

[LOGO]  
US BANCORP

=====

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

-----

FORM 10-Q

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

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 1998

OR

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

FOR THE TRANSITION PERIOD FROM (NOT APPLICABLE)

COMMISSION FILE NUMBER 1-6880

U.S. BANCORP  
(Exact name of registrant as specified in its charter)

DELAWARE	41-0255900
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

U.S. BANK PLACE,  
601 SECOND AVENUE SOUTH,  
MINNEAPOLIS, MINNESOTA 55402-4302  
(Address of principal executive offices and Zip Code)

612-973-1111  
(Registrant's telephone number, including area code)

(NOT APPLICABLE)  
(Former name, former address and former fiscal year,  
if changed since last report).

-----

Indicate by check mark whether the registrant (1) has filed all reports  
required to be filed by Section 13 or 15(d) of the Securities Exchange Act of  
1934 during the preceding twelve months and (2) has been subject to such filing  
requirements for the past 90 days.

YES ☒X NO ☐

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

Class	Outstanding as of July 31, 1998
Common Stock, \$1.25 Par Value	739,941,631 shares

=====

# FINANCIAL SUMMARY

	Three Months Ended		Six Months Ended	
	June 30 1998	June 30 1997	June 30 1998	June 30 1997
(Dollars in Millions, Except Per Share Data)				
Income before nonrecurring items .....	\$ 358.2	\$ 302.7	\$ 708.2	\$ 594.9
Nonrecurring items .....	(37.6)	1.2	(59.1)	2.3
Net income .....	\$ 320.6	\$ 303.9	\$ 649.1	\$ 597.2
PER COMMON SHARE				
Earnings per share .....	\$ .43	\$ .41	\$ .88	\$ .81
Diluted earnings per share .....	.43	.41	.86	.80
Earnings on a cash basis (diluted)* .....	.47	.44	.96	.87
Dividends paid .....	.175	.155	.350	.310
Common shareholders' equity .....	8.28	7.79		
PER COMMON SHARE BEFORE NONRECURRING ITEMS				
Earnings per share .....	.48	.41	.96	.80
Diluted earnings per share .....	.48	.40	.94	.79
Earnings on a cash basis (diluted)* .....	.52	.44	1.03	.86
FINANCIAL RATIOS				
Return on average assets .....	1.80%	1.77%	1.85%	1.76%
Return on average common equity .....	20.8	21.5	21.4	21.2
Efficiency ratio .....	54.1	49.7	52.1	50.2
Net interest margin (taxable-equivalent basis) .....	4.91	5.05	4.95	5.07
SELECTED FINANCIAL RATIOS BEFORE NONRECURRING ITEMS				
Return on average assets .....	2.01	1.76	2.02	1.75
Return on average common equity .....	23.2	21.4	23.4	21.1
Efficiency ratio .....	49.7	49.7	48.0	50.2
PERIOD END				
	June 30 1998	December 31 1997		
Loans .....	\$ 55,778	\$ 54,708		
Allowance for credit losses .....	982	1,009		
Assets .....	73,750	71,295		
Total shareholders' equity .....	6,127	5,890		
Tangible common equity to total assets** .....	6.5%	7.0%		
Tier 1 capital ratio .....	7.2	7.4		
Total risk-based capital ratio .....	11.5	11.6		
Leverage ratio .....	7.4	7.3		

\*CALCULATED BY ADDING AMORTIZATION OF GOODWILL AND OTHER INTANGIBLE ASSETS TO NET INCOME.

\*\*DEFINED AS COMMON EQUITY LESS GOODWILL AS A PERCENTAGE OF TOTAL ASSETS LESS GOODWILL.

## TABLE OF CONTENTS AND FORM 10-Q CROSS-REFERENCE INDEX

### PART I -- FINANCIAL INFORMATION

Management's discussion and analysis of financial condition and results of operations (Item 2) ..	2
Quantitative and qualitative disclosures about market risk (Item 3) .....	13
Financial statements (Item 1) .....	17

### PART II -- OTHER INFORMATION

Other Information (Item 5) .....	30
Exhibits and Reports on Form 8-K (Item 6) .....	30
Signature .....	30
Exhibit 12 - Computation of Ratio of Earnings to Fixed Charges .....	31

### FORWARD-LOOKING STATEMENTS

This Form 10-Q includes forward-looking statements that involve inherent risks and uncertainties. U.S. Bancorp cautions readers that a number of important factors could cause actual results to differ materially from those in the forward-looking statements. These factors include economic conditions and competition in the geographic and business areas in which the Company operates, inflation, fluctuations in interest rates, legislation and governmental regulation, Year 2000 issues, and the progress of integrating the former U. S. Bancorp.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

U.S. Bancorp, formerly known as First Bank System, Inc. (the "Company"), is the organization created by the acquisition by First Bank System, Inc. ("FBS") of U. S. Bancorp ("USBC") of Portland, Oregon. The merger was completed on August 1, 1997, as a pooling-of-interests, and prior period financial statements have been restated to reflect the merger.

On April 22, 1998, the Company's shareholders authorized an increase in the Company's capital stock necessary to implement the three-for-one split of the Company's common stock announced on February 18, 1998. The number of common and preferred shares which the Company has authority to issue was increased from 500 million shares and 10 million shares, respectively, to 1.5 billion shares and 50 million shares, respectively. The stock split was in the form of a 200 percent dividend payable May 18, 1998, to shareholders of record on May 4, 1998. The impact of the stock split has been reflected in the financial statements for all periods presented and all share and per share data included herein.

**EARNINGS SUMMARY** -- The Company reported second quarter 1998 operating earnings (net income excluding nonrecurring items) of \$358.2 million, compared with \$302.7 million in the second quarter of 1997. On a diluted per share basis, operating earnings were \$.48 in the second quarter of 1998, compared with \$.40 in the second quarter of 1997, an increase of 20 percent. Return on average assets and return on average common equity, excluding nonrecurring items, were 2.01 percent and 23.2 percent, respectively, in the second quarter of 1998, compared with returns of 1.76 percent and 21.4 percent in the second quarter of 1997. Excluding nonrecurring items, the efficiency ratio (the ratio of expenses to revenues) was unchanged at 49.7 percent in the second quarter of 1998 from the second quarter of 1997.

Operating earnings for the second quarter of 1998 reflected growth in core noninterest income and a decrease in core noninterest expense from the second quarter of 1997. Comparisons to prior periods are affected by the May 1, 1998, acquisition of Piper Jaffray Companies Inc. ("Piper Jaffray"). Without the Piper Jaffray acquisition, noninterest income, before nonrecurring items, increased by \$56.3 million (14 percent), reflecting strong growth in credit card fee revenue, trust fees and investment management fees. Without the Piper Jaffray acquisition, noninterest expense, before nonrecurring items, declined by \$24.9 million (4 percent) and the efficiency ratio was 46.0 percent.

Net income was \$320.6 million in the second quarter of 1998, or \$.43 per diluted share, compared with \$303.9 million, or \$.41 per diluted share, in the second quarter of 1997. Return on average assets and return on average common equity were 1.80 percent and 20.8 percent in the second quarter of 1998, compared with returns of 1.77 percent and 21.5 percent in the second quarter of 1997. Nonrecurring merger-related charges decreased net income by \$37.6 million (\$59.5 million on a pre-tax basis) in the second quarter of 1998. Approximately \$53.0 million, after tax, of additional merger-related expenses are expected to be incurred over the next two quarters. This represents an increase of approximately \$25 million (6 percent) over the \$450 million, after tax, of merger-related charges originally estimated and announced in March of 1997. Increased systems conversion costs are the principal reason for the variance. Nonrecurring net securities gains increased second quarter 1997 net income by \$1.2 million (\$1.9 million on a pre-tax basis).

Operating earnings for the first six months of 1998 were \$708.2 million, compared with \$594.9 million in the first six months of 1997. On a diluted per share basis, operating earnings were \$.94 in the first half of 1998, compared with \$.79 in the first half of 1997, an increase of 19 percent. Year-to-date return on average assets and return on average common equity, excluding nonrecurring items, were 2.02 percent and 23.4 percent, respectively, compared with returns of 1.75 percent and 21.1 percent in the first half of 1997. Excluding nonrecurring items, the efficiency ratio improved to 48.0 percent in the first six months of 1998 from 50.2 percent in the first six months of 1997.

TABLE 1 SUMMARY OF CONSOLIDATED INCOME

(Taxable-Equivalent Basis; Dollars in Millions, Except Per Share Data)	Three Months Ended		Six Months Ended	
	June 30 1998	June 30 1997	June 30 1998	June 30 1997
Interest income .....	\$ 1,362.5	\$ 1,343.6	\$ 2,700.7	\$ 2,642.7
Interest expense .....	584.6	564.0	1,154.8	1,101.2
Net interest income .....	777.9	779.6	1,545.9	1,541.5
Provision for credit losses .....	93.0	101.1	183.0	185.3
Net interest income after provision for credit losses .....	684.9	678.5	1,362.9	1,356.2
Securities gains .....	--	1.9	12.6	3.6
Other noninterest income .....	561.1	405.6	1,007.0	781.4
Merger-related charges .....	59.5	--	106.0	--
Other noninterest expense .....	665.1	589.5	1,224.2	1,165.0
Income before income taxes .....	521.4	496.5	1,052.3	976.2
Taxable-equivalent adjustment .....	12.9	14.8	26.0	29.7
Income taxes .....	187.9	177.8	377.2	349.3
Net income .....	\$ 320.6	\$ 303.9	\$ 649.1	\$ 597.2
Return on average assets .....	1.80%	1.77%	1.85%	1.76%
Return on average common equity .....	20.8	21.5	21.4	21.2
Net interest margin .....	4.91	5.05	4.95	5.07
Efficiency ratio .....	54.1	49.7	52.1	50.2
Efficiency ratio before nonrecurring items .....	49.7	49.7	48.0	50.2
Banking efficiency ratio before nonrecurring items* .....	45.2	48.8	45.1	49.2
PER COMMON SHARE:				
Earnings per share .....	\$ .43	\$ .41	\$ .88	\$ .81
Dividends paid .....	.175	.155	.350	.310

\*WITHOUT INVESTMENT BANKING AND BROKERAGE ACTIVITY.

Net income for the first six months of 1998 was \$649.1 million, or \$.86 per diluted share, compared with \$597.2 million, or \$.80 per diluted share, for the first six months of 1997. Return on average assets and return on average common equity were 1.85 percent and 21.4 percent in the first half of 1998, compared with returns of 1.76 percent and 21.2 percent in the same period of 1997. Net nonrecurring items decreased net income by \$59.1 million (\$93.4 million on a pre-tax basis) in the first half of 1998. Year-to-date nonrecurring items included \$12.6 million of net securities gains and \$106.0 million of merger-related charges. Nonrecurring net securities gains increased the first half of 1997 net income \$2.3 million (\$3.6 million on a pre-tax basis).

ACQUISITION AND DIVESTITURE ACTIVITY -- On May 1, 1998, the Company completed its acquisition of Piper Jaffray, a full-service investment banking and securities brokerage firm. The acquisition allows the Company to offer investment banking and institutional and retail brokerage services through a new subsidiary to be known as U.S. Bancorp Piper Jaffray Inc. The acquisition of Piper Jaffray was accounted for under the purchase method of accounting, and accordingly, the purchase price of \$738 million (including \$719 million aggregate cash consideration for Piper Jaffray shares outstanding) was allocated to assets acquired and liabilities assumed based on their fair values at the date of acquisition.

During 1997, the Company completed three purchase acquisitions of banks within its operating region: Zappco, Inc. of St. Cloud, Minnesota; Business and Professional Bank of Sacramento, California; and, Sun Capital Bancorp of St. George, Utah. The Company also acquired the bond indenture services and paying agency business of Comerica Incorporated and sold \$420 million of corporate charge card receivables during 1997.

On March 13, 1998, the Company announced an agreement to acquire Northwest Bancshares, Inc., a privately held bank holding company headquartered in Vancouver, Washington, with 10 banking locations and \$344 million in deposits. The acquisition is pending regulatory approval and is expected to close in the third quarter of 1998.

#### LINE OF BUSINESS FINANCIAL REVIEW

Financial performance is measured by major lines of business, which include: Commercial & Business Banking and Private Financial Services, Retail Banking, Payment Systems, Corporate Trust and Institutional Financial Services, and Investment Banking and Brokerage. Business line results are derived from the Company's business unit

TABLE 2 LINE OF BUSINESS FINANCIAL PERFORMANCE

	Commercial & Business Banking and Private Financial Services			Retail Banking		
For the Three Months Ended June 30 (Dollars in Millions)	1998	1997	Percent Change	1998	1997	Percent Change
=====						
CONDENSED INCOME STATEMENT:						
Net interest income						
(taxable-equivalent basis) .....	\$ 351.7	\$ 348.0	1.1%	\$ 356.7	\$ 361.6	(1.4)%
Provision for credit losses .....	11.2	22.6	(50.4)	34.0	40.6	(16.3)
Noninterest income .....	88.7	79.5	11.6	124.9	128.2	(2.6)
Noninterest expense .....	140.2	145.9	(3.9)	278.7	306.7	(9.1)
Income taxes and taxable-equivalent adjustment .....	110.8	100.5		64.9	55.2	
Income before nonrecurring items .....	\$ 178.2	\$ 158.5	12.4	\$ 104.0	\$ 87.3	19.1
=====						
Net nonrecurring items (after-tax) .....						
Net income .....						
=====						
AVERAGE BALANCE SHEET DATA:						
Commercial loans .....	\$31,366	\$29,636	5.8	\$ 2,143	\$2,093	2.4
Consumer loans, excluding residential mortgage .....	323	296	9.1	11,197	10,919	2.5
Residential mortgage loans .....	295	281	5.0	3,858	4,880	(20.9)
Assets .....	39,360	38,161	3.1	22,337	23,096	(3.3)
Deposits .....	11,057	10,016	10.4	34,652	36,089	(4.0)
Common equity .....	3,273	3,014	8.6	1,591	1,648	(3.5)
=====						
Return on average assets .....	1.82%	1.67%		1.87%	1.52%	
Return on average common equity ("ROCE") .....	21.8	21.1		26.2	21.2	
Net tangible ROCE** .....	27.0	24.9		49.0	42.6	
Efficiency ratio .....	31.8	34.1		57.9	62.6	
Efficiency ratio on a cash basis** .....	30.5	32.9		55.8	60.7	
=====						

	Commercial & Business Banking and Private Financial Services			Retail Banking		
For the Six Months Ended June 30 (Dollars in Millions)	1998	1997	Percent Change	1998	1997	Percent Change
=====						
CONDENSED INCOME STATEMENT:						
Net interest income						
(taxable-equivalent basis) .....	\$ 696.0	\$ 676.6	2.9%	\$ 710.8	\$ 716.9	(.9)%
Provision for credit losses .....	19.8	31.5	(37.1)	74.3	78.0	(4.7)
Noninterest income .....	180.9	157.4	14.9	246.0	245.4	.2
Noninterest expense .....	272.9	290.6	(6.1)	551.3	605.5	(9.0)
Income taxes and taxable-equivalent adjustment .....	223.1	198.6		126.6	108.6	
Income before nonrecurring items .....	\$ 361.1	\$ 313.3	15.3	\$ 204.6	\$ 170.2	20.2
=====						
Net nonrecurring items (after-tax) .....						
Net income .....						
=====						
AVERAGE BALANCE SHEET DATA:						
Commercial loans .....	\$31,019	\$29,066	6.7	\$2,139	\$1,970	8.6
Consumer loans, excluding residential mortgage .....	311	288	8.0	11,048	10,892	1.4
Residential mortgage loans .....	290	277	4.7	4,059	4,941	(17.9)
Assets .....	39,024	37,841	3.1	22,403	23,193	(3.4)
Deposits .....	10,888	9,850	10.5	34,804	36,074	(3.5)
Common equity .....	3,322	3,003	10.6	1,583	1,671	(5.3)
=====						
Return on average assets .....	1.87%	1.67%		1.84%	1.48%	
Return on average common equity ("ROCE") .....	21.9	21.0		26.1	20.5	
Net tangible ROCE** .....	26.7	24.9		48.2	40.9	
Efficiency ratio .....	31.1	34.8		57.6	62.9	
Efficiency ratio on a cash basis** .....	29.8	33.5		55.5	60.9	
=====						

\*NOT MEANINGFUL

\*\*CALCULATED BY EXCLUDING GOODWILL AND OTHER INTANGIBLES AND THE RELATED AMORTIZATION.

