

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of
the Securities Exchange Act of 1934

Filed by the Registrant /x/

Filed by a Party other than the Registrant / /

Check the appropriate box:

/x/ Preliminary Proxy Statement

/ / Definitive Proxy Statement

/ / Definitive Additional Materials

/ / Soliciting Material Pursuant to Section 240.14a-11(c) or Section 240.142-12

First Bank System, Inc.

(Name of Registrant as Specified in its Charter)

N/A

(Name of Person(s) Filing Proxy Statement)

Payment of Filing Fee (Check the approximate box):

/x/ \$125 per Exchange Act Rules 0-11(c)(1)(ii), 14a-6(i)(1), or 14a-6(i)(2)

/ / \$500 per each party to the controversy pursuant to Exchange Act

Rule 14a-6(i)(3)

/ / Fee computed on table below per Exchange Act Rules 14a-6(i)(4) and 0-11

1) Title of each class of securities to which transaction applies:

2) Aggregate number of securities to which transaction applies:

3) Per unit price or underlying value of transaction computed pursuant to
Exchange Act Rule 0-11:*

4) Proposed maximum aggregate value of transaction:

* Set forth the amount on which the filing fee is calculated and state how it
was determined.

/ / Check box if any part of the fee is offset as provided by Exchange Act
Rule 0-11(a)(2) and identify the filing for which the offsetting fee was
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number, or the Form or Schedule and the date of its filing.

1) Amount Previously Paid:

2) Form, Schedule or Registration Statement No:

3) Filing Party:

4) Date Filed:

[LOGO]
F I R S T B A N K S Y S T E M, I N C.
FIRST BANK PLACE
601 SECOND AVENUE SOUTH
MINNEAPOLIS, MINNESOTA 55402

March , 1994

To our Stockholders:

You are cordially invited to attend the 1994 Annual Meeting of Stockholders which will be held at 2:00 p.m. on Thursday, April 28, 1994, at the Minneapolis Convention Center, 1301 Second Avenue South, Minneapolis, Minnesota 55403. If you plan to attend the meeting, please keep the admission ticket and map that are attached to the form of proxy accompanying this notice and proxy statement and check the appropriate box on the form of proxy.

You are urged to read the enclosed Notice of Meeting and Proxy Statement so that you may be informed about the business to come before the Annual Meeting of Stockholders. At your earliest convenience, please mark, sign and return the accompanying form of proxy in the enclosed postage-paid envelope. We hope you will be able to attend the meeting.

WHETHER OR NOT YOU PLAN TO ATTEND THE MEETING, PLEASE MARK, SIGN AND RETURN YOUR PROXY CARD PROMPTLY IN THE ENCLOSED ENVELOPE WHICH REQUIRES NO POSTAGE IF MAILED IN THE UNITED STATES.

Very truly yours,

John F. Grundhofer
CHAIRMAN, PRESIDENT AND
CHIEF EXECUTIVE OFFICER

[LOGO]
F I R S T B A N K S Y S T E M, I N C.
NOTICE OF 1994 ANNUAL MEETING OF STOCKHOLDERS
TO BE HELD APRIL 28, 1994

To the Stockholders
of First Bank System, Inc.:

The Annual Meeting of Stockholders of First Bank System, Inc. (the "Company") will be held at the Minneapolis Convention Center, 1301 Second Avenue South, Minneapolis, Minnesota 55403 on Thursday, April 28, 1994, at 2:00 p.m. for the following purposes:

1. To elect five persons to the Board of Directors.
2. To consider and act upon a proposal to amend the Company's 1991 Stock Incentive Plan.
3. To consider and act upon a proposal to approve the Company's 1994 Stock Incentive Plan.
4. To consider and act upon a proposal to amend the Company's Certificate of Incorporation to increase the number of authorized shares of Common Stock.
5. To consider and act upon a proposal to approve the selection by the Board of Directors of the firm of Ernst & Young as independent auditors of the Company.
6. To transact such other business as may properly come before the meeting.

Only stockholders of record at the close of business on March 4, 1994, will be entitled to notice of and to vote at the meeting and any adjournment thereof.

March , 1994

By Order of the Board of Directors

Michael J. O'Rourke
SECRETARY

PLEASE NOTE

YOUR VOTE IS IMPORTANT. IF YOU DO NOT EXPECT TO ATTEND THE ANNUAL MEETING OR IF YOU PLAN TO ATTEND BUT DESIRE THE PROXY HOLDERS TO VOTE YOUR STOCK, PLEASE MARK, SIGN AND DATE YOUR PROXY CARD AND RETURN IT IN THE ENCLOSED ENVELOPE WHICH NEEDS NO POSTAGE STAMP IF MAILED IN THE UNITED STATES. STOCKHOLDERS ATTENDING THE MEETING MAY WITHDRAW THEIR PROXIES AT ANY TIME PRIOR TO THE EXERCISE THEREOF.

THE BOARD OF DIRECTORS SOLICITS THE EXECUTION AND
PROMPT RETURN OF THE ACCOMPANYING PROXY.
A RETURN ENVELOPE IS ENCLOSED.

PROXY STATEMENT
OF
FIRST BANK SYSTEM, INC.

[LOGO]

FIRST BANK PLACE
601 SECOND AVENUE SOUTH
MINNEAPOLIS, MINNESOTA 55402
(612) 973-1111

GENERAL MATTERS

SOLICITATION OF PROXIES

The accompanying proxy is solicited on behalf of the Board of Directors for use at the Company's Annual Meeting of Stockholders to be held on April 28, 1994, and at any adjournments thereof. The cost of soliciting proxies will be borne by the Company. In addition to solicitation by mail, officers and employees of the Company may solicit proxies by telephone, special communications or in person but will receive no special compensation for such services. The Company will reimburse banks, brokerage firms and other custodians, nominees and fiduciaries for reasonable expenses incurred by them in sending proxy material and annual reports to the owners of the stock in accordance with the New York Stock Exchange schedule of charges. The Company has engaged Morrow & Co., Inc. to assist in proxy solicitation for a fee not to exceed \$15,000 plus out-of-pocket expenses. This proxy statement and the accompanying proxy were first mailed to stockholders on or about March , 1994.

VOTING, EXECUTION AND REVOCATION OF PROXIES

Only stockholders of record at the close of business on March 4, 1994, the record date for the meeting, will be entitled to receive notice of and to vote at the meeting. As of that date there were shares of Common Stock of the Company outstanding and entitled to vote at the meeting. Each share is entitled to one vote.

When stock is registered in the name of more than one person, each such person should sign the proxy. If the stockholder is a corporation, the proxy should be signed in its corporate name by an executive or other authorized officer. If a proxy is signed as an attorney, executor, administrator, trustee, guardian, or in any other representative capacity, the signer's full title should be given.

If a proxy is properly executed and returned in the form enclosed, it will be voted at the meeting as follows, unless otherwise specified by the stockholder in the proxy: (i) in favor of the election as directors of all the nominees listed herein; (ii) in favor of the proposal to amend the Company's 1991 Stock Incentive Plan; (iii) in favor of the proposal to approve the Company's 1994 Stock Incentive Plan; (iv) in favor of the proposal to increase the number of authorized shares of Common Stock; (v) in favor of the selection of Ernst & Young as independent auditors of the Company; and (vi) in accordance with the judgment of the persons named in the proxy as to such other matters as may properly come before the meeting. A proxy may be revoked by the stockholder prior to exercise.

If an executed proxy card is returned and the stockholder has abstained from voting on any matter, the shares represented by such proxy will be considered present at the meeting for purposes of determining a quorum and for purposes of calculating the vote, but will not be considered to have been voted in favor of such matter. If an executed proxy is returned by a broker holding shares in street name which indicates that the broker does not have discretionary authority as to certain shares to vote on one or more matters, such shares will be considered present at the meeting for purposes of determining a quorum, but will not be considered to be represented at the meeting for purposes of calculating the vote with respect to such matter.

ANNUAL REPORT

The 1993 First Bank System Annual Report to Shareholders and Annual Report on Form 10-K, including financial statements for the year ended December 31, 1993, accompanies this Proxy Statement.

PRINCIPAL STOCKHOLDERS

The following table sets forth information as of December 31, 1993, with respect to shares of the Company's Common Stock which are held by the only persons known to the Company to be beneficial owners of more than 5% of such stock. For purposes of this Proxy Statement, beneficial ownership of securities is defined in accordance with the rules of the Securities and Exchange Commission and means generally the power to vote or dispose of securities, regardless of any economic interest therein.

| NAME OF STOCKHOLDER | COMMON STOCK BENEFICIALLY OWNED | |
|--|------------------------------------|---------|
| | NO. OF SHARES | PERCENT |
| Corporate Partners, L.P. and The State Board of Administration of Florida (1) One Rockefeller Center New York, New York 10020 | 10,440,000 | 9.1% |

(1) Corporate Advisors, L.P., the general partner of Corporate Partners, L.P. and the investment manager to The State Board of Administration of Florida, holds sole investment and voting power with respect to all of the reported shares. A representative of Corporate Advisors, L.P. is entitled to attend meetings of the Company's Board of Directors

and its Committees. The State Board of Administration of Florida also holds sole investment and voting power with respect to an additional 3,924,083 shares of Common Stock, of which 2,160,000 shares were purchased at the time Corporate Partners, L.P. made its purchase.

MATTERS SUBMITTED TO VOTE

Following is a discussion of the matters to be presented at the meeting:

I. ELECTION OF DIRECTORS

NOMINEES FOR ELECTION AS DIRECTORS

The Bylaws of the Company provide for a Board of Directors consisting of 17 members. Commencing with the election of directors at the annual meeting of stockholders in 1986, the directors were divided into three classes: Class I, Class II and Class III, each such class, as nearly as possible, to have the same number of directors. The term of office of the Class I directors will expire at the annual meeting in 1996, the term of the Class II directors will expire at the annual meeting in 1994, and the term of office of the Class III directors will expire at the annual meeting in 1995. At each annual election of directors, the directors chosen to succeed those whose terms have then expired shall be identified as being of the same class as the directors they succeed and shall be elected by the stockholders for a term expiring at the third succeeding annual meeting of stockholders.

Vacancies and newly created directorships resulting from an increase in the number of directors may be filled by a majority of the directors then in office and the directors so chosen will hold office until the next election of the class for which such directors shall have been chosen.

It is intended that proxies accompanying this Statement will be voted at the 1994 meeting for the election to the Board of Directors of the nominees named. Class II directors are to be elected at the 1994 Annual Meeting for a three-year term expiring at the annual meeting in 1997 and until their successors are elected. Nominees for Class II directors are Marilyn C. Nelson, Nicholas R. Petry, S. Walter Richey, Richard L. Robinson, and Lyle E. Schroeder. All of these nominees are presently serving as Class II directors. If any of the nominees should be unavailable to serve as a director, an event which is not anticipated, the persons named as proxies reserve full discretion to vote for any other persons who may be nominated.

All current directors were previously elected directors by the Company's stockholders except Delbert W. Johnson, Will F. Nicholson, Jr. and Nicholas R. Petry, who were elected by action of the Board of Directors.

BOARD OF DIRECTORS AND COMMITTEES

During 1993, the Board of Directors of the Company held eight regular meetings and two special meetings. The Board has established the following regular committees to perform their assigned functions: Audit Committee, Credit Policy Committee, Organization Committee and Finance Committee. During the past year, the Audit Committee met 5 times,

the Credit Policy Committee met 4 times, the Organization Committee met 6 times, and the Finance Committee met 5 times. Incumbent directors' attendance at Board and Committee meetings averaged 93.0% during 1993. Each incumbent member of the Board of Directors attended at least 75% of the aggregate of the total number of meetings of the Board of Directors and of the Committees of which such director was a member.

The members of the Audit Committee are directors Schall (Chairperson), Hale, Johnson, Petry, Richey, Robinson and Schroeder. The Audit Committee is charged with reviewing the annual audit plan for the Company and the results of procedures performed pursuant to that plan. The Audit Committee reviews the independence, professional capability and fees of the Company's independent auditors and recommends the engagement or discharge of such auditors to the Board of Directors. The Audit Committee also reviews certain publicly disseminated financial information.

The members of the Credit Policy Committee are directors Hale (Chairperson), Grundhofer, Kareken, Madison, Nelson, Nicholson, Phillips and Schall. The Credit Policy Committee reviews lending and credit administration policies, practices and controls for the Company. The Committee reviews loan quality trends and summaries of credit examination reports and reviews and approves the adequacy of the Company's allowance for credit losses.

The members of the Finance Committee are directors Richey (Chairperson), Bloomfield, Grundhofer, Kareken, Knowlton, Phillips, and Renier. The Finance Committee reviews and approves asset and liability management policies for the enterprise regarding interest rate sensitivity management, liquidity position and contingency plans, investment portfolio strategy and capital structure. The Committee monitors activities relative to established guidelines, reviews and recommends authorizations regarding the sale and issuance of debt and equity securities and reviews other actions regarding the financial aspects of the Company.

The members of the Organization Committee are directors Macke (Chairperson), Bloomfield, Madison, Nelson, Renier and Richey. The Organization Committee is charged with oversight responsibility for management's performance, adequacy and effectiveness of compensation and benefit plans, corporate-wide staffing needs and management succession plans. In addition, the Organization Committee makes recommendations to the Board of Directors regarding remuneration arrangements for senior management and directors, adoption of employee compensation and benefit plans, and the administration of such plans, including the granting of stock options or other benefits. The Committee also recommends to the Board of Directors those persons whom it believes should be nominees for election as directors. The Committee will consider qualified nominees recommended by stockholders. Any such recommendation for the 1995 election of directors should be submitted in writing to the Secretary of the Company no later than 90 days in advance of the 1995 Annual Meeting of Stockholders. Such recommendation must include information specified in the Company's Bylaws which will enable the Organization Committee to evaluate the qualifications of the recommended nominee.

Directors who are not employees of the Company receive an annual retainer of \$18,000, with the exception of the Chairperson of the Audit Committee who receives an annual retainer of \$19,000, plus \$900 for each meeting of the Board attended. In addition, non-employee Committee Chairpersons receive \$1,500 and non-employee directors receive \$750 for each Committee meeting attended.

On February 18, 1987, the Company adopted a Director Retirement and Death Benefit Plan which provides for payments to directors of the Company after they cease to be directors. The Plan was amended and restated effective May 15, 1991. Plan benefits are payable to persons who have completed 60 months of service as a director. Benefits accrue in the amount of the annual retainer in effect on the date a director's service terminates times the number of years of service, not to exceed 10 years. Benefits are paid in installments over a 10 year period or, in the event of the director's death, a lump sum payment may be made. In the event of a change of control of the Company, benefits payable under the Plan will be paid in a lump sum within 30 days thereof.

Directors are offered the opportunity to defer all or a part of their director compensation in accordance with the terms of the Deferred Compensation Plan for Directors. Under such Plan, a director may defer all retainer and meeting fees until such time as the director ceases to be a member of the Board. In the event of a change of control of the Company, the Plan will terminate and all deferred amounts will be paid in a lump sum within 30 days thereof.

Directors may also elect to use their director compensation to purchase shares of the Company's Common Stock through the First Bank System, Inc. Employee Stock Purchase Plan, in accordance with substantially the same terms and conditions as apply to employees, with certain exceptions. Directors may purchase shares of Common Stock with all or any portion of the fees earned as a director of the Company. Each non-employee director is required to make a single election to participate in the Employee Stock Purchase Plan with respect to all or a designated portion of his or her director fees, which election is irrevocable for as long as such person is a non-employee director. The purchase price is determined by the Organization Committee but may be no less than the lower of (a) 85% of the fair market value of the Company's Common Stock on the first day of the purchase period or (b) 85% of the fair market value of the Company's Common Stock on the last day of the purchase period. On the last business day of the purchase period, each participant receives the largest number of whole shares of the Common Stock that can be purchased with the participant's accumulated deductions at the established purchase price.

