim or a request for a review of a denied claim unless made in accordance with the claims procedure. The Principal Sponsor may require that any claim for benefits and any request for a review of a denied claim be filed on forms to be furnished by the Principal Sponsor upon request.
- (b) All decisions on claims and on requests for a review of denied claims shall be made by the Principal Sponsor.
- (c) the Principal Sponsor may, in its discretion, hold one or more hearings on a claim or a request for a review of a denied claim.
- (d) A claimant may be represented by a lawyer or other representative (at the claimant's own expense), but the Principal Sponsor reserves the right to require the claimant to furnish written authorization. A claimant's representative shall be entitled to copies of all notices given to the claimant.
- (e) The decision of the Principal Sponsor on a claim and on a request for a review of a denied claim shall be served on the claimant in writing. If a decision or notice is not received by a claimant within the time specified, the claim or request for a review of a denied claim shall be deemed to have been denied.
- (f) Prior to filing a claim or a request for a review of a denied claim, the claimant or his or her representative shall have a reasonable opportunity to review a copy of this Plan Statement and all other pertinent documents in the possession of the Principal Sponsor.

9.5. INFORMATION FURNISHED BY PARTICIPANTS. The Principal Sponsor shall not be liable or responsible for any error in the computation of the Account of a Participant resulting from any misstatement of fact made by the Participant, directly or indirectly, to the Principal Sponsor, and used by it in determining the Participant's Account. The Principal Sponsor shall not be obligated or required to increase the Account of such Participant which, on discovery of the misstatement, is found to be understated as a result of such misstatement of the Participant. However, the Account of any Participant which are overstated by reason of any such misstatement shall be reduced to the amount appropriate in view of the truth.

SECTION 10

PLAN ADMINISTRATION

10.1. EMPLOYER.

10.1.1. OFFICERS. Except as hereinafter provided, functions generally assigned to the Principal Sponsor shall be discharged by its officers or delegated and allocated as provided herein.

10.1.2. CHIEF EXECUTIVE OFFICER. Except as hereinafter provided, the Chief Executive Officer of the Principal Sponsor may delegate or redelegate and allocate and reallocate to one or more persons or to a committee of persons jointly or severally, and whether or not such persons are directors, officers or employees, such functions assigned to the Employer generally hereunder as the Chief Executive Officer may from time to time deem advisable.

10.1.3. BOARD OF DIRECTORS. Notwithstanding the foregoing, the Organization Committee of the Board of Directors of the Principal Sponsor shall have the exclusive authority, which may not be delegated, to act for the Principal Sponsor to amend this Plan Statement, to terminate this Plan, and to determine eligibility to participate in the Plan under Section 2.

10.2. CONFLICT OF INTEREST. If any officer or employee of the Employer, or any member of the Organization Committee of the Board of Directors of the Employer to whom authority has been delegated or redelegated hereunder shall also be a Participant in the Plan, such Participant shall have no authority as such officer, employee or member with respect to any matter specially affecting such Participant's individual interest hereunder or the interest of a person superior to him or her in the organization (as distinguished from the interests of all Participants and Beneficiaries or a broad class of Participants and Beneficiaries), all such authority being reserved exclusively to the other officers, employees or members as the case may be, to the exclusion of such Participant, and such Participant shall act only in such Participant's individual capacity in connection with any such matter.

10.3. ADMINISTRATOR. FIRST BANK SYSTEM, INC. shall be the administrator for purposes of section 3(16)(A) of the Employee Retirement Income Security Act of 1974.

10.4. SERVICE OF PROCESS. In the absence of any designation to the contrary by the Employer, the Secretary of FIRST BANK SYSTEM, INC. is designated as the appropriate and exclusive agent for the receipt of service of process directed to the Plan in any legal proceeding, including arbitration, involving the Plan.

SECTION 11

DISCLAIMERS

11.1. TERM OF EMPLOYMENT. Neither the terms of this Plan Statement nor the benefits hereunder nor the continuance thereof shall be a term of the employment of any employee. The Employer shall not be obliged to continue the Plan. The terms of this Plan Statement shall not give any employee the right to be retained in the employment of the Employer.

11.2. SOURCE OF PAYMENT. Neither the Employer nor any of its officers nor any member of its Organization Committee of the Board of Directors in any way secure or guarantee the payment of any benefit or amount which may become due and payable hereunder to any Participant or to any Beneficiary or to any creditor of a Participant or a Beneficiary. Each Participant, Beneficiary or other person entitled at any time to payments hereunder shall look solely to the assets of the Employer for such payments or to the Accounts distributed to any Participant or Beneficiary, as the case may be, for such payments. In each case where Accounts shall have been distributed to a former Participant or a Beneficiary or to the person or any one of a group of persons entitled jointly to the receipt thereof and which purports to cover in full the benefit hereunder, such former Participant or Beneficiary, or such person or persons, as the

case may be, shall have no further right or interest in the other assets of the Employer. Neither the Employer nor any of its officers nor any member of its Board of Directors shall be under any liability or responsibility for failure to effect any of the objectives or purposes of the Plan by reason of the insolvency of the Employer.

11.3. DELEGATION. The Employer and its officers and the members of its Board of Directors shall not be liable for an act or omission of another person with regard to a responsibility that has been allocated to or delegated to such other person pursuant to the terms of this Plan Statement or pursuant to procedures set forth in this Plan Statement.

_____, 1991

FIRST BANK SYSTEM, INC.

By _____

Its _____

I. PURPOSE OF PLAN

The purpose of the First Bank System ("FBS") Annual Incentive Plan ("Plan") is to:

- * Focus attention on both near-term performance results and long-term strategic objectives;
- * Emphasize financial and strategic business unit performance and incorporate relative performance and discretion into the evaluation process; and
- * Strengthen the link between performance and pay by building significant risk (and potential return) into the award opportunity.

II. ELIGIBILITY FOR PARTICIPATION

- A. Participation in this Plan generally is limited to employees in positions which either control or directly influence key company or business unit resources. Participants are not required to be in managerial positions. Ongoing participation in this Plan is at the discretion of FBS executive management.
- B. Participation in this Plan is subject to approval by respective group and business unit executives and the Chairman, President and Chief Executive Officer, First Bank System or the Executive Vice President, Human Resources on his behalf. Newly hired or transferred employees, or employees promoted to qualifying positions will become eligible for participation at the discretion of FBS executive management.
- C. Participants are ineligible for participation in any other FBS incentive, bonus, or other variable pay plan, unless so authorized by the Chairman, President and Chief Executive Officer, First Bank System or the Executive Vice President, Human Resources on his behalf.

III. BASIS OF AWARDS

- A. Performance objectives for each Participant are established at the beginning of the Plan year. Each Participant's performance objectives should be documented for review and approval through the respective group executive level, and may also be reviewed and approved by the Chairman, President and Chief Executive Officer, First Bank System or the Executive Vice President, Human Resources on his behalf.

When establishing individual objectives, managers should ensure that performance standards and criteria are compatible with those established in the FBS Executive Incentive Plan. Consideration should be given to annual financial performance objectives for the group or business unit and discretionary criteria which may include

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quantitative and qualitative measures, key initiatives, and/or individual performance expectations.

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- B. The Plan has no preestablished objective categories, weightings, or formulas. However, it is recommended that discretionary criteria and objectives be established in the areas of "Growth", "Profitability", "Risk" and overall "Management." At year-end, the profitability of FBS and the group or business unit will define the range of award opportunity. A discretionary assessment of individual performance against financial and strategic measures will determine the amount, if any, actually paid to each Participant.
- C. The provisions of the Plan are subject to periodic review and possible change throughout the Plan year with the approval of the Chairman, President and Chief Executive Officer, First Bank System or the Executive Vice President, Human Resources on his behalf.

IV. AWARD PAYMENTS

- A. Target awards are expressed as a percentage of the Participant's November 30 annualized base salary. Although target award percentages are established for Participants based on grade level, Participants are not entitled to payouts solely by virtue of their participation in the Plan. Actual award amounts, if any, will be based on FBS, group and business unit performance and FBS executive management's discretionary evaluation of individual performance results. Target awards by grade level are as follows:

Grade Level	Annual Target Award*
23-24	70%
21-22	50%
19-20	45%
17-18	40%

* As a percentage of November 30 annualized base salary

There is no preestablished limit on the amount that may be paid to a Participant.

- B. Target awards for individuals who become eligible for participation during the Plan year will be based on their November 30 annualized base salary, prorated by the number of full calendar months of actual Plan participation during the Plan year.
- C. If a Participant's target award opportunity changes due to promotion or position reevaluation, the Plan year November 30 annualized based salary will be used to

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determine the target award. The percentage used to calculate the target award will be prorated to reflect the target percentage prior to the change plus the target percentage after the change (e.g., seven months at 40% and five months at 45%). In evaluating the performance of Participants who change jobs during the Plan year, the length of time and performance results in each position will be considered.

- D. Awards are determined on an annual basis and paid during the first quarter of the following year. Payment is made by direct deposit to the Participant's checking account or by check if the Participant does not have a checking account with FBS. Applicable withholdings are deducted from the payment. Awards are considered earned by the Participant on the date of actual distribution.
- E. The Chairman, President and Chief Executive Officer, First Bank System or the Executive Vice President, Human Resources on his behalf approves all award recommendations prior to submission for payment. Individual award payments may be adjusted, at the discretion of the Chairman, President and Chief Executive Officer or the Executive Vice President, Human Resources on his behalf, to reflect the impact of any event which distorts actual results achieved. Any and all awards are paid at the discretion of FBS executive management.

V. CHANGES IN EMPLOYMENT STATUS

- A. If a Participant dies, becomes disabled (as defined by FBS Short-Term or Long-Term Disability Plan provision), retires (as defined by FBS Personnel Retirement Account provisions), or is on a leave of absence (as defined in the FBS Employee Handbook), he/she may be eligible for an award based on a year-end discretionary evaluation of performance results through the last date of active employment in the Plan-eligible position prorated by the number of full calendar months of the Participant's active employment in the Plan-eligible position.
- B. In the event of death, the award payment (if any) will be issued in the name of the deceased and either deposited in the deceased's checking account (if open) or forwarded to the estate.
- C. Participants who transfer within the company or out of eligible positions may be eligible for prorated awards based on tenure in the qualifying position, overall performance level, actual results attained, management discretion, and the approval of the Chairman, President and Chief Executive Officer, First Bank System or the Executive Vice President, FBS Human Resources on his behalf.

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- D. Under most circumstances, Participants who voluntarily or involuntarily terminate their employment with FBS prior to the date of actual payment will receive no award. Any exceptions require the approval of the Chairman, President and Chief Executive Officer, First Bank System or the Executive Vice President, FBS Human Resources on his behalf.
- E. If a Participant's employment is involuntarily terminated for reasons other than position elimination, no award will be paid.
- F. Generally, awards are determined and paid according to the provisions in Sections III and IV of this Plan document. Any exceptions require the approval of the Chairman, President and Chief Executive Officer, First Bank System or the Executive Vice President, FBS Human Resources on his behalf.

VI. ETHICAL AND LEGAL STANDARDS

- A. Participants are required to be familiar with the FBS Code of Ethics and comply with the letter and spirit of its provisions at all times.
- B. Particular emphasis is placed on policies prohibiting:
 - * Any internal communication of confidential customer information between FBS lending and FBS investment functions;
 - * Trading in or recommending the purchase or sale of certain securities based on "material inside information" about FBS or a customer;
 - * Accepting or giving gifts or favors above a nominal value;
 - * Potential conflicts of interest relative to fiduciary appointment, legacy under wills or trusts, lending relationships, participation in public affairs and directorships;
 - * Arrangements with competitors that set or control prices, rates, trade practices, or marketing policies; and/or
 - * Conditional agreements with customers--for example, conditioning the sale of goods or services on their purchasing additional FBS goods and services.
- C. In addition, a Participant shall not pay, offer to pay, assign or give any part of his/her compensation or any other money to any agent, customer, or representative of the customer or any other person as an inducement or reward for assistance in making a sale. Moreover, no rights under this Plan shall be assignable or subject to any pledge or encumbrance of any nature.

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- D. If a Participant fails to comply with the FBS code of Ethics or the ethical and legal provisions included in Section VI of this Plan document, his/her award may be deferred, reduced, or denied at the discretion of FBS management.

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VII. ADOPTION AND ADMINISTRATION

- A. This Plan was approved by the Chairman, President and Chief Executive Officer, First Bank System or the Executive Vice President, Human Resources on his behalf. This Plan is effective commencing January 1, 1997 and continuing until terminated or otherwise amended. In the event of Plan amendment or termination, written notification including a revised Plan (when appropriate) will be provided to Plan Participants as soon as practicable following the effective date of such change.
- B. General authority for Plan administration is held by the Chairman, President and Chief Executive Officer, First Bank System or the Executive Vice President, Human Resources on his behalf. Responsibility for on-going Plan administration rests with FBS group executives.
- C. Any exceptions to the provisions in this Plan require approval of the Chairman, President and Chief Executive Officer, First Bank System or the Executive Vice President, Human Resources on his behalf. They have sole authority to interpret the terms of this Plan.
- D. This Plan supersedes all prior variable pay plans. No agreements or understandings will modify this Plan unless they are in writing and approved by the Chairman, President and Chief Executive Officer, First Bank System or the Executive Vice President, Human Resources on his behalf. This Plan is reviewed annually to determine the appropriateness of future continuation.
- E. The Chairman, President and Chief Executive Officer, First Bank System or the Executive Vice President, Human Resources on his behalf, reserves the right to amend this Plan, in whole or in part, including termination of such Plan at any time. Such amendments may preclude or alter the amount or timing of any payments or all awards.
- F. Participation in this Plan does not create any contract rights in the Participant, constitute a contract of employment nor a contractual agreement of payment, and shall not affect the right of FBS to discharge, transfer, or change the position of a Participant. The Plan shall not be construed to limit or prevent FBS from adopting or changing, from time to time, any rules, standards, or procedures affecting a Participant's employment with FBS or any FBS affiliate, including those which affect award payments.

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- G. If any provision of this Plan is found to be illegal, invalid or unenforceable under present or future laws, that provision shall be severed from the Plan. If such a provision is severed, this Plan shall be construed and enforced as if the severed provision had never been a part of it and the remaining provisions of the Plan shall remain in full force and effect and shall not be affected by the severed provision or by its severance from this Plan. In place of any severed provision, there shall be added automatically as part of this Plan a provision as similar in terms to the severed provision as may be possible and be legal, valid, and enforceable.

COMPOSITE COPY

FIRST BANK SYSTEM, INC.
INDEPENDENT DIRECTOR
RETIREMENT AND DEATH BENEFIT PLAN
(1991 RESTATEMENT)

First Effective January 1, 1987
As Amended and Restated Effective May 15, 1991

AND

As Amended By

The FIRST AMENDMENT Adopted February 15, 1995
But Effective January 1, 1995

The SECOND AMENDMENT Adopted July 17, 1996
But Effective January 1, 1996

FIRST BANK SYSTEM, INC.
INDEPENDENT DIRECTOR
RETIREMENT AND DEATH BENEFIT PLAN
(1991 RESTATEMENT)

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FIRST BANK SYSTEM, INC.
INDEPENDENT DIRECTOR
RETIREMENT AND DEATH BENEFIT PLAN
(1991 RESTATEMENT)

SECTION 1

INTRODUCTION

1.1. RESTATEMENT OF PLAN. Effective February 18, 1987, FIRST BANK SYSTEM, INC., a Delaware corporation (hereinafter sometimes referred to as "FBS"), adopted the "First Bank System, Inc. Independent Director retirement and Death Benefit Plan" for the purpose of establishing a supplemental retirement and death benefit plan for the benefit of certain eligible members of its Board of Directors (hereinafter referred to as the "Plan"). FBS reserved the right to amend and terminate that Prior Plan Statement from time to time. FBS now desires to exercise that reserved power of amendment by the adoption of this Plan Statement effective as of May 15, 1991.

1.2. DEFINITIONS. When used herein with initial capital letters, the following words have the following meanings:

1.2.1. ACCRUED BENEFIT -- the aggregate amount determined for the Director as of a specified date equal to:

- (a) the annualized amount of the base director retainer (exclusive of committee attendance and similar extra fees) in effect on the date on which occurs the earlier of: (i) the Director's Termination of Service, or (ii) the Director's death; multiplied by
- (b) the number of full years, and fractions of years, of the Director's Director Service (not to exceed ten years).

For this purpose, fractions of years shall be recorded in twelfths (1/12) and one-twelfth of a year of Director Service shall be credited only for each full calendar month of Director Service.

1.2.2. BENEFICIARY -- a person designated by a Director (or automatically by operation of this Plan Statement) to receive all or a part of the Director's benefit in the event of the Director's death prior to full distribution thereof. A person so designated shall not be considered a Beneficiary until the death of the Director.

1.2.3. CHANGE IN CONTROL -- any of the following events:

- (a) a change in control of a nature that would be required to be reported in response to Item 6(e) of Schedule 14A of Regulation 14A promulgated under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), whether or not FBS is then subject to such reporting requirement; or
- (b) the public announcement (which, for purposes of this definition, shall include, without limitation, a report filed pursuant to Section 13(d) of the Exchange Act) by FBS or any "person" (as such term is used in Sections 13(d) and 14(d) of the Exchange Act) that such person has become the "beneficial owner" (as defined in Rule 13d-3 promulgated under the Exchange Act), directly or indirectly, of securities of FBS representing 20% or more of the combined voting power of FBS's then outstanding securities; provided, however, that notwithstanding the foregoing, no Change in

Control shall be deemed to have occurred for purposes of this Agreement in the event that twenty percent (20%) or more of the total voting capital stock of FBS then issued and outstanding is owned by

- (i) FBS, any subsidiary of FBS or any employee benefit plan of FBS or of any subsidiary of FBS or any entity holding shares of the Common Stock organized, appointed or established for, or pursuant to the terms of, any such plan (any such person or entity described in this clause (i) is referred to herein as a "FBS Entity") or
 - (ii) Corporate Partners, L.P., Corporate Offshore Partners, L.P., The State Board of Administration of Florida, their respective "Affiliates" (including, for this purpose, their respective limited partners) and/or any "Permitted Transferee" of such "Persons" (collectively, the "Investors"), who have acquired or will acquire such stock at any time pursuant to, in conformity with and as contemplated by the terms of the fully executed version of that certain Stock Purchase Agreement and related documents dated as of May 30, 1990, by FBS with the Investors (the terms "Affiliates", "Permitted Transferee" and "Persons" shall have the meanings given to them in the Stock Purchase Agreement); or
- (c) the announcement of a tender offer by any person or entity (other than an FBS Entity) for 20% or more of FBS's voting capital stock then issued and outstanding, which tender offer has been approved by the Board of Governors of the Federal Reserve System and has not been approved by the Board, a majority of the members of which are Continuing Directors (as hereinafter defined), and recommended to the shareholders of FBS; or
- (d) the Continuing Directors (as hereinafter defined) cease to constitute a majority of FBS's Board of Directors; or
- (e) the shareholders of FBS approve
- (i) any consolidation or merger of FBS in which FBS is not the continuing or surviving corporation or pursuant to which shares of FBS stock would be converted into cash, securities or other property, other than a merger of FBS in which shareholders immediately prior to the merger have the same proportionate ownership of stock of the surviving corporation immediately after the merger;
 - (ii) any sale, lease, exchange or other transfer (in one transaction or a series of related transactions) of all or substantially all of the assets of FBS; or
 - (iii) any plan of liquidation or dissolution of FBS; or
- (f) the majority of the members of the Organization Committee determines in its sole and absolute discretion that there has been a Change in Control of FBS.

For this purpose, "Continuing Director" shall mean any person who is a member of the Board of Directors of FBS, while such person is a member of the Board of Directors, who is not an Acquiring Person (as defined below) or an Affiliate or Associate (as defined below) of an Acquiring Person, or a representative of an Acquiring Person or of any such Affiliate or Associate, and who

- (i) was a member of the Board of Directors on the date of this Agreement as

first written above or

- (ii) subsequently becomes a member of the Board of Directors, if such person's initial nomination for election or initial election to the Board of Directors is recommended or approved by a majority of the Continuing Directors.