NOTE: PREFERRED DIVIDENDS AND NONRECURRING ITEMS ARE NOT ALLOCATED TO THE BUSINESS LINES. ALL RATIOS ARE CALCULATED WITHOUT THE EFFECT OF NONRECURRING ITEMS.

Payment Systems			Corporate Trust and Institutional Financial Services			Investment Banking and Brokerage			Consolidated Company		
1998	1997	Percent Change	1998	1997	Percent Change	1998	1997	Percent Change	1998	1997	Percent Change
\$ 45.5	\$ 54.7	(16.8)%	\$ 19.1	\$ 14.2	34.5%	\$ 4.9	\$ 1.1	*	\$ 777.9	\$ 779.6	(.2)%
47.8	37.9	26.1	--	--	--	--	--	--	93.0	101.1	(8.0)
154.5	113.1	36.6	74.6	62.2	19.9	118.4	22.6	*	561.1	405.6	38.3
82.4	74.6	10.5	48.4	39.1	23.8	115.4	23.2	*	665.1	589.5	12.8
26.8	21.5		17.2	14.5		3.0	.2	*	222.7	191.9	
\$ 43.0	\$ 33.8	27.2	\$ 28.1	\$ 22.8	23.2	\$ 4.9	\$ .3	*	358.2	302.7	18.3
									(37.6)	1.2	*
									\$ 320.6	\$ 303.9	5.5
\$1,467	\$ 995	47.4	\$ --	\$ --	--	\$ --	\$ --	--	\$34,976	\$32,724	6.9
4,751	4,415	7.6	--	--	--	--	--	--	16,271	15,630	4.1
--	--	--	--	--	--	--	--	--	4,153	5,161	(19.5)
7,553	6,398	18.1	592	573	3.3	1,604	649	*	71,446	68,877	3.7
94	43	*	1,623	1,540	5.4	--	--	--	47,426	47,688	(.5)
654	551	18.7	381	355	7.3	287	48	*	6,186	5,616	10.1
2.28%	2.12%		*	*		*	*		2.01%	1.76%	
26.4	24.6		29.6%	25.8%		6.8%	2.5%		23.2	21.4	
48.5	39.6		51.7	47.1		65.1	4.0		35.6	30.8	
41.2	44.5		51.7	51.2		93.6	97.9		49.7	49.7	
36.6	42.4		42.3	41.2		91.6	97.5		47.0	47.6	
Payment Systems			Corporate Trust and Institutional Financial Services			Investment Banking and Brokerage			Consolidated Company		
1998	1997	Percent Change	1998	1997	Percent Change	1998	1997	Percent Change	1998	1997	Percent Change
\$ 99.2	\$119.6	(17.1)%	\$ 33.8	\$ 26.2	29.0%	\$ 6.1	\$ 2.2	*	\$1,545.9	\$1,541.5	.3%
88.9	75.8	17.3	--	--	--	--	--	--	183.0	185.3	(1.2)
292.9	212.1	38.1	137.5	122.0	12.7	149.7	44.5	*	1,007.0	781.4	28.9
166.0	143.7	15.5	90.0	79.8	12.8	144.0	45.4	*	1,224.2	1,165.0	5.1
52.4	43.5		30.9	26.5		4.5	.5		437.5	377.7	
\$ 84.8	\$ 68.7	23.4	\$ 50.4	\$ 41.9	20.3	\$ 7.3	\$ .8	*	708.2	594.9	19.0
									(59.1)	2.3	*
									\$ 649.1	\$ 597.2	8.7
\$1,366	\$1,191	14.7	\$ --	\$ --	--	\$ --	\$ --	--	\$ 34,524	\$32,227	7.1
4,798	4,350	10.3	--	--	--	--	--	--	16,157	15,530	4.0
--	--	--	--	--	--	--	--	--	4,349	5,218	(16.7)
7,533	6,132	22.8	594	563	5.5	1,084	657	*	70,638	68,386	3.3
80	46	73.9	1,584	1,455	8.9	--	--	--	47,356	47,425	(.1)
657	539	21.9	375	355	5.6	175	48	*	6,112	5,616	8.8
2.27%	2.26%		*	*		*	*		2.02%	1.75%	
26.0	25.7		27.1%	23.8%		8.4%	3.4%		23.4	21.1	
47.3	42.1		47.9	44.2		38.7	5.0		34.6	30.6	
42.3	43.3		52.5	53.8		92.4	97.2		48.0	50.2	
37.5	41.2		43.0	43.3		91.1	96.8		45.2	47.9	

profitability reporting system. Designations, assignments, and allocations may change from time to time as management accounting systems are enhanced or product lines change. During 1998 certain organization and methodology changes were made and 1997 results are presented on a consistent basis.

**COMMERCIAL & BUSINESS BANKING AND PRIVATE FINANCIAL SERVICES** -- Commercial & Business Banking and Private Financial Services includes lending, treasury management, and other financial services to middle-market, large corporate and mortgage banking companies and private banking and personal trust clients. Operating earnings increased 12 percent in the second quarter and 15 percent in the first six months of 1998 compared with the same periods of the prior year. Second quarter return on average assets increased to 1.82 percent from 1.67 percent in the same quarter a year ago. Net tangible return on average common equity increased to 27.0 percent compared with 24.9 percent in the second quarter of the prior year. Year-to-date profitability ratios showed similar trends.

Net interest income increased 1 percent in the second quarter and 3 percent in the first six months of 1998, reflecting growth in average loan and deposit balances. Noninterest income increased 12 percent and 15 percent in the second quarter and first six months of 1998, compared with the same periods of the prior year, reflecting increases in trust fees. The efficiency ratio on a cash basis improved to 30.5 percent in the second quarter and 29.8 percent in the first six months of 1998, compared with 32.9 percent and 33.5 percent in the same periods of 1997.

**RETAIL BANKING** -- Retail Banking delivers products and services to the broad consumer market and small-business through branch offices, telemarketing, direct mail, and automated teller machines ("ATM's"). Operating earnings increased 19 percent in the second quarter and 20 percent in the first six months of 1998. Second quarter and year-to-date return on assets increased to 1.87 percent and 1.84 percent respectively, from 1.52 percent and 1.48 percent, in the same periods of the prior year. Second quarter and year-to-date net tangible return on average common equity was 49.0 percent and 48.2 percent, compared with 42.6 percent and 40.9 percent in the same periods of 1997.

Net interest income for the second quarter and first half of 1998 declined 1 percent from the same periods of the prior year, due primarily to the planned runoff of the residential mortgage loan portfolio offset by growth in home equity loans. The decrease in noninterest expense for both the second quarter and first six months of 1998, reflected the benefits of continued streamlining of branch operations, as well as the integration of recent business combinations. The efficiency ratio on a cash basis improved to 55.8 percent in the second quarter and 55.5 percent in the first six months of 1998, compared with 60.7 percent and 60.9 percent in the same periods of 1997.

**PAYMENT SYSTEMS** -- Payment Systems includes consumer and business credit cards, corporate and purchasing card services, card-accessed secured and unsecured lines of credit, ATM processing, and merchant processing. Operating earnings increased 27 percent in the second quarter and 23 percent in the first six months of 1998 compared with the same periods of 1997. Second quarter and year-to-date return on average assets was 2.28 percent and 2.27 percent, compared with 2.12 percent and 2.26 percent in the same periods of 1997. Net tangible return on average common equity was 48.5 percent and 47.3 percent in the second quarter and first half of 1998, compared with 39.6 percent and 42.1 percent in the second quarter and first half of 1997.

Fee-based noninterest income increased 37 percent in the second quarter and 38 percent in the first six months of 1998 compared with the same periods of 1997. The increases were due to growth in the sales volume of the Corporate Card, the Purchasing Card, and the Northwest Airlines WorldPerks(R) credit card, and an increase in commercial and consumer card interchange rates as well as the buyout of the third party interest in a merchant processing alliance. Net interest income decreased 17 percent in the second quarter and first half of 1998 from the same periods of the prior year due to the growth in Corporate Card and Purchasing Card non-earning asset balances. Noninterest expense increased due to increased technology spending and costs related to increased sales volume. The efficiency ratio on a cash basis improved to 36.6 percent in the second quarter and 37.5 percent in the first six months of 1998 from 42.4 percent and 41.2 percent in the same periods of 1997.

**CORPORATE TRUST AND INSTITUTIONAL FINANCIAL SERVICES** -- Corporate Trust and Institutional Financial Services includes institutional and corporate trust services, investment management services, and the former Piper Capital Management acquired in May of 1998. Operating earnings increased 23 percent and 20 percent in the second quarter and first six months of 1998 compared with the same periods of the prior year. Net tangible return on average common equity was 51.7 percent in the second quarter and 47.9 percent in the first half of 1998.

TABLE 3 NET INTEREST INCOME

(Dollars in Millions)	Three Months Ended		Six Months Ended	
	June 30 1998	June 30 1997	June 30 1998	June 30 1997
Net interest income (taxable-equivalent basis) .....	\$ 777.9	\$ 779.6	\$1,545.9	\$1,541.5
Average balances of earning assets supported by:				
Interest-bearing liabilities .....	\$49,424	\$48,291	\$ 49,066	\$ 48,046
Noninterest-bearing liabilities .....	14,070	13,568	13,969	13,325
Total earning assets .....	\$63,494	\$61,859	\$ 63,035	\$ 61,371
Average yields and weighted average rates (taxable-equivalent basis):				
Earning assets yield .....	8.61%	8.71%	8.64%	8.68%
Rate paid on interest-bearing liabilities .....	4.74	4.68	4.75	4.62
Gross interest margin .....	3.87%	4.03%	3.89%	4.06%
Net interest margin .....	4.91%	5.05%	4.95%	5.07%
Net interest margin without taxable-equivalent increments .....	4.83%	4.96%	4.86%	4.97%

compared with 47.1 percent in the second quarter and 44.2 percent in the first six months of the prior year.

Noninterest income increased 20 percent and 13 percent from the second quarter and first six months of 1997 due primarily to increases in mutual fund advisory fees and corporate trust fees.

INVESTMENT BANKING AND BROKERAGE -- Investment Banking and Brokerage includes the U.S. Bancorp Piper Jaffray broker/dealer and U.S. Bancorp's existing broker/dealer operations. The U.S. Bancorp Piper Jaffray broker/dealer is a full-service brokerage company that was acquired as part of the acquisition of Piper Jaffray Companies, Inc. on May 1, 1998. Table 2 reflects the results of the U.S. Bancorp Piper Jaffray broker/dealer since the acquisition date, including the amortization of intangible assets and employee retention programs, and U.S. Bancorp's existing broker/dealer operations for all periods.

#### INCOME STATEMENT ANALYSIS

NET INTEREST INCOME -- Second quarter net interest income on a taxable-equivalent basis was \$777.9 million compared with \$779.6 million in the second quarter of 1997. Year-to-date net interest income on taxable-equivalent basis was \$1.55 billion compared with \$1.54 billion in the first six months of 1997. The second quarter and year-to-date average earning assets increased \$1.6 billion (3 percent) and \$1.7 billion (3 percent) from the same periods of 1997, driven by core commercial and consumer loan growth, partially offset by reductions in investment securities and residential mortgages. Average loans for both the second quarter and first six months of 1998 were up 4 percent from the same periods of the previous year. Excluding residential mortgage loans, average loans for the second quarter and first six months of 1998 were both higher by \$2.9 billion (6 percent) than the second quarter and first half of 1997, reflecting growth in commercial, home equity and second mortgages and credit card loans. Other consumer loans were lower on average in 1998 than the same periods of 1997, primarily due to reductions in installment loans in the northwest region. Average securities for the second quarter and first six months of 1998 decreased, reflecting both maturities and sales of securities. The net interest margin in the second quarter of 1998 of 4.91 percent was below the second quarter 1997 margin of 5.05 percent and the first quarter 1998 margin of 4.98 percent. The net interest margin for the first six months of 1998 of 4.95 percent was below the first half of 1997 margin of 5.07 percent. The decreases were primarily due to growth in Payment Systems' noninterest-bearing assets, including corporate and purchasing card loan balances, the additional funding required by the Piper Jaffray acquisition and continued margin compression in the commercial loan portfolio.

PROVISION FOR CREDIT LOSSES -- The provision for credit losses was \$93.0 million in the second quarter of 1998, down \$8.1 million (8 percent) from the second quarter of 1997. The provision for the first half of 1998 decreased \$2.3 million (1 percent) from the first half of 1997 to \$183.0 million. Second quarter and year-to-date net charge-offs totaled \$106.7 million and \$209.9 million, up from \$98.0 million and \$181.9 million in the same periods of 1997. A portion of these increases reflect higher bankruptcies and fraud-related charge-offs and higher charge-offs in the northwest region's portfolio of installment loans originated in 1995 and 1996. Refer to "Corporate Risk Management" for further information on credit quality.



TABLE 4 NONINTEREST INCOME

(Dollars in Millions)	Three Months Ended		Six Months Ended	
	June 30 1998	June 30 1997	June 30 1998	June 30 1997
Credit card fee revenue .....	\$147.6	\$ 98.8	\$ 274.4	\$189.5
Trust and investment management fees .....	108.0	87.2	202.9	171.8
Service charges on deposit accounts .....	99.4	97.4	197.3	192.8
Investment products fees and commissions .....	57.5	16.7	75.7	32.5
Trading account profits and commissions .....	28.0	6.8	35.1	17.3
Investment banking revenue .....	29.0	--	29.0	--
Securities gains .....	--	1.9	12.6	3.6
Other .....	91.6	98.7	192.6	177.5
Total noninterest income .....	\$561.1	\$407.5	\$1,019.6	\$785.0

NONINTEREST INCOME -- Second quarter 1998 noninterest income was \$561.1 million, an increase of \$153.6 million (38 percent), from the second quarter of 1997. Noninterest income in the first six months of 1998 was \$1.02 billion, compared with \$785 million in the first six months of 1997. Noninterest income in the first six months of 1998 included nonrecurring net securities gains of \$12.6 million, compared with net securities gains of \$1.9 million and \$3.6 million in the second quarter and first half of the prior year.