INFORMATION REGARDING NOMINEES AND CONTINUING DIRECTORS

There is shown below for each nominee for election as a director and for each other person whose term of office as a director will continue after the meeting, as reported to the Company, the individual's name, age and principal occupation; his or her position, if any, with the Company; his or her period of service as a director of the Company and other directorships held.

[PHOTO]

ROGER L. HALE, 59 Director Since 1987
Mr. Hale is President and Chief Executive Officer of TENNANT, a Minneapolis-based manufacturer of industrial and commercial floor maintenance equipment and products. He joined TENNANT in 1961 and was appointed Assistant to the President in 1963. Mr. Hale was elected Vice President in 1968 and, in 1975, was elected President and Chief Operating Officer. He was elected Chief Executive Officer in 1976. Mr. Hale serves as a director of TENNANT, The St. Paul Companies, Inc. and Dayton Hudson Corporation. His community activities include Chairman of the Minneapolis Neighborhood Employment Network and Chairman of the Minnesota Business Partnership. He serves as Chairperson of the Credit Policy Committee and is a member of the Audit Committee.

[PHOTO]

RICHARD L. KNOWLTON, 61 Director Since 1992
Mr. Knowlton is Chairman of the Board of Hormel Foods Corporation, a meat and food processing company. He joined Hormel in 1948 and has held numerous positions within the company, including Sales Manager, Vice President--Operations, President and Chief Operating Officer, and Chairman and Chief Executive Officer. In addition to his membership on the Board of Directors of Hormel Foods Corporation, Mr. Knowlton serves as a Director of the Mayo Foundation, Director of NWNL Companies, Inc. and Director of the American Meat Institute. He is also a Director of the University of Colorado Foundation. Mr. Knowlton serves on the Finance Committee.

[PHOTO]

EDWARD J. PHILLIPS, 49 Director Since 1988
Mr. Phillips is Chairman and Chief Executive Officer of Phillips Beverage Company, Minneapolis, Minnesota, a wholesale distributor of beverages. Mr. Phillips has been associated with Phillips Beverage Company since 1969, having previously served as its President during its ownership by Alco Standard Corporation. Mr. Phillips is an advisory director of First Trust National Association, a trust company subsidiary of the Company. His community activities include serving as Vice Chairman and Director of Metropolitan-Mount Sinai Foundation, Regent of St. John's University, Director of Amicus and campaign chairman for the United Negro College Fund. He serves as a member of the Finance Committee and the Credit Policy Committee.

[PHOTO]

JAMES J. RENIER, 64 Director Since 1986
Dr. Renier is the retired Chairman and Chief Executive Officer of Honeywell Inc., Minneapolis, Minnesota, an international controls manufacturer. He joined Honeywell in 1956 as a senior research scientist and was elected Chief Executive Officer in 1987. In addition to his membership on the Board of Directors of Honeywell Inc., Dr. Renier serves as a director of The NWNL Companies, Inc., Deluxe Corporation and North Memorial Medical Center. He is a member of the Board of Trustees of the University of St. Thomas, the Board of Overseers, Curtis L. Carlson School of Management, University of Minnesota, the Iowa State University Foundation Board of Governors and the Board of Governors of the United Way of America and the United Way of Minneapolis. He serves as a member of the Finance Committee and the Organization Committee.

[PHOTO]

RICHARD L. SCHALL, 64 Director Since 1987
Mr. Schall is the retired Vice Chairman of the Board and Chief Administrative Officer of Dayton Hudson Corporation, a diversified retail company. He retired from active employment in February 1985. Mr. Schall is a director of Medtronic, Inc., Space Center Company, CTL Credit Inc. and Ecolab, Inc. He is also a member of the Boards of the Santa Barbara City College Foundation, SEE International and Las Positas Park Foundation. He currently serves as Chairperson of the Audit Committee and is a member of the Credit Policy Committee.

CLASS II DIRECTORS--NOMINEES FOR ELECTION FOR A TERM EXPIRING AT THE 1997 ANNUAL MEETING

[PHOTO]

MARILYN C. NELSON, 54 Director Since 1978
Mrs. Nelson serves as Vice Chairman, a director and a member of the Executive Committee of the Board of Directors of Carlson Holdings, Inc., the parent company of Carlson Companies, Inc., Minneapolis, Minnesota. Carlson Companies, Inc. is a diversified hotel, restaurant, and sales and business incentives company. She was elected as a director of the Carlson Companies, Inc. in 1978. Mrs. Nelson also serves as a director of Exxon Corporation and U S WEST Communications, as Chairman of the Board of Directors of the Citizens State Bank of Waterville, Minnesota and the Citizens State Bank of Montgomery, Minnesota and as Minneapolis president and a national board member of the United Way. Mrs. Nelson is a member of the Organization Committee and the Credit Policy Committee.

[PHOTO]

NICHOLAS R. PETRY, 75 Director Since 1993
Mr. Petry has been President of The Petry Company, a diversified operations and investment company since 1986 and is a Managing Partner of N.G. Petry Construction Company, a general contractor/management company. He is Chairman of the National Western Stock Show and Managing Partner of Mill Iron Ranches in Saratoga, Wyoming. He is Director Emeritus of Eaton Corp., Public Service Company of Colorado, UAL Corp., and Westin Hotels. He is a Director of Pogo Producing Company. Mr. Petry is a member of the Audit Committee.

[PHOTO]

S. WALTER RICHEY, 58 Director Since 1990
Mr. Richey is President and Chief Executive Officer of Space Center Company, a company involved in real estate management and development, public warehousing and financial services, located in St. Paul, Minnesota. In 1973, Mr. Richey joined Space Center and has served that company in various capacities, including President of the Financial Services Division and a member of the parent company's board of directors. He was elected to his present position in 1978. Mr. Richey also serves on the Board of Directors of BMC Industries, Inc., Donaldson Company, Inc. and as an advisory director of Liberty Mutual Insurance. Mr. Richey is Chairperson of the Finance Committee and is a member of the Audit Committee and the Organization Committee.

[PHOTO]

RICHARD L. ROBINSON, 64 Director Since 1993
Since 1975, Mr. Robinson has been the Chairman and Chief Executive Officer of Robinson Dairy, Inc. in Denver, Colorado. Prior to that time, he served in various capacities with Roberts Dairy Company and Roberts Foods, Inc. in Omaha, Nebraska. He was a director of Bank Western and Western Capital Investment Corporation prior to the merger of WCIC into Central Bancorporation, Inc., an affiliate of the Company. Mr. Robinson is a director of Asset Investors, Inc., past Chairman of the Greater Denver Chamber of Commerce, Vice Chairman of the Denver Area Council--Boy Scouts of America, Past Chairman of the Mountain States Employers Council and serves as a director of numerous civic organizations. Mr. Robinson is a member of the Audit Committee.

[PHOTO]

LYLE E. SCHROEDER, 59 Director Since 1988
Mr. Schroeder is President and Chief Executive Officer of Sioux Valley Hospital, Sioux Falls, South Dakota, a non-profit regional tertiary care hospital. Mr. Schroeder has been associated with Sioux Valley Hospital since 1960 and was elected to his present position in 1975. He has been active in numerous civic and professional activities including serving as a Trustee of American Hospital Association, a Director of IA/SD Blue Cross, a Director of Family Practice Center, Inc. and General Campaign Chairman, Sioux Empire United Way. He is a member of the Audit Committee.

CLASS III DIRECTORS--WHOSE TERMS EXPIRE AT THE 1995 ANNUAL MEETING

[PHOTO]

COLEMAN BLOOMFIELD, 67 Director Since 1984
Mr. Bloomfield is Chairman of the Board and Chief Executive Officer of Minnesota Mutual Life Insurance Company, St. Paul, Minnesota. He joined the insurance company in 1952 and was elected President and Chief Executive Officer in 1970. Mr. Bloomfield is Chairman of the Insurance Federation of Minnesota, and Vice Chairman of the Minnesota Business Partnership. He also serves as director of the St. Paul United Way, the Minnesota Orchestra and the St. Paul Chamber Orchestra. He is a member of the Organization Committee and the Finance Committee.

[PHOTO]

JOHN F. GRUNDHOFER, 55 Director Since 1990
Mr. Grundhofer is Chairman, President and Chief Executive Officer of the Company. Prior to joining the Company on January 31, 1990, Mr. Grundhofer served as Vice Chairman and Senior Executive Officer for Southern California with Wells Fargo Bank. He joined Wells Fargo in 1978 as Executive Vice President of the Southern California Area Retail Banking Group, was named Executive Vice President and Group Head of the Commercial Banking Group in 1980 and Senior Executive Officer with responsibility for middle market lending in Southern California in 1984. Prior to joining Wells Fargo, Mr. Grundhofer spent 18 years with Union Bank in California. He serves on the Federal Advisory Council of the Federal Reserve Board, is a member of the Board of Regents of Loyola Marymount University of Los Angeles, is President of the Minnesota Business Partnership and is a trustee of Minnesota Mutual Life Insurance Company. He is a director of the Bankers Roundtable, Koll Management Services, Inc., Irvine Apartment Communities, the Minneapolis Institute of Art, and the United Way, Minneapolis area. Mr. Grundhofer is a member of the Credit Policy Committee and the Finance Committee.

[PHOTO]

DELBERT W. JOHNSON, 54 Director Since 1994
Mr. Johnson is Chairman, President and Chief Executive Officer of Pioneer Metal Finishing Co., a division of Safeguard Scientifics Inc. and the largest metal finishing company in the United States. He joined the company in 1965 and was elected to his present position in 1978. From 1987 through 1993, Mr. Johnson served on the board of directors of the Federal Reserve Bank of Minneapolis and, in 1991, was named chairman. Mr. Johnson serves as a director of Ault Inc., TENNANT, and Safeguard Scientifics Inc. He serves as a member of the Audit Committee.

[PHOTO]

JOHN H. KAREKEN, 65 Director Since 1984
Dr. Kareken is a Professor of Banking and Finance and Chairman of the Department of Finance, Curtis L. Carlson School of Management, University of Minnesota. After receiving his doctorate in economics in 1956, he joined the faculty of the University of Minnesota as Assistant Professor of Economics and was named an Associate Professor in 1959 and a Professor in 1963. In 1981, Dr. Kareken was appointed to an endowed chair and became Minnesota Professor of Banking and Finance in the Curtis L. Carlson School of Management. Dr. Kareken is affiliated with a number of professional and educational groups and has served as a consultant to various corporate and governmental organizations. He serves as a member of the Credit Policy Committee and the Finance Committee.

[PHOTO]

KENNETH A. MACKE, 55 Director Since 1985
Mr. Macke is the Chairman and Chief Executive Officer of Dayton Hudson Corporation, Minneapolis, Minnesota, a diversified retail company. He joined Dayton Hudson Corporation in 1961 and has been continuously employed by the company since that time. Mr. Macke served as President of Dayton Hudson Corporation from 1981 to 1984. In 1982, he was elected Chief Operating Officer and was elected Chief Executive Officer in 1983. In 1984, Mr. Macke was elected Chairman of the Board of the company. He is also a director of the National Retail Federation, Unisys Corporation and General Mills, Inc. Mr. Macke serves as Chairperson of the Organization Committee.

[PHOTO]

THOMAS F. MADISON, 58 Director Since 1987
Mr. Madison is the Retired President of U S WEST Communications-Markets, a Minneapolis-based marketing and customer service arm of U S WEST's telephone activities. Mr. Madison joined Northwestern Bell Telephone Company in 1954 and was named its President in 1985. In 1987, Mr. Madison was promoted to President of U S WEST Communications-Markets. Mr. Madison serves as a director of Valmont Industries, Inc., a member of the Board of Overseers, Curtis L. Carlson School of Management, University of Minnesota, a trustee of Minnesota Mutual Life Insurance Company, a member of the Board of Trustees of the University of St. Thomas and a member of the Minnegasco Advisory Board. He serves as a member of the Credit Policy Committee and the Organization Committee.

[PHOTO]

WILL F. NICHOLSON, JR., 64 Director Since 1993
Mr. Nicholson is the Chairman, President and Chief Executive Officer of Colorado National Bankshares, Inc., a bank holding company affiliated with the Company. He joined Colorado National Bankshares in 1970 as Senior Vice President, became President in 1975 and was promoted to Chairman, President and Chief Executive Officer in 1985. Mr. Nicholson serves as a director and Chairman of the Board of Visa USA, Inc., and as a director of Visa International, the Bankers Roundtable, the Public Service Company of Colorado and HealthONE. He is also a director of the Greater Denver Chamber of Commerce, the Colorado Association of Commerce and Industry and the U.S. Chamber of Commerce. Mr. Nicholson is a member of the Credit Policy Committee.

II. PROPOSAL TO AMEND THE COMPANY'S 1991 STOCK INCENTIVE PLAN

On January 19, 1994, the Board of Directors adopted an amendment to the First Bank System, Inc. 1991 Stock Incentive Plan (the "1991 Plan") to provide for the issuance of an additional 2,000,000 shares of Common Stock pursuant to the terms of the 1991 Plan, subject to stockholder approval. In addition, the Board of Directors adopted, subject to stockholder approval, an amendment to the 1991 Plan to provide that shares of Common Stock received by the Company from a participant in the 1991 Plan 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 tax withholding provisions of the 1991 Plan, shall again be available for granting awards to persons who are not officers or directors of the Company for purposes of Section 16 of the Securities Exchange Act of 1934, as amended (the "1934 Act").

The Board of Directors also adopted, subject to stockholder approval, amendments to the 1991 Plan to provide (i) that no more than 500,000 shares of Company Common Stock be granted or awarded to any employee over a three-year period in the form of stock options or other awards with a value based on the increase in the value of the Company's Common Stock after the date of grant of such award (collectively, "Limited Awards") and (ii) that each member of the Committee (as defined below) that administers the 1991 Plan be an outside director within the meaning of Section 162(m) of the Internal Revenue Code of 1986, as amended (the "Code"). These amendments are intended to preserve the Company's tax deduction for certain Limited Awards granted under the 1991 Plan in fiscal year 1994 and thereafter, in accordance with the requirements of the Omnibus Budget Reconciliation Act of 1993 ("OBRA").

INCREASE IN AVAILABLE SHARES AND ACCOUNTING FOR SHARES

As originally adopted, the 1991 Plan provides that a total of 3,000,000 shares of the Company's Common Stock are available for the granting of awards. As of March 1, 1994, approximately 25,000 shares remained available for grant under the 1991 Plan. The 2,000,000 share increase in the number of shares available for the granting of awards will allow the Company to continue to provide incentives to management personnel and to provide an adequate number of shares for reload options and automatic grants of options to members of the Board of Directors who are not also employees of the Company or its subsidiaries ("Non-Employee Directors"). The Company believes that over the years its stock based awards have made a significant contribution to the success of the Company in attracting, motivating and retaining skilled management personnel and directors.

The Company anticipates that future awards under the 1991 Plan will be granted primarily to persons who are officers or directors of the Company for purposes of Section 16 of the 1934 Act, with awards to other employees being primarily made under the Company's 1994 Stock Incentive Plan. The Company is not required to do so, however. See "Proposal to Approve the Company's 1994 Stock Incentive Plan."