For this purpose, "Acquiring Person" shall mean any "person" (as such term is used in Sections 13(d) and 14(d) of the Exchange Act) who or which, together with all Affiliates and Associates of such person, is the "beneficial owner" (as defined in Rule 13d-3 promulgated under the Exchange Act), directly or indirectly, of securities of FBS representing 20% or more of the combined voting power of FBS's then outstanding securities, but shall not include the Investors or any FBS Entity; and "Affiliate" and "Associate" shall have the respective meanings ascribed to such terms in Rule 12b-2 promulgated under the Exchange Act. FBS shall determine the date on which a Change in Control has occurred.

1.2.4. DIRECTOR -- an individual serving on the Board of Directors of FBS who is not at the same time a common law employee of FBS or any of its subsidiary corporations.

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SECOND AMENDMENT-EFFECTIVE JANUARY 1, 1996

1.2.5. DIRECTOR SERVICE -- a measure of a Director's service as a Director (stated as a number of months) which is equal to the total completed months of the individual's service as a Director (irrespective of any Termination of Service and subsequent reentry into service as a Director); subject, however, to the following:

- (a) PRE-EFFECTIVE SERVICE. Director Service shall be credited for any period of service completed before January 1, 1991, as if this Plan Statement were then in effect.
- (b) SUBSIDIARY SERVICE. In the case of a Director who has performed at least one (1) month of actual Director Service, Director Service shall be credited for services performed as a member of the board of directors of any corporation which is an eighty percent (80%) or greater subsidiary of FBS (while such corporation was at least an eighty percent subsidiary of FBS) as if such service were performed as a Director for FBS.
- (c) ACQUIRED ENTITIES SERVICE. In the case of a Director who has performed at least one (1) month of actual Director Service, Director Service shall be credited for pre-acquisition services performed as a member of the board of directors of any corporation if not less than ninety-five percent (95%) of its capital stock of that corporation is directly or indirectly acquired by FBS as if such pre-acquisition services were performed as a Director for FBS; provided, however, that such service shall be credited only if the Director agrees to have offset from benefits due under this Plan the value of benefits attributable such service in a fair and equitable manner as determined by the Organization Committee of the Board of Directors.
- (d) ADVISORY BOARDS SERVICE. In the case of a Director who has performed at least one (1) month of actual Director Service, Director Service shall be credited for services performed as a member of an advisory board of any subsidiary described in (b) above or any acquired entity described in (c) above as if such service were performed as a Director for FBS; provided, however, that such service shall be credited only if the Director agrees to have offset from benefits due under this Plan the value of benefits

attributable such service in a fair and equitable manner as determined by the Organization Committee of the Board of Directors.

- (e) EXCLUDED SERVICE. Director Service shall not be credited for any period of service during which the Director is a common law employee of FBS or any of its subsidiary corporations or acquired entities.

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1.2.6. FBS -- FIRST BANK SYSTEM, INC., a Delaware corporation.

1.2.7. PLAN -- the supplemental retirement and death benefit program maintained by FBS for the Board of Directors eligible to participate therein, as first set forth in the Prior Plan Statement effective February 18, 1987, and as amended and restated in the Plan Statement. (As used herein, "Plan" does not refer to the documents pursuant to which the Plan is maintained. Those documents are referred to herein as the "Prior Plan Statement" and the "Plan Statement.") The Plan shall be referred to as the "FIRST BANK SYSTEM, INC. INDEPENDENT DIRECTOR RETIREMENT AND DEATH BENEFIT PLAN."

1.2.8. PLAN STATEMENT -- this document entitled "FIRST BANK SYSTEM, INC. INDEPENDENT DIRECTOR RETIREMENT AND DEATH BENEFIT PLAN (1991 Restatement)," as adopted by FBS effective as of May 15, 1991 as the same may be amended from time to time thereafter.

1.2.9. PRESENT VALUE -- the actuarially equivalent single sum value of the unpaid installments of the Supplemental Retirement Pension determined as of a specified date assuming:

- (a) that the installments would have commenced on the earliest date when the installments benefit could have commenced; and
- (b) the interest rate used by the Pension Benefit Guaranty Corporation to value annuities (for participants who are the same age) in the event of plan terminations occurring on the first day of the calendar year in which occurs the date as of which the actuarially equivalent single sum is being determined.

The number of unpaid installments of the Supplemental Retirement Pension shall never be greater than ten (10) minus the number of annual installments already paid and shall never be less than zero (0).

1.2.10. PRIOR PLAN STATEMENT -- the series of documents pursuant to which this Plan was established as of January 1, 1987, and operated thereafter until May 15, 1991.

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1.2.12. SUPPLEMENTAL RETIREMENT PENSION -- the pension benefit described in Section 3.1.

1.2.13. TERMINATION OF SERVICE -- the termination of the Director's service as a Director for any of the following reasons:

- (a) The Director retires as required under the terms of the FBS Directors' Retirement Policy then in effect.
- (b) The Director resigns voluntarily.
- (c) The Director is not reelected to a succeeding term as a member of the Board of Directors when his or her term expires.

- (d) The Director terminates after he or she is determined by FBS to be disabled and is, therefore, unable to fulfill the duties of a member of the Board of Directors because of that disability, however caused.

When necessary, FBS shall determine the date of the Termination of Service. The death of the Director is not a Termination of Service.

1.3. RULES OF INTERPRETATION. An individual shall be considered to have attained a given age on his birthday for that age (and not on the day before). The birthday of any individual born on a February 29 shall be deemed to be February 28 in any year that is not a leap year. Notwithstanding any other provision of this Plan Statement or any election or designation made under the Plan, any individual who feloniously and intentionally kills a Director or Beneficiary shall be deemed for all purposes of this Plan and all elections and designations made under this Plan to have died before such Director or Beneficiary. A final judgment of conviction of felonious and intentional killing is conclusive for the purposes of this section. In the absence of a conviction of felonious and intentional killing, FBS shall determine whether the killing was felonious and intentional for the purposes of this section. Whenever appropriate, words used herein in the singular may be read in the plural, or words used herein in the plural may be read in the singular; the masculine may include the feminine; and the words "hereof," "herein" or "hereunder" or other similar compounds of the word "here" shall mean and refer to this entire Plan Statement and not to any particular paragraph or section of this Plan Statement unless the context clearly indicates to the contrary. The titles given to the various sections of this Plan Statement are inserted for convenience of reference only and are not part of this Plan Statement, and they shall not be considered in determining the purpose, meaning or intent of any provision hereof. Any reference in this Plan Statement to a statute or regulation shall be considered also to mean and refer to any subsequent amendment or replacement of that statute or regulation. This document has been executed and delivered in the State of Minnesota and has been drawn in conformity to the laws of that State and shall be construed and enforced in accordance with the laws of the State of Minnesota.

SECTION 2

ELIGIBILITY

Each Director shall be a participant in the Plan as of the first day the Director first becomes a Director. A Director shall not be required to enroll as a condition of participation in this Plan.

SECTION 3

SUPPLEMENTAL RETIREMENT BENEFITS

3.1. SUPPLEMENTAL RETIREMENT PENSION.

3.1.1. WHEN AVAILABLE. Upon the later of:

- (i) the Director's Termination of Service, or
- (ii) the Director's attainment of age sixty-five (65) years,

the Director who has completed at least sixty (60) months of Director Service shall receive a Supplemental Retirement Pension. (No benefits shall be payable under this Plan to, or with respect to, any Director who dies or has a Termination of Service before completing sixty months of Director Service.)

3.1.2. AMOUNT. The annual amount of the Director's Supplemental Retirement Pension shall be the amount of the Director's Accrued Benefit determined as of the date of the Director's Termination of Service divided by ten (10).

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SECOND AMENDMENT-EFFECTIVE JANUARY 1, 1996

3.1.3. FORM OF PENSION. The form of the Supplemental Retirement Pension is an annuity payable annually on or about each May 1.

- (a) If, at the Director's Termination of Service, the Director was at least age sixty-seven (67) years or had completed one hundred forty-four (144) months of Director Service (i.e., the Director is entitled to a lifetime annuity),
 - (i) the first payment shall be due on the May 1 coincident with or next following the later of the Director's Termination of Service, or the Director's attainment of age sixty-seven (67) years, and
 - (ii) the last payment to the Director shall be due on the May 1 immediately preceding the date on which the Director dies.
- (b) In all other cases,
 - (i) the first payment shall be due on the May 1 coincident with or next following the later of the Director's Termination of Service or the Director's attainment of age sixty-five (65) years, and
 - (ii) the last payment to the Director shall be due on the date on which the tenth annual payment is made or, if earlier, on the May 1 immediately preceding the date on which the Director dies.

Provided, however, if the payment of the Supplemental Retirement Pension is on account of the disability of the Director, the first payment shall be due on the May 1 coincident with or next following the Director's Termination of Service.

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3.2. CHANGE IN CONTROL. For the purpose of this Section 3, all Directors shall be deemed to have had a Termination of Service on the date of a Change in Control if they have not previously had a Termination of Service. Notwithstanding anything to the contrary in this Plan Statement, in the event of a Change in Control, the remaining benefits payable hereunder (whether payable to Directors who are deemed to have had a Termination of Service, payable to Directors who have previously had a Termination of Service, without regard to whether payment of their benefits has begun, or payable with respect to Directors who have previously died) shall be commuted to their Present Value as of the date of such Change in Control. The commuted benefits shall be paid in a single lump sum payment within thirty (30) days following the date of such Change in Control.

3.3. FACILITY OF PAYMENT. In case of the legal disability of a Director entitled to receive any distribution under the Plan, payment shall be made, if the Board of Directors shall be advised of the existence of such condition:

- (a) to the duly appointed guardian, conservator or other legal representative of such Director, or
- (b) to a person or institution entrusted with the care or maintenance of the incompetent or disabled Director, provided such person or institution has

satisfied the Board of Directors that the payment will be used for the best interest and assist in the care of such Director, and provided further, that no prior claim for said payment has been made by a duly appointed guardian, conservator or other legal representative of such Director.

Any payment made in accordance with the foregoing provisions of this section shall constitute a complete discharge of any liability or obligation of FBS and the Board of Directors.

SECTION 4

DEATH BENEFITS

4.1. DEATH BEFORE BENEFIT COMMENCEMENT.

4.1.1. WHEN AVAILABLE. If, upon the death of a Director who:

(a) has not begun to receive any payment of any supplemental retirement benefits under this Plan;

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(b) has completed sixty (60) months of Director Service;

a death benefit shall be payable to the Director's Beneficiary. (If any benefit is payable under this Section 4.1, no benefit shall be payable under Section 4.2.)

4.1.2. AMOUNT. The amount of the death benefit payment shall be the Present Value of an annuity of ten (10) annual payments each payment of which is equal to one-tenth (1/10) of the Director's Accrued Benefit. The Accrued Benefit and the Present Value shall be determined as of the date of the Director's death. The annuity will be deemed to commence on the May 1 coincident with or next following the Director's death.

4.1.3. FORM OF BENEFIT. The death benefit payable hereunder shall be paid in a single lump sum payment as soon as administratively practicable following the Director's death.

4.2. DEATH AFTER BENEFIT COMMENCEMENT. The only death benefits which shall be payable under the Plan upon the death of a Director after payment of the Supplemental Retirement Pension has commenced to the Director shall be:

(a) the payment of any unpaid installments of the Supplemental Retirement Pension to the Director's Beneficiary at the same times and in the same amount as would have been paid if the Director had not died; or

(b) if the Director has so elected in writing prior to the date of his or her Termination of Service, the payment to the Beneficiary in a single lump sum of the Present Value of any unpaid installments of the Supplemental Retirement Pension to the Director's Beneficiary as soon as administratively practicable after the Director's death.

For this purpose, the number of any unpaid installments of the Supplemental Retirement Pension and the Present Value of such unpaid installments shall be determined as of the date of the Director's death. The number of unpaid installments of the Supplemental Retirement Pension shall never be greater than ten (10) minus the number of annual installments paid before the Director's death and shall never be less than zero (0).

4.3. DESIGNATION OF BENEFICIARIES.

4.3.1. RIGHT TO DESIGNATE. Each Director may designate, upon forms to be furnished by and filed with FBS, one or more primary Beneficiaries or alternative Beneficiaries to receive all or a specified part of such Director's benefit in the event of such Director's death. The Director may change or revoke any such designation from time to time without notice to or consent from any Beneficiary. No such designation, change or revocation shall be effective unless executed by the Director and received by FBS during the Director's lifetime.

4.3.2. FAILURE OF DESIGNATION. If a Director:

- (a) fails to designate a Beneficiary,
- (b) designates a Beneficiary and thereafter revokes such designation without naming another Beneficiary, or
- (c) designates one or more Beneficiaries and all such Beneficiaries so designated fail to survive the Director,

such Director's benefit, or the part thereof as to which such Director's designation fails, as the case may be, shall be payable to the first class of the following classes of automatic Beneficiaries with a member surviving the Director and (except in the case of surviving issue) in equal shares if there is more than one member in such class surviving the Director:

- Director's surviving spouse
- Director's surviving issue per stirpes and not per capita
- Director's surviving parents
- Director's surviving brothers and sisters
- Representative of Director's estate.

4.3.3. DISCLAIMERS BY BENEFICIARIES. A Beneficiary entitled to a distribution of all or a portion of a deceased Director's benefit may disclaim an interest therein subject to the following requirements. To be eligible to disclaim, a Beneficiary must be a natural person, must not have received a distribution of all or any portion of the benefit at the time such disclaimer is executed and delivered, and must have attained at least age twenty-one (21) years as of the date of the Director's death. Any disclaimer must be in writing and must be executed personally by the Beneficiary before a notary public. A disclaimer shall state that the Beneficiary's entire interest in the undistributed benefit is disclaimed or shall specify what portion thereof is disclaimed. To be effective, duplicate original executed copies of the disclaimer must be both executed and actually delivered to FBS after the date of the Director's death but not later than one hundred eighty (180) days after the date of the Director's death. A disclaimer shall be irrevocable when delivered to FBS. A disclaimer shall be considered to be delivered to FBS only when actually received by FBS. FBS shall be the sole judge of the content, interpretation and validity of a purported disclaimer. Upon the filing of a valid disclaimer, the Beneficiary shall be considered not to have survived the Director as to the interest disclaimed. A disclaimer by a Beneficiary shall not be considered to be a transfer of an interest in violation of the provisions of Section 5. No other form of attempted disclaimer shall be recognized by FBS.

4.3.4. DEFINITIONS. When used herein and, unless the Director has otherwise specified in the Director's Beneficiary designation, when used in a Beneficiary designation, "issue" means all persons who are lineal descendants of the person whose issue are referred to, including legally adopted descendants and their descendants but not including illegitimate descendants and their descendants; "child" means an issue of the first generation; "per stirpes" means in equal shares among living children of the person whose issue are referred to and the issue (taken collectively) of each deceased child of such person, with such issue taking by right of representation of such deceased child; and "survive" and "surviving" mean living after the death of the Director.

4.3.5. SPECIAL RULES. Unless the Director has otherwise specified in the Director's Beneficiary designation, the following rules shall apply:

- (a) If there is not sufficient evidence that a Beneficiary was living at the time of the death of the Director, it shall be deemed that the Beneficiary was not living at the time of the death of the Director.
- (b) The automatic Beneficiaries specified in Section 4.3.2 and the Beneficiaries designated by the Director shall become fixed at the time of the Director's death so that, if a Beneficiary survives the Director but dies before the receipt of all payments due such Beneficiary hereunder, such remaining payments shall be payable to the representative of such Beneficiary's estate.
- (c) If the Director designates as a Beneficiary the person who is the Director's spouse on the date of the designation, either by name or by relationship, or both, the dissolution, annulment or other legal termination of the marriage between the Director and such person shall automatically revoke such designation. (The foregoing shall not prevent the Director from designating a former spouse as a Beneficiary on a form executed by the Director and received by FBS after the date of the legal termination of the marriage between the Director and such former spouse, and during the Director's lifetime.)
- (d) Any designation of a nonspouse Beneficiary by name that is accompanied by a description of relationship to the Director shall be given effect without regard to whether the relationship to the Director exists either then or at the Director's death.
- (e) Any designation of a Beneficiary only by statement of relationship to the Director shall be effective only to designate the person or persons standing in such relationship to the Director at the Director's death.

FBS shall be the sole judge of the content, interpretation and validity of a purported Beneficiary designation.

4.3.6. NO SPOUSAL RIGHTS. No spouse or surviving spouse of a Director and no person designated to be a Beneficiary shall have any rights or interest in the benefits accumulated under this Plan including, but not limited to, the right to be the sole Beneficiary or to consent to the designation of Beneficiaries (or the changing of designated Beneficiaries) by the Director.

SECTION 5

FUNDING OF PLAN

5.1. UNFUNDED AGREEMENT. The obligation of FBS to make payments under this Plan constitutes only the unsecured (but legally enforceable) promise of FBS to make such payments. The Director shall have no lien, prior claim or other security interest in any property of FBS. FBS is not required to establish or maintain any fund, trust or account for the purpose of funding or paying the benefits promised under this Plan. If such a fund is established, the property therein shall remain the sole and exclusive property of FBS. FBS will pay the cost of this Plan out of its general assets.

5.2. SPENDTHRIFT PROVISION. No Director or Beneficiary shall have any transmissible interest in any benefit under this Plan nor shall any Director or Beneficiary have any power to

anticipate, alienate, dispose of, pledge or encumber the same while in the possession or control of FBS, nor shall FBS recognize any assignment thereof, either in whole or in part, nor shall any benefit be subject to attachment, garnishment, execution following judgment or other legal process while in the possession or control of FBS.

The power to designate Beneficiaries to receive the benefit of a Director in the event of such Director's death shall not permit or be construed to permit such power or right to be exercised by the Director so as thereby to anticipate, pledge, mortgage or encumber such Director's benefit or any part thereof, and any attempt of a Director so to exercise said power in violation of this provision shall be of no force and effect and shall be disregarded by FBS.

SECTION 6

AMENDMENT AND TERMINATION

FBS reserves the power to amend or terminate the Plan prior to a Change in Control. No amendment of the Plan, however, shall reduce a Director's benefits earned as of the date of such amendment unless the Director so affected consents in writing to the amendment. Benefits earned as of the date of an amendment shall be determined as if the Director had a Termination of Service on that date. After a Change in Control, the Plan cannot be amended or terminated (as applied to Directors who are Directors on the date of the Change in Control) unless:

- (a) all benefits earned by all Directors as of the date of the Change in Control have been paid, or
- (b) a majority of the Continuing Directors (as defined in Section 1.2.3) as of the date of the Change in Control give written consent to such amendment or termination.

The foregoing restrictions and limitations on the ability to amend and terminate the Plan shall not be effective, however, if, within ten (10) business days following the date of the Change in Control, a majority of the members of the Organization Committee of the Board of Directors determines in its sole discretion that such restrictions and limitations shall not apply with respect to such Change in Control.

SECTION 7

DETERMINATIONS -- RULES AND REGULATIONS

7.1. DETERMINATIONS. FBS shall make such determinations as may be required from time to time in the administration of the Plan. FBS shall have the authority and responsibility to interpret and construe the Plan Statement and to determine all factual and legal questions under the Plan, including but not limited to the entitlement of Directors and Beneficiaries, and the amounts of their respective interests. Each interested party may act and rely upon all information reported to them hereunder and need not inquire into the accuracy thereof, nor be charged with any notice to the contrary.

7.2. RULES AND REGULATIONS. Any rule not in conflict or at variance with the provisions hereof may be adopted by FBS.

7.3. METHOD OF EXECUTING INSTRUMENTS. Information to be supplied or written notices to be made or consents to be given by FBS pursuant to any provision of this Plan Statement may be signed in the name of FBS by any officer or director thereof who has been authorized to make such certification or to give such notices or consents.