Excluding securities gains, second quarter 1998 noninterest income was \$561.1 million, an increase of \$155.5 million (38 percent) from the same quarter of 1997. Year-to-date 1998 noninterest income was \$1.01 billion, an increase of \$225.6 million (29 percent) from year-to-date 1997. Excluding securities gains and the effect of the Piper Jaffray acquisition, noninterest income increases were \$56.3 million and \$126.4 million for the second quarter and year-to-date, respectively. The increases resulted principally from growth in credit card and trust and investment management fee revenue. Second quarter and year-to-date 1998 credit card fee revenue increased \$48.8 million (49 percent) and \$84.9 million (45 percent) over the same periods of 1997 as a result of higher volumes for purchasing and corporate cards and the Northwest Airlines WorldPerks credit card. Credit card fees were also enhanced by the renewal of the Northwest Airlines WorldPerks program and the buyout of the third party interest in a merchant processing alliance in the first quarter of 1998. Without these items, credit card fees would have increased by \$35.1 million (36 percent) and \$62.9 million (33 percent) in the second quarter and first half of 1998. Trust and investment management fees were up due to growth in the corporate, institutional, and personal trust businesses and the addition of Piper Jaffray. Investment products fees and commissions, trading account profits and commissions and investment banking revenue increased, reflecting the acquisition of Piper Jaffray.

NONINTEREST EXPENSE -- Second quarter 1998 noninterest expense was \$724.6 million, an increase of \$135.1 million (23 percent), from \$589.5 million in the second quarter of 1997. Year-to-date noninterest expense was \$1.33 billion, an increase of \$165.2 million (14 percent), from \$1.17 billion in the first half of 1997. Noninterest expense in the second quarter and first half of 1998 included nonrecurring merger-related charges of \$59.5 million and \$106.0 million incurred in connection with the USBC and Piper Jaffray transactions.

Second quarter 1998 noninterest expense, before nonrecurring items, was \$665.1 million, an increase of \$75.6 million (13 percent), from \$589.5 million in the second quarter of 1997. Year-to-date 1998 noninterest expense, before nonrecurring items, increased \$59.2 million (5 percent) to \$1.22 billion from \$1.17 billion in the first half of 1997. Without the effect of Piper Jaffray, noninterest expense, before nonrecurring items, decreased by \$24.9 million and \$41.3 million in the second quarter and first half of 1998, compared with the same periods of 1997. Total salaries and benefits expense increased in the second quarter and first half of 1998 as a result of the Piper Jaffray acquisition. Average full-time equivalent employees were 26,858 in the second quarter of 1998 compared with 26,606 in the second quarter of 1997. Second quarter and year-to-date 1998 goodwill and other intangible expense was higher than the same periods of 1997, as a result of the Piper Jaffray acquisition plus several small bank and portfolio purchases during 1997 and the buyout of a merchant processing alliance. Excluding nonrecurring items, the Company's efficiency ratio was 49.7 percent for the quarter and 48.0 percent year-to-date, compared with 49.7 percent and 50.2 percent for the same periods a year ago.

The Company has undertaken efforts to address the "Year 2000" computer problem, which arose because many computer applications worldwide will not properly recognize the date change from December 31, 1999, to January 1, 2000, potentially causing production of

TABLE 5 NONINTEREST EXPENSE

	Three Months Ended		Six Months Ended	
	June 30 1998	June 30 1997	June 30 1998	June 30 1997
(Dollars in Millions, Except Per Employee Data)				
Salaries .....	\$ 303.3	\$ 246.9	\$ 542.9	\$ 487.5
Employee benefits .....	58.8	57.2	112.9	118.3
Total personnel expense .....	362.1	304.1	655.8	605.8
Net occupancy .....	47.9	45.2	91.4	91.0
Furniture and equipment .....	39.6	44.2	75.0	87.0
Goodwill and other intangible assets .....	36.0	25.8	69.4	53.2
Advertising and marketing .....	17.8	16.6	33.5	28.9
Telephone .....	17.0	15.7	32.5	29.3
Third party data processing .....	17.9	9.9	31.9	19.0
Other personnel costs .....	16.8	16.4	29.9	32.8
Professional services .....	15.3	15.1	26.6	28.6
Postage .....	11.7	11.1	22.5	22.7
Printing, stationery and supplies .....	10.8	9.7	19.9	19.9
FDIC insurance .....	2.1	2.4	4.1	4.5
Merger-related .....	59.5	--	106.0	--
Other .....	70.1	73.3	131.7	142.3
Total noninterest expense .....	\$ 724.6	\$ 589.5	\$1,330.2	\$1,165.0
Efficiency ratio* .....	54.1%	49.7%	52.1%	50.2%
Efficiency ratio before nonrecurring items .....	49.7	49.7	48.0	50.2
Banking efficiency ratio before nonrecurring items** .....	45.2	48.8	45.1	49.2
Average number of full-time equivalent employees .....	26,858	26,206	25,837	26,518
Annualized personnel expense per employee .....	\$53,928	\$46,417	\$ 50,764	\$ 45,690

\*COMPUTED AS NONINTEREST EXPENSE DIVIDED BY THE SUM OF NET INTEREST INCOME ON A TAXABLE-EQUIVALENT BASIS AND NONINTEREST INCOME NET OF SECURITIES GAINS AND LOSSES.

\*\*WITHOUT INVESTMENT BANKING AND BROKERAGE ACTIVITY.

erroneous data, miscalculations, system failures and other operational problems. In the early 1990s, the Company implemented significant technology changes and replaced many of its principal data processing applications with licensed software packages. The Company also undertook an organization-wide initiative to address the Year 2000 issue, including the formation in 1996 of a dedicated project team of employees to evaluate the Year 2000 impact on the Company's critical computer hardware and software, on embedded technologies in its physical plant and automated equipment (such as ATMs, check sorting machines, vaults and security systems), and on its customers. In addition to evaluating the scope of the Year 2000 issue, the project team has prioritized tasks, developed implementation plans and established completion and testing schedules. As a result, the Company is replacing, modifying or reprogramming certain systems, is requiring that new purchased hardware and software be Year 2000 compliant, and is testing systems in an isolated environment dedicated to Year 2000 testing. The Year 2000 project includes contingency plans to mitigate potential delays or other problems, such as back-up solutions for all mission-critical applications and business continuation plans for significant vendors and other business partners. Apart from the Company's project, federal banking regulators are conducting special examinations of FDIC-insured banks and savings associations to determine whether they are taking necessary steps to prepare for the Year 2000 issue, and are closely monitoring the progress made by these institutions in completing key steps required by their individual Year 2000 plans.

The Company expects that replacement, renovation and testing of its critical internal computer hardware and software and embedded technologies will be substantially completed by December 31, 1998, allowing time for necessary refinements and additional testing before December 31, 1999. The Company estimates that the cost of its Year 2000 project will aggregate less than \$50 million over the three-year period ending December 31, 1999. The Company has not deferred any material information technology projects as a consequence of its Year 2000 efforts.

Ultimately, the potential impact of the Year 2000 issue will depend not only on the success of the corrective measures the Company undertakes, but also on the way in which the Year 2000 issue is addressed by customers, vendors, service providers, counterparties, utilities, governmental agencies and other entities with which the Company does business. The Company is communicating with these parties to heighten their awareness of the Year

2000 issue, to learn how they are addressing it and to evaluate any likely impact on the Company. For example, the Company is conducting a Year 2000 survey of its corporate and middle-market borrowing customers and of other significant funds takers, funds providers and capital market/asset management counterparties, and has implemented in its lending units uniform criteria for identifying, managing and underwriting Year 2000 credit risk. The Company also is contacting important vendors to receive commitment dates for their Year 2000 readiness and delivery of compliant software and other products. In addition, the Company is monitoring the Year 2000 preparations of entities such as the Federal Reserve, which provides services for processing and settling payments and securities transactions between banks. The Year 2000 efforts of third parties are not within the Company's control, however, and their failure to remediate Year 2000 issues successfully could result in business disruption, increased operating cost and increased credit risk for the Company. At the present time, it is not possible to determine whether any such events are likely to occur, or to quantify any potential negative impact they may have on the Company's future results of operations and financial condition.

The foregoing discussion regarding Year 2000, including the discussion of the timing and effectiveness of implementation and cost of the Company's Year 2000 project, contains forward-looking statements, which are based on management's best estimates derived using various assumptions. These forward-looking statements involve inherent risks and uncertainties, and actual results could differ materially from those contemplated by such statements. Factors that might cause material differences include, but are not limited to, the availability of key Year 2000 personnel, the Company's ability to locate and correct all relevant computer codes, and its ability to respond to unforeseen Year 2000 complications. Such material differences could result in, among other things, business disruption, operational problems, financial loss, legal liability and similar risks.

PROVISION FOR INCOME TAXES -- The provision for income taxes was \$187.9 million in the second quarter and \$377.2 million in the first six months of 1998, compared with \$177.8 million and \$349.3 million in the same periods of 1997. The increases were primarily the result of higher levels of taxable income, as discussed above.

#### BALANCE SHEET ANALYSIS

LOANS -- The Company's loan portfolio was \$55.8 billion at June 30, 1998, compared with \$54.7 billion at December 31, 1997. The portfolio of commercial loans totaled \$35.2 billion at June 30, 1998, up \$1.47 billion from December 31, 1997. The increase was primarily attributable to growth in core commercial loans. Total consumer loan outstandings were \$20.5 billion at June 30, 1998, compared with \$20.9 billion at December 31, 1997. Excluding residential mortgage loan balances, consumer loans were \$16.4 billion at June 30, 1998, compared with \$16.3 billion at December 31, 1997. See Note E to the Consolidated Financial Statements for the composition of the Company's loan portfolio at June 30, 1998 and December 31, 1997.

SECURITIES -- At June 30, 1998, available-for-sale securities were \$5.9 billion compared with \$6.9 billion at December 31, 1997, reflecting both maturities and sales of securities.

DEPOSITS -- Noninterest-bearing deposits increased to \$15.7 billion at June 30, 1998, compared with \$14.5 billion at December 31, 1997, reflecting deposits received for third quarter 1998 corporate bond payments. Interest-bearing deposits totaled \$33.6 billion at June 30, 1998, compared with \$34.5 billion at December 31, 1997. The decrease reflects customers moving funds out of certificates of deposit into alternative investment vehicles.

BORROWINGS -- Short-term borrowings, which include federal funds purchased, securities sold under agreements to repurchase and other short-term borrowings, were \$3.5 billion at June 30, 1998, up from \$3.3 billion at December 31, 1997. The increase was due to increases in treasury tax and loan notes and commercial paper, partially offset by a decrease in federal funds purchased.

Long-term debt was \$11.4 billion at June 30, 1998, up from \$10.2 billion at December 31, 1997. The Company issued \$936 million of debt, with an average

TABLE 6 NET CHARGE-OFFS AS A PERCENTAGE OF AVERAGE LOANS OUTSTANDING

	Three Months Ended		Six Months Ended	
	June 30 1998	June 30 1997	June 30 1998	June 30 1997
=====				
COMMERCIAL:				
Commercial .....	.30%	.51%	.28%	.41%
Real estate:				
Commercial mortgage .....	(.10)	(.20)	(.10)	(.32)
Construction .....	.06	.16	.18	.18
	-----			
Total commercial .....	.19	.31	.18	.22
CONSUMER:				
Residential mortgage .....	.15	.05	.19	.07
Credit card .....	4.84	4.03	4.52	4.19
Other .....	1.33	1.21	1.43	1.22
	-----			
Total consumer .....	1.77	1.40	1.76	1.43
	-----			
Total .....	.77%	.73%	.77%	.69%
=====				

original maturity of 2.8 years, under its medium-term and bank note programs during the first six months of 1998, and \$1.2 billion in Federal Home Loan Bank Advances, with an average original maturity of 4.0 years. The Company also issued \$300 million of 6.50 percent fixed rate subordinated notes due February 1, 2008, during the first six months of 1998. These issuances were partially offset by \$1.2 billion of medium-term and bank note maturities and maturities of \$172 million of Federal Home Loan Bank Advances.

## CORPORATE RISK MANAGEMENT

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

In evaluating its credit risk, the Company considers loan portfolio composition, the level of allowance coverage, and macroeconomic factors. Most economic indicators in the Company's operating regions compare favorably with national trends. Approximately 45 percent of the Company's loan portfolio consists of credit to businesses and consumers in Minnesota, Oregon and Washington.

TABLE 7 DELINQUENT LOAN RATIOS\*

	JUNE 30 1998	DECEMBER 31 1997
90 DAYS OR MORE PAST DUE		
=====		
COMMERCIAL:		
Commercial .....	.59%	.78%
Real estate:		
Commercial mortgage .....	.60	.57
Construction .....	.88	.67
	-----	
Total commercial .....	.61	.72
CONSUMER:		
Residential mortgage .....	1.52	1.43
Credit card .....	.70	.69
Other .....	.43	.42
	-----	
Total consumer .....	.70	.70
	-----	
Total .....	.65%	.71%
=====		

\*RATIOS INCLUDE NONPERFORMING LOANS AND ARE EXPRESSED AS A PERCENT OF ENDING LOAN BALANCES.

TABLE 8 SUMMARY OF ALLOWANCE FOR CREDIT LOSSES

(Dollars in Millions)	Three Months Ended		Six Months Ended	
	June 30 1998	June 30 1997	June 30 1998	June 30 1997
Balance at beginning of period .....	\$ 995.5	\$ 993.4	\$ 1,008.7	\$ 992.5
CHARGE-OFFS:				
Commercial:				
Commercial .....	32.6	37.9	59.9	62.9
Real estate:				
Commercial mortgage .....	.2	3.4	4.5	4.8
Construction .....	.9	1.4	2.9	2.7
Total commercial .....	33.7	42.7	67.3	70.4
Consumer:				
Residential mortgage .....	2.1	.8	4.9	2.5
Credit card .....	52.2	42.0	99.1	84.5
Other .....	51.0	45.5	108.9	89.9
Total consumer .....	105.3	88.3	212.9	176.9
Total .....	139.0	131.0	280.2	247.3
RECOVERIES:				
Commercial:				
Commercial .....	14.2	9.6	27.3	17.9
Real estate:				
Commercial mortgage .....	2.3	7.4	8.5	17.4
Construction .....	.5	.5	.7	.7
Total commercial .....	17.0	17.5	36.5	36.0
Consumer:				
Residential mortgage .....	.5	.2	.8	.7
Credit card .....	4.6	6.4	10.3	11.1
Other .....	10.2	8.9	22.7	17.6
Total consumer .....	15.3	15.5	33.8	29.4
Total .....	32.3	33.0	70.3	65.4
NET CHARGE-OFFS:				
Commercial:				
Commercial .....	18.4	28.3	32.6	45.0
Real estate:				
Commercial mortgage .....	(2.1)	(4.0)	(4.0)	(12.6)
Construction .....	.4	.9	2.2	2.0
Total commercial .....	16.7	25.2	30.8	34.4
Consumer:				
Residential mortgage .....	1.6	.6	4.1	1.8
Credit card .....	47.6	35.6	88.8	73.4
Other .....	40.8	36.6	86.2	72.3
Total consumer .....	90.0	72.8	179.1	147.5
Total .....	106.7	98.0	209.9	181.9
Provision charged to operating expense .....	93.0	101.1	183.0	185.3
Additions related to acquisitions and other .....	--	2.9	--	3.5
Balance at end of period .....	\$ 981.8	\$ 999.4	\$ 981.8	\$ 999.4
Allowance as a percentage of:				
Period-end loans .....	1.76%	1.85%		
Nonperforming loans .....	359	310		
Nonperforming assets .....	327	283		

TABLE 9 NONPERFORMING ASSETS\*

(Dollars in Millions)	June 30 1998	December 31 1997
COMMERCIAL:		
Commercial .....	\$ 140.2	\$ 179.1
Real estate:		
Commercial mortgage .....	48.0	45.4
Construction .....	20.9	14.9
Total commercial .....	209.1	239.4
CONSUMER:		
Residential mortgage .....	54.3	52.1
Other .....	10.1	5.6
Total consumer .....	64.4	57.7
Total nonperforming loans .....	273.5	297.1
OTHER REAL ESTATE .....	17.3	30.1
OTHER NONPERFORMING ASSETS .....	9.6	12.3
Total nonperforming assets .....	\$ 300.4	\$ 339.5
Accruing loans 90 days or more past due** .....	\$ 86.6	\$ 93.8
Nonperforming loans to total loans .....	.49%	.54%
Nonperforming assets to total loans plus other real estate .....	.54	.62

\*THROUGHOUT THIS DOCUMENT, NONPERFORMING ASSETS AND RELATED RATIOS DO NOT INCLUDE LOANS MORE THAN 90 DAYS PAST DUE AND STILL ACCRUING.