On January 19, 1994, options were granted to 13 of the Company's employees out of the 3,000,000 shares of Common Stock approved for issuance in 1991. Due to the limited number of shares remaining available under the 1991 Plan, the Organization Committee

decided to make a portion of the January 19, 1994 grant conditional on stockholder approval of the increase in available shares of Common Stock. The Organization Committee chose to make conditional grants only to certain of the Company's top executives, with grants to other employees being effective January 19, 1994. The following chart reflects grants of Nonqualified Stock Options (as defined below) made on January 19, 1994 subject to stockholder approval of the amendment increasing the number of shares of Common Stock available for grant or award under the 1991 Plan:

NEW PLAN BENEFITS

| NAME AND POSITION | NUMBER OF UNITS(1)(2) |
|---|--------------------------|
| Grundhofer, John (CEO)..... | 77,000 |
| Zona, Richard (Vice Chairman & CFO)..... | 39,000 |
| Farley, William (Vice Chairman)..... | 29,000 |
| Heasley, Phillip (Vice Chairman)..... | 29,000 |
| All Current Executive Officers as a Group (12)..... | 174,000 |
| Non-employee Directors as a Group (15)..... | 0 |
| All Other Employees as a Group..... | 0(3) |

- (1) Units are options to purchase shares of Company Common Stock at \$29.75 per share, which is equal to 100% of fair market value on the date of grant. The options were granted, subject to stockholder approval, on January 19, 1994, and 1/3 of the total grant became exercisable on the date of grant subject to such approval. An additional 1/3 of the total grant becomes exercisable on April 15, 1995 and the final 1/3 becomes exercisable on April 15, 1996 if the Company meets certain standards based upon the Company's return on assets relative to the Company's peer bank holding companies and growth in earnings per share. If the standards are not met for a particular year, the portion of the grant which would have become exercisable that year will become exercisable on January 19, 1999. All such options become fully vested upon a change of control of the Company.
- (2) The conditional option grants listed constitute a portion of the grants made on January 19, 1994. In addition to the conditional grants listed, the following number of options were granted to the individuals named in the table out of shares available for grant and previously approved by stockholders: Mr. Grundhofer, 271,600; Mr. Zona, 136,000; Mr. Farley, 101,000; and Mr. Heasley, 101,000. Pursuant to SEC rules, such grants and others made on January 19, 1994 will be set forth in the Stock Option Grants table contained in the Company's Proxy Statement relating to the Annual Meeting of Stockholders to be held in 1995 or as otherwise required by Securities and Exchange Commission rules and regulations.
- (3) Grants made on January 19, 1994 to employees other than the individuals named in the chart were out of shares available from the 3,000,000 shares of Common Stock approved for issuance in 1991, and thus were not conditional on stockholder approval of the amendment relating to an increase in available shares.

Other awards under the 1991 Plan as proposed to be amended are not yet determinable. For more information regarding stock option grants under the 1991 Plan, see "Stock Options".

The Board of Directors also adopted, subject to stockholder approval, an amendment to the 1991 Plan to provide that shares of Common Stock received by the Company from a participant in the 1991 Plan 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 tax withholding provisions of the 1991 Plan, shall again be available for granting awards to persons who are not officers or directors of the Company for purposes of Section 16 of the 1934 Act.

AMENDMENTS RELATING TO OBRA REQUIREMENTS

The first amendment to the 1991 Plan relating to OBRA requirements provides that no more than 500,000 shares of Company Common Stock are permitted to be granted or awarded in the form of Limited Awards to an individual employee over a three-year period. If adopted, the new Section 4(e) to the 1991 Plan would read in its entirety as follows:

(e) 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 500,000 Shares, in the aggregate, in any three calendar year period beginning with the period commencing January 1, 1994 and ending December 31, 1996; provided, however, that such restriction shall apply only to Shares available for granting Awards under the Plan pursuant to amendments to the Plan submitted for stockholder approval at the Company's 1994 annual meeting of stockholders and amendments adopted thereafter. The foregoing limitation specifically includes the grant of any "performance-based" Awards within the meaning of Section 162(m) of the Code.

The second amendment to the 1991 Plan relating to OBRA requirements for which stockholder approval is sought would further restrict membership of the Committee (as defined below) administering the 1991 Plan to persons who are considered an "outside director" within the meaning of Section 162(m) of the Code. Subject to certain transition provisions relating to OBRA, a director is considered an "outside director" only if he or she (i) is not a current employee of the corporation, (ii) was not an officer of the corporation (or related entities) at any time, (iii) is not currently serving as a consultant to the corporation and receiving compensation for personal services, and (iv) is not a former employee who is receiving compensation for prior services, other than pursuant to a tax-qualified pension plan.

Under OBRA, the allowable deduction for compensation paid or accrued with respect to the Chief Executive Officer and each of the four other most highly compensated employees of a publicly held corporation will be limited to no more than \$1 million per year for fiscal years beginning on or after January 1, 1994. Certain types of compensation are exempted from this deduction limitation, including qualified performance based income. Stockholder approval of new Section 4(e) of the the 1991 Plan, and membership of only "outside

directors" on the Committee, is required under OBRA for compensation relating to certain Limited Awards under the 1991 Plan (including Nonqualified Stock Options) to be eligible for the exemption to the deduction limitation.

SUMMARY OF THE 1991 PLAN

The following summary description of the 1991 Plan is qualified in its entirety by reference to the full text of the 1991 Plan, a copy of which may be obtained by the stockholders of the Company upon request directed to the Company's Corporate Secretary at 601 Second Avenue South, Minneapolis, Minnesota 55402-4302.

Any employee, officer, consultant or independent contractor of the Company and its affiliates is eligible to receive awards under the 1991 Plan. The 1991 Plan was approved by stockholders in April 1991. Amendments to the 1991 Plan providing for the grant of "reload" options and the automatic grant of options to Non-Employee Directors were approved by stockholders in April 1993. The 1991 Plan terminates on April 23, 2001, and no awards may be made after that date. However, unless otherwise expressly provided in the 1991 Plan or an applicable award agreement, any award granted may extend beyond the end of such period.

The 1991 Plan permits the granting of: (a) stock options, including "incentive stock options" ("Incentive Stock Options") meeting the requirements of Section 422 of the Code, and stock options that do not meet such requirements ("Nonqualified Stock Options"), (b) stock appreciation rights ("SARs"), (c) restricted stock and restricted stock units, (d) performance awards, (e) dividend equivalents, and (f) other awards valued in whole or in part by reference to or otherwise based upon the Company's stock ("other stock-based awards"). The 1991 Plan is administered by a committee of the Board of Directors consisting exclusively of three or more Non-Employee Directors (the "Committee"), with the exception of the provision for automatic grants of stock options to Non-Employee Directors, which is administered by the Board of Directors. The Committee has the authority to establish rules for the administration of the 1991 Plan; to select the individuals to whom awards are granted; to determine the types of awards to be granted and the number of shares of Common Stock covered by such awards; and to set the terms and conditions of such awards. The Committee may also determine whether the payment of any amounts received under any award shall or may be deferred and may authorize payments representing cash dividends in connection with any deferred award of shares of Common Stock. Determinations and interpretations with respect to the 1991 Plan are at the sole discretion of the Committee, whose determinations and interpretations are binding on all interested parties. The Committee may delegate to one or more officers the right to grant awards with respect to individuals who are not subject to Section 16(b) of the 1934 Act. See "Amendments Relating to OBRA Requirements" above for information regarding the effect of the proposed amendments on the Committee.

Awards may be granted for no cash consideration or for such minimal cash consideration as may be required by applicable law. Awards may provide that upon the grant or exercise thereof the holder will receive shares of Common Stock, cash or any combination thereof, as the Committee shall determine.

The exercise price per share under any stock option, the grant price of any SAR, and the purchase price of any security which may be purchased under any other stock-based award may not be less than 100% of the fair market value of the Company's Common Stock on the date of the grant of such option, SAR or right. Options may be exercised by payment in full of the exercise price, either in cash or, at the discretion of the Committee, in whole or in part by the tendering of shares of Common Stock or other consideration having a fair market value on the date the option is exercised equal to the exercise price. Determinations of fair market value under the 1991 Plan are made in accordance with methods and procedures established by the Committee. For purposes of the 1991 Plan, the fair market value of shares of Common Stock on a given date is 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.

The 1991 Plan provides that the Committee may grant reload options, separately or together with another option, and may establish the terms and conditions of such reload options. Pursuant to a reload option, the optionee would be granted a new option to purchase the number of shares not exceeding the sum of (i) the number of shares of Common Stock tendered as payment upon the exercise of the option to which such reload option relates and (ii) the number of shares of the Company's Common Stock tendered as payment of the amount to be withheld under 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 the 1991 Plan, the 1987 Stock Option Plan or any other stock option plan of the Company, and may be granted in connection with any option granted under the 1991 Plan at the time of such grant.

The holder of an SAR is entitled to receive the excess of the fair market value (calculated as of the exercise date or, if the Committee shall so determine, as of any time during a specified period before or after the exercise date) of a specified number of shares over the grant price of the SAR.

The holder of restricted stock may have all of the rights of a stockholder of the Company, including the right to vote the shares subject to the restricted stock award and to receive any dividends with respect thereto, or such rights may be restricted. Restricted stock may not be transferred by the holder until the restrictions established by the Committee lapse. Holders of restricted stock units have the right, subject to any restrictions imposed by the Committee, to receive shares of Common Stock (or a cash payment equal to the fair market value of such shares) at some future date. Upon termination of the holders employment during the restriction period, restricted stock and restricted stock units are forfeited, unless the Committee determines otherwise.

Performance awards provide the holder thereof the right to receive payments, in whole or in part, upon the achievement of such goals during such performance periods as the Committee shall establish. A performance award granted under the 1991 Plan may be denominated or payable in cash, shares of Common Stock or restricted stock. Dividend equivalents entitle the holder thereof to receive payments (in cash or shares, as determined by the Committee) equivalent to the amount of cash dividends with respect to a specified number of shares.

The Committee is also authorized to establish the terms and conditions of other stock-based awards.

Non-Employee Directors receive Nonqualified Stock Options to purchase 2,500 shares of the Company's Common Stock upon election to the Board of Directors and during the term of the 1991 Plan will be granted, as of the date of the each Annual Meeting of Stockholders, if such directors term of office continues after such date, an option to purchase 1,000 shares of Common Stock. Such options are exercisable in full as of the date of grant, expire on the tenth anniversary of the date of grant and have an exercise price equal to the fair market value of the shares of Common Stock as of the date of grant.

No award granted under the 1991 Plan may be assigned, transferred, pledged or otherwise encumbered by the individual to whom it is granted, otherwise than by will, by designation of a beneficiary, or by laws of descent and distribution. Each award is exercisable, during such individuals lifetime, only by such individual, or, if permissible under applicable law, by such individuals guardian or legal representative.

If any shares of Common Stock subject to any award or to which an award relates are not purchased or are forfeited, or if any such award terminates without the delivery of shares or other consideration, the shares previously used for such awards are available for future awards under the 1991 Plan. Notwithstanding the foregoing, the total number of shares of Common Stock that may be purchased upon exercise of Incentive Stock Options granted under the 1991 Plan (subject to adjustment as described below) may not exceed 3,000,000 shares. Except as otherwise provided under the procedures adopted by the Committee to avoid double counting with respect to awards granted in tandem with or in substitution for other awards, all shares relating to awards granted will be counted against the aggregate number of shares available for granting awards under the 1991 Plan. See "Increase in Available Shares and Accounting for Shares" above for information regarding the effect of the proposed amendments on the number of shares available for grant, and "Amendments Relating to OBRA Requirements" above for information regarding the effect of the proposed amendments on awards granted to any individual over a three-year period.

If any dividend or other distribution, recapitalization, stock split, reverse stock split, reorganization, merger, consolidation, split-up, spin-off, combination, repurchase, or exchange of shares of Common Stock or other securities of the Company, issuance of warrants or other rights to purchase shares of Common Stock or other securities of the Company, or other similar corporate transaction or event affects the shares of Common Stock so that an adjustment is appropriate in order to prevent dilution or enlargement of the benefits or potential benefits intended to be made available under the 1991 Plan, the Committee may, in such manner as it deems equitable, adjust (a) the number and type of shares (or other securities or property) which thereafter may be made the subject of awards, (b) the number and type of shares (or other securities or property) subject to outstanding awards, and (c) the exercise price with respect to any award. The Committee may correct any defect, supply any omission, or reconcile any inconsistency in the 1991 Plan or any award agreement in the manner and to the extent it shall deem desirable to carry the 1991 Plan into effect.

The Board of Directors may amend, alter or discontinue the 1991 Plan at any time, provided that stockholder approval must be obtained for any change that (i) absent such stockholder approval, would cause Rule 16b-3 as promulgated by the Securities and Exchange Commission under the 1934 Act ("Rule 16b-3"), to become unavailable with respect to the 1991 Plan; (ii) requires the approval of the Company's stockholders under any rules or regulations of the National Association of Securities Dealers, Inc., the New York Stock Exchange, or any other securities exchange applicable to the Company; or (iii) requires the approval of the Company's stockholders under the Code in order to permit Incentive Stock Options to be granted under the 1991 Plan. Certain provisions relating to the automatic grant of stock options to Non-Employee Directors may not be amended more than once every six months other than to comport with changes in the Code, the Employee Retirement Income Security Act or the rules and regulations thereunder.

The closing price per share of the Company's Common Stock on March , 1994, as reported on the New York Stock Exchange, was \$.

The following is a summary of the principal federal income tax consequences generally applicable to awards under the 1991 Plan. The grant of an option or SAR is not expected to result in any taxable income for the recipient. The holder of an Incentive Stock Option generally will have no taxable income upon exercising the Incentive Stock Option (except that a liability may arise pursuant to the alternative minimum tax), and the Company will not be entitled to a tax deduction when an Incentive Stock Option is exercised. Upon exercising a Nonqualified Stock Option, the optionee must recognize ordinary income equal to the excess of the fair market value of the shares of Common Stock acquired on the date of exercise over the exercise price, and the Company will be entitled at that time to a tax deduction for the same amount. Upon exercising an SAR, the amount of any cash received and the fair market value on the exercise date of any shares of Common Stock received are taxable to the recipient as ordinary income and deductible by the Company. The tax consequence to an optionee upon a disposition of shares acquired through the exercise of an option will depend on how long the shares have been held and upon whether such shares were acquired by exercising an Incentive Stock Option or by exercising a Nonqualified Stock Option or SAR. Generally, there will be no tax consequence to the Company in connection with disposition of shares acquired under an option, except that the Company may be entitled to a tax deduction in the case of a disposition of shares acquired under an Incentive Stock Option before the applicable Incentive Stock Option holding periods set forth in the Code have been satisfied.

With respect to other awards granted under the 1991 Plan that are payable either in cash or shares of Common Stock that are either transferable or not subject to substantial risk of forfeiture, the holder of such an award must recognize ordinary income equal to the excess of (a) the cash or the fair market value of the shares of Common Stock received (determined as of the date of such receipt) over (b) the amount (if any) paid for such shares of Common Stock by the holder of the award, and the Company will be entitled at that time to a deduction for the same amount. With respect to an award that is payable in shares of Common Stock that are restricted as to transferability and subject to substantial risk of forfeiture, unless a special election is made pursuant to the Code, the holder of the award

must recognize ordinary income equal to the excess of (i) the fair market value of the shares of Common Stock received (determined as of the first time the shares become transferable or not subject to substantial risk of forfeiture, whichever occurs earlier) over (ii) the amount (if any) paid for such shares of Common Stock by the holder, and the Company will be entitled at that time to a tax deduction for the same amount.

Special rules may apply in the case of individuals subject to Section 16(b) of the 1934 Act. In particular, unless a special election is made pursuant to the Code, shares received pursuant to the exercise of a stock option or SAR may be treated as restricted as to transferability and subject to a substantial risk of forfeiture for a period of up to six months after the date of exercise. Accordingly, the amount of any ordinary income recognized, and the amount of the Company's tax deduction, are determined as of the end of such period.