7.4. INFORMATION FURNISHED BY DIRECTORS. FBS shall not be liable or responsible for any error in the computation of the benefit of a Director resulting from any misstatement of fact made by the Director, directly or indirectly, to FBS, and used by it in determining the Director's benefit. FBS shall not be obligated or required to increase the benefit of such Director which, on discovery of the misstatement, is found to be understated as a result of such misstatement of the Director. However, the benefit of any Director which are overstated by reason of any such misstatement shall be reduced to the amount appropriate in view of the truth.

SECTION 8

PLAN ADMINISTRATION

8.1. FBS. Except as hereinafter provided, functions generally assigned to FBS shall be discharged by the Organization Committee of the Board of Directors or delegated and allocated as provided herein.

8.2. CONFLICT OF INTEREST. If any member of the Board of Directors of FBS to whom authority has been delegated or redelegated hereunder shall have an benefit in the Plan, such Director shall have no authority as such Director with respect to any matter specially affecting such Director's individual interest hereunder (as distinguished from the interests of all Directors and Beneficiaries or a broad class of Directors and Beneficiaries), all such authority being reserved exclusively to the other Directors, to the exclusion of such Director, and such Director shall act only in such Director's individual capacity in connection with any such matter.

SECTION 9

DISCLAIMERS

Neither FBS nor any of its officers nor any member of its Board of Directors in any way secure or guarantee the payment of any benefit or amount which may become due and payable hereunder to any Director or to any Beneficiary or to any creditor of a Director or a Beneficiary. Each Director, Beneficiary or other person entitled at any time to payments hereunder shall look solely to the assets of FBS for such payments or to the benefit distributed to any Director or Beneficiary, as the case may be, for such payments. In each case where benefit shall have been distributed to a former Director or a Beneficiary or to the person or any one of a group of persons entitled jointly to the receipt thereof and which purports to cover in full the benefit hereunder, such former Director or Beneficiary, or such person or persons, as the case may be, shall have no further right or interest in the other assets of FBS. Neither FBS nor any of its officers nor any member of its Board of Directors shall be under any liability or responsibility for failure to effect any of the objectives or purposes of the Plan by reason of the insolvency of FBS. FBS and its officers and the members of its Board of Directors shall not be liable for an act or omission of another person with regard to a responsibility that has been allocated to or delegated to such other person pursuant to the terms of this Plan Statement or pursuant to procedures set forth in this Plan Statement.

[DATE]

[NAME]
[TITLE]
First Bank System, Inc.
601 Second Avenue South
Minneapolis, MN 55402

Dear [NAME]:

First Bank System, Inc. recognizes that your contribution to the growth and success of the Company (as defined herein) has been substantial and desires to assure the Company of your continued employment. In this connection, the Board of Directors (as defined herein) recognizes that, as is the case with many publicly held companies, the possibility of a change in control may exist and that such possibility, and the uncertainty and questions which it may raise among management, may result in the departure or distraction of management personnel to the detriment of the Company and its shareholders.

The Board of Directors has determined that appropriate steps should be taken to reinforce and encourage the continued attention and dedication of members of the Company's management, including yourself, to their assigned duties without distraction in the face of potentially disturbing circumstances arising from the possibility of a change in control of the Company.

In order to induce you to remain in the employ of the Company, the Company agrees that you shall receive the severance benefits set forth in this letter agreement ("Agreement") in the event your employment with the Company is terminated under the circumstances described below:

1. Term of Agreement. This Agreement will commence on the date hereof and -----
shall continue in effect until the third anniversary of the date hereof; and, commencing on the first anniversary of the date hereof and on each anniversary thereafter, the term of this Agreement shall automatically be extended for one additional year unless, not later than 90 days prior to any such date of automatic extension of this Agreement, the Company shall have given notice that the Agreement will not be so extended; provided, however, if a Change in Control shall have occurred during the original or any extended term of this Agreement, this Agreement shall in all events continue in effect for a period of at least 24 months following a Change in Control; provided, further, that if you become entitled to payments in accordance with Sections 4 and 5 of this Agreement (or assert a claim for such payments) during the term of this Agreement as heretofore described, this Agreement will thereafter survive indefinitely to ensure that you receive all payments and benefits to which you are entitled pursuant to the terms hereof.

2. Definitions. When the following terms are used in this Agreement with -----
initial capital letters, they shall have the following meanings.

2.1. "Acquiring Person" shall mean any Person who or which, together with all Affiliates and Associates of such person, is the "beneficial owner" (as defined in Rule 13d-3 promulgated under the Exchange Act), directly or indirectly, of securities of the Company representing 20% or more of the combined voting power of the Company's then outstanding securities, but shall not include any Company Entity.

2.2. "Affiliate" shall have the meaning ascribed to such term in Rule 12b-2 promulgated under the Exchange Act.

2.3. "Announcement Date" shall mean the date of the public announcement of the transaction, event or course of action that results in a Change in Control.

2.4. "Anticipatory Termination" shall mean a Termination of Employment as a result of an act or event that occurs prior to a Change in Control and after the Announcement Date and either (i) at the request of any other party to a transaction, or any Person associated with the event or course of events (other than the Company or a Company Entity), that results in a Change in Control, or (ii) otherwise in contemplation of a Change in Control.

2.5. "Associate" shall have the meaning ascribed to such term in Rule 12b-2 promulgated under the Exchange Act.

2.6. "Beneficial Owner" shall have the meaning ascribed to such term in Rule 13d-3 promulgated under the Exchange Act.

2.7. "Board of Directors" shall mean the board of directors of the Company.

2.8. "Cause" shall mean (i) the willful and continued failure by you to substantially perform your duties with the Company (other than any such failure resulting from your disability or from termination by you for Good Reason), after a written demand for substantial performance is delivered to you that specifically identifies the manner in which the Company believes that you have not substantially performed your duties, and you have failed to resume substantial performance of your duties on a continuous basis within 14 days of receiving such demand, (ii) in the case of a Full Change in Control, the willful engaging by you in conduct which is demonstrably and materially injurious to the Company, monetarily or otherwise; and in the case of a Partial Change in Control, gross and willful misconduct during the course of employment, including but not limited to, wrongful appropriation of funds

of the Company or its Affiliates or the commission of a gross misdemeanor or felony, or (iii) your conviction of a felony which impairs your ability substantially to perform your duties with the Company. For purposes of this definition, no act, or failure to act, on your part shall be deemed "willful" unless done, or omitted to be done, by you not in good faith and without reasonable belief that your action or omission was in the best interest of the Company.

2.9. "Change in Control" shall mean a Full Change in Control or a Partial Change in Control.

2.10. "Code" shall mean the Internal Revenue Code of 1986, as amended.

2.11. "Company" shall mean First Bank System, Inc., a Delaware corporation, or any successor thereto pursuant to Section 8 hereof (including a Resulting Corporation) or by operation of law.

2.12. "Company Entity" shall mean the Company, any subsidiary of the Company or any employee benefit plan of the Company or of any subsidiary of the Company or any entity holding shares of the voting capital stock of the Company organized, appointed or established for, or pursuant to the terms of, any such plan.

2.13. "Continuing Director" shall mean any person who is a member of the Board of Directors, while such person is a member of the Board of Directors, who is not an Acquiring Person or an Affiliate or Associate of an Acquiring Person, or a representative of an Acquiring Person or of any such Affiliate or Associate, and who (x) was a member of the Board of Directors as of the date of this Agreement or (y) subsequently becomes a member of the Board of Directors, if such person's initial nomination for election or initial election to the Board of Directors has been approved in advance by the Continuing

Directors; provided that any director designated by or on behalf of a Person who has entered into an agreement with the Company (or who is contemplating entering into such an agreement) to effect a consolidation or merger of the Company or a Company Entity, or other reorganization, with or into one or more entities which are not Company Entities, and any director that serves in connection with the act of the Board of Directors of increasing the number of directors and filling vacancies in connection with, or in contemplation of, any such transaction, shall not be deemed to have received such advance approval for initial nomination or election, and any such director shall not be deemed to be a Continuing Director; provided, further, that any such director shall subsequently become a Continuing Director at such time as a new term of office as a director is approved by the Company's shareholders at an annual meeting of shareholders occurring subsequent to the completion of any such transaction (and excluding any annual meeting at which the shareholders approve any such transaction); and, provided, further, that in the case of a Permitted Transaction, any such director shall not become a Continuing Director until the later of (i) the end of the three-year period following consummation of such Permitted Transaction or (ii) such time as a new term of office as a director is approved by the Company's shareholders at an annual meeting of shareholders occurring subsequent to the completion of such Permitted Transaction.

2.14. "Date of Termination" shall mean the date specified in the Notice of Termination (except in the case of your death, in which case Date of Termination shall be the date of death); provided, however, that if your employment is terminated by the Company, in the case of a Full Change in Control the date specified in the Notice of Termination shall be at least 30 days from the date the Notice of Termination is given to you, except in the case of termination for Cause which may be a shorter period, and if your employment is terminated by you for Good Reason, the date specified in the Notice of Termination shall not be more than 30 days from the date the

Notice of Termination is given to the Company. Notwithstanding the foregoing, in the event of an Anticipatory Termination, the Date of Termination shall be deemed to be the date of the Change in Control. If Notice of Termination is given by you for Good Reason (Partial), and prior to the Date of Termination the Company terminates your employment for Cause, the Date of Termination shall be the date specified in the Notice of Termination provided by the Company in connection with the termination for Cause. If Notice of Termination is given by you for Good Reason (Full), the Company shall not be entitled to terminate your employment for Cause following such Notice of Termination.

2.15. "Exchange Act" shall mean the Securities Exchange Act of 1934, as amended.

2.16. "Full Change In Control" shall mean:

(A) the public announcement (which, for purposes of this definition, shall include, without limitation, a report filed pursuant to Section 13(d) of the Exchange Act) by the Company or any Person that a Person (other than a Company Entity) has become the Beneficial Owner, directly or indirectly, of securities of the Company (x) representing 20% or more, but not more than 50%, of the combined voting power of the Company's then outstanding securities unless the transaction resulting in such ownership has been approved in advance by the Continuing Directors or (y) representing more than 50% of the combined voting power of the Company's then outstanding securities (regardless of any approval by the Continuing Directors); or

(B) the Continuing Directors cease to constitute a majority of the Board of Directors of the Company or the Resulting Corporation, except in accordance with the terms of a Permitted Transaction and except as a result of the death, retirement or disability of one or more Continuing Directors

(unless any such death, retirement or disability occurs following a Permitted Transaction and any vacancies created thereby are not filled in accordance with the terms of the written agreement governing such Permitted Transaction); or

(C) any sale, lease, exchange or other transfer (in one transaction or a series of related transactions) of all or substantially all of the consolidated assets of the Company and its subsidiaries or the adoption of any plan of liquidation or dissolution of the Company.

2.17. "Good Reason" shall mean either Good Reason (Full) or Good Reason (Partial).

2.18. "Good Reason (Full)" shall mean the occurrence of any one or more of the following events, without your express written consent, within 24 months following a Full Change in Control (or prior to a Full Change in Control in the event of an Anticipatory Termination):

(A) the assignment to you of any duties inconsistent in any respect with your position (including status, offices, titles, and reporting requirements), authorities, duties, or other responsibilities as in effect immediately prior to the Announcement Date or any other action of the Company which results in a diminishment in such position, authority, duties, or responsibilities, other than an insubstantial and inadvertent action which is remedied by the Company promptly after receipt of notice thereof given by you;

(B) a reduction by the Company in your base salary as in effect immediately prior to the Announcement Date (or as in effect following the Announcement Date, if greater);

(C) the failure by the Company to provide you total cash compensation (consisting of base salary plus cash bonus) with respect to any fiscal year or portion thereof at least equal to the greatest of (i) actual total cash compensation paid to you with respect to the prior fiscal year, (ii) the average annual total cash compensation paid to you with respect to the prior two fiscal years or (iii) if you were not an employee for the entire prior fiscal year, your base salary plus target bonus as in effect immediately prior to the Announcement Date (or as in effect following the Announcement Date, if greater); (total cash compensation "with respect to any fiscal year or portion thereof" shall be determined at the time the bonus with respect to such fiscal year or portion thereof is determined, even if such bonus is determined after the 24-month period following a Full Change in Control, and the bonus portion of cash compensation for services rendered in any portion of a fiscal year within 24 months following a Full Change in Control shall be determined by reference to the pro-rata portion of any annual bonus for such fiscal year);

(D) the Company's requiring you to be based at a location that is both outside the same metropolitan area of, and in excess of 30 miles from, the location of your principal office immediately prior to the Announcement Date;

(E) the failure by the Company to provide employee benefit plans, programs, policies and practices (including, without limitation, retirement plans and medical, dental, life and disability insurance coverage) to you and your family and dependents (if applicable) that provide substantially similar benefits, in terms of aggregate monetary value, to you and your family and dependents (if applicable) at substantially similar costs to you as the benefits provided by those plans, programs, policies and practices in effect immediately prior to the Announcement Date (or as in effect following the Announcement Date, if greater);

(F) the failure of the Company to obtain a satisfactory agreement from the Resulting Corporation or any other successor to the Company to assume and agree to perform this Agreement, as contemplated in Section 8 hereof; and

(G) any purported termination by the Company of your employment that is not effected pursuant to a Notice of Termination.

2.19. "Good Reason (Partial)" shall mean the occurrence of any one or more of the following events, without your express written consent, within 24 months following a Partial Change in Control (or prior to a Partial Change in Control in the event of an Anticipatory Termination):

(A) a reduction by the Company in your base salary as in effect immediately prior to the Announcement Date;

(B) a reduction by the Company in your annual target bonus or maximum bonus award opportunities as in effect immediately prior to the Announcement Date;

(C) the Company's requiring you to be based at a location that is both outside the same metropolitan area of, and in excess of 30 miles from, the location of your principal office immediately prior to the Announcement Date; and

(D) any purported termination by the Company of your employment that is not effected pursuant to a Notice of Termination.

2.20. "Notice of Termination" shall mean a written notice which sets forth the Date of Termination and, in reasonable detail, the facts and circumstances claimed to provide a basis, if any, for termination of your employment.

2.21. "Partial Change in Control" shall mean:

(A) a consolidation or merger of the Company or a Company Entity, or other reorganization, with or into one or more entities which are not Company Entities, as a result of which less than 60% of the outstanding voting securities of the Resulting Corporation are, or are to be, owned by former shareholders of the Company as determined immediately prior to consummation of such transaction (excluding voting securities of the Resulting Corporation owned, or to be owned, by such shareholders by reason of their ownership prior to such transaction of securities of any entity other than the Company) and as a result of which the Continuing Directors constitute (i) more than 50% of the Board of Directors of the Resulting Corporation or (ii) exactly 50% of the Board of Directors of the Resulting Corporation if the transaction resulting in such event is a Permitted Transaction; or

(B) the public announcement (which, for purposes of this definition, shall include, without limitation, a report filed pursuant to Section 13(d) of the Exchange Act) by the Company or any Person that a Person (other than a Company Entity) has become the Beneficial Owner, directly or indirectly, of securities of the Company representing 20% or more, but not more than 50%, of the combined voting power of the Company's then outstanding securities if the transaction resulting in such ownership has been approved in advance by the Continuing Directors.

2.22. "Permitted Transaction" shall mean a transaction in which, pursuant to a written agreement between the Company and all Persons who have entered into an agreement with the Company to effect a transaction described in paragraph (A) of the definition of Partial Change in Control, it is agreed that (w) the Chief Executive Officer of the Company immediately prior to the consummation of such transaction shall be the Chief Executive Officer of the

Resulting Corporation for not less than three years following consummation of such transaction, (x) upon termination of service of any Continuing Director for any reason, including upon death, disability or retirement, prior to the expiration of such director's term during such three-year period, the vacancy thereby created shall be filled by a nominee selected solely by the Continuing Directors, (y) upon expiration of the term of any such director during such three-year period, the nominee to succeed such director shall be selected solely by the Continuing Directors and (z) the parties will take other appropriate steps to ensure that the Board of Directors of the Resulting Corporation will be evenly divided between Continuing Directors and all directors designated by other parties to the transaction during such three-year period.

2.23. "Person" shall have the meaning ascribed to such term as such term is used in Sections 13(d) and 14(d) of the Exchange Act.

2.24. "Resulting Corporation" shall mean the surviving corporation in any consolidation, merger or other reorganization to which the Company is a party; provided, however, that if the surviving corporation in any such transaction is a subsidiary of another corporation, then the Resulting Corporation is the ultimate parent corporation of such surviving corporation; and provided, further, that in the event of a consolidation, merger or other reorganization to which a Company Entity (other than the Company) is a party, then the Company shall be deemed the Resulting Corporation.

2.25. "Termination of Employment" shall mean termination of your employment (a) by the Company for any reason other than Cause or (b) by you for Good Reason; but shall not include termination by reason of your death. If Notice of Termination is given by you for Good Reason (Partial), and prior to the Date of Termination the Company terminates your employment for Cause, the termination shall be considered a termination by

the Company for Cause and shall not be considered a Termination of Employment.

3. Termination Procedures.

3.1. Notice of Termination. Any purported termination of your employment

by the Company or you (including a Termination of Employment) (other than by reason of your death) within 24 months following a Change in Control, and any Anticipatory Termination by the Company or you, shall be communicated by a Notice of Termination in accordance with Section 9 hereof. No purported termination by the Company of your employment in such 24-month period (or prior thereto in the event of an Anticipatory Termination) shall be effective if it is not pursuant to a Notice of Termination. Failure by you to provide Notice of Termination shall not limit any of your rights under this Agreement except to the extent the Company can demonstrate that it suffered actual damages by reason of such failure.

3.2. Participant's Termination Rights. Your right to terminate your

employment pursuant to the terms of this Agreement shall not be affected by your incapacity due to physical or mental illness. Your continued employment shall not constitute consent to, or a waiver of rights with respect to, any circumstance constituting Good Reason pursuant to the terms of this Agreement. Termination of your employment for Good Reason shall constitute termination for Good Reason for all purposes of this Agreement, notwithstanding that you may also thereby be deemed to have "retired" under any applicable retirement programs of the Company.

4. Qualification for Severance Benefits. Except as otherwise provided in this

Section 4, to qualify for a severance payment from the Company or the Resulting Corporation under this Agreement, a Change in Control must

occur and you must (a) be an employee of the Company or its Affiliates immediately prior to the time of such Change in Control (or, in the case of an Anticipatory Termination, immediately prior to the Announcement Date), (b) have a Termination of Employment that occurs within 24 months following such Change in Control or have an Anticipatory Termination, and (c) execute an effective general release of all claims against the Company and its Affiliates in the form and manner prescribed by the Company.

Notwithstanding the foregoing, you shall be deemed to have a Termination of Employment within 24 months following a Full Change in Control if the basis for Termination of Employment is Good Reason (Full) and if the reason that the Termination of Employment did not occur within such 24-month period is that cash compensation for services rendered in any portion of a fiscal year within 24 months following a Full Change in Control shall have been determined more than 24 months following a Full Change in Control; provided, that the Termination of Employment occurs within 10 days following determination of cash compensation for such fiscal year or portion thereof. In the event that a Partial Change in Control is followed by a Full Change in Control, commencing on the date of the Full Change in Control, provisions in this Agreement relating to a Full Change in Control shall supersede provisions relating to a Partial Change in Control if you are employed by the Company or its Affiliates on the date of the Full Change in Control. You shall not qualify for a severance payment from the Company or the Resulting Corporation under this Agreement if you have announced in writing, prior to the date the Company provides Notice of Termination to you, the intention to terminate employment or retire (other than pursuant to a Termination of Employment), provided, in the case of retirement, that any earlier termination by the Company or the Resulting Corporation does not result in the diminution of retirement benefits that you would have received if such retirement had occurred on your intended retirement date. Further, you shall not qualify for a severance payment from the Company or the Resulting Corporation under this Agreement if at least 30 days prior to the

Announcement Date the Company has announced that the business, line of business, unit, staff group or other identifiable business group, whether or not a legal entity, or operations in any designated geographical area, for which you are at such time employed will be divested, sold, downsized or restructured by the Company and you are informed in writing, prior to the occurrence of the Change in Control, that your employment will terminate as a result of such divestiture, sale, downsizing or restructuring; provided, that determinations and interpretations with respect to this provision shall be in the sole discretion of the Company.