\*\*THESE LOANS ARE NOT INCLUDED IN NONPERFORMING ASSETS AND CONTINUE TO ACCRUE INTEREST BECAUSE THEY ARE SECURED BY COLLATERAL AND/OR ARE IN THE PROCESS OF COLLECTION AND ARE REASONABLY EXPECTED TO RESULT IN REPAYMENT OR RESTORATION TO CURRENT STATUS.

NET CHARGE-OFFS AND ALLOWANCE FOR CREDIT LOSSES -- Net loan charge-offs totaled \$106.7 million and \$209.9 million in the second quarter and first six months of 1998, compared with \$98.0 million and \$181.9 million in the same periods of 1997. Commercial loan net charge-offs were \$16.7 million and \$30.8 million in the second quarter and first half of 1998, compared with \$25.2 million and \$34.4 million in the same periods of 1997. Consumer loan net charge-offs for the quarter and year-to-date were \$90.0 million and \$179.1 million, compared with \$72.8 million and \$147.5 million for the same periods of 1997, reflecting higher average credit card balances and higher bankruptcies and fraud-related charge-offs. Consumer loans 30 days or more past due declined to 2.31 percent of the portfolio at June 30, 1998, compared with 2.76 percent at December 31, 1997. The ratio of total net charge-offs to average loans was .77 percent in the second quarter and first half of 1998 compared with .73 percent and .69 percent in the same periods of 1997.

NONPERFORMING ASSETS -- Nonperforming assets include all nonaccrual loans, restructured loans, other real estate and other nonperforming assets owned by the Company. At June 30, 1998, nonperforming assets totaled \$300.4 million, down \$39.1 million (12 percent) from December 31, 1997. The ratio of nonperforming assets to loans and other real estate was .54 percent at June 30, 1998, compared with .62 percent at December 31, 1997. The percentage of consumer loans 90 days or more past due of the total consumer loan portfolio totaled .70 percent at June 30, 1998, unchanged from December 31, 1997.

INTEREST RATE RISK MANAGEMENT -- The Company's policy is to maintain a low interest rate risk position. The Company limits the exposure of net interest income associated with interest rate movements through asset/liability management strategies. The Company's Asset and Liability Management Committee ("ALCO") uses three methods for measuring and managing consolidated interest rate risk: Net Interest Income Simulation Modeling, Market Value Simulation Modeling, and Repricing Mismatch Analysis. As part of Market Value Simulation Modeling, ALCO uses a value-at-risk ("VaR") model to measure and manage market risk in its broker/dealer activities.

NET INTEREST INCOME SIMULATION MODELING: The Company uses a net interest income simulation model to estimate near-term (next 12 months) risk due to changes in interest rates. The model, which is updated monthly, incorporates substantially all the Company's assets and liabilities and off-balance sheet instruments, together with forecasted changes in the balance sheet and assumptions that reflect the current interest rate environment. Balance sheet changes are based on expected prepayments of loans and securities and forecasted loan and deposit growth. ALCO uses the model to simulate the effect of immediate and sustained parallel shifts in the yield curve of one percent, two percent and three percent as well as the effect of

TABLE 10 INTEREST RATE SWAP HEDGES: NOTIONAL BALANCES AND YIELDS BY MATURITY DATE

At June 30, 1998 (Dollars in Millions)

Receive Fixed Swaps* Maturity Date	Notional Amount	Weighted Average Interest Rate Received	Weighted Average Interest Rate Paid
1998 (remaining six months) .....	\$ 923	6.00%	5.66%
1999 .....	2,242	6.09	5.66
2000 .....	815	6.23	5.66
2001 .....	357	6.52	5.66
2002 .....	519	6.22	5.66
After 2002 .....	1,925	6.65	5.66
Total .....	\$ 6,781	6.28%	5.66%

\*AT JUNE 30, 1998, THE COMPANY HAD NO SWAPS IN ITS HEDGING PORTFOLIO THAT REQUIRED IT TO PAY FIXED-RATE INTEREST.

immediate and sustained flattening or steepening of the yield curve. ALCO also calculates the sensitivity of the simulation results to changes in key assumptions, such as the Prime/LIBOR spread or core deposit pricing. The results from the simulation are reviewed by ALCO monthly and are used to guide ALCO's hedging strategies. ALCO guidelines, approved by the Company's Board of Directors, limit the estimated change in net interest income over the succeeding 12 months to two percent of forecasted net interest income given a one percent change in interest rates. At June 30, 1998, the estimated effect of an immediate 100 basis point parallel change in rates was a decrease of less than .10 percent in forecasted net interest income for twelve months for either an assumed increase or decrease in rates.

MARKET VALUE SIMULATION MODELING: The net interest income simulation model is somewhat limited by its dependence upon accurate forecasts of future business activity and the resulting effect on balance sheet assets and liabilities. As a result, its usefulness is greatly diminished for periods beyond one or two years. To better measure all interest rate risk, both short-term and long-term, the Company uses a market value simulation model. This model estimates the effect of one, two and three percent rate shocks on the present value of all future cash flows of the Company's outstanding assets, liabilities and off-balance sheet instruments. The amount of market value risk is subject to limits, approved by the Company's Board of Directors, of one percent of assets for an immediate 100 basis point rate shock. Historically, the Company's market value risk position has been substantially lower than its limits.

The VaR model used to measure and manage market risk in the broker/dealer business uses an estimate of volatility appropriate to each instrument and a three standard deviation move in the underlying markets. The Company believes the market risk inherent in its broker/dealer activities, including fixed income, equities and foreign exchange, is immaterial.

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

USE OF DERIVATIVES TO MANAGE INTEREST RATE RISK: While each of the interest rate risk measurements has limitations, taken together they represent a comprehensive view of the magnitude of the Company's interest rate risk over various time intervals. The Company manages its interest rate risk by entering into off-balance sheet transactions (primarily interest rate swaps), investing in fixed rate assets or issuing variable rate liabilities. To a lesser degree, the Company also uses interest rate caps and floors to hedge this risk.

In the second quarter and first six months of 1998, the Company added \$895 million and \$1.8 billion of interest rate swaps to reduce its interest rate risk. Interest rate swap agreements involve the exchange of fixed and floating rate payments without the exchange of the underlying notional amount on which the interest payments are calculated. As of June 30, 1998, the Company received payments on \$6.8 billion notional amount of interest rate swap agreements based on fixed interest rates, and made payments based on variable interest rates. These swaps had a weighted average fixed rate received of 6.28 percent and a weighted average variable rate paid of 5.66 percent. The remaining maturity

TABLE 11 CAPITAL RATIOS

(Dollars in Millions)	June 30 1998	December 31 1997
Tangible common equity* .....	\$ 4,671	\$ 4,897
As a percent of assets .....	6.5%	7.0%
Tier 1 capital .....	\$ 5,120	\$ 5,028
As a percent of risk-adjusted assets .....	7.2%	7.4%
Total risk-based capital .....	\$ 8,143	\$ 7,859
As a percent of risk-adjusted assets .....	11.5%	11.6%
Leverage ratio .....	7.4	7.3

\*DEFINED AS COMMON EQUITY LESS GOODWILL.

of these agreements ranges from one month to ten years with an average remaining maturity of 3.2 years. Swaps increased net interest income for the quarters ended June 30, 1998 and 1997 by \$8.5 million and \$5.4 million, and the six months ended June 30, 1998 and 1997 by \$16.1 million and \$11.8 million.

To hedge against falling interest rates, the Company uses interest rate floors. Floor counterparties pay the Company when specified rates fall below a specified point or strike level. The payment is based on the difference in current rates and strike rates and the notional amount. The total notional amount of floor agreements purchased as of June 30, 1998, was \$400 million. LIBOR-based floors totaled \$200 million and Constant Maturity Treasury floors totaled \$200 million. The impact of floors on net interest income was not material for the six months ended June 30, 1998 and 1997.

CAPITAL MANAGEMENT -- At June 30, 1998, total tangible common equity was \$4.7 billion, or 6.5 percent of assets, compared with 7.0 percent at December 31, 1997. Tier 1 and total risk-based capital ratios were 7.2 percent and 11.5 percent at June 30, 1998, compared with 7.4 percent and 11.6 percent at December 31, 1997. The June 30, 1998 leverage ratio was 7.4 percent compared with 7.3 percent at December 31, 1997.

On June 8, 1998, the Company's Board of Directors authorized the repurchase of up to \$2.5 billion of the Company's common stock over the period ending March 31, 2000. The shares will be repurchased in the open market or through negotiated transactions. Through June 30, 1998, the Company repurchased 6.6 million shares for \$275.2 million.

On August 1, 1997, the Company issued 329.7 million shares to acquire USBC. The Company exchanged 2.265 shares of its common stock for each share of USBC common stock. USBC's outstanding stock options were also converted into stock options for the Company's common stock. In addition, each outstanding share of USBC cumulative preferred stock was converted into one share of preferred stock of the combined company, having substantially identical terms. On November 14, 1997, the Company redeemed all outstanding shares of its preferred stock at a redemption price of \$25 per share, together with accrued and unpaid dividends.

#### ACCOUNTING CHANGES

ACCOUNTING FOR TRANSFERS AND SERVICING OF FINANCIAL ASSETS AND EXTINGUISHMENTS OF LIABILITIES -- Effective January 1, 1997, the Company adopted Statement of Financial Accounting Standards No. ("SFAS") 125, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities," which establishes criteria, based on legal control, to determine whether a transfer of financial assets is considered a sale or secured borrowing. Effective January 1, 1998, and in accordance with SFAS 127 which amended SFAS 125, the Company adopted the provisions of SFAS 125 relating to securities lending, repurchase agreements and other secured financing transactions. The adoption of SFAS 125 did not have a material effect on the Company.

COMPREHENSIVE INCOME -- Effective January 1, 1998, the Company adopted SFAS 130, "Reporting Comprehensive Income," which establishes standards for the reporting and display of comprehensive income and its components in a full set of financial statements. The Statement requires that all items that are required to be recognized under accounting standards as components of comprehensive income be reported in a financial statement that is displayed as prominently as other financial statements. The Statement requires the classification of items of other comprehensive income by their nature in a financial statement and the display of other comprehensive income separately from retained earnings and capital surplus in the equity section of the balance sheet. All prior periods presented have been restated to conform to the provisions of this Statement.

SEGMENT DISCLOSURE -- SFAS 131, "Disclosures about Segments of an Enterprise and Related Information," requires the disclosure of financial and descriptive



information about reportable operating segments. Operating segments are components of an enterprise about which financial information is available and is evaluated regularly in deciding how to allocate resources and assess performance. The Statement requires the disclosure of profit or loss, certain specific revenue and expense items, and assets of all operating segments, with reconciliations of amounts presented in the financial statements. The Statement also requires the disclosure of how the operating segments were determined, the products and services provided by the segments, differences between measurements used in reporting segment information and those used in the financial statements, and changes in the measurement of segment amounts from period to period. SFAS 131 is effective with the 1998 year-end financial statements, with comparative information for prior periods required.

PENSIONS AND OTHER POSTRETIREMENT BENEFIT DISCLOSURE -- SFAS 132, "Employers' Disclosures about Pensions and Other Postretirement Benefits," standardizes the disclosure requirements for pensions and other postretirement benefits to the extent practicable. The Statement supersedes the disclosure requirements of: SFAS 87, "Employers' Accounting for Pensions"; SFAS 88, "Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits"; and, SFAS 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions." The Statement addresses disclosure only and not measurement or recognition. SFAS 132 is effective for the Company's 1998 year-end financial statements. All prior period disclosures shall be restated to conform to the provisions of this Statement.

INTERNAL USE COMPUTER SOFTWARE COSTS -- Effective January 1, 1998, the Company adopted Statement of Position ("SOP") 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use." SOP 98-1 requires the capitalization of certain costs incurred in connection with developing or obtaining software for internal use. Historically, the Company has expensed such costs as incurred. Restatement of previously issued annual financial statements or adoption by a cumulative catch-up adjustment is prohibited. The adoption of SOP 98-1 did not have a material impact on the Company.

ACCOUNTING FOR DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES -- SFAS 133, "Accounting for Derivative Instruments and Hedging Activities," establishes accounting and reporting standards for derivative instruments, including certain derivative instruments imbedded in other contracts, and for hedging activities. It requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. In certain defined conditions, a derivative may be specifically designated as a hedge for a particular exposure. The accounting for changes in the fair value of the derivative depends on the intended use of the derivative and the resulting designation. SFAS 133 is effective for all quarters of fiscal years beginning after June 15, 1999, with earlier application permitted. Retroactive application of this Statement to prior periods is prohibited. The adoption of SFAS 133 is not expected to have a material impact on the Company.