Under the 1991 Plan, the Committee may permit participants receiving or exercising awards, subject to the discretion of the Committee and upon such terms and conditions as it may impose, to surrender shares of Common Stock (either shares received upon the receipt or exercise of the award of shares previously owned by the optionee) to the Company to satisfy federal and state withholding tax obligations. In addition, the Committee may grant, subject to its discretion and such rules as it may adopt, a bonus to a participant in order to provide funds to pay all or a portion of federal and state taxes due as a result of the receipt or exercise of (or lapse of restrictions relating to) an award. The amount of any such bonus will be taxable to the participant as ordinary income, and the Company will have a corresponding deduction equal to such amount (subject to the usual rules concerning reasonable compensation).

The affirmative vote of the holders of a majority of the shares of the Company's Common Stock present in person or by proxy and voted at the meeting will be necessary for approval of the amendments to the 1991 Plan. Proxies will be voted in favor of such proposal unless otherwise specified. THE BOARD OF DIRECTORS RECOMMENDS THAT YOU VOTE FOR APPROVAL OF THE AMENDMENTS TO THE 1991 PLAN.

III. PROPOSAL TO APPROVE THE COMPANY'S 1994 STOCK INCENTIVE PLAN

On January 19, 1994, the Board of Directors adopted the First Bank System, Inc. 1994 Stock Incentive Plan (the "1994 Plan"). The objectives of the 1994 Plan are to aid the Company in maintaining and developing personnel capable of assuring the future success of the Company, to offer such personnel incentives to put forth maximum efforts for the success of the Company's business and to afford such personnel an opportunity to acquire a proprietary interest in the Company. The following summary description of the 1994 Plan is qualified in its entirety by reference to the full text of the 1994 Plan, a copy of which may be obtained by stockholders of the Company upon request directed to the Company's Corporate Secretary at 601 Second Avenue South, Minneapolis, Minnesota 55402-4302.

Although the 1994 Plan became effective upon adoption by the Company's Board of Directors on January 19, 1994, the Company seeks stockholder approval for purposes of meeting certain regulatory and statutory guidelines that would increase the flexibility of, and

the benefits to the Company's employees associated with, the 1994 Plan. Pursuant to the Company's loan program, active employees holding stock options are entitled to borrow from the Company the amount necessary to pay the exercise price upon exercise of such stock options. Pursuant to the terms of the loan program, such loans are secured by shares of the Company's Common Stock issued in connection with the option exercise. Under Regulation G issued by the Board of Governors of the Federal Reserve System, such loans by a corporation are limited to a percentage of the value of the common stock serving as collateral. Currently, Regulation G limits such loans to 50% of the market value of the common stock serving as collateral. Pursuant to provisions of Regulation G relating to employee stock option plans, however, loans may be made for up to 100% of the market value of the common stock serving as collateral if the stock option plan meets the requirements set forth in Regulation G. Such requirements include stockholder approval of the stock option plan. By obtaining stockholder approval of the 1994 Plan, the Company anticipates qualifying for the special stock option plan provisions of Regulation G, resulting in the ability to loan employees up to the entire exercise price upon an option exercise. Absent stockholder approval, if the exercise price of the stock option is more than 50% of the market value of the Common Stock issued upon such exercise, the Company would be unable to loan the employee the entire exercise price pursuant to the loan program. Thus, stockholder approval is sought to help ensure that all employees exercising stock options receive the full benefit of the Company's loan program.

Stockholder approval of the 1994 Plan would also allow the Company to issue awards under the 1994 Plan to officers who are subject to reporting requirements under Section 16(a) of the 1934 Act in compliance with the provisions of Rule 16b-3. Although the Company anticipates that future awards under the 1994 Plan will be granted primarily to employees who are not subject to reporting requirements under Section 16(a) of the 1934 Act, stockholder approval would provide the Company with additional flexibility in connection with awards to employees at all levels. Additionally, pursuant to Internal Revenue Service regulations, stockholder approval is required to grant Incentive Stock Options, as described below. Failure to obtain stockholder approval would result in the inability to grant Incentive Stock Options under the 1994 Plan.

A total of 5,000,000 shares of the Company's Common Stock were available for the granting of awards under the 1994 Plan. A total of 3,898,400 of such shares have been reserved for issuance upon the exercise of Nonqualified Stock Options (as defined below) granted in January 1994. All of such grants were made to employees of the Company who are not "Executive Officers" for purposes of Securities and Exchange Commission proxy rules. Such Nonqualified Options have an exercise price of \$29.75 per share, which is equal to 100% of fair market value on the date of grant. The options were granted on January 19, 1994, and 1/3 of the total grant became exercisable on the date of grant. An additional 1/3 of the total grant becomes exercisable on April 15, 1995 and the final 1/3 becomes exercisable on April 15, 1996 if the Company meets certain standards based upon the Company's return on assets relative to the Company's peer bank holding companies and growth in earnings per share. If the standards are not met for a particular year, the portion of the grant which

would have become exercisable that year will become exercisable on January 19, 1999. All such options become fully vested upon a change of control of the Company. Other awards under the 1994 Plan are not yet determinable.

The Company anticipates that future awards under the 1994 Plan will be granted primarily to persons who are not officers or directors of the Company for purposes of Section 16 of the 1934 Act with awards to other employees being primarily made under the 1991 Plan. The Company is not required to do so, however. See "Proposal to Amend the Company's 1991 Stock Incentive Plan."

SUMMARY OF THE 1994 PLAN

Any employee, officer, consultant or independent contractor of the Company and its affiliates is eligible to receive awards under the 1994 Plan. The 1994 Plan terminates on January 18, 2004, and no awards may be made after that date. However, unless otherwise expressly provided in the 1994 Plan or an applicable award agreement, any award granted may extend beyond the end of such period.

The 1994 Plan permits the granting of: (a) stock options, including incentive stock options ("Incentive Stock Options") meeting the requirements of Section 422 of the Code, and stock options that do not meet such requirements ("Nonqualified Stock Options"), (b) stock appreciation rights ("SARs"), (c) restricted stock and restricted stock units, (d) performance awards, (e) dividend equivalents, and (f) other awards valued in whole or in part by reference to or otherwise based upon the Company's stock ("other stock-based awards"). The 1994 Plan is administered by a committee of the Board of Directors consisting exclusively of three or more nonemployee directors, each of whom is a disinterested person within the meaning of Rule 16b-3 under the 1934 Act, and is an "outside director" within the meaning of Section 162(m) of the Code (the "Committee"). The Committee has the authority to establish rules for the administration of the 1994 Plan; to select the individuals to whom awards are granted; to determine the types of awards to be granted and the number of shares of Common Stock covered by such awards; and to set the terms and conditions of such awards. The Committee may also determine whether the payment of any amounts received under any award shall or may be deferred and may authorize payments representing cash dividends in connection with any deferred award of shares of Common Stock. Determinations and interpretations with respect to the 1994 Plan are at the sole discretion of the Committee, whose determinations and interpretations are binding on all interested parties. The Committee may delegate to one or more officers the right to grant awards with respect to individuals who are not subject to Section 16(b) of the 1934 Act.

Awards may be granted for no cash consideration or for such minimal cash consideration as may be required by applicable law. Awards may provide that upon the grant or exercise thereof the holder will receive shares of Common Stock, cash or any combination thereof, as the Committee shall determine.

The exercise price per share under any stock option, the grant price of any SAR, and the purchase price of any security which may be purchased under any other stock-based award may not be less than 100% of the fair market value of the Company's Common Stock on the date of the grant of such option, SAR or right. Options may be exercised by payment

in full of the exercise price, either in cash or, at the discretion of the Committee, in whole or in part by the tendering of shares of Common Stock or other consideration having a fair market value on the date the option is exercised equal to the exercise price. Determinations of fair market value under the 1994 Plan are made in accordance with methods and procedures established by the Committee. For purposes of the 1994 Plan, the fair market value of shares of Common Stock on a given date is 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.

The 1994 Plan provides that the Committee may grant "reload" options, separately or together with another option, and may establish the terms and conditions of such "reload" options. Pursuant to a "reload" option, the optionee would be granted a new option to purchase the number of shares not exceeding the sum of (i) the number of shares of Common Stock tendered as payment upon the exercise of the option to which such "reload" option relates and (ii) the number of shares of the Company's Common Stock tendered as payment of the amount to be withheld under 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 any stock option plan of the Company.

The holder of an SAR is entitled to receive the excess of the fair market value (calculated as of the exercise date or, if the Committee shall so determine, as of any time during a specified period before or after the exercise date) of a specified number of shares over the grant price of the SAR.

The holder of restricted stock may have all of the rights of a stockholder of the Company, including the right to vote the shares subject to the restricted stock award and to receive any dividends with respect thereto, or such rights may be restricted. Restricted stock may not be transferred by the holder until the restrictions established by the Committee lapse. Holders of restricted stock units have the right, subject to any restrictions imposed by the Committee, to receive shares of Common Stock (or a cash payment equal to the fair market value of such shares) at some future date. Upon termination of the holders employment during the restriction period, restricted stock and restricted stock units are forfeited, unless the Committee determines otherwise.

Performance awards provide the holder thereof the right to receive payments, in whole or in part, upon the achievement of such goals during such performance periods as the Committee shall establish. A performance award granted under the 1994 Plan may be denominated or payable in cash, shares of Common Stock or restricted stock. Dividend equivalents entitle the holder thereof to receive payments (in cash or shares, as determined by the Committee) equivalent to the amount of cash dividends with respect to a specified number of shares.

The Committee is also authorized to establish the terms and conditions of other stock-based awards.

No award granted under the 1994 Plan may be assigned, transferred, pledged or otherwise encumbered by the individual to whom it is granted, otherwise than by will, by

designation of a beneficiary, or by laws of descent and distribution. Each award is exercisable, during such individuals lifetime, only by such individual, or, if permissible under applicable law, by such individuals guardian or legal representative.

If any shares of Common Stock subject to any award or to which an award relates are not purchased or are forfeited, or if any such award terminates without the delivery of shares or other consideration, the shares previously used for such awards are available for future awards under the 1994 Plan. In addition, any shares that are used by a 1994 Plan 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 relating to tax withholding under the 1994 Plan, shall again be available for granting awards to persons who are not officers or directors of the Company for purposes of Section 16 of the 1934 Act. Notwithstanding the foregoing, the total number of shares of Common Stock that may be purchased upon exercise of Incentive Stock Options granted under the 1994 Plan (subject to adjustment as described below) may not exceed 5,000,000 shares. Except as otherwise provided under procedures adopted by the Committee to avoid double counting with respect to awards granted in tandem with or in substitution for other awards, all shares relating to awards granted will be counted against the aggregate number of shares available for granting awards under the 1994 Plan. No person may be granted any award or awards, the value of which awards are based solely on an increase in the value of Company Common Stock after the date of grant of such awards, for more than 500,000 shares of Company Common Stock, in the aggregate, in any three calendar year period beginning with the period commencing January 1, 1994 and ending December 31, 1996.

If any dividend or other distribution, recapitalization, stock split, reverse stock split, reorganization, merger, consolidation, split-up, spin-off, combination, repurchase, or exchange of shares of Common Stock or other securities of the Company, issuance of warrants or other rights to purchase shares of Common Stock or other securities of the Company, or other similar corporate transaction or event affects the shares of Common Stock so that an adjustment is appropriate in order to prevent dilution or enlargement of the benefits or potential benefits intended to be made available under the 1994 Plan, the Committee may, in such manner as it deems equitable, adjust (a) the number and type of shares (or other securities or property) which thereafter may be made the subject of awards, (b) the number and type of shares (or other securities or property) subject to outstanding awards, and (c) the exercise price with respect to any award. The Committee may correct any defect, supply any omission, or reconcile any inconsistency in the 1994 Plan or any award agreement in the manner and to the extent it shall deem desirable to carry the 1994 Plan into effect.

The Board of Directors may amend, alter or discontinue the 1994 Plan at any time.

The closing price per share of the Company's Common Stock on March , 1994, as reported on the New York Stock Exchange, was \$.

The principal federal income tax consequences generally applicable to awards under the 1994 Plan are the same as those described above for analogous awards under the 1991 Plan. See "Proposal to Amend the Company's 1991 Stock Incentive Plan--Summary of the 1991 Plan."

The affirmative vote of the holders of a majority of the shares of the Company's Common Stock present in person or by proxy and voted at the meeting will be necessary for approval of the 1994 Plan. Proxies will be voted in favor of such proposal unless otherwise specified. THE BOARD OF DIRECTORS RECOMMENDS THAT YOU VOTE FOR APPROVAL OF THE 1994 PLAN.

IV. PROPOSAL TO AMEND THE CERTIFICATE OF INCORPORATION
TO INCREASE THE AUTHORIZED SHARES OF COMMON STOCK

The Board of Directors has determined that the Fourth Article of the Company's Restated Certificate of Incorporation should be amended and has voted to submit an amendment to the Company's stockholders for adoption. The Fourth Article currently provides that the aggregate number of shares of all classes of stock which the Company shall have authority to issue is 160,000,000 shares, consisting of 10,000,000 shares of Preferred Stock and 150,000,000 shares of Common Stock. The Board of Directors recommends to stockholders that the article be amended to increase the number of authorized shares of Common Stock by 50,000,000 shares to 200,000,000 shares, thereby increasing to 210,000,000 the aggregate number of shares of all classes of stock which the Company shall have authority to issue.

If the amendment is approved by the Company's stockholders, the Fourth Article of the Certificate of Incorporation would read as follows:

The total number of shares of all classes of stock which the corporation shall have authority to issue is 210,000,000, consisting of 10,000,000 shares of Preferred Stock of the par value of \$1.00 each and 200,000,000 shares of Common Stock of the par value of \$1.25 each.

As of December 31, 1993, there were 114,793,547 shares of Common Stock outstanding and an additional 6,913,523 shares of Common Stock were reserved for issuance pursuant to various stock-based plans of the Company. This leaves the Company with 28,292,930 authorized but unissued, unreserved and uncommitted shares of Common Stock available for issuance.

The additional shares of Common Stock for which authorization is sought would be a part of the existing class of Common Stock and, if and when issued, would have the same rights and privileges as the shares of Common Stock presently outstanding. Such additional shares would not (and the shares of Common Stock presently outstanding do not) entitle holders thereof to preemptive or cumulative voting rights.

The Company is proposing to increase the number of authorized shares of its Common Stock to provide additional shares for general corporate purposes, including stock dividends, raising additional capital, issuances pursuant to employee and stockholder stock plans and possible future acquisitions. The Company's officers from time to time engage in discussions with other financial institutions concerning the possible acquisition of such institutions by the Company. There are no present plans, understandings or agreements, however, for issuing a material number of additional shares of Common Stock from the

currently authorized shares of Common Stock or the additional shares of stock proposed to be authorized pursuant to the amendment. Since acquisitions have been and may, in the future, be made by an exchange of stock, the Board of Directors believes that an increase in the total number of shares of authorized Common Stock will better enable the Company to meet its future needs and give it greater flexibility in responding quickly to advantageous business opportunities, as well as provide additional shares for corporate purposes generally.