5. Compensation Upon Termination.

5.1. Amounts. Upon qualification for severance benefits pursuant to this

Agreement, you shall be entitled to the benefits, to be funded from the general assets of the Company, provided below:

(A) your full base salary through the Date of Termination at the rate in effect at the time Notice of Termination is given;

(B) an amount equal to three times the sum of (i) your annual base salary in effect at the time Notice of Termination is given or immediately prior to the date of the Change in Control, whichever is greater, plus (ii) the average actual incentive pay for the three fiscal years preceding the year in which the Announcement Date occurs, or, if you were not an employee of the Company for such three-year period, the average actual incentive pay for any prior full fiscal years, or, if you were not an employee of the Company for any such full fiscal year, your annual target bonus potential available at the time Notice of Termination is given or immediately prior to the date of the Change in Control, whichever is greater;

(C) for a 36-month period after the Date of Termination, the Company will arrange to provide you and your dependents (if applicable) with welfare benefits (including, without limitation, medical, dental, life, and individual disability insurance coverage), perquisites and other employee benefits that provide substantially similar benefits, in terms of aggregate monetary value, to you and your dependents (if applicable) at substantially similar costs to you as the welfare benefits, perquisites and other employee benefits (i) in effect immediately prior to the Change in Control (or as in effect following the Change in Control, if greater), in the case of a Full Change in Control, or (ii) that would have been provided to you from time to time if you had not had a Termination of Employment, in the case of a Partial Change in Control; but benefits otherwise receivable by you pursuant to this clause (C) shall be discontinued if you obtain full-time employment providing comparable welfare benefits during the 36-month period following such termination;

(D) the full amount of any long-term cash incentive award for any plan periods then in progress to the extent not provided for in such plan or plans;

(E) the year-to-date pro-rata amount of any annual cash incentive award for any plan as in effect immediately prior to the Change in Control to the extent not provided for in such plan or plans;

(F) credit for five (5) additional years of service under section 1.2.2(c)(iii) of the First Bank System, Inc. Nonqualified Supplemental Executive Retirement Plan (or any appropriate successor to such section and/or plan) for purposes of determining the additional years of service with which you will be credited in the formulation of your Accrued SERP benefit in that plan;

(G) to the extent not otherwise provided in the Company's qualified or non-qualified retirement plans, three (3) additional years of accruals premised on the assumption that you had continued in service with the Company and

had received remuneration in the amount determined in accordance with Section 5.1(B) above; and

(H) individual outplacement counseling services.

5.2. Group Disability. The Company shall not be required to continue to

provide group disability benefits following your Date of Termination other than with respect to benefits to which you became entitled prior to the Date of Termination and which are required to be paid following such Date of Termination in accordance with the terms of applicable disability plans or policies in effect prior to such Date of Termination.

5.3. Time and Form of Cash Payments. The cash payments provided for in

Sections 5.1(A), (B), (D) and (E) above shall be made not later than 20 days following the Date of Termination; provided, however, that if the amounts of such payments cannot be finally determined on or before such day, the Company shall pay to you on such day an estimate as determined in good faith by the Company of the minimum amount of such payments and shall pay the remainder of such payments (together with interest from the date of such estimated payment at the rate provided in Section 1274(b)(2)(B) of the Code) as soon as the amount thereof can be determined but in no event later than 45 days after the Date of Termination. In the event that the amount of the estimated payment exceeds the amount subsequently determined to have been due, such excess shall constitute a loan by the Company to you payable no later than 30 days after demand by the Company (together with interest from the date of such estimated payment at the rate provided in Section 1274(b)(2)(B) of the Code).

5.4. Legal Fees and Expenses. The Company shall also pay to you any legal

fees and expenses incurred by you (i) as a result of successful litigation against the Company for nonpayment of any benefit hereunder or (ii) in connection

with any dispute with any Federal, state or local governmental agency with respect to benefits claimed under this Agreement. If you utilize arbitration to resolve any such dispute, the Company will pay any legal fees and expenses incurred by you in connection therewith.

5.5. No Mitigation. You shall not be required to mitigate the amount of

any payment provided for in this Section 5 by seeking other employment or otherwise, nor shall the amount of any payment provided for in this Section 5 be reduced by any compensation earned by you as the result of employment by another employer after the Date of Termination, or otherwise, except as set forth in Section 5.1(C) hereof.

6. Additional Payments. In the event you become entitled to payments under

Section 5 of this Agreement, the Company shall cause its independent auditors promptly to review, at the Company's sole expense, the applicability of Section 4999 of the Code to such payments. If such auditors shall determine that any payment or distribution of any type by the Company to you or for your benefit, whether paid or payable or distributed or distributable pursuant to the terms of this Agreement or otherwise (the "Total Payments"), would be subject to the excise tax imposed by Section 4999 of the Code, or any interest or penalties with respect to such excise tax (such excise tax, together with any such interest and penalties, are collectively referred to as the "Excise Tax"), then you shall be entitled to receive an additional cash payment (a "Gross-Up Payment") within 30 days of such determination equal to an amount such that after payment by you of all taxes (including any interest or penalties imposed with respect to such taxes), including any Excise Tax, imposed upon the Gross-Up Payment, you would retain an amount of the Gross-Up Payment equal to the Excise Tax imposed upon the Total Payments. For purposes of the foregoing determination, your tax rate shall be deemed to be the highest statutory marginal state and Federal tax rate (on a combined basis) (including your share of F.I.C.A. and Medicare taxes) then in effect. If

no determination by the Company's auditors is made prior to the time a tax return reflecting the Total Payments is required to be filed by you, you will be entitled to receive a Gross-Up Payment calculated on the basis of the Total Payments reported by you in such tax return, within 30 days of the filing of such tax return. In all events, if any tax authority determines that a greater Excise Tax should be imposed upon the Total Payments than is determined by the Company's independent auditors or reflected in your tax return pursuant to this Section 6, you shall be entitled to receive the full Gross-Up Payment calculated on the basis of the amount of Excise Tax determined to be payable by such tax authority from the Company within 30 days of such determination.

7. Nonexclusivity of Rights. Nothing in this Agreement shall prevent or -----
limit your continuing or future participation in any benefit, bonus, incentive, retirement or other plan or program provided by the Company and for which you may qualify, nor shall anything herein limit or reduce such rights as you may have under any other agreement with, or plan, program, policy or practice of, the Company. Amounts which are vested benefits or which you are otherwise entitled to receive under any agreement with, or plan, program, policy or practice of, the Company (including, without limitation, the cash-out of unused vacation days upon termination of employment) shall be payable in accordance with such agreement, plan, program, policy or practice, except as explicitly modified by this Agreement. Notwithstanding the foregoing, if you become entitled to benefits under this Agreement, you shall not be entitled to receive payments under any other severance pay plan or program sponsored or maintained by the Company or any of its Affiliates.

8. Successors.

(A) The Company will require the Resulting Corporation or any other successor (whether direct or indirect, by purchase, merger, consolidation, or

otherwise) to all or substantially all of the business and/or consolidated assets of the Company and its subsidiaries to expressly assume and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform if no such succession had taken place. Failure of the Company to obtain such assumption and agreement prior to the effectiveness of any such succession shall entitle you to compensation from the Company in the same amount and on the same terms as you would be entitled under this Agreement if you met the qualification requirements set forth in Section 4, except that for purposes of implementing the foregoing, the date on which any such succession becomes effective shall be deemed the Date of Termination, and Notice of Termination shall be deemed to have been given on such date.

(B) This Agreement shall inure to the benefit of and be enforceable by your personal or legal representatives, executors, administrators, successors, heirs, distributees, devisees, and legatees. If you should die while any amount would still be payable to you hereunder if you had continued to live, all such amounts, unless otherwise provided herein, shall be paid in accordance with the terms of this Agreement, to your devisee, legatee or other designee or, if there is no such designee, to your estate or, if no estate, in accordance with applicable law.

9. Notice. For the purpose of this Agreement, notices and all other

communications provided for in the Agreement shall be in writing and shall be deemed to have been duly given when delivered or mailed by United States registered mail, postage prepaid, addressed to the other party as follows:

If to the Company, to:
First Bank System, Inc.
Attention: Corporate Secretary
First Bank Place
601 Second Avenue South

Minneapolis, Minnesota 55402

If to you, to:

[NAME]
First Bank System, Inc.
601 Second Avenue South
Minneapolis, MN 55402

Either party to this Agreement may change its address for purposes of this Section 8 by giving 15 days' prior notice to the other party hereto.

10. Miscellaneous. No provision of this Agreement may be modified, waived or -----
discharged unless such waiver, modification or discharge is agreed to in writing and signed by you and such officer as may be specifically designated by the Board. The validity, interpretation, construction, and performance of this Agreement shall be governed by the laws of the State of Minnesota.
11. Validity. The invalidity or unenforceability of any provision of this -----
Agreement shall not affect the validity or enforceability of any other provision of this Agreement, which shall remain in full force and effect.
12. Counterparts. This Agreement may be executed in several counterparts, each -----
of which shall be deemed to be an original but all of which together will constitute one and the same instrument.
13. Arbitration. If you so elect, any dispute or controversy arising under or -----
in connection with this Agreement shall be settled exclusively by arbitration in accordance with the rules of the American Arbitration Association then in effect. Judgment may be entered on the arbitrator's award in any court having jurisdiction; provided, however, that you shall be entitled to seek specific performance of your right to be paid until the Date of Termination during the pendency of any dispute or controversy arising under or in connection with

this Agreement. If you do not elect arbitration, you may pursue any and all legal remedies available to you.

14. Effective Date. This Agreement shall become effective as of the date set

forth above.

15. Employment. This Agreement does not constitute a contract of employment or

impose on the Company any obligation to retain you as an employee, to continue your current employment status or to change any employment policies of the Company.

If this letter sets forth our agreement on the subject matter hereof,
kindly sign and return to the Company the enclosed copy of this letter which
will then constitute our agreement on this subject.

Sincerely,

FIRST BANK SYSTEM, INC.

By _____

Name:

Title:

Agreed to this ___ day
of _____, 199__

By _____

Name:

Title:

FIRST BANK SYSTEM, INC.
1996 STOCK INCENTIVE PLAN
(AS AMENDED THROUGH JANUARY 15, 1997)

SECTION 1. PURPOSE; EFFECT ON PRIOR PLANS.

(a) Purpose. The purpose of the First Bank System, Inc. 1996 Stock Incentive Plan (the "Plan") is to aid in attracting and retaining management personnel and members of the Board of Directors who are not also employees ("Non-Employee Directors") of First Bank System, Inc. (the "Company") capable of assuring the future success of the Company, to offer such personnel and Non-Employee Directors incentives to put forth maximum efforts for the success of the Company's business and to afford such personnel and Non-Employee Directors an opportunity to acquire a proprietary interest in the Company.

(b) Effect on Prior Plans. The Company hereby adopts these proposed amendments and restatements of the 1991 Stock Incentive Plan and the 1994 Stock Incentive Plan, subject to stockholder approval. As so amended, restated, established and approved, the Plan shall be known as the 1996 Stock Incentive Plan. All outstanding options issued, restricted stock issued and other awards issued under other plans of the Company shall remain subject to the terms and conditions of the plans under which they were issued, but shares of stock relating to outstanding options, restricted stock or other awards under the 1991 Stock Incentive Plan and the 1994 Stock Incentive Plan are considered as shares of stock subject to the Plan under Section 4 of the Plan.

SECTION 2. DEFINITIONS.

As used in the Plan, the following terms shall have the meanings set forth below:

(a) "Affiliate" shall mean (i) any entity that, directly or indirectly through one or more intermediaries, is controlled by the Company and (ii) any entity in which the Company has a significant equity interest, as determined by the Committee.

(b) "Award" shall mean any Option, Stock Appreciation Right, Restricted Stock, Restricted Stock Unit, Performance Award or other Stock-Based Award granted under the Plan.

(c) "Award Agreement" shall mean any written agreement, contract or other instrument or document evidencing any Award granted under the Plan.

(d) "Code" shall mean the Internal Revenue Code of 1986, as amended from time to time, and any regulations promulgated thereunder.

(e) "Committee" shall mean a committee of the Board of Directors of the Company designated by such Board to administer the Plan and composed of not less than two directors, each of whom is a "Non-Employee Director" within the meaning of Rule 16b-3 (which term is defined in this paragraph for purposes of the definition of "Committee" only and is not intended to define such term as used elsewhere in the Plan). Each member of the Committee shall be an "outside director" within the meaning of Section 162(m) of the Code.

(f) "Eligible Person" shall mean any employee, officer, director (including any Non-Employee Director), consultant or independent contractor providing services to the Company or any Affiliate who the Committee determines to be an Eligible Person.

(g) "Fair Market Value" shall mean, with respect to any property (including, without limitation, any Shares or other securities), the fair market value of such property determined by such methods or procedures as shall be established from time to time by the Committee or, in the case of grants pursuant to Section 6(g), the Board of Directors. Notwithstanding the foregoing, for purposes of the Plan, the Fair Market Value of Shares on a given date shall be the closing price of the Shares as reported on the New York Stock Exchange on such date, if the Shares are then quoted on the New York Stock Exchange.

(h) "Incentive Stock Option" shall mean an option granted under Section 6(a) of the Plan that is intended to meet the requirements of Section 422 of the Code or any successor provision.

(i) "Non-Qualified Stock Option" shall mean an option granted under Section 6(a) of the Plan, or Section 6(g) of the Plan in the case of grants to Non-Employee Directors, that is not intended to be an Incentive Stock Option.

(j) "Option" shall mean an Incentive Stock Option or a Non-Qualified Stock Option.

(k) "Other Stock-Based Award" shall mean any right granted under Section 6(e) of the Plan.

(l) "Participant" shall mean an Eligible Person designated to be granted an Award under the Plan.

(m) "Performance Award" shall mean any right granted under Section 6(d) of the Plan.

(n) "Person" shall mean any individual, corporation, partnership, association or trust.

(o) "Restricted Stock" shall mean any Share granted under Section 6(c) of the Plan.

(p) "Restricted Stock Unit" shall mean any unit granted under Section 6(c) of the Plan evidencing the right to receive a Share (or a cash payment equal to the Fair Market Value of a Share) at some future date.

(q) "Rule 16b-3" shall mean Rule 16b-3 promulgated by the Securities and Exchange Commission under the Securities Exchange Act of 1934.

(r) "Shares" shall mean shares of Common Stock, \$1.25 par value, of the Company or such other securities or property as may become subject to Awards pursuant to an adjustment made under Section 7(c) of the Plan.

(s) "Stock Appreciation Right" shall mean any right granted under Section 6(b) of the Plan.

SECTION 3. ADMINISTRATION.

The Plan shall be administered by the Committee; provided, however, that Section 6(g) of the Plan shall not be administered by the Committee but rather by the Board of Directors subject to the provisions and restrictions of such Section 6(g). Subject to the terms of the Plan and applicable law, and except with respect to Section 6(g) of the Plan, the Committee shall have full power and authority to: (i) designate Participants; (ii) determine the type or types of Awards to be granted to each Participant under the Plan; (iii) determine the number of Shares to be covered by (or with respect to which payments, rights or other matters are to be calculated in connection with) each Award; (iv) determine the terms and conditions of any Award or Award Agreement; (v) amend the terms and conditions of any Award or Award Agreement and accelerate the exercisability of Options or the lapse of restrictions relating to Restricted Stock or Restricted Stock Units; (vi) determine whether, to what extent and under what circumstances Awards may be exercised in cash, Shares, other securities, other Awards or other property, or canceled, forfeited or suspended; (vii) determine whether, to what extent and under what circumstances cash, Shares, other securities, other Awards, other property and other amounts payable with respect to an Award under the Plan shall be deferred either automatically or at the election of the holder thereof or the Committee; (viii) interpret and administer the Plan and any instrument or agreement relating to, or Award made under, the Plan; (ix) establish, amend, suspend or waive such rules and regulations and appoint such agents as it shall deem appropriate for the proper administration of the Plan; and (x) make any other determination and take any other action that the Committee deems necessary or desirable for the

administration of the Plan. Unless otherwise expressly provided in the Plan, all designations, determinations, interpretations and other decisions under or with respect to the Plan or any Award shall be within the sole discretion of the Committee, may be made at any time and shall be final, conclusive and binding upon any Participant, any holder or beneficiary of any Award and any employee of the Company or any Affiliate.

SECTION 4. SHARES AVAILABLE FOR AWARDS.

(a) Shares Available. Subject to adjustment as provided in Section 7(c), the number of Shares available for granting Awards under the Plan shall be 17,000,000 (5,000,000 of which were previously authorized under the 1991 Stock Incentive Plan, 5,000,000 of which were previously authorized under the 1994 Stock Incentive Plan and 7,000,000 of which will be authorized upon stockholder approval of the Plan). Not more than 1,000,000 of such Shares will be available for grant of additional Awards of Restricted Stock following the effective date of the Plan determined in accordance with Section 10 of the Plan. If any Shares covered by an Award or to which an Award relates are not purchased or are forfeited, or if an Award otherwise terminates without delivery of any Shares, then the number of Shares counted against the aggregate number of Shares available under the Plan with respect to such Award, to the extent of any such forfeiture or termination, shall again be available for granting Awards under the Plan. In addition, any Shares that are used by a Participant as full or partial payment to the Company of the purchase price relating to an Award, or in connection with satisfaction of tax obligations relating to an Award in accordance with the provisions of Section 8 of the Plan, shall again be available for granting Awards under the Plan.

(b) Accounting for Awards. For purposes of this Section 4, if an Award entitles the holder thereof to receive or purchase Shares, the number of Shares covered by such Award or to which such Award relates shall be counted on the date of grant of such Award against the aggregate number of Shares available for granting Awards under the Plan.

(c) Incentive Stock Options. Notwithstanding the foregoing, the number of Shares available for granting Incentive Stock Options under the Plan shall not exceed 7,000,000, subject to adjustment as provided in the Plan and Section 422 or 424 of the Code or any successor provisions.

(d) Award Limitations Under the Plan. No Eligible Person may be granted any Award or Awards, the value of which Awards are based solely on an increase in the value of the Shares after the date of grant of such Awards, for more than 1,000,000 Shares, in the aggregate, in any calendar year beginning with the year commencing January 1, 1996. The foregoing limitation specifically includes the grant of any "performance-based" Awards within the meaning of Section 162(m) of the Code.

SECTION 5. ELIGIBILITY.

Any Eligible Person, including any Eligible Person who is an officer or director of the Company or any Affiliate, shall be eligible to be designated a Participant; provided, however, that an Incentive Stock Option may only be granted to full or part-time employees (which term as used herein includes, without limitation, officers and directors who are also employees) and an Incentive Stock Option shall not be granted to an employee of an Affiliate unless such Affiliate is also a "subsidiary corporation" of the Company within the meaning of Section 424(f) of the Code or any successor provision.

SECTION 6. AWARDS.

(a) Options. The Committee is hereby authorized to grant Options to Participants with the following terms and conditions and with such additional terms and conditions not inconsistent with the provisions of the Plan as the Committee shall determine:

(i) Exercise Price. The purchase price per Share purchasable under an Option shall be determined by the Committee; provided, however, that such purchase price shall not be less than 100% of the Fair Market Value of a Share on the date of grant of such Option.

(ii) Option Term. The term of each Option shall be fixed by the Committee.

(iii) Time and Method of Exercise. The Committee shall determine the time or times at which an Option may be exercised in whole or in part and the method or methods by which, and the form or forms (including, without limitation, cash, Shares, other securities, other Awards or other property, or any combination thereof, having a Fair Market Value on the exercise date equal to the relevant exercise price) in which, payment of the exercise price with respect thereto may be made or deemed to have been made.