CONSOLIDATED BALANCE SHEET

(Dollars in Millions)	June 30 1998	December 31 1997
(Unaudited)		
ASSETS		
Cash and due from banks .....	\$ 4,537	\$ 4,739
Federal funds sold .....	743	62
Securities purchased under agreements to resell .....	594	630
Trading account securities .....	411	195
Available-for-sale securities .....	5,923	6,885
Loans .....	55,778	54,708
Less allowance for credit losses .....	982	1,009
Net loans .....	54,796	53,699
Premises and equipment .....	901	860
Interest receivable .....	414	405
Customers' liability on acceptances .....	292	535
Goodwill and other intangible assets .....	1,967	1,482
Other assets .....	3,172	1,803
Total assets .....	\$73,750	\$71,295
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits:		
Noninterest-bearing .....	\$15,745	\$14,544
Interest-bearing .....	33,562	34,483
Total deposits .....	49,307	49,027
Federal funds purchased .....	546	800
Securities sold under agreements to repurchase .....	1,460	1,518
Other short-term funds borrowed .....	1,484	974
Long-term debt .....	11,381	10,247
Company-obligated mandatorily redeemable preferred securities of subsidiary trusts holding solely the junior subordinated debentures of the parent company .....	950	600
Acceptances outstanding .....	292	535
Other liabilities .....	2,203	1,704
Total liabilities .....	67,623	65,405
Shareholders' equity:		
Common stock, par value \$1.25 a share - authorized 1,500,000,000 shares; issued: 6/30/98 - 744,789,464 shares; 12/31/97 - 739,933,014 shares .....	931	925
Capital surplus .....	1,358	1,261
Retained earnings .....	4,034	3,645
Accumulated other comprehensive income .....	58	59
Less cost of common stock in treasury: 6/30/98 - 5,067,544 shares .....	(254)	--
Total shareholders' equity .....	6,127	5,890
Total liabilities and shareholders' equity .....	\$73,750	\$71,295

CONSOLIDATED STATEMENT OF INCOME

	Three Months Ended		Six Months Ended	
(Dollars in Millions, Except Per Share Data) (Unaudited)	June 30 1998	June 30 1997	June 30 1998	June 30 1997
<b>INTEREST INCOME</b>				
Loans .....	\$ 1,225.6	\$ 1,197.6	\$ 2,429.8	\$ 2,350.8
Securities:				
Taxable .....	78.2	95.4	164.0	192.0
Exempt from federal income taxes .....	15.6	17.4	31.7	34.7
Other interest income .....	30.2	18.4	49.2	35.5
Total interest income .....	1,349.6	1,328.8	2,674.7	2,613.0
<b>INTEREST EXPENSE</b>				
Deposits .....	352.2	363.6	707.3	715.4
Federal funds purchased and repurchase agreements .....	41.8	50.8	75.4	98.7
Other short-term funds borrowed .....	14.3	33.1	27.1	70.0
Long-term debt .....	157.8	104.2	314.2	192.5
Company-obligated mandatorily redeemable preferred securities of subsidiary trusts holding solely the junior subordinated debentures of the parent company .....	18.5	12.3	30.8	24.6
Total interest expense .....	584.6	564.0	1,154.8	1,101.2
Net interest income .....	765.0	764.8	1,519.9	1,511.8
Provision for credit losses .....	93.0	101.1	183.0	185.3
Net interest income after provision for credit losses .....	672.0	663.7	1,336.9	1,326.5
<b>NONINTEREST INCOME</b>				
Credit card fee revenue .....	147.6	98.8	274.4	189.5
Trust and investment management fees .....	108.0	87.2	202.9	171.8
Service charges on deposit accounts .....	99.4	97.4	197.3	192.8
Investment products fees and commissions .....	57.5	16.7	75.7	32.5
Trading account profits and commissions .....	28.0	6.8	35.1	17.3
Investment banking revenue .....	29.0	--	29.0	--
Securities gains .....	--	1.9	12.6	3.6
Other .....	91.6	98.7	192.6	177.5
Total noninterest income .....	561.1	407.5	1,019.6	785.0
<b>NONINTEREST EXPENSE</b>				
Salaries .....	303.3	246.9	542.9	487.5
Employee benefits .....	58.8	57.2	112.9	118.3
Net occupancy .....	47.9	45.2	91.4	91.0
Furniture and equipment .....	39.6	44.2	75.0	87.0
Goodwill and other intangible assets .....	36.0	25.8	69.4	53.2
Merger-related .....	59.5	--	106.0	--
Other .....	179.5	170.2	332.6	328.0
Total noninterest expense .....	724.6	589.5	1,330.2	1,165.0
Income before income taxes .....	508.5	481.7	1,026.3	946.5
Applicable income taxes .....	187.9	177.8	377.2	349.3
Net income .....	\$ 320.6	\$ 303.9	\$ 649.1	\$ 597.2
Net income applicable to common equity .....	\$ 320.6	\$ 300.8	\$ 649.1	\$ 591.1
Earnings per share .....	\$ .43	\$ .41	\$ .88	\$ .81
Diluted earnings per share .....	\$ .43	\$ .41	\$ .86	\$ .80

CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY

(Dollars In Millions) (Unaudited)	Common Shares Outstanding*	Preferred Stock	Common Stock	Capital Surplus	Retained Earnings	Accumulated Other Comprehensive Income	Treasury Stock**	Total
BALANCE DECEMBER 31, 1996 .....	738,017,970	\$ 150.0	\$ 948.3	\$1,296.9	\$3,809.4	\$ 4.7	\$ (445.9)	\$5,763.4
Dividends declared:								
Preferred .....					(6.1)			(6.1)
Common .....					(217.7)			(217.7)
Purchase and retirement of treasury stock .....	(12,989,532)		(9.0)	(223.4)			(142.0)	(374.4)
Issuance of common stock:								
Acquisitions .....	907,056		1.2	13.6				14.8
Dividend reinvestment .....	407,103		.3	4.4			5.5	10.2
Stock option and stock purchase plans .....	6,252,423		4.8	50.9	(28.9)		38.8	65.6
	732,595,020	150.0	945.6	1,142.4	3,556.7	4.7	(543.6)	5,255.8
Comprehensive income								
Net income .....					597.2			597.2
Other comprehensive income:								
Unrealized gains on securities of \$.4 (Net of \$.2 tax expense).....						.4		.4
Total comprehensive income .....								597.6
BALANCE JUNE 30, 1997 .....	732,595,020	\$ 150.0	\$ 945.6	\$1,142.4	\$4,153.9	\$ 5.1	\$ (543.6)	\$5,853.4
BALANCE DECEMBER 31, 1997 .....	739,933,014	\$ --	\$ 924.9	\$1,261.1	\$3,644.8	\$ 59.3	\$ --	\$5,890.1
Common dividends declared .....					(260.1)			(260.1)
Purchase of treasury stock .....	(6,654,765)						(276.4)	(276.4)
Issuance of common stock:								
Dividend reinvestment .....	253,759		.3	9.7				10.0
Stock option and stock purchase plans .....	6,189,912		5.8	87.3			22.3	115.4
	739,721,920	--	931.0	1,358.1	3,384.7	59.3	(254.1)	5,479.0
Comprehensive income								
Net income .....					649.1			649.1
Other comprehensive income:								
Unrealized gains on securities of \$10.0 (Net of \$5.8 Tax expense) net of reclassification adjustment for gains included in net income of \$11.1 (Net of \$6.4 Tax expense) .....						(1.1)		(1.1)
Total comprehensive income .....								648.0
BALANCE JUNE 30, 1998 .....	739,721,920	\$ --	\$ 931.0	\$1,358.1	\$4,033.8	\$ 58.2	\$ (254.1)	\$6,127.0

\*DEFINED AS TOTAL COMMON SHARES LESS COMMON STOCK HELD IN TREASURY.

\*\*ENDING TREASURY SHARES WERE 5,067,544 AT JUNE 30, 1998; 23,852,841 AT JUNE 30, 1997; AND 20,632,491 AT DECEMBER 31, 1996.  
SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

CONSOLIDATED STATEMENT OF CASH FLOWS

(Dollars in Millions) (Unaudited)	Six Months Ended	
	June 30 1998	June 30 1997
=====		
OPERATING ACTIVITIES		
Net cash provided by operating activities .....	\$ 745.0	\$ 904.7
-----		
INVESTING ACTIVITIES		
Net cash (used) provided by:		
Interest-bearing deposits with banks .....	(4.9)	5.6
Loans outstanding .....	(1,277.3)	(1,976.3)
Securities purchased under agreements to resell .....	90.6	317.2
Available-for-sale securities:		
Sales .....	169.2	891.8
Maturities .....	823.4	756.6
Purchases .....	(49.5)	(1,255.4)
Maturities of held-to-maturity securities .....	--	37.4
Proceeds from sales of other real estate .....	25.5	43.5
Net purchases of bank premises and equipment .....	(65.8)	(42.1)
Securitization of corporate charge card balances .....	--	418.1
Cash and cash equivalents of acquired subsidiaries .....	--	4.5
Acquisitions, net of cash received .....	(685.2)	(23.6)
Other-net .....	(117.6)	(47.5)
-----		
Net cash used by investing activities .....	(1,091.6)	(870.2)
-----		
FINANCING ACTIVITIES		
Net cash provided (used) by:		
Deposits .....	279.4	1,209.9
Federal funds purchased and securities sold under agreements to repurchase .....	(351.2)	(1,169.9)
Short-term borrowings .....	(108.1)	(837.1)
Long-term debt transactions:		
Proceeds .....	2,443.0	2,911.6
Principal payments .....	(1,377.2)	(697.7)
Issuance of Company-obligated mandatorily redeemable preferred securities of subsidiary trusts holding solely the junior subordinated debentures of the parent company .....	350.0	--
Proceeds from issuance of common stock .....	125.4	75.8
Repurchase of common stock .....	(276.4)	(374.4)
Cash dividends .....	(260.1)	(223.8)
-----		
Net cash provided by financing activities .....	824.8	894.4
-----		
Change in cash and cash equivalents .....	478.2	928.9
Cash and cash equivalents at beginning of period .....	4,801.0	4,908.1
-----		
Cash and cash equivalents at end of period .....	\$ 5,279.2	\$ 5,837.0
=====		

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

## NOTE A BASIS OF PRESENTATION

The accompanying consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and, therefore, do not include all information and footnotes necessary for a complete presentation of financial position, results of operations, and cash flow activity required under generally accepted accounting principles. In the opinion of management of the Company, all adjustments (consisting only of normal recurring accruals) necessary for a fair presentation of results have been made and the Company believes such presentation is adequate to make the information presented not misleading. For further information, refer to the consolidated financial statements and footnotes included in the Company's Annual Report on Form 10-K for the year ended December 31, 1997. Certain amounts in prior periods have been reclassified to conform to the current presentation.

## NOTE B ACCOUNTING CHANGES

**ACCOUNTING FOR TRANSFERS AND SERVICING OF FINANCIAL ASSETS AND EXTINGUISHMENTS OF LIABILITIES** -- Effective January 1, 1997, the Company adopted Statement of Financial Accounting Standards No. ("SFAS") 125, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities," which establishes criteria, based on legal control, to determine whether a transfer of financial assets is considered a sale or secured borrowing. Effective January 1, 1998, and in accordance with SFAS 127 which amended SFAS 125, the Company adopted the provisions of SFAS 125 relating to securities lending, repurchase agreements and other secured financing transactions. The adoption of SFAS 125 did not have a material effect on the Company.

**COMPREHENSIVE INCOME** -- Effective January 1, 1998, the Company adopted SFAS 130, "Reporting Comprehensive Income," which establishes standards for the reporting and display of comprehensive income and its components in a full set of financial statements. The Statement requires that all items that are required to be recognized under accounting standards as components of comprehensive income be reported in a financial statement that is displayed as prominently as other financial statements. The Statement requires the classification of items of other comprehensive income by their nature in a financial statement and the display of other comprehensive income separately from retained earnings and capital surplus in the equity section of the balance sheet. All prior periods presented have been restated to conform to the provisions of this Statement.

**SEGMENT DISCLOSURE** -- SFAS 131, "Disclosures about Segments of an Enterprise and Related Information," requires the disclosure of financial and descriptive information about reportable operating segments. Operating segments are components of an enterprise about which financial information is available and is evaluated regularly in deciding how to allocate resources and assess performance. The Statement requires the disclosure of profit or loss, certain specific revenue and expense items, and assets of all operating segments, with reconciliations of amounts presented in the financial statements. The Statement also requires the disclosure of how the operating segments were determined, the products and services provided by the segments, differences between measurements used in reporting segment information and those used in the financial statements, and changes in the measurement of segment amounts from period to period. SFAS 131 is effective with the 1998 year-end financial statements, with comparative information for prior periods required.

**PENSIONS AND OTHER POSTRETIREMENT BENEFITS DISCLOSURE** -- SFAS 132, "Employers' Disclosures about Pensions and Other Postretirement Benefits," standardizes the disclosure requirements for pensions and other postretirement benefits to the extent practicable. The Statement supersedes the disclosure requirements of: SFAS 87, "Employers' Accounting for Pensions"; SFAS 88, "Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits"; and, SFAS 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions." The Statement addresses disclosure only and not measurement or recognition. SFAS 132 is effective for the Company's 1998 year-end financial statements. All prior period disclosures will be restated to conform to the provisions of this Statement.

**INTERNAL USE COMPUTER SOFTWARE COSTS** -- Effective January 1, 1998, the Company adopted Statement of Position ("SOP") 98-1, "Accounting for the Costs

of Computer Software Developed or Obtained for Internal Use." SOP 98-1 requires the capitalization of certain costs incurred in connection with developing or obtaining software for internal use. Historically, the Company has expensed such costs as incurred. Restatement of previously issued annual financial statements or adoption by a cumulative catch-up adjustment is prohibited. The adoption of SOP 98-1 did not have a material effect on the Company.

ACCOUNTING FOR DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES -- SFAS 133, "Accounting for Derivative Instruments and Hedging Activities," establishes accounting and reporting standards for derivative instruments, including certain derivative instruments imbedded in other contracts, and for hedging activities. It requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. In certain defined conditions, a derivative may be specifically designated as a hedge for a particular exposure. The accounting for changes in the fair value of the derivative depends on the intended use of the derivative and the resulting designation. SFAS 133 is effective for all quarters of fiscal years beginning after June 15, 1999, with earlier application permitted. Retroactive application of this Statement to prior periods is prohibited. The adoption of SFAS 133 is not expected to have a material impact on the Company.

#### NOTE C BUSINESS COMBINATIONS AND DIVESTITURES

U.S. BANCORP On August 1, 1997, First Bank System, Inc. ("FBS") issued 329.7 million common shares to acquire U. S. Bancorp ("USBC"). As of the acquisition date, the combined institution, now known as U.S. Bancorp, had approximately \$70 billion in assets, \$49 billion in deposits and served nearly four million households and 475,000 businesses in 17 contiguous states from Illinois to Washington. The Company exchanged 2.265 shares of its common stock for each share of USBC common stock. USBC's outstanding stock options also were converted into stock options for the Company's common stock. In addition, each outstanding share of USBC cumulative preferred stock was converted into one share of preferred stock of the combined company having substantially identical terms. The transaction was accounted for as a pooling-of-interests. Accordingly, the Company's financial statements have been restated for all periods prior to the acquisition to include the accounts and operations of USBC.

PIPER JAFFRAY COMPANIES INC. On May 1, 1998, the Company completed its acquisition of Piper Jaffray Companies Inc. ("Piper Jaffray"), a full-service investment banking and securities brokerage firm. The acquisition allows the Company to offer investment banking and institutional and retail brokerage services through a new subsidiary to be known as U.S. Bancorp Piper Jaffray Inc. The acquisition of Piper Jaffray was accounted for under the purchase method of accounting, and accordingly, the purchase price of \$738 million (including \$719 million aggregate cash consideration for Piper Jaffray shares outstanding) was allocated to assets acquired and liabilities assumed based on their fair values at the date of acquisition.

NORTHWEST BANCSHARES, INC. On March 13, 1998, the Company announced an agreement to acquire Northwest Bancshares, Inc., a privately held bank holding company headquartered in Vancouver, Washington, with 10 banking locations and \$344 million in deposits. The acquisition is pending regulatory approval and is expected to close in the third quarter of 1998.