The issuance by the Company of shares of Common Stock, including the additional shares that would be authorized if the proposed amendment is adopted, may dilute the present equity ownership position of current holders of Common Stock and may be made without stockholder approval, unless otherwise required by applicable laws or stock exchange regulation. Under existing New York Stock Exchange regulations, approval of a majority of the holders of Common Stock would nevertheless be required in connection with any transaction or series of related transactions that would result in the original issuance of additional shares of Common Stock, other than in a public offering for cash, (i) if the Common Stock (including securities convertible into Common Stock) has, or will have upon issuance, voting power equal to or in excess of 20% of the voting power outstanding before the issuance of such Common Stock; (ii) if the number of shares of Common Stock to be issued is or will be equal to or in excess of 20% of the number of shares outstanding before the issuance of the Common Stock; or (iii) if the issuance would result in a change of control of the Company.

The additional authorized but unissued shares of Common Stock could make a change in control of the Company more difficult to achieve. Under certain circumstances, such shares could be used to create voting impediments to frustrate persons seeking to effect a takeover or otherwise gain control of the Company. Such shares could be sold to purchasers who might side with the Board in opposing a takeover bid that the Board determines not to be in the best interests of the Company or its stockholders. The amendment might also have the effect of discouraging an attempt by another person or entity, through the acquisition of a substantial number of shares of the Company's Common Stock, to acquire control of the Company with a view to consummating a merger, sale of all or any part of the Company's assets, or a similar transaction, since the issuance of new shares could be used to dilute the stock ownership of such person or entity.

The affirmative vote of the holders of a majority of the shares of the Company's Common Stock outstanding and entitled to vote will be necessary for approval of the amendment. Proxies will be voted in favor of such proposal unless otherwise specified. THE BOARD OF DIRECTORS RECOMMENDS THAT YOU VOTE FOR APPROVAL OF THE AMENDMENT TO THE CERTIFICATE OF INCORPORATION TO INCREASE THE AUTHORIZED SHARES OF COMMON STOCK.

V. SELECTION OF AUDITORS

The Board of Directors of the Company has selected the firm of Ernst & Young as independent auditors of the Company for the year ending December 31, 1994 subject to the approval of the stockholders.

Before the Audit Committee recommended to the full Board of Directors the appointment of Ernst & Young, it carefully considered the qualifications of Ernst & Young. This included a review of their performance in prior years as well as their reputation for integrity and competence in the fields of auditing and accounting. The Audit Committee has expressed its satisfaction with Ernst & Young in all these respects. Representatives of Ernst & Young will be present at the Annual Meeting of Stockholders and will be given an opportunity to make a statement if they desire to do so and will be available to respond to appropriate questions following the meeting. The proxies will vote in favor of approving this selection unless instruction to the contrary is indicated on the proxy form.

THE BOARD OF DIRECTORS RECOMMENDS THAT YOU VOTE FOR APPROVAL OF THE SELECTION OF ERNST & YOUNG AS AUDITORS.

OWNERSHIP BY MANAGEMENT OF EQUITY SECURITIES

The following table sets forth as of February 1, 1994 the beneficial ownership (as defined in the rules of the Securities and Exchange Commission) of the Company's Common Stock by individual directors and executive officers named in the Summary Compensation Table and all directors and executive officers as a group.

| | SHARES BENEFICIALLY OWNED (1) |
|--|-------------------------------------|
| ----- | |
| Coleman Bloomfield..... | 9,706(2) |
| John F. Grundhofer..... | 353,963(2)(3) |
| Roger L. Hale..... | 9,500(2) |
| Delbert W. Johnson..... | 3,500(2) |
| John H. Kareken..... | 4,369(2) |
| Richard L. Knowlton..... | 8,507(2) |
| Kenneth A. Macke..... | 13,044(2) |
| Thomas F. Madison..... | 7,922(2) |
| Marilyn C. Nelson..... | 33,995(2)(4) |
| Will F. Nicholson, Jr..... | 408,942(5) |
| Nicholas R. Petry..... | 538,908(2)(6) |
| Edward J. Phillips..... | 4,010(2) |
| James J. Renier..... | 12,944(2) |
| S. Walter Richey..... | 9,444(2)(7) |
| Richard L. Robinson..... | 8,583(2)(8) |
| Richard L. Schall..... | 19,940(2) |
| Lyle E. Schroeder..... | 8,909(2) |
| Richard A. Zona..... | 138,141(2) |
| William F. Farley..... | 121,198(2) |
| Philip G. Heasley..... | 111,131(2) |
| Daniel C. Rohr..... | 111,777(2) |
| John M. Murphy, Jr..... | 107,408(2) |
| All Directors and Executive Officers as a Group (28 persons)..... | 2,377,684(9) |

 (1) No nominee or director owns beneficially more than .1% of the outstanding Common Stock of the Company and all directors and executive officers as a group own beneficially less than 1% of the outstanding Common Stock.

- (2) Includes the following shares subject to options exercisable within 60 days: Mr. Bloomfield, 2,500; Mr. Grundhofer, 225,723; Mr. Hale, 2,500; Mr. Johnson, 2,500 shares; Dr. Kareken, 2,500; Mr. Knowlton, 2,500 shares; Mr. Macke, 2,500 shares; Mr. Madison, 2,500 shares; Ms. Nelson, 2,500 shares; Mr. Petry, 2,500 shares; Mr. Phillips, 2,500 shares; Dr. Renier, 2,500 shares; Mr. Richey, 2,500 shares; Mr. Robinson, 2,500 shares; Mr. Schall, 2,500 shares; Mr. Schroeder, 2,500 shares; Mr. Zona, 88,862 shares; Mr. Farley, 78,779 shares; Mr. Heasley, 68,178 shares; Mr. Rohr, 70,010 shares; Mr. Murphy, 85,657 shares.
- (3) Includes 22,628 shares of Common Stock held in a family trust of which Mr. Grundhofer is the trustee.
- (4) Includes 30,533 shares held by three trusts of which Mrs. Nelson and members of her family are beneficiaries.
- (5) Excludes 8,560 shares owned by Mr. Nicholson's wife in which shares he disclaims beneficial ownership.
- (6) Includes 499,257 shares held by two corporations affiliated with Mr. Petry.
- (7) Includes 100 shares held by Mr. Richey's wife through her Individual Retirement Account.
- (8) Includes 129 shares held by a partnership of which Mr. Robinson is a general partner.
- (9) Included in the shares listed for all directors and executive officers as a group are (i) shares of Common Stock of the Company owned by the Capital Accumulation Plan of the Company for the accounts of certain executive officers, totaling 25,602 shares; (ii) 865,950 shares which are subject to options exercisable within 60 days by certain directors and executive officers, including those shares referred to in footnote 2 above; and (iii) 125,800 shares of restricted stock issued to certain executive officers pursuant to the 1991 Stock Incentive Plan. All persons subject to Section 16 of the Securities and Exchange Act filed required reports in a timely manner disclosing transactions involving the Company's stock.

EXECUTIVE COMPENSATION
Report of the Organization Committee
on Executive Compensation

TO OUR STOCKHOLDERS:

First Bank System's executive compensation philosophy emphasizes the Company's commitment to long-term growth in stockholder value. In general:

TARGETED TOTAL COMPENSATION will be above the 50th percentile of a group of comparable banking companies. The premium in targeted pay over the 50th percentile will be primarily in the form of stock options.

BASE SALARIES will be targeted BELOW the 50th percentile of the comparator group to minimize fixed expense and emphasize the relationship of pay to performance.

ANNUAL INCENTIVES will be targeted ABOVE the 50th percentile of the comparator group such that the total of targeted base salary plus targeted annual incentive will be equal to the 50th percentile.

LONG-TERM AWARDS will be targeted ABOVE the 50th percentile of the comparator group and will be primarily in the form of stock options.

Actual pay will be influenced by both competitive practice and the Committee's assessment of performance against several criteria, including measures of profitability, growth consistent with long-range strategy, risk management, the development and involvement of people, a continuing commitment to cultural diversity, and succession planning. No formal weightings have been assigned to these factors.

ROLE OF THE COMMITTEE

The Organization Committee of the Board of Directors (the "Committee") seeks to maintain executive compensation policies which are consistent with the Company's strategic business objectives and values. In pursuing this goal, the Committee is guided by the following objectives:

- A significant portion of senior executives' compensation shall be comprised of long-term, at-risk pay to focus management on the long-term interests of stockholders.
- Executives' total compensation programs should emphasize pay that is dependent upon meeting performance goals to strengthen the relationship between pay and performance.
- Components of pay which are at risk should contain equity-based pay opportunities to align executives' interests with those of shareholders.
- Executive compensation should be competitive to attract, retain, and encourage the development of exceptionally knowledgeable and experienced executives upon whom, in large part, the success of the Company depends.

The Committee is comprised of six non-employee directors. The Committee approves the design of executive compensation programs and assesses their effectiveness in supporting the Company's compensation objectives. The Committee also reviews and approves all salary arrangements and other remuneration for executives, evaluates executive performance, and considers related matters.

The Company obtains competitive market data from an independent compensation consultant comparing the Company's compensation practices to those of a group of comparator companies. The Committee reviews and approves the selection of companies used for compensation comparison purposes. This comparator group is comprised of companies in the banking industry which are comparable in size to the Company, based on assets, net income, number of employees and total market value. While the comparator group is not comprised of the same companies as the peer group index companies in the Performance Graph included on page , all of the comparator companies are included in the peer group index. Therefore, we believe that the companies used for compensation comparisons are a representative cross section of the companies included in the peer group index.

ELEMENTS OF THE COMPENSATION PROGRAM

The key elements of the Company's executive compensation program are base salary, annual incentives and long-term incentives. In determining each component of compensation, the Committee considers an executive's total compensation package. Consistent with the Company's policy of aligning pay with performance, a greater portion of total targeted compensation is placed at risk than the total targeted compensation placed at risk by companies in the comparator group. In determining the total compensation package for executives, the Committee has considered the performance of the Company's Common Stock, however, no formal weighting has been assigned to this factor. The Performance Graphs on page include the type of information considered by the Committee in this regard.

Recently enacted Section 162(m) of the Internal Revenue Code of 1986, as amended (the "Code"), generally limits the corporate deduction for compensation paid to executive officers named in the proxy to one million dollars, unless the compensation is performance-based. The Committee has carefully considered the potential impact of this new tax code provision on the Company and has concluded that it is in the Company's and shareholders' best interest to qualify certain of the Company's stock-based long-term incentives as performance-based compensation within the meaning of the Code and thereby preserve the full deductibility of such long-term incentive payments. Thus, the Company is requesting stockholder approval of modifications to the 1991 Stock Incentive Plan, as indicated on page .

One condition to qualify annual incentive compensation as performance-based is to establish the amount of the award based on an objective formula that precludes any upward discretion. At this time, the Committee believes it is in the Company's and shareholders' best interest to retain the Committee's discretionary determination of performance and strategic business unit goals on an annual basis. Consequently, payments to Mr. Grundhofer under the annual incentive plan may not qualify as performance-based

compensation. Although the amount, if any, of such payments ultimately determined to be non-deductible is not expected to be significant, the Company will continue to explore feasible alternatives to preserve deductibility under Section 162(m) of the Code. Compensation (other than long-term incentives, discussed above) paid to other executive officers is not expected to exceed one million dollars, and Section 162(m) will therefore not impact the Company's tax deduction for 1994 compensation paid to these officers.

BASE SALARIES

Each executive's base salary is initially determined according to his or her level of responsibility, prior experience, and breadth of knowledge, as well as internal equity issues and competitive pay practices. The Committee uses its discretion rather than a formal weighting system to evaluate these factors and to determine individual base salary levels. Thereafter, base salaries are reviewed on an annual basis, and increases are made based on the Committee's subjective assessment of each executive's performance, as well as the factors described above. In 1993, base salaries were below the 50th percentile market level of the comparator group. This is consistent with the Company's strategic objectives.

Each year, Mr. Grundhofer prepares a written self-appraisal of his performance which is presented to the Board of Directors. Each director comments on Mr. Grundhofer's report and the Committee prepares a formal response which serves as Mr. Grundhofer's appraisal. The Committee recommends to the full Board Mr. Grundhofer's salary for the coming year, and his base salary is adjusted accordingly. In doing so, the Committee considers Mr. Grundhofer's execution of his overall responsibility for the Company's financial performance, long-range strategy, capital allocation, and management selection, retention, and succession. However, formal weightings have not been assigned to these factors. Mr. Grundhofer's base salary was increased by \$75,000 effective March 1, 1993.

ANNUAL INCENTIVES

The Company provides annual incentives to executives under the Annual Incentive Plan. Annual incentives are intended to promote the Company's pay-for-performance philosophy by providing executives with annual cash bonus opportunities for achieving corporate, business unit and individual performance goals.

Eligible executives are assigned target and maximum bonus levels, determined as a percentage of base salary. The Committee sets the target bonus awards at a level which, together with the amount of targeted base pay, provides total direct compensation which is approximately equal to the 50th percentile level among the Company's compensation comparator companies for total direct compensation. The Committee considers the targets it establishes to be achievable, but to require above-average performance from each of the executives. Actual awards, if any, are determined by the Committee based on its subjective assessment of each executive's business unit and individual performance. The assessment focuses on achievement of profitability, growth, risk management and general management objectives; however, formal weightings have not been assigned to these factors.

In 1993, the Company's targeted bonus level was above the 50th percentile target level of the comparator group of companies, and total targeted base pay plus bonus was slightly below the 50th percentile. The Company's performance in 1993 exceeded the target level of performance. As a result, actual bonus awards exceeded the target level.

Mr. Grundhofer was paid \$630,000 under the Annual Incentive Plan in connection with his achievement of specified 1993 Company financial goals. Mr. Grundhofer's targeted annual bonus is consistent with the Company's policy of setting a targeted annual bonus sufficient to provide total direct compensation which is approximately equal to the 50th percentile level of the comparator group. Mr. Grundhofer's actual annual bonus was above target due to the Company's exceptional 1993 performance, which exceeded the target level.

LONG-TERM INCENTIVES

Long-term incentives are granted under the Company's 1991 Stock Incentive Plan. In keeping with the policy of placing a significant portion of executives' total pay at risk, the Committee sets targeted long-term incentive compensation above the 50th percentile levels among the Company's compensation comparator companies.

The separate components of the Company's long-term incentives are summarized below.

STOCK OPTIONS. Stock options, including reload stock options, are the Company's primary long-term incentive vehicle. Under the 1991 Stock Incentive Plan, options are granted at an option price not less than the fair market value of the Common Stock on the date of grant. Thus, stock options have value only if the stock price appreciates from the date the options are granted. This design focuses executives on the creation of stockholder value over the long term and encourages equity ownership in the Company.

In determining the size of stock option awards, the Committee considers the value of the stock on the date of grant, competitive practice, the amount of options previously granted, individual contributions, and business unit performance. However, formal weightings have not been assigned to these factors.

Based upon the Committee's assessment of these factors, Mr. Grundhofer in 1993 received regular options to purchase 61,700 shares under the 1991 Stock Incentive Plan. In addition, he received reload stock options to purchase 65,638 shares. All of the options granted to Mr. Grundhofer have an exercise price equal to the fair market value on the date of grant. The number of reload stock options granted to Mr. Grundhofer was equal to the number of shares of FBS common stock he tendered to the Company in payment of the exercise price of options exercised during 1993, plus the number of shares withheld by the Company in payment of the taxes arising from the exercise.

RESTRICTED STOCK. The 1991 Stock Incentive Plan also provides for the grant of restricted stock to executives. Dividends paid on Company stock are paid on a current basis to holders of restricted stock. The vesting period of the restricted stock is determined by comparing the Company's return on common equity and total shareholder return (stock

price appreciation plus dividends) over a three-year performance period to the same measures for a group of peer companies. All of the companies in this peer group are also represented in the Performance Graphs on page , and most are included in the Company's compensation comparator group. Depending on the Company's performance relative to the peer group, vesting can occur in as few as three, and in as many as seven, years following the start of the performance cycle. Vesting will not be accelerated unless the Company ranks at or above the 60th percentile for at least one of the performance measures. Although no formal weighting is used, total shareholder return is emphasized somewhat more than return on common equity in determining the vesting schedule. Except for death, disability, retirement or a change in control, unvested shares are forfeited upon termination of employment.