(iv) Reload Options. The Committee may grant "reload" options, separately or together with another Option, pursuant to which, subject to the terms and conditions established by the Committee and any applicable requirements of Rule 16b-3 or any other applicable law, the Participant would be granted a new Option when the payment of the exercise price of a previously granted option is made by the delivery of shares of the Company's Common Stock owned by the Participant pursuant to Section 6(a)(iii) hereof or the relevant provisions of another plan of the Company, and/or when shares of the Company's Common Stock are tendered or forfeited as payment of the amount to be withheld under applicable income tax laws in connection

with the exercise of an option, which new Option would be an option to purchase the number of Shares not exceeding the sum of (A) the number of shares of the Company's Common Stock provided as consideration upon the exercise of the previously granted option to which such "reload" option relates and (B) the number of shares of the Company's Common Stock tendered or forfeited as payment of the amount to be withheld under applicable income tax laws in connection with the exercise of the option to which such "reload" option relates. "Reload" options may be granted with respect to options granted under this Plan or any other stock option plan of the Company. Such "reload" options shall have a per share exercise price equal to the Fair Market Value as of the date of grant of the new Option.

(b) Stock Appreciation Rights. The Committee is hereby authorized to grant Stock Appreciation Rights to Participants subject to the terms of the Plan and any applicable Award Agreement. A Stock Appreciation Right granted under the Plan shall confer on the holder thereof a right to receive upon exercise thereof the excess of (i) the Fair Market Value of one Share on the date of exercise (or, if the Committee shall so determine, at any time during a specified period before or after the date of exercise) over (ii) the grant price of the Stock Appreciation Right as specified by the Committee, which price shall not be less than 100% of the Fair Market Value of one Share on the date of grant of the Stock Appreciation Right. Subject to the terms of the Plan and any applicable Award Agreement, the grant price, term, methods of exercise, dates of exercise, methods of settlement and any other terms and conditions of any Stock Appreciation Right shall be as determined by the Committee. The Committee may impose such conditions or restrictions on the exercise of any Stock Appreciation Right as it may deem appropriate.

(c) Restricted Stock and Restricted Stock Units. The Committee is hereby authorized to grant Awards of Restricted Stock and Restricted Stock Units to Participants with the following terms and conditions and with such additional terms and conditions not inconsistent with the provisions of the Plan as the Committee shall determine:

(i) Restrictions. Shares of Restricted Stock and Restricted Stock Units shall be subject to such restrictions as the Committee may impose (including, without limitation, any limitation on the right to vote a Share of Restricted Stock or the right to receive any dividend or other right or property with respect thereto), which restrictions may lapse separately or in combination at such time or times, in such installments or otherwise as the Committee may deem appropriate.

(ii) Stock Certificates. Any Restricted Stock granted under the Plan shall be evidenced by issuance of a stock certificate or certificates, which certificate or certificates shall be held by the Company. Such certificate or certificates shall be registered in the name of the Participant and shall bear an

appropriate legend referring to the restrictions applicable to such Restricted Stock. In the case of Restricted Stock Units, no Shares shall be issued at the time such Awards are granted.

(iii) Forfeiture; Delivery of Shares. Except as otherwise determined by the Committee, upon termination of employment (as determined under criteria established by the Committee) during the applicable restriction period, all Shares of Restricted Stock and all Restricted Stock Units at such time subject to restriction shall be forfeited and reacquired by the Company; provided, however, that the Committee may, when it finds that a waiver would be in the best interest of the Company, waive in whole or in part any or all remaining restrictions with respect to Shares of Restricted Stock or Restricted Stock Units. Shares representing Restricted Stock that is no longer subject to restrictions shall be delivered to the holder thereof promptly after the applicable restrictions lapse or are waived. Upon the lapse or waiver of restrictions and the restricted period relating to Restricted Stock Units evidencing the right to receive Shares, such Shares shall be issued and delivered to the holders of the Restricted Stock Units.

(d) Performance Awards. The Committee is hereby authorized to grant Performance Awards to Participants subject to the terms of the Plan and any applicable Award Agreement. A Performance Award granted under the Plan (i) may be denominated or payable in cash, Shares (including, without limitation, Restricted Stock), other securities, other Awards or other property and (ii) shall confer on the holder thereof the right to receive payments, in whole or in part, upon the achievement of such performance goals during such performance periods as the Committee shall establish. Subject to the terms of the Plan and any applicable Award Agreement, the performance goals to be achieved during any performance period, the length of any performance period, the amount of any Performance Award granted and the amount of any payment or transfer to be made pursuant to any Performance Award shall be determined by the Committee.

(e) Other Stock-Based Awards. The Committee is hereby authorized to grant to Participants such other Awards that are denominated or payable in, valued in whole or in part by reference to, or otherwise based on or related to, Shares (including, without limitation, securities convertible into Shares), as are deemed by the Committee to be consistent with the purpose of the Plan; provided, however, that such grants must comply with Rule 16b-3 and applicable law. Subject to the terms of the Plan and any applicable Award Agreement, the Committee shall determine the terms and conditions of such Awards. Shares or other securities delivered pursuant to a purchase right granted under this Section 6(e) shall be purchased for such consideration, which may be paid by such method or methods and in such form or forms (including without limitation, cash, Shares, other securities, other Awards or other property or any combination thereof), as the Committee shall determine, the value of which consideration, as established by the

Committee, shall not be less than 100% of the Fair Market Value of such Shares or other securities as of the date such purchase right is granted.

(f) General. Except as otherwise specified with respect to Awards to Non-Employee Directors pursuant to Section 6(g) of the Plan:

(i) No Cash Consideration for Awards. Awards shall be granted for no cash consideration or for such minimal cash consideration as may be required by applicable law.

(ii) Awards May Be Granted Separately or Together. Awards may, in the discretion of the Committee, be granted either alone or in addition to, in tandem with or in substitution for any other Award or any award granted under any plan of the Company or any Affiliate other than the Plan. Awards granted in addition to or in tandem with other Awards or in addition to or in tandem with awards granted under any such other plan of the Company or any Affiliate may be granted either at the same time as or at a different time from the grant of such other Awards or awards.

(iii) Forms of Payment under Awards. Subject to the terms of the Plan and of any applicable Award Agreement, payments or transfers to be made by the Company or an Affiliate upon the grant, exercise or payment of an Award may be made in such form or forms as the Committee shall determine (including, without limitation, cash, Shares, other securities, other Awards or other property or any combination thereof), and may be made in a single payment or transfer, in installments or on a deferred basis, in each case in accordance with rules and procedures established by the Committee. Such rules and procedures may include, without limitation, provisions for the payment or crediting of reasonable interest on installment or deferred payments.

(iv) Limits on Transfer of Awards. No Award and no right under any such Award shall be transferable by a Participant otherwise than by will or by the laws of descent and distribution; provided, however, that, if so determined by the Committee, a Participant may, in the manner established by the Committee, designate a beneficiary or beneficiaries to exercise the rights of the Participant and receive any property distributable with respect to any Award upon the death of the Participant. Each Award or right under any Award shall be exercisable during the Participant's lifetime only by the Participant or, if permissible under applicable law, by the Participant's guardian or legal representative. No Award or right under any such Award may be pledged, alienated, attached or otherwise encumbered, and any purported pledge, alienation, attachment or encumbrance thereof shall be void and unenforceable against the Company or any Affiliate.

(v) Term of Awards. The term of each Award shall be for such period as may be determined by the Committee.

(vi) Restrictions; Securities Exchange Listing. All certificates for Shares or other securities delivered under the Plan pursuant to any Award or the exercise thereof shall be subject to such stop transfer orders and other restrictions as the Committee (or, in the case of grants under Section 6(g) of the Plan, the Board of Directors) may deem advisable under the Plan or the rules, regulations and other requirements of the Securities and Exchange Commission and any applicable federal or state securities laws, and the Committee (or, in the case of grants under Section 6(g) of the Plan, the Board of Directors) may cause a legend or legends to be placed on any such certificates to make appropriate reference to such restrictions. If the Shares or other securities are traded on a securities exchange, the Company shall not be required to deliver any Shares or other securities covered by an Award unless and until such Shares or other securities have been admitted for trading on such securities exchange.

(g) Non-Qualified Stock Options to Non-Employee Directors. The Board of Directors shall issue Non-Qualified Stock Options to Non-Employee Directors in accordance with this Section 6(g).

Each Non-Employee Director serving on the Company's Board of Directors immediately prior to the 1996 Annual Meeting of Stockholders of the Company was granted an Option to purchase 2,500 Shares (subject to adjustment pursuant to Section 7(c) of the Plan) pursuant to the terms of the 1991 Stock Incentive Plan. Each Non-Employee Director first elected or appointed to the Company's Board of Directors after the 1996 Annual Meeting of Stockholders and during the term of the Plan shall be granted, as of the date of such Director's first election or appointment to the Board of Directors, a Non-Qualified Stock Option to purchase 2,500 Shares (subject to adjustment pursuant to Section 7(c) of the Plan). After the initial grant to each Non-Employee Director as set forth above in this Section 6(g), each such Director shall be granted during the term of the Plan, as of the date of each Annual Meeting of Stockholders of the Company commencing with the 1996 Annual Meeting of Stockholders of the Company, if such Director's term of office continues after such date, a Non-Qualified Stock Option to purchase 1,500 Shares (subject to adjustment pursuant to Section 7(c) of the Plan); provided, however, that commencing with the 1997 Annual Meeting of Stockholders of the Company, such grant shall be a Non-Qualified Stock Option to purchase 1,700 Shares (subject to adjustment pursuant to Section 7(c) of the Plan).

Each Non-Qualified Stock Option granted to a Non-Employee Director pursuant to this Section 6(g) shall be exercisable in full as of the date of grant, shall have an exercise price equal to the Fair Market Value of a Share on the date of grant

and shall expire on the tenth anniversary of the date of grant, except as provided below.

Except as hereinafter provided, each Option granted pursuant to this Section 6(g) (including those Options granted pursuant to Section 6(h) of the 1991 Stock Incentive Plan as provided therein) shall be deemed to include a provision entitling the optionee to a further Non-Qualified Stock Option (a "Non-Employee Director Reload Option") in the event the optionee exercises such an Option, in whole or in part, by surrendering other Shares in accordance with this Section 6(g) (including any predecessor provision under the 1991 Stock Incentive Plan) and the terms of the Option and/or when shares of the Company's Common Stock are delivered or withheld as payment of an amount representing income tax obligations in connection with the exercise of an option. Any such Non-Employee Director Reload Option (i) shall be for a number of Shares equal to the sum of (x) the number of Shares surrendered as part or all of the exercise price of the Option to which it relates plus (y) the number of Shares, if any, delivered or withheld as payment of an amount representing income tax obligations in connection with the exercise of the Option to which it relates; (ii) shall have an expiration date which is the same as the expiration date of the Option to which it relates; (iii) shall have an exercise price equal to the Fair Market Value of a Share on the date of exercise of the Option to which it relates; and (iv) shall be exercisable in full as of the date of grant. A Non-Employee Director Reload Option may be reloaded under the same terms, provided that the original Option to which such series of Non-Employee Director Reload Options relates may be reloaded a maximum of three times. Non-Employee Director Reload Options shall only be granted to a Director during such Director's term as a Non-Employee Director. Any such Non-Employee Director Reload Option shall be subject to availability of sufficient shares for grant under the Plan. Shares surrendered as part or all of the exercise price of the Option to which it relates that have been owned by the optionee less than six months will not be counted for purposes of determining the number of Shares that may be purchased pursuant to a Non-Employee Director Reload Option.

All grants of Non-Qualified Stock Options pursuant to this Section 6(g) shall be automatic and non-discretionary and shall be made strictly in accordance with the foregoing terms and the following additional provisions:

(i) Non-Qualified Stock Options granted to a Non-Employee Director hereunder shall terminate and may no longer be exercised if such Director ceases to be a Non-Employee Director of the Company, except that:

(A) If such Director's term shall be terminated for any reason other than gross and willful misconduct, death, disability, or retirement, such Director may at any time within a period of three months after such termination, but not after the termination date of the Option, exercise the Option.

(B) If such Director's term shall be terminated by reason of gross and willful misconduct during the course of the term, including but not limited to, wrongful appropriation of funds of the Company or the commission of a gross misdemeanor or felony, the Option shall be terminated as of the date of the misconduct.

(C) If such Director's term shall be terminated by reason of disability or retirement, such Director may exercise the Option in accordance with the terms thereof as though such termination had never occurred. If such Director shall die following any such termination, the Option may be exercised in accordance with its terms by the personal representatives or administrators of such Director or by any person or persons to whom the Option has been transferred by will or the applicable laws of descent and distribution.

(D) If such Director shall die while a Director of the Company or within three months after termination of such Director's term for any reason other than disability or retirement or gross and willful misconduct, the Option may be exercised in accordance with its terms by the personal representatives or administrators of such Director or by any person or persons to whom the Option has been transferred by will or the applicable laws of descent and distribution.

(ii) Non-Qualified Stock Options granted to Non-Employee Directors may be exercised in whole or in part from time to time by serving written notice of exercise on the Company at its principal executive offices, to the attention of the Company's Secretary. The notice shall state the number of shares as to which the Option is being exercised and be accompanied by payment of the purchase price. A Non-Employee Director may, at such Director's election, pay the purchase price by check payable to the Company, by promissory note, or in shares of the Company's Common Stock, or in any combination thereof having a Fair Market Value on the exercise date equal to the applicable exercise price. If payment or partial payment is made by promissory note, such note shall be a full recourse note and shall (A) be secured by the Shares to be delivered upon exercise of such Option, (B) be limited in principal amount to the maximum amount permitted under applicable laws, rules and regulations, (C) be for a term of six years and (D) bear interest at the applicable federal rate (as determined in accordance with Section 1274(d) of the Code), compounded semi-annually.

(iii) In order for a Non-Employee Director to satisfy obligations under income tax laws in connection with an Option granted pursuant to this Section 6(g) (including any predecessor provision under the 1991 Stock Incentive Plan), such Director may (A) elect to have the Company withhold a portion of the Shares otherwise to be delivered upon exercise of such Option

with a Fair Market Value equal to the amount of such taxes. (an "Election") or (B) deliver to the Company Shares other than Shares issuable upon exercise of such Option with a Fair Market Value equal to the amount of such taxes. An Election, if any, must be made on or before the date that the amount of tax to be withheld is determined.

SECTION 7. AMENDMENT AND TERMINATION; ADJUSTMENTS.

Except to the extent prohibited by applicable law and unless otherwise expressly provided in an Award Agreement or in the Plan:

(a) Amendments to the Plan. The Board of Directors of the Company may amend, alter, suspend, discontinue or terminate the Plan; provided, however, that, notwithstanding any other provision of the Plan or any Award Agreement, without the approval of the stockholders of the Company, no such amendment, alteration, suspension, discontinuation or termination shall be made that, absent such approval:

(i) would cause Rule 16b-3 to become unavailable with respect to the Plan;

(ii) would violate the rules or regulations of the New York Stock Exchange, any other securities exchange or the National Association of Securities Dealers, Inc. that are applicable to the Company; or

(iii) would cause the Company to be unable, under the Code, to grant Incentive Stock Options under the Plan.

(b) Amendments to Awards. Except with respect to Awards granted pursuant to Section 6(g) of the Plan, the Committee may waive any conditions of or rights of the Company under any outstanding Award, prospectively or retroactively. The Committee may not amend, alter, suspend, discontinue or terminate any outstanding Award, prospectively or retroactively, without the consent of the Participant or holder or beneficiary thereof, except as otherwise herein provided.

(c) Adjustments. In the event that any dividend or other distribution (whether in the form of cash, Shares, other securities or other property), recapitalization, stock split, reverse stock split, reorganization, merger, consolidation, split-up, spin-off, combination, repurchase or exchange of Shares or other securities of the Company or other similar corporate transaction or event affecting the Shares would be reasonably likely to result in the diminution or enlargement of any of the benefits or potential benefits intended to be made available under the Plan or under an Award (including, without limitation, the benefits or potential benefits of provisions relating to the term, vesting or exercisability of any Option, the availability of any tandem stock appreciation rights

or "reload" option rights, if any, contained in any Option Award, and any "change in control" or similar provisions of any Award), the Committee (or, in the case of grants under Section 6(g) of the Plan, the Board of Directors) shall, in such manner as it shall deem equitable or appropriate in order to prevent such diminution or enlargement of any such benefits or potential benefits, adjust any or all of (i) the number and type of Shares (or other securities or other property) which thereafter may be made the subject of Awards, (ii) the number and type of Shares (or other securities or other property) subject to outstanding Awards and (iii) the purchase or exercise price with respect to any Award; provided, however, that the number of Shares covered by any Award or to which such Award relates shall always be a whole number.

(d) Correction of Defects, Omissions and Inconsistencies. The Committee (or, in the case of grants under Section 6(g) of the Plan, the Board of Directors) may correct any defect, supply any omission or reconcile any inconsistency in the Plan or any Award in the manner and to the extent it shall deem desirable to carry the Plan into effect.

SECTION 8. INCOME TAX WITHHOLDING.

In order to comply with all applicable federal or state income tax laws or regulations, the Company may take such action as it deems appropriate to ensure that all applicable federal or state payroll, withholding, income or other taxes, which are the sole and absolute responsibility of a Participant, are withheld or collected from such Participant. In order to assist a Participant in paying all federal and state taxes to be withheld or collected upon exercise or receipt of (or the lapse of restrictions relating to) an Award, the Committee, in its discretion and subject to such additional terms and conditions as it may adopt, may permit the Participant to satisfy such tax obligation by (i) electing to have the Company withhold a portion of the Shares otherwise to be delivered upon exercise or receipt of (or the lapse of restrictions relating to) such Award with a Fair Market Value equal to the amount of such taxes or (ii) delivering to the Company Shares other than Shares issuable upon exercise or receipt of (or the lapse of restrictions relating to) such Award with a Fair Market Value equal to the amount of such taxes. The election, if any, must be made on or before the date that the amount of tax to be withheld is determined.

SECTION 9. GENERAL PROVISIONS.

(a) No Rights to Awards. Except as otherwise provided in Section 6(g) of the Plan, no Eligible Person, Participant or other Person shall have any claim to be granted any Award under the Plan, and there is no obligation for uniformity of treatment of Eligible Persons, Participants or holders or beneficiaries of Awards under the Plan. The terms and conditions of Awards need not be the same with respect to different Participants.

(b) Delegation. The Committee may delegate to one or more officers of the Company or any Affiliate or a committee of such officers the authority, subject to such terms and limitations as the Committee shall determine, to grant Awards to Eligible Persons who are not officers or directors of the Company for purposes of Section 16 of the Securities Exchange Act of 1934, as amended.

(c) Award Agreements. No Participant will have rights under an Award granted to such Participant unless and until an Award Agreement shall have been duly executed on behalf of the Company.

(d) No Limit on Other Compensation Arrangements. Nothing contained in the Plan shall prevent the Company or any Affiliate from adopting or continuing in effect other or additional compensation arrangements, and such arrangements may be either generally applicable or applicable only in specific cases.

(e) No Right to Employment, Etc. The grant of an Award shall not be construed as giving a Participant the right to be retained in the employ, or as giving a Non-Employee Director the right to continue as a Director, of the Company or any Affiliate. In addition, the Company or an Affiliate may at any time dismiss a Participant from employment, or terminate the term of a Non-Employee Director, free from any liability or any claim under the Plan, unless otherwise expressly provided in the Plan or in any Award Agreement.

(f) Governing Law. The validity, construction and effect of the Plan and any rules and regulations relating to the Plan shall be determined in accordance with the laws of the State of Minnesota.

(g) Severability. If any provision of the Plan or any Award is or becomes or is deemed to be invalid, illegal or unenforceable in any jurisdiction or would disqualify the Plan or any Award under any law deemed applicable by the Committee (or, in the case of grants under Section 6(g) of the Plan, the Board of Directors), such provision shall be construed or deemed amended to conform to applicable laws, or if it cannot be so construed or deemed amended without, in the determination of the Committee (or, in the case of grants under Section 6(g) of the Plan, the Board of Directors), materially altering the purpose or intent of the Plan or the Award, such provision shall be stricken as to such jurisdiction or Award, and the remainder of the Plan or any such Award shall remain in full force and effect.