OTHER ACQUISITIONS Effective December 12, 1997, the Company completed its acquisition of the \$360 million Zappco, Inc., a bank holding company headquartered in St. Cloud, Minnesota. Effective April 30, 1997, USBC completed its acquisition of the \$214 million Business and Professional Bank of Sacramento, California. On January 31, 1997, the Company completed its acquisition of the bond indenture services and paying agency business of Comerica Incorporated. This business serves approximately 860 municipal and corporate clients with about 2,400 bond issues. Effective January 1, 1997, USBC completed its acquisition of the \$70 million Sun Capital Bancorp of St. George, Utah. These transactions were accounted for as purchase acquisitions.

# NOTE D SECURITIES

The detail of the amortized cost and fair value of available-for-sale securities consisted of the following:

(Dollars in Millions)	June 30, 1998		December 31, 1997	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
U.S. Treasury .....	\$ 586	\$ 588	\$ 628	\$ 628
Mortgage-backed .....	3,587	3,634	4,326	4,366
Other U.S. agencies .....	299	309	360	370
State and political .....	1,261	1,289	1,300	1,331
Other .....	96	103	175	190
Total .....	\$5,829	\$5,923	\$6,789	\$6,885

# NOTE E LOANS

The composition of the loan portfolio was as follows:

(Dollars in Millions)	June 30 1998	December 31 1997
COMMERCIAL:		
Commercial .....	\$24,535	\$23,399
Real estate:		
Commercial mortgage .....	8,084	8,025
Construction .....	2,630	2,359
Total commercial .....	35,249	33,783
CONSUMER:		
Residential mortgage .....	3,989	4,480
Residential mortgage held for sale .....	101	193
Home equity and second mortgage .....	5,742	5,373
Credit card .....	4,006	4,200
Automobile .....	3,197	3,227
Revolving credit .....	1,532	1,567
Installment .....	1,170	1,199
Student * .....	792	686
Total consumer .....	20,529	20,925
Total loans .....	\$55,778	\$54,708

\*ALL OR PART OF THE STUDENT LOAN PORTFOLIO MAY BE SOLD WHEN THE REPAYMENT PERIOD BEGINS.

At June 30, 1998, the Company had \$209 million in loans considered impaired under SFAS 114 included in its nonaccrual loans. The carrying value of the impaired loans was less than or equal to the appraised collateral value or the present value of expected future cash flows and, accordingly, no allowance for credit losses was specifically allocated to impaired loans. For the quarter ended June 30, 1998, the average recorded investment in impaired loans was approximately \$216 million. No interest income was recognized on impaired loans during the quarter.



# NOTE F LONG-TERM DEBT

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

(Dollars in Millions)	June 30 1998	December 31 1997
Fixed-rate subordinated notes (6.00% To 8.35%) -- maturities to June 2026 .....	\$ 2,150	\$ 1,850
Step-up subordinated notes -- due August 15, 2005 .....	100	100
Floating-rate notes -- due November 15, 1999 .....	200	200
Floating-rate notes -- due February 27, 2000 .....	250	250
Floating-rate subordinated notes -- due November 30, 2010 .....	107	107
Federal Home Loan Bank advances (5.05% To 9.11%) -- maturities to October 2026 ..	2,419	1,392
Medium-term notes (5.53% To 6.93%) -- maturities to July 2002 .....	1,169	652
Bank notes (5.51% To 6.38%) -- maturities to January 2003 .....	4,832	5,602
Other .....	154	94
<b>Total .....</b>	<b>\$11,381</b>	<b>\$10,247</b>

# NOTE G EARNINGS PER SHARE

The components of earnings per share were:

(Dollars in Millions, Except Per Share Data)	Three Months Ended		Six Months Ended	
	June 30 1998	June 30 1997	June 30 1998	June 30 1997
<b>EARNINGS PER SHARE:</b>				
Net income .....	\$ 320.6	\$ 303.9	\$ 649.1	\$ 597.2
Preferred dividends .....	--	(3.1)	--	(6.1)
Net income to common stockholders .....	\$ 320.6	\$ 300.8	\$ 649.1	\$ 591.1
Average shares outstanding .....	739,630,613	733,120,503	739,171,968	734,170,890
Earnings per share .....	\$ .43	\$ .41	\$ .88	\$ .81
<b>DILUTED EARNINGS PER SHARE:</b>				
Net income .....	\$ 320.6	\$ 303.9	\$ 649.1	\$ 597.2
Preferred dividends .....	--	(3.1)	--	(6.1)
Net income to common stockholders .....	\$ 320.6	\$ 300.8	\$ 649.1	\$ 591.1
Average shares outstanding .....	739,630,613	733,120,503	739,171,968	734,170,890
Net effect of the assumed purchase of stock under the stock option and stock purchase plans -- based on the treasury stock method using average market price .....	12,779,512	8,329,953	12,877,294	8,295,531
Dilutive common shares outstanding .....	752,410,125	741,450,456	752,049,262	742,466,421
Diluted earnings per share .....	\$ .43	\$ .41	\$ .86	\$ .80

# NOTE H SHAREHOLDERS' EQUITY

On June 8, 1998, the Company's Board of Directors authorized the repurchase of up to \$2.5 billion of the Company's common stock over the period ending March 31, 2000. The shares will be repurchased in the open market or through negotiated transactions. Through June 30, 1998, the Company repurchased 6.6 million shares for \$275.2 million.

On April 22, 1998, the Company's shareholders authorized an increase in the Company's capital stock necessary to implement the three-for-one split of the Company's common stock announced on February 18, 1998. The number of common and preferred shares which the Company has authority to issue was increased from 500 million shares and 10 million shares, respectively, to 1.5 billion shares and 50 million shares, respectively. The stock split was in the form of a 200 percent dividend payable May 18, 1998 to shareholders of record on May 4, 1998. The impact of the stock split has been reflected in the financial statements for all periods presented and all share and per share data included herein.

Total comprehensive income was \$321.6 million and \$648.0 million for the three months and six months ended June 30, 1998, compared with \$358.4 million and \$597.6 million for the three months and six months ended June 30, 1997.

#### NOTE I MERGER AND INTEGRATION CHARGES

During 1998, the Company recorded merger and integration charges of \$106.0 million primarily related to conversion expenses associated with the acquisitions of USBC and Piper Jaffray. Conversion expenses are recorded as incurred and are associated with the conversion of customer accounts and similar expenses relating to the conversions and integration of acquired branches and operations. The following table presents a summary of activity with respect to the Company's merger and integration accrual:

(Dollars in Millions)	Six Months Ended June 30, 1998
Balance at December 31, 1997 .....	\$ 204.6
Provision charged to operating expense .....	106.0
Cash outlays .....	(174.6)
Noncash writedowns .....	(3.9)
Balance at June 30, 1998 .....	\$ 132.1

Additional merger-related expenses of approximately \$53 million, after tax, are expected to be incurred through the end of 1998 related to the USBC acquisition.

#### NOTE J INCOME TAXES

The components of income tax expense were:

(Dollars in Millions)	Three Months Ended		Six Months Ended	
	June 30 1998	June 30 1997	June 30 1998	June 30 1997
FEDERAL:				
Current tax .....	\$ 130.9	\$ 139.5	\$ 298.0	\$ 277.0
Deferred tax provision .....	30.1	11.3	26.6	21.2
Federal income tax .....	161.0	150.8	324.6	298.2
STATE:				
Current tax .....	30.5	26.1	50.5	48.5
Deferred tax (credit) provision .....	(3.6)	.9	2.1	2.6
State income tax .....	26.9	27.0	52.6	51.1
Total income tax provision .....	\$ 187.9	\$ 177.8	\$ 377.2	\$ 349.3

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

(Dollars in Millions)	Three Months Ended		Six Months Ended	
	June 30 1998	June 30 1997	June 30 1998	June 30 1997
Tax at statutory rate (35%) .....	\$ 178.0	\$ 168.6	\$ 359.2	\$ 331.3
State income tax, at statutory rates, net of federal tax benefit .....	17.5	14.6	34.2	30.3
Tax effect of:				
Tax-exempt interest:				
Loans .....	(3.3)	(.9)	(6.2)	(1.9)
Securities .....	(5.7)	(6.0)	(11.4)	(14.6)
Amortization of nondeductible goodwill .....	8.0	7.1	14.7	14.1
Tax credits and other items .....	(6.6)	(5.6)	(13.3)	(9.9)
Applicable income taxes .....	\$ 187.9	\$ 177.8	\$ 377.2	\$ 349.3

The Company's net deferred tax asset was \$211.9 million at June 30, 1998, and \$108.2 million at December 31, 1997.

NOTE K COMMITMENTS, CONTINGENT LIABILITIES AND OFF-BALANCE SHEET FINANCIAL INSTRUMENTS

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

(Dollars in Millions)	June 30 1998	December 31 1997
Commitments to extend credit:		
Commercial .....	\$ 23,771	\$ 24,170
Corporate and purchasing cards .....	25,617	23,502
Consumer credit cards .....	14,990	14,236
Other consumer .....	5,079	4,661
Letters of credit:		
Standby .....	2,970	2,773
Commercial .....	492	406
Interest rate swap contracts:		
Hedges .....	6,781	5,315
Intermediated .....	717	855
Options contracts:		
Hedge interest rate floors purchased .....	400	750
Intermediated interest rate and foreign exchange caps and floors purchased ..	275	258
Intermediated interest rate and foreign exchange caps and floors written ..	275	258
Futures and forward contracts .....	20	175
Mortgages sold with recourse .....	60	74
Foreign currency commitments:		
Commitments to purchase .....	799	716
Commitments to sell .....	788	735
Commitments from securities lending .....	307	--

The Company received fixed rate interest and paid floating rate interest on all swap hedges as of June 30, 1998. Activity for the six months ended June 30, 1998, with respect to interest rate swaps which the Company uses to hedge loans, deposits and long-term debt was as follows.

(Dollars in Millions)	
Notional amount outstanding at December 31, 1997.....	\$ 5,315
Additions .....	1,760
Maturities .....	(291)
Terminations .....	(3)
Notional amount outstanding at June 30, 1998 .....	\$ 6,781
Weighted average interest rates paid .....	5.66%
Weighted average interest rates received .....	6.28

LIBOR-based interest rate floors totaling \$200 million with an average remaining maturity of 2 months at June 30, 1998, and \$550 million with an average remaining maturity of 5 months at December 31, 1997, hedged floating rate commercial loans. The strike rate on these LIBOR-based floors was 3.5 percent at June 30, 1998, and ranged from 3.25 percent to 4.00 percent at December 31, 1997. Constant Maturity Treasury ("CMT") interest rate floors totaling \$200 million with an average remaining maturity of 6 months at June 30, 1998, and 12 months at December 31, 1997, hedged the prepayment risk of fixed rate residential mortgage loans. The strike rate on these CMT floors was 5.60 percent at June 30, 1998 and December 31, 1997.

Net unamortized deferred gains relating to swaps, options and futures were immaterial at June 30, 1998.

NOTE L SUPPLEMENTAL DISCLOSURES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEET -- Time certificates of deposit in denominations of \$100,000 or more totaled \$3,223 million and \$3,284 million at June 30, 1998, and December 31, 1997, respectively.

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

(Dollars in Millions)	Six Months Ended	
	June 30 1998	June 30 1997
Income taxes paid .....	\$ 272.6	\$ 338.6
Interest paid .....	1,155.9	1,096.9
Net noncash transfers to foreclosed property .....	10.9	22.4
Change in unrealized gain (loss) on available-for-sale securities, net of taxes of \$.7 in 1998 and \$1.1 in 1997 .....	(1.1)	.4
Cash acquisitions of businesses:		
Fair value of noncash assets acquired .....	\$ 1,802.8	\$ 194.6
Liabilities assumed .....	(1,117.6)	(171.0)
Net .....	\$ 685.2	\$ 23.6
Stock acquisitions of businesses:		
Fair value of noncash assets acquired .....	\$ --	\$ 77.2
Net cash acquired .....	--	4.5
Liabilities assumed .....	--	(66.9)
Net value of common stock issued .....	\$ --	\$ 14.8

CONSOLIDATED DAILY AVERAGE BALANCE SHEET AND RELATED YIELDS AND RATES

	For The Three Months Ended June 30			1997			
	1998						
(Dollars in Millions) (Unaudited)	Balance	Interest	Yields and Rates	Balance	Interest	Yields and Rates	%Change Average Balance
ASSETS							
Securities:							
U.S. Treasury .....	\$ 611	\$ 8.8	5.78%	\$ 759	\$ 11.1	5.87%	(19.5)%
Mortgage-backed .....	3,758	63.7	6.80	4,258	73.7	6.94	(11.7)
State and political .....	1,263	24.4	7.75	586	11.5	7.87	**
U.S. Agencies and other .....	407	5.3	5.22	645	9.7	6.03	(36.9)
Total available-for-sale securities .....	6,039	102.2	6.79	6,248	106.0	6.80	(3.3)
Unrealized gains (losses) on available-for-sale securities .....	85			(47)			**
Net available-for-sale securities .....	6,124			6,201			(1.2)
Held-to-maturity securities .....	--	--	--	769	15.4	8.03	**
Trading account securities .....	217	3.4	6.28	177	2.5	5.67	22.6
Federal funds sold and resale agreements .....	719	9.9	5.52	646	9.4	5.84	11.3
Loans:							
Commercial:							
Commercial .....	24,264	490.8	8.11	22,431	460.2	8.23	8.2
Real estate:							
Commercial mortgage .....	8,143	176.5	8.69	8,070	182.4	9.07	.9
Construction .....	2,569	59.9	9.35	2,223	53.6	9.67	15.6
Total commercial .....	34,976	727.2	8.34	32,724	696.2	8.53	6.9
Consumer:							
Residential mortgage .....	4,002	79.4	7.96	4,995	100.9	8.10	(19.9)
Residential mortgage held for sale .....	151	2.6	6.91	166	3.2	7.73	(9.0)
Home equity and second mortgage .....	5,694	135.8	9.57	5,072	121.5	9.61	12.3
Credit card .....	3,941	123.2	12.54	3,546	110.8	12.53	11.1
Other .....	6,636	161.5	9.76	7,012	171.1	9.79	(5.4)
Total consumer .....	20,424	502.5	9.87	20,791	507.5	9.79	(1.8)
Total loans .....	55,400	1,229.7	8.90	53,515	1,203.7	9.02	3.5
Allowance for credit losses .....	994			991			.3
Net loans .....	54,406			52,524			3.6
Other earning assets .....	1,119	17.3	6.20	504	6.6	5.25	**
Total earning assets* .....	63,494	1,362.5	8.61	61,859	1,343.6	8.71	2.6
Cash and due from banks .....	3,783			3,623			4.4
Other assets .....	5,078			4,433			14.5
Total assets .....	\$71,446			\$68,877			3.7%
	=====			=====			
LIABILITIES AND SHAREHOLDERS' EQUITY							
Noninterest-bearing deposits .....	\$13,381			\$12,620			6.0%
Interest-bearing deposits:							
Interest checking .....	5,831	26.2	1.80	5,598	23.5	1.68	4.2
Money market accounts .....	10,895	106.6	3.92	10,321	99.0	3.85	5.6
Other savings accounts .....	2,531	13.4	2.12	2,880	16.0	2.23	(12.1)
Savings certificates .....	11,531	157.9	5.49	12,233	166.2	5.45	(5.7)
Certificates over \$100,000.....	3,257	48.1	5.92	4,036	58.9	5.85	(19.3)
Total interest-bearing deposits .....	34,045	352.2	4.15	35,068	363.6	4.16	(2.9)
Short-term borrowings .....	3,865	56.1	5.82	5,855	83.9	5.75	(34.0)
Long-term debt .....	10,564	157.8	5.99	6,768	104.2	6.18	56.1
Company-obligated mandatorily redeemable preferred securities of subsidiary trusts holding solely the junior subordinated debentures of the parent company .....	950	18.5	7.82	600	12.3	8.18	58.3
Total interest-bearing liabilities .....	49,424	584.6	4.74	48,291	564.0	4.68	2.3
Other liabilities .....	2,455			2,200			11.6
Preferred equity .....	--			150			**
Common equity .....	6,132			5,657			8.4
Accumulated other comprehensive income (loss) .....	54			(41)			**
Total liabilities and shareholders' equity .....	\$71,446			\$68,877			3.7%
	=====			=====			=====
Net interest income .....		\$ 777.9			\$ 779.6		
		=====			=====		
Gross interest margin .....			3.87%			4.03%	
			=====			=====	
Gross interest margin without taxable-equivalent increments .....			3.79%			3.94%	
			=====			=====	
Net interest margin .....			4.91%			5.05%	
			=====			=====	
Net interest margin without taxable-equivalent increments .....			4.83%			4.96%	

INTEREST AND RATES ARE PRESENTED ON A FULLY TAXABLE-EQUIVALENT BASIS UNDER A TAX RATE OF 35 PERCENT.  
INTEREST INCOME AND RATES ON LOANS INCLUDE LOAN FEES. NONACCRUAL LOANS ARE INCLUDED IN AVERAGE LOAN BALANCES.