In determining the size of restricted stock grants, the Committee considers the dollar value of the stock, competitive practices, the amount of restricted stock previously granted and individual performance. However, formal weightings have not been assigned to these factors.

Based on these factors, Mr. Grundhofer received a grant of 13,600 shares of restricted stock in 1993.

CONCLUSION

The Committee is committed to monitoring the effectiveness of the Company's total compensation program to satisfy the Company's current needs and to adapt the program to anticipate and meet the Company's future needs. In 1993, the Committee performed a comprehensive review of the Company's total compensation program to ensure it supports the Company's overall objectives and stockholders' interests in the most effective manner.

Based on this review, the Committee concluded that long-term incentive compensation opportunities should be dependent on stock-based measures to strengthen the alignment between management's interests and those of the Company's stockholders. To emphasize the Company's pay at risk philosophy, as well as to further enhance the alignment of management's interests with those of stockholders, stock option awards for 1994, 1995 and 1996 were made in January of 1994. For this period, no additional long-term incentive awards (except for reload option grants), including restricted stock, are anticipated for executive officers named in this proxy statement.

The Committee believes the Company's executive compensation policies and programs effectively serve the interests of stockholders and the Company. The Company's various pay vehicles are appropriately balanced to provide increased motivation for executives to contribute to the Company's overall future success and to enhance the Company's value for the stockholder's benefit.

Kenneth A. Macke (Chairperson)
Coleman Bloomfield
Thomas R. Madison
Marilyn C. Nelson
James J. Renier
S. Walter Richey

EMPLOYMENT CONTRACTS

Pursuant to a three-year Employment Agreement entered into by the Company and Mr. Grundhofer that expired on January 29, 1993 (the "Former Employment Agreement"), Mr. Grundhofer was entitled to receive an annual salary of not less than \$525,000 and was entitled to participate in the Company's executive bonus program. Mr. Grundhofer was entitled to participate in various benefit programs covering, and to receive various personal benefits offered to, corporate executives of the Company. Upon execution of the Former Employment Agreement, the Company granted Mr. Grundhofer options to purchase a total of 200,000 shares, exercisable at \$13.625 per share (equal to the New York Stock Exchange closing price per share of the Company's Common Stock on January 30, 1990). One-third of these options became exercisable on January 29 of each of 1991, 1992 and 1993. The Former Employment Agreement also entitled Mr. Grundhofer to severance benefits in the event of termination of employment under certain circumstances.

Under the Former Employment Agreement, Mr. Grundhofer was entitled to receive certain payments from the Company intended to compensate him for payments and other benefits which he would have been eligible to receive had he continued to be employed by Wells Fargo & Company ("Wells Fargo"), his previous employer.

Effective January 30, 1993, the Company and Mr. Grundhofer entered into a new Employment Agreement (the "New Employment Agreement") with a two-year term that, subject to notice of termination, automatically extends by one year on each anniversary of the agreement. As in the Former Employment Agreement, Mr. Grundhofer is entitled to receive an annual salary of not less than \$525,000 and is entitled to participate in the Company's executive bonus program. Mr. Grundhofer is entitled to participate in various benefit programs covering, and to receive various personal benefits offered to, corporate executives of the Company. The Company has agreed to continue to provide Mr. Grundhofer with a \$1 million life insurance policy during the term of the New Employment Agreement.

Under the New Employment Agreement, Mr. Grundhofer is entitled to receive from the Company the remainder of the payments intended to compensate him for payments and other benefits which he would have been eligible to receive had he continued to be employed by Wells Fargo as described in connection with the Former Employment Agreement. Pursuant to the New Employment Agreement and a separate agreement relating to certain of such payments, such payments may be paid on a deferred basis. In this regard, the Company paid Mr. Grundhofer the following amounts during 1993: (a) \$305,074 which had been placed in escrow by the Company in respect of unvested Wells Fargo stock options forfeited by terminating employment with Wells Fargo, the receipt of which Mr. Grundhofer deferred, to be paid over a 10-year period beginning in 2003 (with certain exceptions); and (b) \$11,147, which is an amount equal to \$.90 per share of restricted stock of Wells Fargo that would have remained unvested had he remained at Wells Fargo and the receipt of \$2,026 of which Mr. Grundhofer deferred, to be paid over a 10-year period beginning in 2003 (with certain exceptions).

Mr. Grundhofer's New Employment Agreement also provides severance benefits in the event of termination of employment under certain circumstances. In the event of termination of employment without "cause" or by Mr. Grundhofer with "good reason" (as such terms are defined in the Agreement), in addition to compensation and benefits already earned, he will be entitled to receive: (a) his then-current base salary for a period of two years, (b) continuation of his participation in Company benefit and retirement plans and continuation of the \$1 million life insurance policy for a two-year period, (c) continuation of personal benefits for a two-year period, and (d) immediate exercisability of all options and vesting of restricted stock that would have become exercisable or vested during the remaining term of the New Employment Agreement if no such termination had occurred. In the event the Company terminates Mr. Grundhofer's employment with "cause", or he terminates employment without "good reason", Mr. Grundhofer would forfeit all compensation and benefits following such termination.

CHANGE IN CONTROL SEVERANCE AGREEMENTS AND PLANS

The Company has entered into individual change in control severance agreements with certain executive officers, including each of the executive officers named in the Summary Compensation Table below, providing for severance payments upon certain terminations of employment during the two-year period following a change in control. Termination of employment must be by the Company other than for "cause" or by the individual for "good reason", as such terms are defined in the agreements. The agreements provide for a lump sum payment equal to three times annual salary plus target bonus potential, continuation of benefits for up to three years, the payment of long-term cash incentive awards and individual outplacement services. The Company has agreed to compensate such officers for certain taxes and penalties resulting from the severance pay agreement. Mr. Grundhofer's agreement provides that payments to which he is entitled under the agreement will be reduced by severance payments and benefits to which he is entitled under the New Employment Agreement. The Company also maintains change in control severance plans covering a broad range of salaried employees and providing for different levels of payments based on job classification. In addition, the vesting of outstanding stock options accelerate and restrictions on restricted stock lapse upon a change of control of the Company.

SUMMARY COMPENSATION TABLE

The following table sets forth the cash and noncash compensation for each of the last three fiscal years awarded to or earned by the Chief Executive Officer of the Company and the five other highest paid executive officers of the Company whose salary and bonus earned in 1993 exceeded \$100,000.

SUMMARY COMPENSATION TABLE

| NAME | POSITION | YEAR | ANNUAL COMPENSATION | | | LONG-TERM COMPENSATION | |
|------------------|---------------------|------|---------------------|------------|-------------------------------|-----------------------------|-------------------------------|
| | | | SALARY | BONUS | OTHER ANNUAL COMPENSATION (1) | RESTRICTED STOCK AWARDS (5) | SECURITIES UNDERLYING OPTIONS |
| Grundhofer, John | CEO | 1993 | \$ 587,500 | \$ 630,000 | \$ 97,089(2) | 401,200 | 127,338 |
| | | 1992 | 525,000 | 551,250 | 71,605 | 719,250 | 54,900 |
| | | 1991 | 525,000 | 472,500 | -- | 0 | 50,000 |
| Zona, Richard | Vice Chairman & CFO | 1993 | 270,834 | 265,000 | (3) | 234,725 | 22,867 |
| | | 1992 | 250,000 | 240,000 | (3) | 189,000 | 22,200 |
| | | 1991 | 250,000 | 200,000 | -- | 0 | 42,200 |
| Farley, William | Vice Chairman | 1993 | 262,500 | 220,000 | 1,731(3)(4) | 120,225 | 28,206 |
| | | 1992 | 250,000 | 225,000 | (3) | 189,000 | 22,000 |
| | | 1991 | 250,000 | 185,000 | -- | 0 | 36,000 |
| Heasley, Phillip | Vice Chairman | 1993 | 250,000 | 230,000 | (3) | 120,225 | 26,515 |
| | | 1992 | 225,000 | 215,000 | (3) | 189,000 | 22,000 |
| | | 1991 | 225,000 | 165,000 | -- | 0 | 30,000 |
| Rohr, Daniel | EVP | 1993 | 237,500 | 220,000 | (3) | 120,225 | 24,780 |
| | | 1992 | 225,000 | 210,000 | (3) | 189,000 | 20,300 |
| | | 1991 | 225,000 | 165,000 | -- | 0 | 30,000 |
| Murphy, John M. | EVP | 1993 | 237,500 | 185,000 | (3) | 120,225 | 16,860 |
| | | 1992 | 220,883 | 210,000 | (3) | 189,000 | 22,000 |
| | | 1991 | 200,000 | 160,000 | -- | 0 | 30,000 |

| NAME | PAYOUTS | | ALL OTHER COMPEN- SATION (6) |
|------------------|--------------|---------------|------------------------------|
| | LTIP PAYOUTS | | |
| Grundhofer, John | 0 | \$ 363,321(7) | |
| | 0 | 181,794 | |
| | 0 | -- | |
| Zona, Richard | 0 | 14,187(8) | |
| | 0 | 11,480 | |
| | 0 | -- | |
| Farley, William | 0 | 12,779(9) | |
| | 0 | 11,133 | |
| | 0 | -- | |
| Heasley, Phillip | 0 | 11,144(9) | |
| | 0 | 10,188 | |
| | 0 | -- | |
| Rohr, Daniel | 0 | 10,597(9) | |
| | 0 | 9,954 | |
| | 0 | -- | |
| Murphy, John M. | 0 | 12,114(9) | |
| | 0 | 11,934 | |
| | 0 | -- | |

(1) Information for fiscal year 1991 is not required to be disclosed.

(2) Benefits received by Mr. Grundhofer include reimbursement for club memberships in the amount of \$20,000 in both 1992 and 1993 and transportation-related expenses of \$42,216 in 1993 and \$33,928 in 1992.

(3) The Company's incremental cost with respect to personal benefits of the named individuals is not reported because the cost thereof is below the amount required to be reported pursuant to the Securities and Exchange Commission rules.

- (4) Interest earned on deferred compensation to the extent that the interest rate exceeds 120% of the applicable federal long-term rate.
- (5) Market value of restricted stock granted to the named individuals as of the date of grant. The term of the restrictions varies from 3 to 7 years from the beginning of the performance period, based upon the Company's return on equity and total shareholder return relative to the Company's peer bank holding companies. Recipients currently receive dividends on, and have the right to vote, shares of the restricted stock. The Company granted restricted stock to each of the named individuals during 1993 relating to a performance period of 1993 through 1995. The named individuals held shares of restricted stock as of December 31, 1993 with market values as follows: Mr. Grundhofer, 41,000 shares valued at \$1,260,750; Mr. Zona, 15,400 shares valued at \$473,550; Messrs. Farley, Heasley, Rohr and Murphy, 11,400 shares each, valued at \$350,550.
- (6) Information for fiscal year 1991 is not required to be disclosed.
- (7) Includes (a) \$305,074 which had been placed in escrow by the Company in respect of unvested stock options forfeited upon termination of Mr. Grundhofer's employment with his former employer, the receipt of which Mr. Grundhofer deferred to be paid over a 10-year period beginning in 2003 (with certain exceptions); (b) \$11,147, which is equal to \$.90/share of the restricted stock issued by Mr. Grundhofer's former employer that would have remained unvested had he remained employed by that entity and the receipt of \$2,026 of which Mr. Grundhofer deferred to be paid over a 10-year period beginning in 2003 (with certain exceptions); (c) imputed income in the amount of \$12,670 arising from premiums paid by the Company with respect to life insurance for the benefit of Mr. Grundhofer; (d) amounts pursuant to the Company's flexible compensation program (net of amounts used to purchase benefits), \$8,728 of which was applied to Mr. Grundhofer's account in the Company's Capital Accumulation Plan (a 401(k) plan) ("CAP") and \$21,338 of which was paid in cash; and (e) \$4,364 in a matching contribution by the Company to Mr. Grundhofer's CAP account.
- (8) Includes (a) amounts paid pursuant to the Company's flexible compensation program (net of amounts used to purchase benefits), \$8,728 of which was applied to Mr. Zona's account in the CAP and \$1,095 of which was paid in cash; and (b) \$4,364 in a matching contribution by the Company to Mr. Zona's CAP account.
- (9) Includes (a) amounts paid pursuant to the Company's flexible compensation program (net of amounts used to purchase benefits), of which the following amounts were applied to the individual's account in the CAP: Mr. Farley, \$8,415; Mr. Heasley, \$6,907; Mr. Rohr, \$6,233; and Mr. Murphy, \$7,750; and (b) \$4,364 in a matching contribution by the Company to the named individuals' CAP account, with the exception of Mr. Heasley who received a matching contribution in the amount of \$4,237.

STOCK OPTIONS

The following tables summarize option grants and exercises during 1993 to or by the Chief Executive Officer or the executive officers named in the Summary Compensation Table above, and the values of options granted during 1993 and held by such persons at the end of 1993.

STOCK OPTION GRANTS IN 1993

| NAME | POSITION | INDIVIDUAL GRANTS | | | | POTENTIAL REALIZABLE VALUE AT ASSUMED ANNUAL RATES OF STOCK PRICE APPRECIATION FOR OPTION TERM | |
|------------------|---------------------|---|--|------------------------|-----------------|--|--------------|
| | | NUMBER OF SECURITIES UNDERLYING OPTIONS GRANTED | % OF TOTAL OPTIONS GRANTED TO EMPLOYEES IN FISCAL YEAR | EXERCISE OR BASE PRICE | EXPIRATION DATE | 5%(\$) | |
| | | | | | | STOCK PRICE | GAIN |
| Grundhofer, John | CEO | 61,700(1) | 15.4% | 29.500 | 1-19-03 | 48.05 | \$ 1,144,535 |
| | | 61,365(3) | | 30.250 | 1-30-00 | 41.60 | 696,493 |
| | | 4,273(3) | | 30.375 | 1-30-00 | 40.90 | 44,973 |
| Zona, Richard | Vice Chairman & CFO | 12,300(1) | 2.8% | 28.625 | 2-16-03 | 46.63 | 221,462 |
| | | 5,686(3) | | 30.500 | 4-24-00 | 42.42 | 67,777 |
| | | 514(3) | | 30.500 | 9-19-99 | 41.21 | 5,505 |
| | | 4,089(3) | | 30.500 | 2-19-01 | 44.17 | 55,897 |
| | | 278(3) | | 30.500 | 9-17-01 | 45.42 | 4,148 |
| Farley, William | Vice Chairman | 12,300(1) | 3.2% | 28.625 | 2-16-03 | 46.63 | 221,462 |
| | | 9,702(3) | | 30.375 | 4-24-00 | 42.20 | 114,726 |
| | | 4,647(3) | | 30.375 | 2-19-01 | 43.92 | 62,944 |
| | | 687(3) | | 31.000 | 4-24-00 | 42.20 | 7,694 |
| | | 870(3) | | 31.000 | 2-19-01 | 43.94 | 11,258 |
| Heasley, Phillip | Vice Chairman | 12,300(1) | 3.0% | 28.625 | 2-16-03 | 46.63 | 221,462 |
| | | 4,527(3) | | 30.375 | 4-24-00 | 42.20 | 53,532 |
| | | 8,270(3) | | 30.375 | 2-19-01 | 43.92 | 112,017 |
| | | 285(3) | | 30.375 | 2-19-02 | 46.12 | 4,487 |
| | | 329(3) | | 30.000 | 4-24-00 | 40.86 | 3,573 |
| | | 741(3) | | 30.000 | 2-19-01 | 42.52 | 9,277 |
| Rohr, Daniel | EVP | 63(3) | 3.0% | 30.000 | 2-19-02 | 44.65 | 923 |
| | | 12,300(1) | | 28.625 | 2-16-03 | 46.63 | 221,462 |
| | | 7,867(3) | | 31.000 | 5-20-00 | 42.74 | 92,359 |
| | | 4,236(3) | | 31.000 | 2-19-01 | 44.35 | 56,551 |
| Murphy, John M. | EVP | 377(3) | 2.0% | 31.000 | 2-19-02 | 46.54 | 5,859 |
| | | 12,300(1) | | 28.625 | 2-16-03 | 46.63 | 221,462 |
| | | 4,194(3) | | 30.375 | 2-19-01 | 43.92 | 56,808 |
| | | 366(3) | | 30.875 | 2-19-01 | 43.74 | 4,709 |

| NAME | 10%(\$) | |
|------------------|-------------|--------------|
| | STOCK PRICE | GAIN |
| Grundhofer, John | 76.52 | \$ 2,901,134 |
| | 56.37 | 1,602,854 |
| | 54.33 | 102,360 |
| Zona, Richard | 74.25 | 561,188 |
| | 58.09 | 156,877 |
| | 54.92 | 12,552 |
| | 62.87 | 132,361 |
| | 66.38 | 9,975 |
| Farley, William | 74.25 | 561,188 |
| | 57.74 | 265,495 |
| | 62.44 | 149,006 |
| | 56.62 | 17,601 |
| | 61.28 | 26,344 |
| Heasley, Phillip | 74.25 | 561,188 |
| | 57.74 | 123,881 |
| | 62.44 | 265,178 |
| | 68.68 | 10,917 |
| | 54.84 | 8,172 |
| | 59.30 | 21,711 |
| Rohr, Daniel | 65.23 | 2,219 |
| | 74.25 | 561,188 |
| | 58.04 | 212,724 |
| | 62.40 | 133,010 |
| Murphy, John M. | 68.57 | 14,164 |
| | 74.25 | 561,188 |
| | 62.44 | 134,481 |
| | 60.97 | 11,015 |