(h) No Trust or Fund Created. Neither the Plan nor any Award shall create or be construed to create a trust or separate fund of any kind or a fiduciary relationship between the Company or any Affiliate and a Participant or any other Person. To the extent that any Person acquires a right to receive payments from the Company or any Affiliate pursuant to an Award, such right shall be no greater than the right of any unsecured general creditor of the Company or any Affiliate.

(i) No Fractional Shares. No fractional Shares shall be issued or delivered pursuant to the Plan or any Award, and the Committee (or, in the case of grants under Section 6(g) of the Plan, the Board of Directors) shall determine whether cash shall be paid in lieu of any fractional Shares or whether such fractional Shares or any rights thereto shall be canceled, terminated or otherwise eliminated.

(j) Headings. Headings are given to the Sections and subsections of the Plan solely as a convenience to facilitate reference. Such headings shall not be deemed in any way material or relevant to the construction or interpretation of the Plan or any provision thereof.

(k) Section 16 Compliance. The Plan is intended to comply in all respects with Rule 16b-3 or any successor provision, as in effect from time to time and in all events the Plan shall be construed in accordance with the requirements of Rule 16b-3. If any Plan provision does not comply with Rule 16b-3 as hereafter amended or interpreted, the provision shall be deemed inoperative. The Board of Directors, in its absolute discretion, may bifurcate the Plan so as to restrict, limit or condition the use of any provision of the Plan with respect to persons who are officers or directors subject to Section 16 of the Securities and Exchange Act of 1934, as amended, without so restricting, limiting or conditioning the Plan with respect to other Participants.

SECTION 10. EFFECTIVE DATE OF THE PLAN.

The Plan shall be effective as of the date of its approval by the stockholders of the Company.

SECTION 11. TERM OF THE PLAN.

Awards shall only be granted under the Plan during a 10-year period beginning on the effective date of the Plan. However, unless otherwise expressly provided in the Plan or in an applicable Award Agreement, any Award theretofore granted may extend beyond the end of such 10-year period, and the authority of the Committee provided for hereunder with respect to the Plan and any Awards, and the authority of the Board of Directors of the Company to amend the Plan, shall extend beyond the end of such period.

AMENDED AND RESTATED
EMPLOYMENT AGREEMENT

THIS AGREEMENT, dated as of August 15, 1996, by and between First Bank System, Inc., a Delaware corporation (as further defined in Section 8.13.11 hereof, "Employer"), and John F. Grundhofer ("Executive"), amending and restating the Employment Agreement by and between Executive and Employer dated as of January 18, 1995.

In consideration of the respective undertakings of Employer and Executive set forth below, Employer and Executive agree as follows:

1. Employment. Employer hereby employs Executive, and Executive accepts

such employment and agrees to perform services for the Employer, for the period and upon the other terms and conditions set forth in this Agreement.

2. Term of Employment. The term of Executive's employment pursuant to

this Agreement will commence on January 30, 1995 (the "Commencement Date") and, unless terminated at an earlier date in accordance with Section 5 of this Agreement, shall continue in effect until the third anniversary of the Commencement Date; and, commencing on the first anniversary of the Commencement Date and on each anniversary thereafter, the term of this Agreement shall automatically be extended for one additional year unless, not later than 30 days prior to any such date of automatic extension of this Agreement, Employer or Executive shall have given the other party to this Agreement written notice that the Agreement will not be so extended. The term of Executive's employment commencing on the Commencement Date and ending pursuant to the terms hereof is hereinafter referred to as the "Period of Employment."

3. Position and Duties.

3.01 Service with Employer. During the Period of Employment,

Executive agrees to perform such reasonable executive employment duties as Employer shall assign to him from time to time and shall have the title of Chairman of the Board, President and Chief Executive Officer. Executive also agrees to serve, for any period for which he is elected, as a director on the Board of Directors of Employer and to serve as a member of any committee of the Board of Directors of Employer to which Executive may be elected or appointed.

3.02 Performance of Duties. Executive agrees to serve Employer

faithfully and to the best of his ability and to devote his full business time, attention and efforts to the business and affairs of Employer during the Period of Employment; provided, however, that Executive may engage in other activities, such as activities involving charitable, educational, religious and similar types of

organizations, speaking engagements, membership on the boards of directors of other organizations (as Employer may from time to time approve), management of Executive's personal investments, and similar types of activities to the extent that such other activities do not inhibit in any material way or prohibit the performance of Executive's duties under this Agreement, or inhibit in any material way or conflict with the business of Employer and its subsidiaries.

4. Compensation.

4.01 Base Salary. As base compensation for all services to be

rendered by Executive under this Agreement, Employer will pay to Executive during the Period of Employment a base annual salary to be paid in substantially equal installments in accordance with Employer's standard payroll procedures and policies. The initial base annual salary will be at least \$620,000, but the base annual salary may be increased (but not reduced) from time to time in the sole discretion of Employer; provided, however, that for any of the three years beginning after a Change in Control, as defined in Section 8.13, during the Period of Employment Executive's base annual salary shall be increased by a percentage not less than the average percentage increase in the base annual salary for each of the next five highest paid officers of Employer for such year.

4.02 Annual Bonus. During the Period of Employment, Executive will be

entitled to participate in the Employer's Executive Incentive Plan (or, if such Plan shall cease to exist, Employer's annual bonus award program, if any, for Employer's executives at Executive's grade level). The award of an annual bonus is highly discretionary and is subject to the terms and provisions of the Executive Incentive Plan (or, if such Plan shall cease to exist, Employer's annual bonus award program, if any, for Employer's executives at Executive's grade level).

4.03 Options and Restricted Stock. During the Period of Employment,

Executive will be eligible to receive grants of Employer's stock options and restricted stock, or other awards pursuant to equity-based plans of Employer. Such grants are highly discretionary and would be subject to the terms of the applicable agreements prescribed by Employer from time to time.

4.04 Participation in Other Benefit Plans. During the Period of

Employment, Executive will be entitled to participate in such retirement plans, major medical, hospital, surgical and dental plans, executive disability plans and other Employer benefits not described elsewhere in this Section 4 as are being provided by Employer to executives at Executive's grade level from time to time to the extent that Executive's age, positions and other factors qualify him for such benefits. If, for any period during the Period of Employment, Executive is not eligible by reason of length of service to participate in such plans maintained by Employer, Employer shall provide Executive with benefits equivalent to those

provided under such plans and, with respect to benefits provided by Employer equivalent to those provided under Employer's major medical, hospital, surgical and dental plans, shall compensate Executive on an after-tax basis for any additional income taxes payable by Executive by reason of Employer providing such benefits directly rather than through such plans.

4.05 Long-Term Disability Benefits. During the Period of Employment,

Executive's annual benefit under Employer's long-term disability plan will not be less than 60% of the total of (i) Executive's base annual salary at the date of disability plus (ii) the annual average of bonuses received by Executive during the three prior Executive Incentive Plan years (or, if such Plan shall cease to exist, such other annual bonus award program, if any, pursuant to which Executive received annual bonus payments), and Employer agrees to pay Executive (at the time benefits are payable under the long-term disability plan) the excess, if any, of such annual benefit over the annual benefit provided by Employer's long-term disability plan.

4.06 Survivor Benefit Programs; Life Insurance. During the Period of

Employment, Executive will be entitled to participate in survivor benefit programs covering Employer's executives at Executive's grade level in effect on the Commencement Date or as modified or supplemented by Employer from time to time. If, for any period during the Period of Employment, Executive is not eligible to participate in such survivor benefit programs, Employer shall provide Executive with benefits equivalent to those provided under such programs. In addition, during the Period of Employment Employer shall continue to provide a life insurance policy with a face value of at least \$1 million for the benefit of a beneficiary designated by Executive (or, if no beneficiary is designated, for the benefit of Executive's spouse). Such insurance policy shall be in addition to the amount of group term insurance, if any, provided to Executive under an insurance plan maintained by Employer for its employees generally. Executive hereby represents to Employer that Executive is insurable on normal terms and conditions.

4.07 Vacation and Sick Leave. During the Period of Employment,

Executive will be entitled to reasonable paid vacation periods each year, will be entitled to carry over to subsequent years unused vacation periods, and upon termination of employment will be entitled to be paid for unused vacation periods, in each case in accordance with Employer's policy for executives at Executive's grade level from time to time. Executive will also be entitled to reasonable sick leave in accordance with Employer's policy for executives at Executive's grade level from time to time.

4.08 Perquisites. During the Period of Employment, Employer will

provide Executive with such perquisites as Employer from time to time provides to executives at Executive's grade level including, without limitation, (a) an automobile or an automobile allowance consistent with Employer's policies for an

executive at Executive's grade level, (b) reimbursement of initiation fees, if any, and dues for one country club and one business club of Executive's choice, and (c) the reimbursement of the cost of financial and tax counseling (subject to an annual limit of two percent of current base annual salary). Additionally, during the Period of Employment, Employer will reimburse Executive for the difference between (i) interest payments made by Executive on Executive's real estate mortgage loan for his personal residence (with the loan amount not to exceed 80% of the purchase price for such residence) and (ii) the interest payments that would apply to such loan if the interest rate on such loan were one percentage point less than the interest rate generally prevailing in the market at the time the loan was entered into.

4.09 Expenses. Employer will reimburse Executive for all expenses and

disbursements reasonably incurred by Executive in the performance of his duties during the Period of Employment, and such other facilities or services as Employer and Executive may, from time to time, agree are reimbursable, subject to the presentation of appropriate vouchers in accordance with the Employer's normal policies for expense verification.

4.10 [This Section is intentionally omitted.]

4.11 Indemnity and Hold Harmless. Except to the extent inconsistent

with Employer's charter or bylaws, Employer will indemnify Executive and hold Executive harmless to the fullest extent permitted by law with respect to acts of Executive as an officer and director of Employer during the Period of Employment. Employer further agrees that if and to the extent Employer in its sole discretion maintains directors' and officers' insurance policies, Executive will be covered by such policies with respect to acts of Executive as an officer and director of Employer during the Period of Employment to the same extent as all other officers and directors of Employer under such policies.

4.12 Payments on Account of Restricted Stock Relating to Former

Employment. Employer has established and is maintaining a bookkeeping account

for Executive (the "Bookkeeping Account"), which account was initially credited with \$305,074, representing the amount agreed to be paid to Executive and not paid to date in respect of shares of Wells Fargo & Company ("Wells Fargo") Common Stock transferred by Wells Fargo to Executive, but not vested, as of January 30, 1990. The amount credited to the Bookkeeping Account shall be deemed to have been invested in such stock, bonds or other securities as Executive shall, from time to time, designate in writing to Employer's Executive Vice President, Human Resources, or such other individual as Employer shall designate, which deemed investments must be reasonably acceptable to Employer and must be of a type that Employer would be permitted to make under applicable laws and regulations. The Bookkeeping Account shall be credited or debited, as the case may be, with gains or losses deemed incurred as a result of such designated, deemed investments.

Certain debits have been made to the Bookkeeping Account as provided in the Employment Agreement dated December 30, 1992 by and between Employer and Executive (the "Prior Employment Agreement"). The balance of the Bookkeeping Account shall become payable to, or with respect to, Executive upon the earliest of the following events (i) January 30, 2003, (ii) Executive's death or (iii) Executive's termination of employment for any reason within 24 months after a Change in Control. In the event the balance of the Bookkeeping Account becomes payable upon Executive's termination of employment for any reason other than death within 24 months after a Change in Control, the entire balance shall be paid within 30 days of such event. In the event the balance of the Bookkeeping Account becomes payable upon Executive's death, the entire balance shall be paid by December 31 of the calendar year in which Executive dies. Upon the occurrence of any other event giving rise to Employer's obligation to pay Executive the balance of the Bookkeeping Account, on January 30 of each year beginning in the year 2003 and for each of the next nine consecutive years, after taking into account any amount credited or debited to the Bookkeeping Account as a result of the deemed investment thereof or otherwise pursuant to the terms of this Section 4.12, the following proportions of the Bookkeeping Account shall be paid to Executive: 1/10, 1/9, 1/8, 1/7, 1/6, 1/5, 1/4, 1/3, 1/2 and the entire remaining balance thereof.

Employer, in its sole and absolute discretion, may alter the timing or manner of payment of the balance of the Bookkeeping Account in the event that Executive establishes to the satisfaction of Employer severe financial hardship. Severe financial hardship will be deemed to have occurred in the event of Executive's impending bankruptcy, a dependent's long and serious illness or other events of similar magnitude. Executive may designate a beneficiary or beneficiaries who, upon his death, are to receive distributions that otherwise would have been paid to Executive. All designations shall be in writing and shall be effective only if and when delivered to Employer during the lifetime of Executive.

Employer shall have the right to deduct from all payments made pursuant to this Section 4.12 any federal, state or local taxes required by law to be withheld with respect to such payments. Executive and Employer understand and agree that the timetable set forth above with respect to the payment of the balance of the Bookkeeping Account is irrevocable and shall not be subject to any amendment or modification. Further, Executive and Employer understand and agree that Employer is under a contractual obligation to make payments to Executive in accordance with this Section 4.12. Such payments shall not be financed from any trust fund, insurance or otherwise and shall be paid solely out of the general funds of Employer, and Executive shall have no interest whatsoever in any investments made by Employer on account of Executive's request with respect to deemed investments of the Bookkeeping Account. Executive will not have any interest whatsoever in any specific asset of Employer as a result of this Agreement, and Executive's rights to payments hereunder shall be no greater than the right of any

other general, unsecured creditor of Employer. In no event shall Employer make any payment hereunder to any assignee or creditor of Executive or a beneficiary. Prior to the time of payment hereunder, Executive or a beneficiary thereof shall have no rights by way of anticipation or otherwise to assign or otherwise dispose of any interest under this Section 4.12, nor shall such rights be assigned or transferred by operation of law.

4.13 Reimbursement of Professional Fees. Employer will pay to (or

reimburse Executive for) the reasonable fees and expenses of Executive's personal professional advisors for professional services rendered to Executive in connection with this Agreement and matters related thereto; provided, however, that payment by Employer pursuant to this Section 4.13 will not exceed \$[10,000].

5. Termination.

5.01 Grounds for Termination. The Period of Employment will terminate

prior to the expiration of the term set forth in Section 2 of this Agreement in the event that:

- (a) Executive shall die.
- (b) Executive shall qualify for and accrue payments under Employer's Disability Program for a period covering 90 consecutive days.
- (c) Employer shall terminate the Period of Employment for Cause. "Cause" means termination upon (i) the willful and continued failure by Executive to substantially perform his duties with Employer (other than any such failure resulting from his disability or from termination by Executive for Good Reason), after a written demand for substantial performance is delivered to Executive that specifically identifies the manner in which Employer believes that Executive has not substantially performed his duties, and Executive has failed to resume substantial performance of his duties on a continuous basis within 14 days of receiving such demand, (ii) the willful engaging by Executive in conduct which is demonstrably and materially injurious to Employer, monetarily or otherwise, (iii) Executive's conviction of a felony which impairs his ability substantially to perform his duties with Employer or (iv) the issuance of an order under Section 8(e)(4) or 8(g)(1) of the Federal Deposit Insurance Act ("FDIC") by which Executive is removed and/or permanently prohibited from participating in the conduct of the affairs of Employer and/or any other Affiliate of Employer. For purposes of this paragraph, no act, or failure to act, on Executive's part will be deemed "willful" unless done, or omitted to be done, by Executive not in good faith and without reasonable belief that his

action or omission was in the best interest of Employer. Failure to perform Executive's duties with Employer during any period of disability shall not constitute Cause.

- (d) Executive shall terminate the Period of Employment for Good Reason. "Good Reason" means termination by Executive upon the occurrence, without Executive's consent, of any one or more of the following: (i) the assignment to Executive of any duties inconsistent in any respect with Executive's position (including status, offices, titles, and reporting requirements), authorities, duties, or other responsibilities as in effect immediately prior to such assignment or any other action of Employer which results in a diminishment in such position, authority, duties, or responsibilities, other than an insubstantial and inadvertent action which is remedied by Employer promptly after receipt of notice thereof given by Executive; (ii) a reduction by Employer in Executive's base salary as in effect on the Commencement Date or as the same shall be increased from time to time; (iii) Employer's requiring Executive to be based at a location in excess of 30 miles from the location of Executive's principal office as of the Commencement Date; (iv) the failure by Employer to provide Executive with compensation and benefits at least equal (in terms of benefit levels and/or reward opportunities) to those provided for under each compensation or benefit plan, program, policy and practice as in effect at the Commencement Date (or as in effect following the Commencement Date, if greater); (v) the failure of Employer to obtain a satisfactory agreement from the Resulting Corporation (as hereinafter defined) or any other successor to Employer to assume and agree to perform this Agreement; (vi) a material breach by Employer of its obligations under this Agreement after notice in writing from Executive and a reasonable opportunity for Employer to correct such conduct; (vii) any purported termination by Employer of Executive's employment that is not effected pursuant to a Notice of Termination (as hereinafter defined); (viii) for the 24 month period following a Full Change in Control (as hereinafter defined) (or prior to a Full Change in Control in the event of an Anticipatory Termination (as hereinafter defined)), the failure by the Employer to provide Executive total cash compensation (consisting of base salary plus cash bonus) with respect to any fiscal year or portion thereof at least equal to the greater of (x) actual total cash compensation paid to Executive with respect to the prior fiscal year or (y) the average annual total cash compensation paid to Executive with respect to the prior two fiscal years (total cash compensation "with respect to any fiscal year or portion thereof" shall be determined at the time the bonus with respect to such fiscal year or portion thereof is determined, even if such bonus is determined after the 24-month period following a Full Change in

Control, and the bonus portion of cash compensation for services rendered in any portion of a fiscal year within 24 months following a Full Change in Control shall be determined by reference to the pro-rata portion of any annual bonus for such fiscal year) and (vix) within 24 months following a Partial Change in Control (as hereinafter defined) (or prior to a Partial Change in Control in the event of an Anticipatory Termination), a reduction by Employer in Executive's annual target bonus or maximum bonus award opportunities as in effect in the prior fiscal year. Executive's right to terminate the Period of Employment for Good Reason shall not be affected by Executive's incapacity due to physical or mental illness. Executive's continued employment shall not constitute consent to, or a waiver of rights with respect to, any circumstance constituting Good Reason. Termination by Executive of the Period of Employment for Good Reason shall constitute termination for Good Reason for all purposes of this Agreement, notwithstanding that Executive may also thereby be deemed to have "retired" under any applicable retirement programs of Employer.

- (e) Employer terminates the Period of Employment other than for "Cause."
- (f) Executive terminates the Period of Employment for any reason not constituting Good Reason.

Notwithstanding any termination of the Period of Employment, Executive, in consideration of his employment hereunder to the date of such termination, will remain bound by the provisions of this Agreement that specifically relate to periods, activities or obligations upon or subsequent to the termination of Executive's employment.

5.02 Effect of Termination.

- (a) In the event of termination of the Period of Employment pursuant to the provisions of Section 5.01(a) above, Executive's trust estate or estate, as the case may be (as determined in accordance with Section 8.02 of this Agreement), will be entitled to be paid the base annual salary otherwise payable to Executive pursuant to Section 4.01 of this Agreement only through the date of such termination. Additionally, Executive's survivors will be entitled to any benefits provided under Employer's survivor benefit program.
- (b) In the event of termination of the Period of Employment pursuant to the provisions of Section 5.01(b) above, Executive will be entitled to be paid the base annual salary otherwise payable to Executive pursuant to

Section 4.01 of this Agreement only through the date of such termination. Executive will be entitled to benefits under Employer's Disability Program and to the benefits provided for in Section 4.05 in connection with Employer's Disability Plan. If Executive shall cease to be eligible for long-term disability payments pursuant to the Disability Plan within three years following the date of such termination, Employer will pay Executive a lump sum payment in the amount of Executive's annual base salary at the time of such termination.