\*BEFORE DEDUCTING THE ALLOWANCE FOR CREDIT LOSSES AND EXCLUDING THE UNREALIZED  
GAIN ON AVAILABLE-FOR-SALE SECURITIES.  
\*\*NOT MEANINGFUL

CONSOLIDATED DAILY AVERAGE BALANCE SHEET AND RELATED YIELDS AND RATES

For The Six Months Ended June 30  
1998 1997

(Dollars in Millions) (Unaudited)	Balance	Interest	Yields and Rates	Balance	Interest	Yields and Rates	%Change Average Balance
<b>ASSETS</b>							
<b>Securities:</b>							
U.S. Treasury .....	\$ 621	\$ 18.0	5.85%	\$ 834	\$ 24.2	5.85%	(25.5)%
Mortgage-backed .....	3,934	133.4	6.84	4,227	145.7	6.95	(6.9)
State and political .....	1,274	49.6	7.85	580	22.7	7.89	**
U.S. Agencies and other .....	432	11.7	5.46	681	21.0	6.22	(36.6)
Total available-for-sale securities .....	6,261	212.7	6.85	6,322	213.6	6.81	(1.0)
Unrealized gains (losses) on available-for-sale securities ..	91			(29)			**
Net available-for-sale securities .....	6,352			6,293			.9
Held-to-maturity securities .....	--	--	--	776	30.5	7.93	**
Trading account securities .....	183	5.2	5.73	173	4.9	5.71	5.8
Federal funds sold and resale agreements .....	719	19.6	5.50	624	17.5	5.66	15.2
<b>Loans:</b>							
<b>Commercial:</b>							
Commercial .....	23,879	959.3	8.10	21,999	893.0	8.19	8.5
<b>Real estate:</b>							
Commercial mortgage .....	8,158	357.5	8.84	8,043	359.8	9.02	1.4
Construction .....	2,487	116.4	9.44	2,185	104.3	9.63	13.8
Total commercial .....	34,524	1,433.2	8.37	32,227	1,357.1	8.49	7.1
<b>Consumer:</b>							
Residential mortgage .....	4,182	166.2	8.01	5,061	201.4	8.02	(17.4)
Residential mortgage held for sale .....	167	5.7	6.88	157	5.9	7.58	6.4
Home equity and second mortgage .....	5,540	264.4	9.62	4,958	235.9	9.59	11.7
Credit card .....	3,961	248.6	12.66	3,536	221.6	12.64	12.0
Other .....	6,656	320.2	9.70	7,036	341.1	9.78	(5.4)
Total consumer .....	20,506	1,005.1	9.88	20,748	1,005.9	9.78	(1.2)
Total loans .....	55,030	2,438.3	8.94	52,975	2,363.0	9.00	3.9
Allowance for credit losses .....	1,004			991			1.3
Net loans .....	54,026			51,984			3.9
Other earning assets .....	842	24.9	5.96	501	13.2	5.31	68.1
Total earning assets* .....	63,035	2,700.7	8.64	61,371	2,642.7	8.68	2.7
Cash and due from banks .....	3,796			3,641			4.3
Other assets .....	4,720			4,394			7.4
Total assets .....	\$70,638			\$68,386			3.3%
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>							
Noninterest-bearing deposits .....	\$13,168			\$12,394			6.2%
<b>Interest-bearing deposits:</b>							
Interest checking .....	5,799	51.0	1.77	5,624	45.9	1.65	3.1
Money market accounts .....	10,795	210.9	3.94	10,395	196.6	3.81	3.8
Other savings accounts .....	2,567	27.0	2.12	2,906	32.0	2.22	(11.7)
Savings certificates .....	11,755	321.3	5.51	12,290	330.8	5.43	(4.4)
Certificates over \$100,000.....	3,272	97.1	5.98	3,816	110.1	5.82	(14.3)
Total interest-bearing deposits .....	34,188	707.3	4.17	35,031	715.4	4.12	(2.4)
Short-term borrowings .....	3,539	102.5	5.84	6,153	168.7	5.53	(42.5)
Long-term debt .....	10,563	314.2	6.00	6,262	192.5	6.20	68.7
Company-obligated mandatorily redeemable preferred securities of subsidiary trusts holding solely the junior subordinated debentures of the parent company .....	776	30.8	7.96	600	24.6	8.18	29.3
Total interest-bearing liabilities .....	49,066	1,154.8	4.75	48,046	1,101.2	4.62	2.1
Other liabilities .....	2,292			2,180			5.1
Preferred equity .....	--			150			**
Common equity .....	6,055			5,637			7.4
Accumulated other comprehensive income (loss) .....	57			(21)			**
Total liabilities and shareholders' equity .....	\$70,638			\$68,386			3.3%
Net interest income .....		\$ 1,545.9			\$1,541.5		
Gross interest margin .....			3.89%			4.06%	
Gross interest margin without taxable-equivalent increments .....			3.81%			3.97%	
Net interest margin .....			4.95%			5.07%	
Net interest margin without taxable-equivalent increments .....			4.86%			4.97%	

INTEREST AND RATES ARE PRESENTED ON A FULLY TAXABLE-EQUIVALENT BASIS UNDER A  
TAX RATE OF 35 PERCENT.  
INTEREST INCOME AND RATES ON LOANS INCLUDE LOAN FEES. NONACCRUAL LOANS ARE  
INCLUDED IN AVERAGE LOAN BALANCES.

\*BEFORE DEDUCTING THE ALLOWANCE FOR CREDIT LOSSES AND EXCLUDING THE UNREALIZED  
GAIN ON AVAILABLE-FOR-SALE SECURITIES.  
\*\*NOT MEANINGFUL



Part II -- OTHER INFORMATION

ITEM 5. OTHER INFORMATION -- On July 15, 1998 the Company's Bylaws were amended to include an advance notice provision requiring that, if a shareholder desires to bring business before an annual meeting, written notice of such business must be received by the Company not less than 120 days prior to the date (i.e., the month and day) in the subsequent year corresponding to the date of the prior year's proxy statement. If the Company does not receive timely notice, the business will be excluded from consideration at the meeting. This advance notice provision supersedes the statutory notice period in revised Rule 14a-4(c)(1) of the federal proxy rules, addressing the discretionary proxy voting authority of the Board of Directors in connection with such shareholder business. In addition, the Company's existing Bylaw provision requiring 90-day advance notice of shareholder nominations of persons for election as Directors was amended to require advance notice not less than 120 days prior to the date (i.e., the month and day) in the subsequent year corresponding to the date of the prior year's proxy statement. The foregoing descriptions of the amended Bylaw provisions are qualified in their entirety by reference to the full text of the Company's Bylaws, as amended, filed as Exhibit 3.1 hereto and incorporated herein by reference.

Based on these amendments, if a shareholder desires to nominate a Director for election at the 1999 Annual Meeting or to bring other business before such meeting (and such business is not the subject of a shareholder proposal timely submitted for inclusion in the proxy statement), written notice of such nomination or such business, as prescribed in the Company's Bylaws, must be received by the Company at its principal office in Minneapolis, Minnesota on or before November 17, 1998.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) EXHIBITS

- 3.1 Bylaws, as amended.\*
- 10.1 Employment Agreement with John F. Grundhofer, as amended.\*
- 12 Computation of Ratio of Earnings to Fixed Charges.
- 27 Article 9 Financial Data Schedule.\*

\* COPIES OF THIS EXHIBIT WILL BE FURNISHED UPON REQUEST AND PAYMENT OF THE COMPANY'S REASONABLE EXPENSES IN FURNISHING THE EXHIBIT.

(b) REPORTS ON FORM 8-K

During the three months ended June 30, 1998, the Company filed the following Current Reports on Form 8-K.

Form 8-K filed April 3, 1998, relating to the Company entering into underwriting agreements with USB Capital II, Merrill Lynch, Pierce, Fenner & Smith Incorporated, Piper Jaffray Inc., Dain Rauscher Incorporated, Morgan Stanley & Co. Incorporated, Prudential Securities Incorporated and Smith Barney Inc. for the public offering of Trust Preferred Securities.

SIGNATURE

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

U.S. BANCORP

By: /s/ SUSAN E. LESTER

-----  
Susan E. Lester  
Executive Vice President and Chief Financial Officer  
(Principal Financial Officer and Duly Authorized Officer)

DATE: August 12, 1998

[LOGO]  
US BANCORP

P.O. Box 522  
Minneapolis, Minnesota  
55480

<http://www.usbank.com>

First Class  
U.S. Postage  
PAID  
Permit No. 2440  
Minneapolis, MN

#### SHAREHOLDER INQUIRIES

##### COMMON STOCK TRANSFER AGENT AND REGISTRAR

First Chicago Trust Company of New York acts as transfer agent and registrar, dividend paying agent, and dividend reinvestment plan agent for U.S. Bancorp and maintains all shareholder records for the corporation. For information about U.S. Bancorp stock, or if you have questions regarding your stock certificates (including transfers), address or name changes, lost dividend checks, lost stock certificates, or Form 1099s, please call First Chicago's Shareholder Services Center at (800) 446-2617. Representatives are available weekdays, 8:30 a.m. to 7:00 p.m. EST, and the interactive voice response system is available 24 hours a day, seven days a week. The TDD telephone number for the hearing impaired is (201) 222-4955.

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

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

##### COMMON STOCK LISTING AND TRADING

U.S. Bancorp Common Stock is listed and traded on the New York Stock Exchange under the ticker symbol USB.

##### DIVIDENDS

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

##### DIVIDEND REINVESTMENT PLAN

U.S. Bancorp shareholders can take advantage of a plan that provides automatic reinvestment of dividends and/or optional cash purchases of additional shares of U.S. Bancorp Common Stock up to \$60,000 per calendar year. For more information, please contact First Chicago Trust Company of New York, P.O. Box 2598, Jersey City, New Jersey, 07303-2598, (800) 446-2617.

##### INVESTMENT COMMUNITY CONTACTS

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

Judith T. Murphy  
Vice President, Investor Relations  
(612) 973-2264

##### FINANCIAL INFORMATION

U.S. Bancorp news and financial results are available by fax, mail and the Company's Web site.

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

MAIL. At your request, we will mail to you our quarterly earnings news releases, quarterly financial data on Form 10-Q, and additional annual reports. To be added to U.S. Bancorp's mailing list for quarterly earnings news releases, or to request other information, please contact:

Investor and Corporate Relations  
(612) 973-2263  
U.S. Bancorp  
601 Second Avenue South, MPFP2711  
Minneapolis, Minnesota 55402-4302

WEB SITE. For information about U.S. Bancorp, including news and financial results, product information, and service locations, access our home page on the World Wide Web. The address is <http://www.usbank.com>.

BYLAWS  
OF  
U.S. BANCORP

ARTICLE I.  
OFFICES

Section 1. Offices.

The registered office of the Corporation in the State of Delaware shall be in the City of Wilmington, County of New Castle, State of Delaware.

The Corporation shall have offices at such other places as the Board of Directors may from time to time determine.

ARTICLE II.  
STOCKHOLDERS

Section 1. Annual Meeting.

The annual meeting of the stockholders for the election of Directors and for the transaction of such other business as may properly come before the meeting shall be held on such date as the Board of Directors shall each year fix. Each such annual meeting shall be held at such place, within or without the State of Delaware, and hour as shall be determined by the Board of Directors. The day, place and hour of such annual meeting shall be specified in the notice of annual meeting.

The meeting may be adjourned from time to time and place to place until its business is completed.

Section 2. Special Meeting.

Special meetings of stockholders may be called by the Board of Directors or the Chief Executive Officer. The notice of such meeting shall state the purpose of such meeting and no business shall be transacted thereat except as stated in the notice thereof. Any such meeting may be held at such place within or without the State of Delaware as may be fixed by the Board of Directors or the Chief Executive Officer, and as may be stated in the notice of such meeting.

Section 3. Notice of Meeting.

Notice of every meeting of the stockholders shall be given in the manner prescribed by law.

Section 4. Quorum.

Except as otherwise required by law, the Certificate of Incorporation or these Bylaws, the holders of not less than one-third of the shares entitled to vote at any meeting of the stockholders, present in person or by proxy, shall constitute a quorum and the act of the majority of such quorum shall be deemed the act of the stockholders.

If a quorum shall fail to attend any meeting, the chairman of the meeting may adjourn the meeting to another place, date, or time.

Section 5. Qualification of Voters.

The Board of Directors may fix a day and hour not more than sixty nor less than ten days prior to the day of holding any meeting of the stockholders as the time as of which the stockholders entitled to notice of and to vote at such meeting shall be determined. Only those persons who were holders of record of voting stock at such time shall be entitled to notice of and to vote at such meeting.

Section 6. Procedure.

The presiding officer at each meeting of stockholders shall conclusively determine the order of business, all matters of procedure and whether or not a proposal is proper business to be transacted at the meeting and has been properly brought before the meeting.

The Board shall appoint two or more inspectors of election to serve at every meeting of the stockholders at which Directors are to be elected.

Section 7. Nomination of Directors.