Total Gain for Named Individuals..... \$ 3,723,355
 Total Gain for All Shareholders (2)..... \$1,701,195,875
 Named Individuals' Gain as a Percentage of all Shareholders' Gains..... 0.22%

\$4,120,066,666

0.22%

\$ 9,119,971

(1) Options become exercisable in annual increments of 1/3 of the total grant beginning on the first anniversary date of the grant. The first anniversary date of the grant to Mr. Grundhofer was January 20, 1994, and the first anniversary date of the grant to the other named individuals was February 17, 1994. All such options become fully vested upon a change of control of the Company.

- (2) Gain for all shareholders is calculated from \$30.75, the closing price of the Common Stock on December 31, 1993, based on the outstanding shares of Common Stock on that date.
- (3) Optionees may tender previously acquired shares of the Company's Common Stock in payment of the exercise price of a stock option and may tender previously acquired shares or request the Company to withhold sufficient shares to pay the taxes arising from the exercise. The Company will grant a reload stock option to purchase the number of shares thus tendered and/or withheld. The reload option will have an exercise price equal to the closing price of the Company's Common Stock on the date of the transaction, and will expire on the scheduled expiration date of the exercised option.

AGGREGATED OPTION EXERCISES IN LAST FISCAL YEAR AND FISCAL YEAR-END OPTION VALUE

| NAME | POSITION | SHARES ACQUIRED ON EXERCISES | VALUE REALIZED | NUMBER OF SECURITIES UNDERLYING UNEXERCISED OPTIONS AT FY-END EXERCISABLE/ UNEXERCISABLE | VALUE OF UNEXERCISED IN- THE-MONEY OPTIONS AT FY- END EXERCISABLE/ UNEXERCISABLE |
|---------------------|---------------------|---------------------------------|-------------------|--|--|
| Grundhofer, John | CEO | 94,287 | \$ 1,567,521 | 108,543/180,605 | \$ 1,523,595/\$507,447 |
| Zona, Richard | Vice Chairman & CFO | 42,567 | 611,166 | 9,467/ 51,733 | 48,895/ 271,561 |
| Farley, William | Vice Chairman | 39,000 | 585,750 | 7,334/ 54,872 | 25,669/ 250,848 |
| Heasley, Phillip | Vice Chairman | 34,334 | 416,169 | 0/ 51,181 | 0/ 223,220 |
| Rohr, Daniel | EVP | 39,267 | 518,189 | 0/ 48,313 | 0/ 213,502 |
| Murphy, John M. Jr. | EVP | 10,000 | 136,250 | 25,034/ 41,526 | 218,444/ 219,040 |

PERSONAL RETIREMENT ACCOUNT

Effective July 1, 1986, the Company adopted a career average pay defined benefit pension plan known as the "Personal Retirement Account" ("PRA"). Essentially all full-time employees of the Company and its subsidiaries are eligible to participate in PRA. As of December 31, 1993, 10,608 employees were participating in PRA. Under the terms of PRA, a separate "account" is maintained for each employee participating in the plan. Each month contributions of 3% to 6% of the participant's total compensation for that month plus 3% of the participant's compensation in excess of \$5,000 per year are made to the account for each participant. The basic percentage varies depending upon the participant's number of years of service. If the participant has less than ten years of service, the percentage is 3%. If the participant has ten but less than twenty years of service, the percentage is 4%. If the participant has twenty but less than twenty-five years of service, the percentage is 5%. If the participant has twenty-five or more years of service, the percentage is 6%. In addition, the plan provides certain special additional credits for the accounts of participants who had at least five years of service as of January 1, 1986 and had a total age plus years of service equal to fifty or greater. At the time of normal or early retirement, the accumulated account of the participant is converted into one of several available forms of lifetime annuities or is distributed in a single lump sum to the participant. In the event of the death of the participant, the account balance is payable to survivors of the participant. Plan benefits become 100% vested after five years of service.

The Company maintains an unfunded deferred compensation plan known as the Defined Benefit Excess Plan to provide retirement benefits which would have been provided under the normal formulas of the PRA but for limitations established under the Internal Revenue Code. Such plans are recognized and authorized under provisions of the Employee Retirement Income Security Act of 1974, as amended.

Based upon a number of assumptions, including retirement at age 65, the following estimated annual payments would be made upon retirement pursuant to the PRA and the Defined Benefit Excess Plan to the individuals listed below: Mr. Grundhofer, \$196,000; Mr. Zona, \$150,000; Mr. Farley, \$141,000; Mr. Heasley, \$256,000; Mr. Rohr, \$143,000 and Mr. Murphy, \$122,000.

SUPPLEMENTAL EXECUTIVE RETIREMENT PLAN

The Company's Supplemental Executive Retirement Plan is available to certain executives with not less than five years of service at the time of termination of employment or death. The Plan generally provides retirement benefits at age 65 equal to 55% of an executive's average base salary and annual incentive awards during his or her last three years of employment. Payments under the Plan are reduced by other sources of retirement income, including benefits under the PRA, the defined benefit excess plan, a portion of social security benefits and estimated benefits provided by other employers. Lesser benefits are available in the event of termination prior to age 65. The Supplemental Executive Retirement Plan provides for payment of benefits in the form of a single lump sum.

Based upon a number of assumptions, including retirement at age 65, the following estimated payments (expressed on an annual basis) would be made upon retirement pursuant to the Plan to the individuals listed below: Mr. Grundhofer, \$435,000; Mr. Zona, \$244,000; Mr. Farley, \$206,000; Mr. Heasley, \$234,000; Mr. Rohr, \$191,000 and Mr. Murphy, \$175,000.

ORGANIZATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

During 1993, the following individuals served as members of the Organization Committee: Kenneth A. Macke (Chairperson), Coleman Bloomfield, Thomas R. Madison, Marilyn C. Nelson, and James J. Renier.

Coleman Bloomfield, a member of the Organization Committee, is an executive officer of Minnesota Mutual Life Insurance Company, and Mr. Grundhofer is a member of the Board of Trustees of such company.

During 1993, banking subsidiaries of the Company had loan transactions in the ordinary course of business with the members of the Organization Committee and one or more of their associates. Such loans did not involve more than the normal risk of collectibility, present other unfavorable features or bear lower interest rates than those prevailing at the time for comparable transactions with other persons.

PERFORMANCE GRAPHS

Set forth below are line graphs comparing the cumulative total shareholder return on the Company's Common Stock over a five-year and four-year period, based on the market price of the Common Stock and assuming reinvestment of dividends, with the cumulative total return of companies on the Standard and Poor's 500 Stock Index and the Keefe, Bruyette & Woods 50 Bank Index. The first graph provides a five-year history of shareholder return. The Company believes the second graph, which provides a four-year history, is useful in evaluating the Company's performance during the tenure of the current senior management team. Each of the executive officers named in the Summary Compensation Table above became executive officers of the Company between September 1989 and May 1990.

FIVE-YEAR TOTAL RETURN

| | 1989 | 1990 | 1991 | 1992 | 1993 |
|-----------------------------|-------|-------|-------|-------|-------|
| | ---- | ---- | ---- | ---- | ---- |
| First Bank System, Inc..... | \$ 85 | \$ 70 | \$135 | \$163 | \$184 |
| S & P 500..... | 132 | 128 | 166 | 179 | 197 |
| KBW 50 Bank Index..... | 119 | 85 | 135 | 172 | 182 |

First Bank System, Inc. S & P 500 KBW 50 Bank Index

KBW 50 Bank Index is a market-capitalization-weighted total return index developed by Keefe, Bruyette & Woods, Inc.

FOUR-YEAR TOTAL RETURN

| | 1990 | 1991 | 1992 | 1993 |
|-----------------------------|-------|-------|-------|-------|
| | ---- | ---- | ---- | ---- |
| First Bank System, Inc..... | \$ 83 | \$159 | \$193 | \$217 |
| S & P 500..... | 97 | 126 | 136 | 150 |
| KBW 50 Bank Index..... | 72 | 114 | 145 | 153 |

First Bank System, Inc.

S & P 500

KBW 50 Bank Index

KBW 50 Bank Index is a market-capitalization-weighted total return index developed by Keefe, Bruyette & Woods, Inc.

OTHER TRANSACTIONS OF MANAGEMENT

During 1993, banking subsidiaries of the Company had loan transactions in the ordinary course of business with some of the Company's directors, officers and one or more of their associates. Other than as described below, such loans did not involve more than normal risk of collectibility, present other unfavorable features, or bear lower interest rates than those prevailing at the time for comparable transactions with other persons.

In 1993, an affiliate of the Company paid 4900, Inc., a corporation 52% owned by Mr. Petry, \$135,000 for rent on premises leased by the affiliate. In addition, N.G. Petry Construction Company has leased the use of approximately 550 square feet of office space from an affiliate of the Company at competitive rates. Mr. Petry is a managing partner of N.G. Petry Construction Company.

In 1993, an affiliate of the Company paid \$67,000 in rent under a long term ground lease to a partnership of which Mr. Nicholson is a general partner and the beneficial interest of which is in his immediate family. The lease, executed in 1965, covers property used by a bank affiliated with the Company.

LOANS TO MANAGEMENT

In accordance with the Company's policies regarding loans to employees, certain officers of the Company borrowed money from FBS Mortgage Corporation, a mortgage banking subsidiary of the Company, to finance their homes. These loans are evidenced by notes secured by first mortgages on their residences and either have been, or are in the process of being, sold to investors in the secondary real estate mortgage market.

In addition, pursuant to the Company's Stock Option Loan program, all active employees holding stock options are eligible to receive loans from the Company to be used for the exercise of stock options. Loans bear interest at the applicable federal rates in effect under Section 1274(d) of the Internal Revenue Code at the time the loan is made.

The following tables show as to the Company's directors and executive officers: (i) the outstanding balances of stock option loans and mortgages, if any, as of December 31, 1993, (ii) the largest outstanding balances of such loans at any time during 1993, and (iii) the rate of interest applicable to such loans.

| | MORTGAGE BALANCE AT DECEMBER 31 1993 | MAXIMUM BALANCE OF MORTGAGE DURING 1993 | MORTGAGE INTEREST RATE |
|--------------------------|--|---|------------------------------|
| | ----- | ----- | ----- |
| William F. Farley..... | \$ 581,250 | \$ 581,250 | 3.750%* |
| Roger L. Hale..... | -0- | 101,899 | 7.625% |
| Roger L. Hale..... | 148,662 | 151,900 | 7.625% |
| Philip G. Heasley..... | 785,431 | 788,000 | 6.625% |
| Susan E. Lester..... | -0- | 185,400 | 8.375% |
| John M. Murphy, Jr..... | 131,656 | 135,300 | 7.000% |
| Michael J. O'Rourke..... | 201,823 | 203,150 | 7.125% |
| Edward J. Phillips..... | -0- | 501,000 | 7.250% |
| Robert H. Sayre..... | -0- | 191,000 | 7.125% |
| Richard A. Zona..... | -0- | 480,000 | 7.625% |

* Adjustable Rate Mortgage

| | STOCK OPTION LOAN BALANCE AT DECEMBER 31, 1993* | STOCK OPTION LOAN INTEREST RATE |
|--------------------------|---|---------------------------------------|
| | ----- | ----- |
| William F. Farley..... | \$ 393,359 | 5.47% |
| Philip G. Heasley..... | 395,575 | 5.47% |
| Susan E. Lester..... | 151,030 | 3.91% |
| John M. Murphy, Jr..... | 91,562 | 5.47% |
| Michael J. O'Rourke..... | 67,539 | 5.47% |
| Daniel C. Rohr..... | 556,339 | 4.94% |
| Robert H. Sayre..... | 129,563 | 5.47% |
| Richard A. Zona..... | 595,790 | 5.47% |

* For each of the named individuals, the loan balance as of December 31, 1993 is also the largest balance outstanding during 1993.

POLICY ON CONFIDENTIAL VOTING

It is the policy of the Company that commencing with the 1993 Annual Meeting of Stockholders, (i) all proxies, ballots and voting tabulations that identify stockholders be kept permanently confidential, except as disclosure may be required by federal or state law or is expressly requested by a stockholder; and (ii) the receipt and tabulation of proxy cards be by an independent third party.

1995 STOCKHOLDER PROPOSALS

In order for stockholder proposals for the 1995 Annual Meeting of Stockholders to be eligible for inclusion in the Company's Proxy Statement, they must be received by the Company at its principal office in Minneapolis prior to November , 1994.

AVAILABILITY OF FORM 10-K

The Company's Annual Report on Form 10-K detailing the activities and financial results of First Bank System, Inc. during 1993 is included as a part of the Company's 1993 Annual Report to Stockholders. If a stockholder requests copies of any exhibits to such Form 10-K, the Company will require the payment of a fee covering its reasonable expenses in furnishing such exhibits. Address any request to Investor Relations Department, First Bank System, Inc., P.O. Box 522, Minneapolis, Minnesota 55480.

By Order of the Board of Directors

Michael J. O'Rourke
SECRETARY

Dated: March , 1994

FORM OF PROXY
[Front]

THIS PROXY IS SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS OF FIRST BANK SYSTEM, INC.

ANNUAL MEETING OF STOCKHOLDERS - APRIL 28, 1994

The undersigned hereby appoints Elizabeth Malkerson, Michael O'Rourke and Richard Zona as proxies (each with power to act alone and with power of substitution) to vote, as designated herein, all shares the undersigned is entitled to vote at the Annual Meeting of Stockholders of First Bank System, Inc. to be held on April 28, 1994, or at any adjournment thereof, on those matters referred to in the Proxy Statement. The proxies are authorized in their discretion to vote upon such other business as may properly come before the meeting.