- (c) In the event of termination of the Period of Employment pursuant to the provisions of Section 5.01(c) or (f) above, Employer will have no further obligations hereunder except that Employer will pay Executive his base salary, at the rate then in effect, and continue to provide Executive his health and welfare benefits through the date of such termination. Executive will not be paid any annual bonus pursuant to Section 4.02 of this Agreement for the calendar year in which the termination occurs or any subsequent calendar year.
- (d) In the event of termination of the Period of Employment pursuant to the provisions of Sections 5.01(d) or 5.01(e) above, Employer will (i) pay Executive his full base salary through the date of termination at the rate in effect at the time Notice of Termination is given; (ii) pay as damages to Executive, not later than 30 days following the date of termination, a lump sum payment equal to three times the sum of (A) Executive's annual base salary in effect at the time Notice of Termination is given and (B) the annual target bonus potential available to Executive at the time Notice of Termination is given (or, in the event of termination within 24 months following a Change in Control or in the event of an Anticipatory Termination, if either of the following amounts is greater, the bonus earned in the last fiscal year prior to the date of termination or the average bonus earned in the last three fiscal years prior to the date of termination, whichever is larger), (iii) continue to provide the employee benefits described in Sections 4.04, 4.05 (with disability benefits to be calculated as of the date of termination), and 4.06 to which Executive was entitled on the date of such termination for a period of three years from the date of such termination, (iv) continue to provide the perquisites described in Section 4.08 to which Executive was entitled on the date of such termination for a period of three years from the date of such termination, (v) cause the acceleration of the exercisability of any stock option or the vesting of any restricted stock grants (other than those pursuant to Employer's Restricted Stock and Performance Plan) that would have become exercisable or vested, as the case may be, during the remaining Period of Employment had no such termination

occurred, (vi) cause the acceleration of vesting of restricted stock grants under Employer's Restricted Stock and Performance Plan if the vesting schedule has been determined at the time of such termination and such vesting would have occurred during the remaining Period of Employment had no such termination occurred, (vii) give Executive credit for three additional years of service (or five additional years of service in the event of termination within 24 months following a Change in Control or in the event of an Anticipatory Termination) under Employer's Nonqualified Supplemental Executive Retirement Plan (the "SERP"), provided, however, that Executive shall not receive any such credit if Executive has previously received five additional years of service at age 60 under the terms of the SERP, (viii) in the event of termination within 24 months following a Change in Control or in the event of an Anticipatory Termination, pay Executive the full amount of any long-term cash incentive award for any plan periods then in progress to the extent not provided for in any Employer long-term cash incentive plan or plans, (ix) in the event of termination within 24 months following a Change in Control or in the event of an Anticipatory Termination, pay Executive the year-to-date pro-rata amount of any annual cash incentive award for any plan as in effect immediately prior to the Change in Control to the extent not provided for in such plan or plans, and (x) pay for individual outplacement counseling services to Executive up to a maximum of \$60,000. Except as otherwise provided in clause (ix) of this Section 5.02(d), Executive will not be paid any annual bonus pursuant to Section 4.02 of this Agreement for the calendar year in which the termination occurs.

5.03 Notice of Termination. Any purported termination by Employer or

Executive of the Period of Employment shall be communicated by written Notice of Termination to the other party hereto. For purposes of this Agreement, a "Notice of Termination" shall mean a notice which indicates the specific termination provision in Section 5.01 above relied upon.

5.04 Offsets. Executive shall have no duty to seek other employment.

However, in the event of termination of the Period of Employment pursuant to the provisions of Sections 5.01(d) or 5.01(e), the following offsets will apply to reduce the payments and benefits which Executive shall be entitled to receive pursuant to Section 5.02(d): (i)(A) in the event of termination within 24 months following a Change in Control or in the event of an Anticipatory Termination, the amount payable to Executive pursuant to Section 5.02(d)(ii) will be offset by any salary, cash bonus and other earned income (within the meaning of Section 911(d)(2)(A) of the Internal Revenue Code of 1986, as amended (the "Code")) received by Executive for services rendered by Executive to persons or entities other than the Employer during or with respect to the 36-month period after the date of termination, or (B) in

the event of termination at any time not within 24 months following a Change in Control and that is not an Anticipatory Termination, one-third of the amount payable to Executive pursuant to Section 5.02(d)(ii)(A) and the entire amount payable to Executive pursuant to Section 5.02(d)(ii)(B) shall be offset by amounts received by Executive which are described in subparagraph (A) above; (ii) the benefits payable to Executive pursuant to Section 5.02(d)(iii) and (iv) shall be discontinued if Executive obtains full-time employment providing welfare benefits during the 36-month period following the date of termination; and (iii) in the event of termination at any time within 24 months following a Change in Control or in the event of an Anticipatory Termination, any additional benefits under Employer's SERP pursuant to Section 5.02(d) will be reduced by the amount of vested defined benefit pension benefits and vested defined benefit non-qualified supplemental retirement benefits actually payable to Executive without any risk of forfeiture from persons or entities other than Employer which are attributable to services rendered by Executive to such other persons or entities during the 36 months following the date of termination of Executive's employment. Such reduction shall be calculated based on the vested benefits payable at age 65 under the single life annuity form of payment under the applicable plans which are accrued by Executive during such period. The foregoing calculations for a particular plan shall be made by the actuary for such plan in accordance with generally accepted actuarial principles. The amount of such reduction at age 65 shall be actuarially reduced if Executive's benefits under the Employer's SERP commence before Executive attains age 65.

Not less frequently than annually (by December 31 of each year), Executive shall account to Employer with respect to all payments and benefits received by Executive which are required hereunder to be offset against payments or benefits received by Executive from Employer. If the Employer has paid amounts in excess of those to which Executive is entitled (after giving effect to the offsets provided above), Executive shall reimburse Employer for such excess by December 31 of such year. The requirements imposed under this paragraph shall terminate on December 31 of the calendar year which includes the third anniversary of the date of termination.

5.05 Additional Payments. In the event Executive becomes entitled to

payments under Article 5 of this Agreement, Employer shall cause its independent auditors promptly to review, at Employer's sole expense, the applicability of Section 4999 of the Code to such payments. If such auditors shall determine that any payment or distribution of any type by Employer to Executive or for his benefit, whether paid or payable or distributed or distributable pursuant to the terms of this Agreement or otherwise (the "Total Payments"), would be subject to the excise tax imposed by Section 4999 of the Code, or any interest or penalties with respect to such excise tax (such excise tax, together with any such interest and penalties, are collectively referred to as the "Excise Tax"), then Executive shall be entitled to receive an additional cash payment (a "Gross-Up Payment") within 30

days of such determination equal to an amount such that after payment by Executive of all taxes (including any interest or penalties imposed with respect to such taxes), including any Excise Tax, imposed upon the Gross-Up Payment, Executive would retain an amount of the Gross-Up Payment equal to the Excise Tax imposed upon the Total Payments. For purposes of the foregoing determination, Executive's tax rate shall be deemed to be the highest statutory marginal state and Federal tax rate (on a combined basis) (including Executive's share of F.I.C.A. and Medicare taxes) then in effect. If no determination by Employer's auditors is made prior to the time a tax return reflecting the Total Payments is required to be filed by Executive, Executive will be entitled to receive a Gross-Up Payment calculated on the basis of the Total Payments reported by Executive in such tax return, within 30 days of the filing of such tax return. In all events, if any tax authority determines that a greater Excise Tax should be imposed upon the Total Payments than is determined by the Employer's independent auditors or reflected in Executive's tax return pursuant to this Section 5.05, Executive shall be entitled to receive the full Gross-Up Payment calculated on the basis of the amount of Excise Tax determined to be payable by such tax authority from Employer within 30 days of such determination.

5.06 Nonexclusivity of Rights. Nothing in this Agreement shall

prevent or limit Executive from continuing or future participation in any benefit, bonus, incentive, retirement or other plan or program provided by Employer and for which Executive may qualify, nor, except as expressly provided in this Agreement, shall anything herein limit or reduce such rights as Executive may have under any other agreement with, or plan, program, policy or practice of, Employer. Amounts which are vested benefits or which Executive is otherwise entitled to receive under any agreement with, or plan, program, policy or practice of, Employer (including, without limitation, the cashout of unused vacation days upon termination of employment) shall be payable in accordance with such agreement, plan, program, policy or practice, except as explicitly modified by this Agreement. Notwithstanding the foregoing, if Executive becomes entitled to benefits under Article 5 of this Agreement, Executive shall not be entitled to receive payments under any other severance pay plan or program sponsored or maintained by Employer or any of its Affiliates.

6. Non-Competition and Unfair Competition.

6.01 Agreement Not to Compete. Without the approval by resolution of

the Board of Directors of Employer, upon termination of Executive's employment with Employer by Employer for Cause pursuant to Section 5.01(c) or by Executive without Good Reason pursuant to Section 5.01(f), Executive will not, for a period of three years thereafter, become an officer, employee, agent, partner, director or substantial stockholder (holding more than 5% of the voting securities) of any bank, savings bank, trust company, bank and trust company, savings and loan

association or holding company thereof, in each case if such entity conducts business in the State of Colorado, the State of Illinois, the State of Iowa, the State of Kansas, the State of Minnesota, the State of Montana, the State of Nebraska, the State of North Dakota, the State of South Dakota, the State of Wisconsin, the State of Wyoming or any other State in which Employer has substantial operations.

6.02 Agreement Not to Solicit. Without the approval by resolution of

the Board of Directors of Employer, upon termination of Executive's employment with Employer for any reason whatsoever, Executive will not, for the remainder of the Period of Employment if no termination had occurred (or, if longer, for the one-year period following such termination), (i) solicit or aid in soliciting as a customer or client of banking or related financial services (including, without limitation trust, credit card and investment management services) any person, firm, corporation, association or other entity (A) that was a customer or client of Employer or any other Affiliate of Employer, and for which Executive or anyone under Executive's supervision performed any services or with which substantial business relations were maintained by Employer or any other Affiliate of Employer at any time during the five years prior to the termination of the Period of Employment or (B) whose identity or particular needs Executive otherwise discovered as a result of his employment with Employer, or (ii) solicit or aid in soliciting any employees of Employer or any other Affiliate of Employer to leave their employment. Without the approval by resolution of the Board of Directors of Employer, upon termination of Executive's Employment with Employer for any reason whatsoever, Executive agrees never to copy, remove from Employer or its Affiliates, dispose or make any use of any confidential customer list, confidential business information with respect to customers, confidential materials relating to the practices or procedures of Employer or its Affiliates, or any other proprietary information.

7. Taxes. All payments to be made to Executive under this Agreement will

be net of required withholding of federal, state and local income and employment taxes. Whenever under this Agreement Executive is to be compensated or reimbursed on an "after-tax basis," Executive will be assumed to be subject to federal income taxes at the highest marginal rate applicable to individuals and to state income taxes at the highest marginal effective rate for residents of Minneapolis, Minnesota.

8. Miscellaneous.

8.01 Governing Law. This Agreement is made under and shall be

governed by and construed in accordance with the laws of the State of Minnesota.

8.02 Successors. This Agreement shall be binding upon and inure to

the benefit of Employer and its successors. This Agreement will inure to the benefit of, be enforceable by, and any amounts and benefits owed to Executive at the time of

Executive's death, unless otherwise provided herein, will be paid to, the Trustee under the John F. and Beverly J. Grundhofer Living Trust Agreement, or, if such Trust is not then in existence, the personal representative or personal representatives of Executive's estate. Reference to the "John F. and Beverly J. Grundhofer Living Trust Agreement" means that certain Declaration of Trust, John F. and Beverly J. Grundhofer Living Trust, dated February 22, 1988, by and between John F. and Beverly J. Grundhofer, as donors and as original Trustees, as amended and existing at John F. Grundhofer's death. Reference to the Trustee under the John F. and Beverly J. Grundhofer Living Trust Agreement means the then acting Trustee or Trustees under the John F. and Beverly J. Grundhofer Living Trust Agreement and any successor Trustees.

Employer will require the Resulting Corporation or any other successor (whether direct or indirect, by purchase, merger, consolidation, or otherwise) to all or substantially all of the business and/or consolidated assets of Employer and its subsidiaries to expressly assume and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform if no such succession had taken place. Failure of Employer to obtain such assumption and agreement prior to the effectiveness of any such succession shall be a breach of this Agreement and shall entitle Executive to compensation from Employer in the same amount and on the same terms as Executive would be entitled to hereunder if Executive terminated his employment for Good Reason following a Change in Control, except that for purposes of implementing the foregoing, the date on which any such succession becomes effective shall be deemed the date of termination and Notice of Termination shall be deemed to have been given on such date. In any case where a successor assumes the Employer's obligations under this Agreement by operation of law, the requirements imposed in this paragraph will be satisfied if the successor acknowledges to Executive in writing that it has assumed the Employer's obligations under this Agreement by operation of law within 30 days of receipt of a written notice from Executive requesting such acknowledgment.

8.03 Prior Agreements. This Agreement contains the entire agreement

of the parties relating to the employment of Executive by Employer and the other matters discussed herein and supersedes all prior agreements and understandings with respect to such subject matter, and the parties hereto have made no agreements, representations or warranties relating to the subject matter of this Agreement which are not set forth herein. The Prior Employment Agreement is hereby terminated and shall have no further force or effect. The Change in Control Severance Pay Agreement entered into between Employer and Executive on March 16, 1992, which was attached as Exhibit A to the Prior Employment Agreement with Employer, is hereby terminated and shall have no further force or effect.

8.04 Amendments. No amendment or modification of this Agreement will

be deemed effective unless made in writing and signed by each party hereto.

8.05 No Waiver. No term or condition of this Agreement will be deemed

to have been waived, nor will there be any estoppel to enforce any provisions of this Agreement, except by a statement in writing signed by the party against whom enforcement of the waiver or estoppel is sought. Any written waiver will not be deemed a continuing waiver unless specifically stated, will operate only as to the specific term or condition waived and will not constitute a waiver of such term or condition for the future or as to any act other than that specifically waived.

8.06 Assignment. This Agreement is not assignable, in whole or in

part, by any party without the written consent of the other party.

8.07 Injunctive Relief. Executive agrees that it would be difficult

to compensate Employer fully for damages for any violation of the provisions of this Agreement, including without limitation the provisions of Section 6. Accordingly, Executive specifically agrees that Employer will be entitled to temporary and permanent injunctive relief to enforce the provisions of this Agreement and that such relief may be granted without the necessity of proving actual damages. This provision with respect to injunctive relief will not, however, diminish the right of Employer to claim and recover damages in addition to injunctive relief.

8.08 Disputes and Legal Fees.

(a) Before a Change in Control. Any controversy or claim arising out of

or relating to this Agreement, or the breach thereof, which is not resolved by the parties will not sooner than 30 days after the dispute shall arise, be settled by arbitration before three arbitrators in accordance with the rules of the American Arbitration Association, and judgment upon an award rendered by the arbitrators, or at least a majority of them, may be entered in any court having jurisdiction thereof; provided, however, that Employer will be entitled to seek injunctive or other equitable relief in a court of law to enforce the provisions of Section 6. Such arbitration shall be conducted in Minneapolis, Minnesota. The expenses incurred in connection with any arbitration, including but not limited to each party's legal fees and the arbitrators' fees and expenses, will be allocated between the parties according to the relative fault of each, as determined by the arbitrators.

(b) After a Change in Control. Subparagraph (a) above shall not apply

after a Change in Control, and the provisions of this subparagraph (b) shall apply instead. If Executive so elects, any dispute or controversy arising

under or in connection with this Agreement shall be settled exclusively by arbitration in accordance with the rules of the American Arbitration Association then in effect. Judgment may be entered on the arbitrator's award in any court having jurisdiction. If Executive does not elect arbitration, Executive may pursue any and all legal remedies available to him. Employer shall pay to Executive any legal fees and expenses incurred by him after a Change in Control (i) as a result of successful litigation or arbitration against Employer for nonpayment of any benefit hereunder or (ii) in connection with any dispute with any Federal, state or local governmental agency with respect to benefits claimed under this Agreement. If Executive elects arbitration, Employer will pay all fees and expenses of the arbitrator.

8.09 Severability. To the extent that any provision of this Agreement

shall be determined to be invalid or unenforceable, the invalid or unenforceable portion of such provision will be deleted from this Agreement, and the validity and enforceability of the remainder of such provision and of this Agreement will be unaffected. In furtherance of and not in limitation of the foregoing, it is expressly agreed that should the duration of or geographical extent of, or business activities covered by, the noncompetition covenant contained in Section 6 be determined to be in excess of that which is valid or enforceable under applicable law, then such provision will be construed to cover only that duration or extent, or those activities which may validly or enforceably be covered. Executive acknowledges the uncertainty of the law in this respect and expressly stipulates that this Agreement will be construed in a manner which renders its provisions valid and enforceable to the maximum extent (not exceeding its express terms) possible under applicable law.

8.10 Notices. All notices under this Agreement will be in writing and

will be deemed effective when delivered in person (in Employer's case, to its Secretary) or twenty-four (24) hours after deposit thereof in the U.S. mails, postage prepaid, for delivery as registered or certified mail -- addressed, in the case of Executive, to him at his last residential address known by Employer and, in the case of Employer, to its corporate headquarters, attention of its Secretary, or to such other address as Executive or Employer may designate in writing at any time or from time to time to the other party. In lieu of notice by deposit in the U.S. mails, a party may give notice by telegram, telex or telecopy, in which case such notice will be deemed effective upon receipt.

8.11 Counterparts. This Agreement may be executed by the parties

hereto in counterparts, each of which will be deemed to be an original, but all such counterparts will together constitute one and the same instrument.

8.12 Headings. The headings of paragraphs herein are included solely

for convenience of reference and shall not control the meaning or interpretation
of any of the provisions of this Agreement.

8.13 Change in Control. For purposes of this Agreement, the following

additional definitions shall apply:

8.13.1. "Acquiring Person" shall mean any Person who or which, together with all Affiliates and Associates of such person, is the Beneficial Owner, directly or indirectly, of securities of Employer representing 20% or more of the combined voting power of Employer's then outstanding securities, but shall not include any Company Entity.

8.13.2. "Affiliate" shall have the meaning ascribed to such term in Rule 12b-2 promulgated under the Exchange Act.

8.13.3. "Announcement Date" shall mean the date of the public announcement of the transaction, event or course of action that results in a Change in Control.

8.13.4. "Anticipatory Termination" shall mean a termination of employment pursuant to Section 5.01(d) or 5.01(e) hereof as a result of an act or event that occurs prior to a Change in Control and after the Announcement Date and either (i) at the request of any other party to a transaction, or any Person associated with the event or course of events (other than Employer or a Company Entity), that results in a Change in Control, or (ii) otherwise in contemplation of a Change in Control; provided, that no termination shall be deemed an Anticipatory Termination unless the Change in Control to which it relates actually occurs.

8.13.5. "Associate" shall have the meaning ascribed to such term in Rule 12b-2 promulgated under the Exchange Act.

8.13.6. "Beneficial Owner" shall have the meaning ascribed to such term in Rule 13d-3 promulgated under the Exchange Act.

8.13.7. "Board of Directors" shall mean the board of directors of Employer.

8.13.8. "Change in Control" shall mean a Full Change in Control or a Partial Change in Control.

8.13.9. "Company Entity" shall mean Employer, any subsidiary of Employer or any employee benefit plan of Employer or of any subsidiary of Employer or

any entity holding shares of the voting capital stock of Employer organized, appointed or established for, or pursuant to the terms of, any such plan.

8.13.10. "Continuing Director" shall mean any person who is a member of the Board of Directors, while such person is a member of the Board of Directors, who is not an Acquiring Person or an Affiliate or Associate of an Acquiring Person, or a representative of an Acquiring Person or of any such Affiliate or Associate, and who (x) was a member of the Board of Directors as of the date of this Agreement or (y) subsequently becomes a member of the Board of Directors, if such person's initial nomination for election or initial election to the Board of Directors has been approved in advance by the Continuing Directors; provided that any director designated by or on behalf of a Person who has entered into an agreement with Employer (or who is contemplating entering into such an agreement) to effect a consolidation or merger of Employer or a Company Entity, or other reorganization, with or into one or more entities which are not Company Entities, and any director that serves in connection with the act of the Board of Directors of increasing the number of directors and filling vacancies in connection with, or in contemplation of, any such transaction, shall not be deemed to have received such advance approval for initial nomination or election, and any such director shall not be deemed to be a Continuing Director; provided, further, that any such director shall subsequently become a Continuing Director at such time as a new term of office as a director is approved by Employer's shareholders at an annual meeting of shareholders occurring subsequent to the completion of any such transaction (and excluding any annual meeting at which the shareholders approve any such transaction); and, provided, further, that in the case of a Permitted Transaction, any such director shall not become a Continuing Director until the later of (i) the end of the three-year period following consummation of such Permitted Transaction or (ii) such time as a new term of office as a director is approved by Employer's shareholders at an annual meeting of shareholders occurring subsequent to the completion of such Permitted Transaction.