This Proxy cannot be voted unless it is properly signed and returned. If properly signed and returned, this Proxy will be voted as designated by the stockholder. IF NO CHOICE IS SPECIFIED, THIS PROXY WILL BE VOTED FOR THE ELECTION OF ALL NOMINEES FOR DIRECTOR, AND FOR PROPOSALS 2, 3, 4, AND 5. Shares held in the First Bank System Capital Accumulation Plan for which a proxy is not received will be voted by the trustee in the same proportion as votes actually cast by plan participants.

The nominees for Director are: Marilyn C. Nelson, Nicholas R. Petry, S. Walter Richey, Richard L. Robinson and Lyle E. Schroeder.

PLEASE MARK, SIGN AND DATE THIS PROXY ON THE REVERSE SIDE AND RETURN IT PROMPTLY IN THE ENCLOSED ENVELOPE.

FORM OF PROXY
[Back]

THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR PROPOSALS 1, 2, 3, 4 AND 5.

1. Election of Directors FOR _____ WITHHOLD _____
(see reverse)

For, except withheld from the following nominees:

2. Approve the proposed amendments to
the Company's 1991 Stock Incentive Plan
FOR _____ AGAINST _____ ABSTAIN _____

3. Approve the Company's 1994
Stock Incentive Plan
FOR _____ AGAINST _____ ABSTAIN _____

4. Amend the Certificate of Incorporation
to increase the number of authorized
shares of Common Stock
FOR _____ AGAINST _____ ABSTAIN _____

5. Approve the selection of the firm
of Ernst & Young as independent
auditors
FOR _____ AGAINST _____ ABSTAIN _____

6. To transact such other business
as may properly come before the
meeting.

Please sign exactly as your name appears on this Proxy. Joint owners should each sign. Executors, administrators, trustees, etc. should so indicate when signing and where more than one is named, a majority should sign. Please sign, date and return this Proxy Card promptly using the enclosed envelope.

SIGNATURE(S) DATE

FIRST BANK SYSTEM, INC.
1991 STOCK INCENTIVE PLAN
(Including Amendments Effective April 21, 1993 and Amendments Adopted
January 19, 1994 Subject to Stockholder Approval)

SECTION 1. PURPOSE; EFFECT ON PRIOR PLANS.

(a) PURPOSE. The purpose of the First Bank System, Inc. 1991 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. From and after the effective date of the Plan, no stock options or restricted stock awards shall be granted under the Company's 1987 Stock Option Plan and Special Performance and Retention Plan. All outstanding stock options and restricted stock awards previously granted under the 1987 Stock Option Plan and Special Performance and Retention Plan shall remain outstanding in accordance with the terms thereof.

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, Dividend Equivalent 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 three directors, each of whom is a "disinterested person" within the meaning of Rule 16b-3. Each member of the Committee shall be an "outside director" within the meaning of Section 162(m) of the Code.

(f) "Dividend Equivalent" shall mean any right granted under Section 6(e) of the Plan.

(g) "Eligible Person" shall mean any employee, officer, consultant or independent contractor providing services to the Company or any Affiliate who the Committee determines to be an Eligible Person. Eligible Person shall not include any Non-Employee Director, who shall receive Awards only pursuant to Section 6(h) of the Plan.

(h) "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(h), 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.

(i) "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.

(j) "Non-Qualified Stock Option" shall mean an option granted under Section 6(a) of the Plan, or Section 6(h) of the Plan in the case of grants to Non-Employee Directors, that is not intended to be an Incentive Stock Option.

(k) "Option" shall mean an Incentive Stock Option or a Non-Qualified Stock Option.

(l) "Other Stock-Based Award" shall mean any right granted under Section 6(f) of the Plan.

(m) "Participant" shall mean an Eligible Person designated to be granted an Award under the Plan.

(n) "Performance Award" shall mean any right granted under Section 6(d) of the Plan.

(o) "Person" shall mean any individual, corporation, partnership, association or trust.

(p) "Restricted Stock" shall mean any Share granted under Section 6(c) of the Plan.

(q) "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.

(r) "Rule 16b-3" shall mean Rule 16b-3 promulgated by the Securities and Exchange Commission under the Securities Exchange Act of 1934.

(s) "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 4(c) of the Plan.

(t) "Stock Appreciation Right" shall mean any right granted under Section 6(b) of the Plan.

SECTION 3. ADMINISTRATION.

(a) POWER AND AUTHORITY OF THE COMMITTEE. The Plan shall be administered by the Committee; provided, however, that Section 6(h) 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(h). Subject to the terms of the Plan and applicable law, and except with respect to Section 6(h) 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.

(b) MEETINGS OF THE COMMITTEE. The Committee shall select one of its members as its chairman and shall hold its meetings at such times and places as the Committee may determine. A majority of the Committee's members shall constitute a quorum. All determinations of the Committee shall be made by not less than a majority of its members. Any decision or determination reduced to writing and signed by all of the members of the Committee shall be fully effective as if it had been made by a majority vote at a meeting duly called and held. The Committee may appoint a secretary and may make such rules and regulations for the conduct of its business as it shall deem advisable.

SECTION 4. SHARES AVAILABLE FOR AWARDS.

(a) SHARES AVAILABLE. Subject to adjustment as provided in Section 4(c), the number of Shares available for granting Awards under the Plan shall be 5,000,000. 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(a) of the Plan, shall again be available for granting 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.

(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) ADJUSTMENTS. In the event that the Committee (or, in the case of grants under Section 6(h) of the Plan, the Board of Directors) shall determine 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, issuance of warrants or other rights to purchase Shares or other securities of the Company or other similar corporate transaction or event affects the Shares such that an adjustment is determined by the Committee (or, in the case of grants under Section 6(h) of the Plan, the Board of Directors) to be appropriate in order to prevent dilution or enlargement of the benefits or potential benefits intended to be made available under the Plan, then the Committee (or, in the case of grants under Section 6(h) of the Plan, the Board of Directors) shall, in such manner as it may deem equitable, 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) INCENTIVE STOCK OPTIONS. Notwithstanding the foregoing, the number of Shares available for granting Incentive Stock Options under the Plan shall not exceed 3,000,000, subject to adjustment as provided in the Plan and Section 422 or 424 of the Code or any successor provisions.

(e) 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 500,000 Shares, in the aggregate, in any three calendar year period beginning with the period commencing January 1, 1994 and ending December 31, 1996; PROVIDED, HOWEVER, that such limitation shall apply only to Shares available for granting Awards under the Plan pursuant to amendments to the Plan submitted for stockholder approval at the Company's 1994 annual meeting of stockholders and amendments adopted thereafter. 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. Non-Employee Directors shall receive Awards of Non-Qualified Stock Options as provided in Section 6(h) of the Plan.

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 previously granted under this Plan, the First Bank System 1987 Stock Option Plan or any other stock option plan of the Company, and

may be granted in connection with any Option granted under this Plan at the time of such grant. 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 terms, conditions and 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) DIVIDEND EQUIVALENTS. The Committee is hereby authorized to grant to Participants Dividend Equivalents under which such Participants shall be entitled to receive payments (in cash, Shares, other securities, other Awards or other property as determined in the discretion of the Committee) equivalent to the amount of cash dividends paid by the Company to holders of Shares with respect to a number of Shares determined by the Committee. Subject to the terms of the Plan and any applicable Award Agreement, such Dividend Equivalents may have such terms and conditions as the Committee shall determine.

(f) 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(f) 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.

(g) GENERAL. Except as otherwise specified with respect to Awards to Non-Employee Directors pursuant to Section 6(h) 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 or the grant or crediting of Dividend Equivalents with respect to 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(h) 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(h) 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.

(h) 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(h).

Each Non-Employee Director serving on the Company's Board of Directors immediately following the 1993 Annual Meeting of Stockholders of the Company shall be granted, as of the date of such meeting, a Non-Qualified Stock Option to purchase 2,500 Shares (subject to adjustment pursuant to Section 4(c) of the Plan). Each Non-Employee Director first elected or appointed to the Company's Board of Directors after the 1993 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 4(c) of the Plan). After the initial grant to each Non-Employee Director as set forth above in this Section 6(h), 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, if such Director's term of office continues after such date, a Non-Qualified Stock Option to purchase 1,000 Shares (subject to adjustment pursuant to Section 4(c) of the Plan).

Each Non-Qualified Stock Option granted to a Non-Employee Director pursuant to this Section 6(h) 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. "Reload" options may not be granted to any Non-Employee Director. This

Section 6(h) shall not be amended more than once every six months other than to comport with changes in the Code, the Employee Retirement Income Security Act or the rules and regulations thereunder.

All grants of Non-Qualified Stock Options pursuant to this Section 6(h) 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 (A) be secured by the Shares to be delivered upon exercise of such Option (other than those withheld in payment of taxes as set forth below), (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 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 Non-Employee Director, are withheld or collected from such Director. At any time when a Non-Employee Director is required to pay the Company an amount required to be withheld under applicable income tax laws in connection with an Option granted pursuant to this Section 6(h), 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. The Board of Directors may disapprove of any Election, may suspend or terminate the right to make Elections, may limit the amount of any Election, and may make rules concerning the required information to be included in any Election. Non-Employee Directors may only make an Election in compliance with the Rules established by the Company to comply with Section 16(b) of the Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder.

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(h) 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) CORRECTION OF DEFECTS, OMISSIONS AND INCONSISTENCIES. The Committee (or, in the case of grants under Section 6(h) 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; TAX BONUSES.

(a) 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.

(b) TAX BONUSES. The Committee, in its discretion, shall have the authority, at the time of grant of any Award under this Plan or at any time thereafter, to approve cash bonuses to designated Participants to be paid upon their exercise or receipt of (or the lapse of restrictions relating to) Awards in order to provide funds to pay all or a portion of federal and state taxes due as a result of such exercise or receipt (or the lapse of such restrictions). The Committee shall have full authority in its discretion to determine the amount of any such tax bonus.

SECTION 9. GENERAL PROVISIONS.

(a) NO RIGHTS TO AWARDS. Except as otherwise provided in Section 6(h) 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(h) 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(h) 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(h) 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.

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.

FIRST BANK SYSTEM, INC.
1994 STOCK INCENTIVE PLAN

SECTION 1. PURPOSE. The purpose of the First Bank System, Inc. 1994 Stock Incentive Plan (the "Plan") is to aid in attracting and retaining employees at all levels capable of assuring the future success of First Bank System, Inc. (the "Company"), to offer such personnel incentives to put forth maximum efforts for the success of the Company's business and to afford such personnel an opportunity to acquire a proprietary interest in the Company.

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, Dividend Equivalent 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 three directors, each of whom is a "disinterested person" within the meaning of Rule 16b-3. Each member of the Committee shall be an "outside director" within the meaning of Section 162(m) of the Code.

(f) "Dividend Equivalent" shall mean any right granted under Section 6(e) of the Plan.

(g) "Eligible Person" shall mean any employee, officer, consultant or independent contractor providing services to the Company or any Affiliate who the Committee determines to be an Eligible Person.

(h) "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. 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.

(i) "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.

(j) "Non-Qualified Stock Option" shall mean an option granted under Section 6(a) of the Plan that is not intended to be an Incentive Stock Option.

(k) "Option" shall mean an Incentive Stock Option or a Non-Qualified Stock Option.

(l) "Other Stock-Based Award" shall mean any right granted under Section 6(f) of the Plan.

(m) "Participant" shall mean an Eligible Person designated to be granted an Award under the Plan.

(n) "Performance Award" shall mean any right granted under Section 6(d) of the Plan.

(o) "Person" shall mean any individual, corporation, partnership, association or trust.

(p) "Restricted Stock" shall mean any Share granted under Section 6(c) of the Plan.

(q) "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.

(r) "Rule 16b-3" shall mean Rule 16b-3 promulgated by the Securities and Exchange Commission under the Securities Exchange Act of 1934.

(s) "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 4(c) of the Plan.

(t) "Stock Appreciation Right" shall mean any right granted under Section 6(b) of the Plan.

SECTION 3. ADMINISTRATION.

(a) POWER AND AUTHORITY OF THE COMMITTEE. The Plan shall be administered by the Committee. Subject to the terms of the Plan and applicable law, 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.

(b) MEETINGS OF THE COMMITTEE. The Committee shall select one of its members as its chairman and shall hold its meetings at such times and places as the Committee may determine. A majority of the Committee's members shall constitute a quorum. All determinations of the Committee shall be made by not less than a majority of its members. Any decision or determination reduced to writing and signed by all of the members of the Committee shall be fully effective as if it had been made by a majority vote at a meeting duly called and held. The Committee may appoint a secretary and may make such rules and regulations for the conduct of its business as it shall deem advisable.

SECTION 4. SHARES AVAILABLE FOR AWARDS.

(a) SHARES AVAILABLE. Subject to adjustment as provided in Section 4(c), the number of Shares available for granting Awards under the Plan shall be 5,000,000. 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(a) of the Plan, shall again be available for granting 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.

(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) ADJUSTMENTS. In the event that the Committee shall determine 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, issuance of warrants or other rights to purchase Shares or other securities of the Company or other similar corporate transaction or event affects the Shares such that an adjustment is determined by the Committee to be appropriate in order to prevent dilution or enlargement of the benefits or potential benefits intended to be made available under the Plan, then the Committee shall, in such manner as it may deem equitable, 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) INCENTIVE STOCK OPTIONS. Notwithstanding the foregoing, the number of Shares available for granting Incentive Stock Options under the Plan shall not exceed 5,000,000, subject to adjustment as provided in the Plan and Section 422 or 424 of the Code or any successor provisions.

(e) 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 500,000 Shares, in the aggregate, in any three calendar year period beginning with the period commencing January 1, 1994 and ending December 31, 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 requirements of 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 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 terms, conditions and 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) DIVIDEND EQUIVALENTS. The Committee is hereby authorized to grant to Participants Dividend Equivalents under which such Participants shall be entitled to receive payments (in cash, Shares, other securities, other Awards or other property as determined in the discretion of the Committee) equivalent to the amount of cash dividends paid by the Company to holders of Shares with respect to

a number of Shares determined by the Committee. Subject to the terms of the Plan and any applicable Award Agreement, such Dividend Equivalents may have such terms and conditions as the Committee shall determine.

(f) 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 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 of other securities delivered pursuant to a purchase right granted under this Section 6(f) 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.

(g) GENERAL.

(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 or the grant or crediting of Dividend Equivalents with respect to 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 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 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.

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.

(b) AMENDMENTS TO AWARDS. 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) CORRECTION OF DEFECTS, OMISSIONS AND INCONSISTENCIES. The Committee 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; TAX BONUSES.

(a) 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.

(b) TAX BONUSES. The Committee, in its discretion, shall have the authority, at the time of grant of any Award under this Plan or at any time thereafter, to approve cash bonuses to designated Participants to be paid upon their exercise or receipt of (or the lapse of restrictions relating to) Awards in order to provide funds to pay all or a portion of federal and state taxes due as a result of such exercise or receipt (or the lapse of such restrictions). The Committee shall have full authority in its discretion to determine the amount of any such tax bonus.

SECTION 9. GENERAL PROVISIONS.

(a) NO RIGHTS TO AWARDS. 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. The grant of an Award shall not be construed as giving a Participant the right to be retained in the employ of the Company or any Affiliate. In addition, the Company or an Affiliate may at any time dismiss a Participant from employment, 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, 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, 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 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.

SECTION 10. EFFECTIVE DATE OF THE PLAN.

The Plan shall be effective as of the date of its approval by the Board of Directors 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.