8.13.11. "Employer" shall mean First Bank System, Inc., a Delaware corporation, or any successor thereto pursuant to Section 8.02 hereof (including a Resulting Corporation) or by operation of law.

8.13.12. "Exchange Act" shall mean the Securities Exchange Act of 1934, as amended.

8.13.13. "Full Change In Control" shall mean:

(A) the public announcement (which, for purposes of this definition, shall include, without limitation, a report filed pursuant to Section 13(d) of

the Exchange Act) by Employer or any Person that a Person (other than a Company Entity) has become the Beneficial Owner, directly or indirectly, of securities of Employer (x) representing 20% or more, but not more than 50%, of the combined voting power of Employer's then outstanding securities unless the transaction resulting in such ownership has been approved in advance by the Continuing Directors or (y) representing more than 50% of the combined voting power of Employer's then outstanding securities (regardless of any approval by the Continuing Directors); or

(B) the Continuing Directors cease to constitute a majority of the Board of Directors of Employer or the Resulting Corporation, except in accordance with the terms of a Permitted Transaction and except as a result of the death, retirement or disability of one or more Continuing Directors (unless any such death, retirement or disability occurs following a Permitted Transaction and any vacancies created thereby are not filled in accordance with the terms of the written agreement governing such Permitted Transaction); or

(C) any sale, lease, exchange or other transfer (in one transaction or a series of related transactions) of all or substantially all of the consolidated assets of Employer and its subsidiaries or the adoption of any plan of liquidation or dissolution of Employer.

8.13.14. "Partial Change in Control" shall mean:

(A) a consolidation or merger of Employer or a Company Entity, or other reorganization, with or into one or more entities which are not Company Entities, as a result of which less than 60% of the outstanding voting securities of the Resulting Corporation are, or are to be, owned by former shareholders of Employer as determined immediately prior to consummation of such transaction (excluding voting securities of the Resulting Corporation owned, or to be owned, by such shareholders by reason of their ownership prior to such transaction of securities of any entity other than Employer) and as a result of which the Continuing Directors constitute (i) more than 50% of the Board of Directors of the Resulting Corporation or (ii) exactly 50% of the Board of Directors of the Resulting Corporation if the transaction resulting in such event is a Permitted Transaction; or

(B) the public announcement (which, for purposes of this definition, shall include, without limitation, a report filed pursuant to Section 13(d) of the Exchange Act) by Employer or any Person that a Person (other than a Company Entity) has become the Beneficial Owner, directly or indirectly, of securities of Employer representing 20% or more, but not more than 50%, of the combined voting power of Employer's then outstanding securities if the

transaction resulting in such ownership has been approved in advance by the Continuing Directors.

8.13.15. "Permitted Transaction" shall mean a transaction in which, pursuant to a written agreement between Employer and all Persons who have entered into an agreement with Employer to effect a transaction described in paragraph (A) of the definition of Partial Change in Control, it is agreed that (w) the Chief Executive Officer of Employer immediately prior to the consummation of such transaction shall be the Chief Executive Officer of the Resulting Corporation for not less than three years following consummation of such transaction, (x) upon termination of service of any Continuing Director for any reason, including upon death, disability or retirement, prior to the expiration of such director's term during such three-year period, the vacancy thereby created shall be filled by a nominee selected solely by the Continuing Directors, (y) upon expiration of the term of any such director during such three-year period, the nominee to succeed such director shall be selected solely by the Continuing Directors and (z) the parties will take other appropriate steps to ensure that the Board of Directors of the Resulting Corporation will be evenly divided between Continuing Directors and all directors designated by other parties to the transaction during such three-year period.

8.13.16. "Person" shall have the meaning ascribed to such term as such term is used in Sections 13(d) and 14(d) of the Exchange Act.

8.13.17. "Resulting Corporation" shall mean the surviving corporation in any consolidation, merger or other reorganization to which Employer is a party; provided, however, that if the surviving corporation in any such transaction is a subsidiary of another corporation, then the Resulting Corporation is the ultimate parent corporation of such surviving corporation; and provided, further, that in the event of a consolidation, merger or other reorganization to which a Company Entity (other than Employer) is a party, then Employer shall be deemed the Resulting Corporation.

8.14 Code Section 162(m). Notwithstanding any other provision of

this Agreement to the contrary, to the extent that Employer's tax deduction for remuneration in respect of the payment of any amount under Sections 5.02, 5.05 or 8.02 of this Agreement would be disallowed under Code Section 162(m) by reason of the fact that Executive's applicable employee remuneration, as defined in Code Section 162(m)(4), either exceeds or, if such amount were paid, would exceed the \$1,000,000 limitation in Code Section 162(m)(1), Employer may, in its sole discretion, defer the payment of such amount, but only to the extent that, and for so long as, Employer's tax deduction in respect of the payment thereof would be so disallowed under Code Section 162(m); provided that no payment may be deferred beyond three

months after the end of Employer's fiscal year in which Executive's termination of employment occurs, and Employer may accelerate the payment of previously deferred amounts if it determines that the amount of the tax deduction that would be disallowed is not significant. Amounts which are deferred under this Section 8.14 will be credited with interest at a rate determined by Employer from time to time, but in no event less than the long-term applicable federal rate under Code Section 1274(d) in effect from time to time.

IN WITNESS WHEREOF, Executive and Employer have executed this Agreement as of the date set forth in the first paragraph hereof.

FIRST BANK SYSTEM, INC.

By /s/ LEE R. MITAU

Its Executive Vice President, General

Counsel and Secretary

/s/ JOHN F. GRUNDHOFER

John F. Grundhofer

FIRST BANK SYSTEM, INC. STOCK OPTION LOAN PROGRAM
SUMMARY OF TERMS

Pursuant to the Stock Option Loan Program adopted by the First Bank System, Inc. ("FBS") Board of Directors, beginning February 27, 1993, active employees holding stock options ("Participants") are entitled to borrow from FBS the amount necessary to pay the exercise price upon exercise of an FBS stock option. Loans will be made to Participants on the following terms:

1. **MAXIMUM LOAN AMOUNT.** Participants may borrow up to the full exercise price upon exercise of an FBS stock option. The loan amount will be immediately applied to payment of the exercise price to FBS, and Participants will not directly receive the funds prior to such payment. The loan amount shall not include amounts intended to satisfy applicable tax withholding payments or for any other purpose other than payment of the stock option exercise price.
2. **TERM.** Participants may select the length of the term of the loan (in whole years) up to a maximum of six years.
3. **PAYMENT SCHEDULE.** Subject to applicable prepayment requirements, all principal and interest on a loan will be payable at the end of the term of the loan. Participants may prepay a loan or any portion thereof without penalty.
4. **INTEREST RATE.** The interest rate on loans will be the applicable federal rate (determined in accordance with Section 1274(d) of the Internal Revenue Code of 1986, as amended) on the date the loan is extended. Interest will be compounded semi-annually and due and payable at the time the principal is due and payable.
5. **SECURITY.** Participants are required to initially provide FBS with a security interest in all of the FBS Common Stock received upon the exercise of the loan. FBS will retain a Participant's share certificates in connection with securing a loan, and Participants will be required to execute a stock power in favor of FBS. In the event that a Participant elects to deliver shares issued upon exercise to FBS to satisfy the Participant's tax withholding responsibility, however, no security interest will be retained in such shares. To the extent that FBS Common Stock held as collateral has a market value exceeding 125% of the loan balance, a Participant may request release of the excess collateral in accordance with the other terms and conditions of the Loan Program. Payment towards principal of \$1.25, the par value of FBS Common Stock, per released share is required in connection with the release of excess collateral. FBS reviews collateral coverage once a year (in March) and requires that Participants who have received releases of collateral either reduce their loan balances or provide more collateral if coverage falls below 110% of the loan balance. In the event of a reclassification of shares of FBS Common Stock, an exchange of shares of FBS Common Stock for another security, a stock split or granting of a stock dividend, or any similar event, FBS or its successor shall retain a security interest in the securities to which the Participant is entitled pursuant to such event. If a Participant desires to sell shares of the capital stock held as collateral for the security interest, the Participant must repay such portion of the loan as is secured by such collateral (i.e., the exercise price on such shares plus accrued interest thereon). Capital stock constituting collateral may be released in blocks of a minimum of 100 shares (unless all of the remaining collateral constitutes less than 100 shares). Regardless of any security interest maintained by FBS in shares of FBS Common Stock, Participants are personally liable for the entire amount of any loan under the Loan Program.
6. **TERMINATION OF EMPLOYMENT; DEATH.** In the case of retirement by a Participant, the Participant's loan may remain outstanding with the same terms and conditions as if no termination had occurred until the end of its term. In the event of resignation or involuntary termination, the loan must be repaid in full within 90 days of a Participant's last day of active

employment. In the case of the death of a Participant, the loan shall become immediately due and payable.

7. DOCUMENTATION. In connection with loans extended under the Loan Program, Participants will be required to complete such loan documentation as FBS deems appropriate. Such documentation may include, without limitation, a promissory note, a stock power and such documents as are required under Federal Reserve Regulation G.
8. RIGHT OF OFFSET. In the event that a Participant defaults on repayment of a loan under the Loan Program, and to the extent that the loan repayment is not satisfied by the security interest, FBS may offset wages otherwise owed to a Participant (subject to applicable law).
9. CERTAIN FEDERAL TAX CONSEQUENCES. The following is a discussion of general tax principles affecting the Loan Program. The general tax principles discussed below are subject to changes that may be brought about by subsequent legislation or by regulations and administrative rulings, which may be applied on a retroactive basis. Participants may be subject to state or local income taxes and should refer to the applicable laws of those jurisdictions. Each Participant should consult his or her own tax counsel on questions regarding tax liability in connection with the loans. The following discussion is not intended to address matters relating to the award or exercise of the stock options to which loans apply. Such a discussion is included in FBS' Prospectus relating to its 1996 Stock Incentive Plan.

If the principal and interest payments to be made with respect to a loan under the Loan Program are less than or equal to \$250,000, the Participant will recognize interest expense only at the time the loan is repaid or accrued interest is repaid in cash. If the principal and interest payments to be made with respect to a loan under the Loan Program are greater than \$250,000, the difference between the amount loaned and the amount due, including all interest, upon maturity of the loan represents original issue discount. In accordance with applicable provisions of the Internal Revenue Code of 1986, as amended, the original issue discount must be recognized as interest expense by the Participant over the life of the loan. Whenever recognized, such interest expense is deductible for federal income tax purposes only to the extent of investment income for the same year, all in accordance with the rules applicable to investment interest expense found in Section 163(d) of the Internal Revenue Code of 1986, as amended.

10. TERMINATION OF PROGRAM. The Loan Program may be terminated, or its terms and conditions changed, at the discretion of the Board of Directors without notice to Participants; provided, however, that outstanding loans would not be affected by any such termination or changes.

EXHIBIT 11

Computation of Primary and Fully Diluted Net Income Per Common Share

Year Ended December 31(Dollars in millions, except per share data)	1996	1995	1994
Primary:			
Average shares outstanding	135,484,920	131,794,439	133,752,000
Net effect of the assumed purchase of stock under the stock option and stock purchase plans--based on the treasury stock method using average market price	1,930,699	2,141,591	2,522,991
	137,415,619	133,936,030	136,274,991
Income from continuing operations	\$739.8	\$568.1	\$313.5
Preferred dividends	(6.2)	(7.5)	(12.6)
Income from continuing operations applicable to common equity	\$733.6	\$560.6	\$300.9
Income from continuing operations per common share	\$ 5.34	\$ 4.19	\$ 2.21
Loss from discontinued operations	--	--	\$ (8.5)
Loss from discontinued operations per common share	--	--	\$ (.06)
Net income	\$739.8	\$568.1	\$305.0
Preferred dividends	(6.2)	(7.5)	(12.6)
Net income applicable to common equity	\$733.6	\$560.6	\$292.4
Net income per common share	\$ 5.34	\$ 4.19	\$ 2.15
Fully diluted: *			
Average shares outstanding	135,484,920	131,794,439	133,752,000
Net effect of the assumed purchase of stock under the stock option and stock purchase plans--based on the treasury stock method using average market price or year-end market price, whichever is higher	2,271,264	2,790,528	2,720,882
Conversion of Series 1991A Preferred Stock	3,065,010	3,563,191	3,655,684
	140,821,194	138,148,158	140,128,566
Income from continuing operations	\$739.8	\$568.1	\$313.5
Preferred dividends, excluding 1991A Preferred Stock	--	--	(5.1)
Income from continuing operations applicable to common equity	\$739.8	\$568.1	\$308.4
Income from continuing operations per common share	\$5.25	\$4.11	\$ 2.20
Loss from discontinued operations	--	--	\$ (8.5)
Loss from discontinued operations per common share	--	--	\$ (.06)
Net income	\$739.8	\$568.1	\$305.0
Preferred dividends, excluding 1991A Preferred Stock	--	--	(5.1)
Net income applicable to common equity	\$739.8	\$568.1	\$299.9
Net income per common share	\$5.25	\$ 4.11	(2.14)

* This calculation is submitted in accordance with Regulation S-K item 601(b)(11) although not required by footnote 2 to paragraph 17 of APB Opinion No. 15 because it results in dilution of less than 3%.

Computation of Ratio of Earnings to Fixed Charges

Year Ended December 31 (Dollars in Millions)	1996	1995	1994	1993	1992
Earnings					
1. Net income from continuing operations before cumulative effect	\$ 739.8	\$ 568.1	\$ 313.5	\$ 360.7	\$ 213.0
2. Applicable income taxes	454.8	334.3	191.8	198.6	115.7
3. Income before taxes (1 + 2)	\$1,194.6	\$ 902.4	\$ 505.3	\$ 559.3	\$ 328.7
4. Fixed charges:					
a. Interest expense excluding interest on deposits	\$ 447.8	\$ 398.3	\$ 271.4	\$ 148.0	\$ 155.4
b. Portion of rents representative of interest and amortization of debt expense	29.2	29.0	30.2	34.8	36.7
c. Fixed charges excluding interest on deposits (4a + 4b)	477.0	427.3	301.6	182.8	192.1
d. Interest on deposits	673.1	706.7	597.3	648.3	797.7
e. Fixed charges including interest on deposits (4c + 4d)	\$1,150.1	\$1,134.0	\$ 898.9	\$ 831.1	\$ 989.8
5. Amortization of interest capitalized	\$ --	\$ --	\$ --	\$ --	\$.3
6. Earnings excluding interest on deposits (3 + 4c + 5)	1,671.6	1,329.7	806.9	742.1	521.1
7. Earnings including interest on deposits (3 + 4e + 5)	2,344.7	2,036.4	1,404.2	1,390.4	1,318.8
8. Fixed charges excluding interest on deposits (4c)	477.0	427.3	301.6	182.8	192.1
9. Fixed charges including interest on deposits (4e)	1,150.1	1,134.0	898.9	831.1	989.8
Ratio of Earnings to Fixed Charges					
10. Excluding interest on deposits (line 6 / line 8)	3.50	3.11	2.68	4.06	2.71
11. Including interest on deposits (line 7 / line 9)	2.04	1.80	1.56	1.67	1.33

Pursuant to General Instruction (H) to form 10-K the Company is filing an integrated Annual Report on Form 10-K. See page 76 for 10-K cover page for the sections of the Annual Report incorporated into the Form 10-K.

FIRST BANK SYSTEM, INC.
BANKING AND NON-BANKING SUBSIDIARIES

Bank and Trust Operations

MINNESOTA

First Bank National Association
First National Bank of East Grand Forks
First Trust National Association

ARIZONA

First Trust of Arizona, National Association
First Trust Company of Arizona (Inactive)

CALIFORNIA

First Trust of California, National Association

COLORADO

Colorado National Bank
Colorado National Bank Aspen

ILLINOIS

First Bank National Association
First Trust National Association

MONTANA

First Bank Montana, National Association
First Trust Company of Montana National Association

NEBRASKA

First Bank National Association

NEW YORK

First Trust of New York, National Association

NORTH DAKOTA

First Bank, fsb
First Trust Company of North Dakota National Association

OREGON

First Trust Oregon

SOUTH DAKOTA

First Bank of South Dakota (National Association)

WASHINGTON

First Trust National Association

WISCONSIN

First Bank (National Association)

NON-BANKING SUBSIDIARIES

Subsidiary -----	State of Incorporation -----
FBS Associated Properties, Inc.	Minnesota
FBS Capital I	Delaware
FBS Capital II (Inactive since inception in 1996.)	Delaware
FBS Card Services, Inc.	Minnesota
FBS Community Development Corporation	Minnesota
FBS Information Services Corporation	Minnesota
FBS Merchant Banking Co.	Minnesota
FBS Portfolio, Inc.	Minnesota
FBS Service Center, Inc.	North Dakota
FBS Trade Services Limited	Hong Kong
FBS Venture Capital Corporation	Minnesota
First Bank System Foundation	Minnesota
First Building Corporation	Minnesota
First Group Royalties, Inc.	Minnesota
First System Agencies, Inc.	Delaware
First System Services, Inc.	Minnesota
LMN Management Corporation	Minnesota
Wyoming Trust and Management Company	Wyoming
Colorado National Bankshares, Inc.	Colorado
Boulevard Bancorp, Inc.	Delaware
Boulevard Technical Services, Incorporated	Illinois

CONSENT OF INDEPENDENT AUDITORS

We consent to the incorporation by reference in the following Registration Statements and related Prospectuses of First Bank System, Inc. of our report dated January 9, 1997, with respect to the consolidated financial statements of First Bank System, Inc. included in this Annual Report (Form 10-K) for the year ended December 31, 1996.

Form ----	Registration Statement No. -----	Purpose -----
S-8	33-16242	1987 Stock Option Plan
S-8	33-42333	Employee Stock Purchase Plan
S-8	33-55932	WCIC Options
S-8	33-52835	1988 Equity Participation Plan
S-8	333-01099	FirstTier Financial, Inc. Omnibus Equity Plan (as assumed by First Bank System, Inc.)
S-8	333-01421	1994 & 1991 Stock Incentive Plan
S-8	333-02623	1996 Stock Incentive Plan
S-8	333-02621	Amended & Restated Employee Stock Purchase Plan
S-8	333-21291	Capital Accumulation Plan
S-3	33-38268	Northern Cities Bancorp Acquisition
S-3	33-33508	Dividend Reinvestment Plan
S-3	33-47785	Siouxland acquisition
S-3	33-57169	Metropolitan Financial Corporation warrants
S-3	33-55485	First Dakota Financial Corporation acquisition
S-3	33-52495	American Bankshares of Mankato acquisition
S-3	33-58521	\$1 billion shelf registration
S-3	33-61667	Warrants for settlement of Edina Realty litigation
S-3	33-62251	Southwest Holdings, Inc. acquisition
S-3	333-01455	\$1.5 billion universal shelf registration
S-3	333-02983	Common shares for the Automatic Dividend Reinvestment and Common Stock Purchase Plan
S-4	333-16991	\$300 million Capital Securities

/s/ Ernst & Young LLP

Minneapolis, Minnesota
February 25, 1997

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE FIRST BANK SYSTEM, INC. DECEMBER 31, 1996, 10-K AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

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3,555,000		
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		3,553,000
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	2,339,300	
	267,000	
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	673,100	
	1,120,900	
	1,533,000	
		136,000
	15,000	
	1,388,100	
	1,194,600	
739,800		
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	5.25	
	4.89	
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	473,500	
	253,000	
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