Only persons nominated in accordance with the following procedures shall be eligible for election by stockholders as Directors. Nominations of persons for election as Directors at a meeting of stockholders called for the purpose of electing Directors may be made (a) by or at the direction of the Board of Directors or (b) by any stockholder in the manner herein provided. For a nomination to be properly made by a stockholder, the stockholder must give written notice to the Secretary of the Corporation so as to be received at the principal executive offices of the Corporation not less than (i) with respect to an annual meeting of stockholders, 120 days in advance of the date of the Corporation's proxy statement released to stockholders in connection with the

previous year's annual meeting of stockholders, except that if no annual meeting was held in the previous year or the date of the annual meeting has been changed by more than 30 days from the date contemplated at the time of the previous year's proxy statement, such notice

must be so received a reasonable time before the solicitation is made, and (ii) with respect to a special meeting of stockholders for the election of Directors, the close of business on the seventh day following the date on which the notice of such meeting is first given to stockholders. Each such notice shall set forth (a) the name and address of the stockholder who intends to make the nomination and of the person or persons to be nominated; (b) a representation that the stockholder is a holder of record of stock of the Corporation entitled to vote at such meeting and intends to appear in person or by proxy at the meeting to nominate the person or persons specified in the notice; (c) a description of all arrangements or understandings between the stockholder and each nominee and any other person or persons (naming such person or persons) pursuant to which the nomination or nominations are to be made by the stockholder; (d) such other information regarding each nominee proposed by such stockholder as would have been required to be included in a proxy statement filed pursuant to the proxy rules of the Securities and Exchange Commission had each nominee been nominated, or intended to be nominated, by the Board; and (e) the consent of each nominee to serve as a Director of the Corporation if so elected.

#### Section 8. Business at Annual Meeting.

At an annual meeting of the stockholders, only such business shall be conducted as shall have been properly brought before the meeting. To be properly brought before an annual meeting, business must be (a) specified in the notice of meeting (or any supplement thereto) given by or at the direction of the Board of Directors; (b) otherwise properly brought before the meeting by or at the direction of the Board of Directors; (c) in the case of a nomination for Director, properly brought in accordance with the procedures set forth in Section 7 of Article II hereof; or (d) otherwise properly brought before the meeting by a stockholder entitled to vote at such meeting. For business other than a nomination for Director to be properly brought before an annual meeting by a stockholder, the stockholder must have given written notice to the Secretary of the Corporation so as to be received at the principal executive offices of the Corporation not less than 120 days in advance of the date of the Corporation's proxy statement released to stockholders in connection with the previous year's annual meeting of stockholders, except that if no annual meeting was held in the previous year or the date of the annual meeting has been changed by more than 30 days from the date contemplated at the time of the previous year's proxy statement, such notice must be so received a reasonable time before the solicitation is made. Each such notice shall set forth as to each matter the stockholder proposes to bring before the annual meeting (v) a brief description of the business desired to be brought before the annual meeting and the reasons for conducting such business at the annual meeting; (w) the name and address of the stockholder proposing such business; (x) the class and number of shares of the Corporation which are beneficially owned by the stockholder; (y) any material interest of the stockholder in such business; and (z) such other information regarding such business as would be required to be included in a proxy statement filed pursuant to the proxy rules of the Securities and Exchange Commission had the matter been proposed by the Board of Directors. Notwithstanding anything in these Bylaws to the contrary, no business shall be considered

properly brought before an annual meeting by a stockholder unless it is brought in accordance with the procedures set forth in this Section 8 of Article II.

ARTICLE III.  
DIRECTORS

Section 1. Number and Election.

The Board of Directors of the Corporation shall consist of such number of Directors as are fixed from time to time by resolution of the Board and within the requirements set forth in the Certificate of Incorporation. Commencing with the annual election of Directors by the stockholders in 1986, the Directors shall be 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 initial Class I Directors shall expire at the annual election of Directors by the stockholders in 1987, the term of office of the initial Class II Directors shall expire at the annual election of Directors by the stockholders in 1988, and the term of office of the initial Class III Directors shall expire at the annual election of Directors by the stockholders in 1989. At each annual election of Directors by the stockholders held after 1985, 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 election of Directors. In all cases, Directors shall hold office until their respective successors are elected by the stockholders and have qualified.

In the event that the holders of any class or series of stock of the Corporation having a preference as to dividends or upon liquidation of the Corporation shall be entitled, by a separate class vote, to elect Directors as may be specified pursuant to Article Fourth of the Corporation's Restated Certificate of Incorporation, then the provisions of such class or series of stock with respect to their rights shall apply. The number of Directors that may be elected by the holders of any such class or series of stock shall be in addition to the number fixed pursuant to the preceding paragraph. Except as otherwise expressly provided pursuant to Article Fourth of the Corporation's Restated Certificate of Incorporation, the number of Directors that may be so elected by the holders of any such class or series of stock shall be elected for terms expiring at the next annual meeting of stockholders and without regard to the classification of the remaining members of the Board of Directors and vacancies among Directors so elected by the separate class vote of any such class or series of stock shall be filled by the remaining Directors elected by such class or series, or, if there are no such remaining Directors, by the holders of such class or series in the same manner in which such class or series initially elected a Director.

If at any meeting for the election of Directors, more than one class of stock, voting separately as classes, shall be entitled to elect one or more Directors and there shall be a quorum of only one such class of stock, that class of stock shall be entitled to elect its quota of Directors notwithstanding the absence of a quorum of the other class or classes of stock.

## Section 2. Vacancies.

Vacancies and newly created directorships resulting from an increase in the number of Directors shall be filled by a majority of the Directors then in office, although less than a quorum, or by a sole remaining Director, and such Directors so chosen shall hold office until the next election of the class for which such Directors shall have been chosen, and until their successors are elected and qualified.

## Section 3. Regular Meetings.

Regular meetings of the Board shall be held at such times and places as the Board may from time to time determine.

## Section 4. Special Meetings.

Special meetings of the Board may be called at any time, at any place and for any purpose by the Chairman of the Board, or the President, or by any officer of the Corporation upon the request of a majority of the entire Board.

## Section 5. Notice of Meetings.

Notice of regular meetings of the Board need not be given.

Notice of every special meeting of the Board shall be given to the Directors at their usual places of business, or at such other addresses as shall have been furnished by them for the purpose. Such notice shall be given at least twelve hours (three hours if meeting is to be conducted by conference telephone) before the meeting by telephone or by being personally delivered, mailed, or telegraphed. Such notice need not include a statement of the business to be transacted at, or the purpose of, any such meeting.

## Section 6. Quorum.

Except as may be otherwise provided by law or in these Bylaws, the presence of one-third of the entire Board shall be necessary and sufficient to constitute a quorum for the transaction of business at any meeting of the Board, and the act of a majority of such quorum shall be deemed the act of the Board.

Less than a quorum may adjourn any meeting of the Board from time to time without notice.

## Section 7. Participation in Meetings by Conference Telephone.

Members of the Board, or of any committee thereof, may participate in a meeting of such Board or committee by means of conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other and such participation shall constitute presence in person at such meeting.

#### Section 8. Powers.

The business, property, and affairs of the Corporation shall be managed by or under the direction of its Board of Directors, which shall have and may exercise all the powers of the Corporation to do all such lawful acts and things as are not by law, or by the Certificate of Incorporation, or by these Bylaws, directed or required to be exercised or done by the stockholders.

#### Section 9. Compensation of Directors.

Directors shall receive such compensation for their services as shall be determined by a majority of the entire Board provided that Directors who are serving the Corporation as officers or employees and who receive compensation for their services as such officers or employees shall not receive any salary or other compensation for their services as Directors.

#### Section 10. Committees of the Board.

A majority of the entire Board of Directors may designate one or more standing or temporary committees consisting of one or more Directors. The Board may invest such committees with such powers and authority, subject to the limitations of law and such conditions as it may see fit.

### ARTICLE IV. EXECUTIVE COMMITTEE

#### Section 1. Election.

At any meeting of the Board, an Executive Committee, composed of the Chairman of the Board, the President, and not less than three other members, may be elected by a majority vote of the entire Board to serve until the Board shall otherwise determine. Either the Chairman of the Board or the President, whichever is the Chief Executive Officer, shall be the Chairman of the Executive Committee, and the other shall be the Vice Chairman thereof, unless the Board shall otherwise determine. Members of the Executive Committee shall be members of the Board.

#### Section 2. Powers.

The Executive Committee shall have and may exercise all of the powers of the Board of Directors when the Board is not in session, except that, unless specifically



authorized by the Board of Directors, it shall have no power to (a) elect directors or officers; (b) alter, amend, or repeal these Bylaws or any resolution of the Board of Directors relating to the Executive Committee; (c) declare any dividend or make any other distribution to the stockholders of the Corporation; (d) appoint any member of the Executive Committee; or (e) take any other action which legally may be taken only by the Board.

### Section 3. Rules.

The Executive Committee shall adopt such rules as it may see fit with respect to the calling of its meetings, the procedure to be followed thereat, and its functioning generally. Any action taken with the written consent of all members of the Executive Committee shall be as valid and effectual as though formally taken at a meeting of said Executive Committee.

### Section 4. Vacancies.

Vacancies in the Executive Committee may be filled at any time by a majority vote of the entire board.

## ARTICLE V. OFFICERS

### Section 1. Number.

The officers of the Corporation shall be appointed or elected by the Board of Directors. The officers shall be a Chairman of the Board, a President, one or more Vice Chairmen, such number of Vice Presidents or other officers as the Board may from time to time determine, a Secretary, a Treasurer, and a Controller. The President shall be Chief Executive Officer unless the Board shall determine otherwise. The Chairman of the Board shall preside at all meetings of the Board and shall perform such other duties as may be assigned from time to time by the Board. In the absence of the Chairman or if such office shall be vacant, the President shall preside at all meetings of the Board. In the absence of the Chairman of the Board and the President, any other Board member designated by the Board may preside at all meetings of the stockholders and of the Board. The Board of Directors may appoint or elect a person as a Vice Chairman without regard to whether such person is a member of the Board of Directors.

### Section 2. Staff and Divisional Officers.

The Chief Executive Officer may appoint at his discretion such persons to hold the title of staff vice president, divisional chairman, divisional president, divisional vice president or other similar designation. Such persons shall not be officers of the Corporation and shall retain such title at the sole discretion of the Chief Executive Officer who may at his will and from time to time make or revoke such designation.

### Section 3. Terms of Office.

All officers, agents, and employees of the Corporation shall hold their respective offices or positions at the pleasure of the Board of Directors or the appropriate appointing authority and may be removed at any time by such authority with or without cause.

### Section 4. Duties.

The officers, agents, and employees shall perform the duties and exercise the powers usually incident to the offices or positions held by them respectively, and/or such other duties and powers as may be assigned to them from time to time by the Board of Directors or the Chief Executive Officer.

## ARTICLE VI.

### INDEMNIFICATION OF DIRECTORS, OFFICERS, AND EMPLOYEES

#### Section 1.

The Corporation shall indemnify to the full extent permitted by, and in the manner permissible under the Delaware General Corporation Law, as amended from time to time, any person made, or threatened to be made, a party to any action, suit, or proceeding, whether criminal, civil, administrative, or investigative, by reason of the fact that such person (i) is or was a director, advisory director, or officer of the Corporation or any predecessor of the Corporation, or (ii) is or was a director, advisory director or officer of the Corporation or any predecessor of the Corporation and served any other corporation, partnership, joint venture, trust or other enterprise as a director, advisory director, officer, partner, trustee, employee or agent at the request of the Corporation or any predecessor of the Corporation. The foregoing rights of indemnification shall not be deemed exclusive of any other rights to which any such director, advisory director or officer may be entitled apart from the provisions of this Article.

The Board of Directors in its discretion shall have power on behalf of the Corporation to indemnify any person, other than such a director, advisory director or officer, made a party to any action, suit, or proceeding by reason of the fact that such person, or the testator or intestate of such person, is or was an employee of the Corporation.

#### Section 2.

Expenses incurred by a director, advisory director or officer in defending a civil or criminal action, suit or proceeding for which indemnification is required pursuant to Section 1 shall be paid by the Corporation in advance of the final disposition of such

action, suit or proceeding upon receipt of an undertaking by or on behalf of such director, advisory director or officer to repay such amount if it shall ultimately be determined that he is not entitled to be indemnified by the Corporation as authorized by Delaware law. Such expenses incurred by other employees and agents may be so paid upon such terms and conditions, if any, as the Board of Directors deems appropriate.

ARTICLE VII.  
STOCK

Section 1. Certificated or Uncertificated Shares.

The Board of Directors may authorize the issuance of stock either in certificated or in uncertificated form. If shares are issued in uncertificated form, each stockholder shall be entitled upon written request to a stock certificate or certificates, representing and certifying the number and kind of full shares held, signed as provided in Section 2 of this Article VII. Certificates for shares of stock shall be in such form as the Board of Directors may from time to time prescribe. The shares of the stock of the Corporation shall be transferable on the books of the Corporation by the holder thereof in person or by his or her attorney upon surrender for cancellation of a certificate or certificates for the same number of shares, or other evidence of ownership if no certificates shall have been issued, with an assignment and power of transfer endorsed thereon or attached thereto, duly executed, and with such proof of the validity of the signature as the Corporation or its agents may reasonably require.

Section 2. Signatures.

The certificates of stock shall be signed by the Chairman, President, or a Vice President and by the Secretary or an Assistant Secretary, provided that if such certificates are signed by a transfer agent or transfer clerk and by a registrar, the signatures of such Chairman, President, Vice President, Secretary, or Assistant Secretary may be facsimiles, engraved, or printed.

Section 3. Replacement.

No certificate for shares of stock in the Corporation shall be issued in place of any certificate alleged to have been lost, stolen, or destroyed except upon production of such evidence of such loss, theft, or destruction and upon delivery to the Corporation of a bond of indemnity in such amount, and upon such terms and secured by such surety as the Board of Directors or the Executive Committee in its discretion may require.

ARTICLE VIII.  
MISCELLANEOUS

Section 1. Seal.

The Corporation seal shall bear the name of the Corporation, the date 1929 and the words "Corporate Seal, Delaware".

Section 2. Fiscal Year.

The fiscal year of the Corporation shall begin on the first day of January in each year and shall end on the thirty-first day of December following.

ARTICLE IX.  
AMENDMENTS

Section 1.

These Bylaws, or any of them, may from time to time be supplemented, amended, or repealed (a) by a majority vote of the entire Board of Directors or (b) at any annual or special meeting of the stockholders.

ARTICLE X.  
EMERGENCY BYLAW

Section 1. Operative Event.

The Emergency Bylaw provided in this Article X shall be operative during any emergency resulting from an attack on the United States, any nuclear or atomic incident, or other event which creates a state of disaster of sufficient severity to prevent the normal conduct and management of the affairs and business of the Corporation, notwithstanding any different provision in the preceding articles of the Bylaws or in the Certificate of Incorporation of the Corporation or in the General Corporation Law of Delaware. To the extent not inconsistent with this Emergency Bylaw, the Bylaws provided in the preceding Articles shall remain in effect during such emergency and upon the termination of such emergency the Emergency Bylaw shall cease to be operative unless and until another such emergency shall occur.

Section 2. Notice of Meeting.

During any such emergency, any meeting of the Board of Directors may be called by any officer of the Corporation or by any Director. Notice shall be given by such person or by any officer of the Corporation. The notice shall specify the place of the meeting, which shall be the head office of the Corporation at the time if feasible and otherwise any other place specified in the notice. The notice shall also specify the time of the meeting. Notice may be given only to such of the Directors as it may be feasible to

reach at the time and by such means as may be feasible at the time, including publication or radio. If given by mail, messenger, telephone, or telegram, the notice shall be addressed to the Directors at their residences or business addresses, or such other places as the person giving the notice shall deem most suitable. Notice shall be similarly given, to the extent feasible, to the other persons serving as Directors referred to in Section 3 below. Notice shall be given at least two days before the meeting if feasible in the judgment of the person giving the notice and otherwise on any shorter time he may deem necessary.

### Section 3. Quorum.

During any such emergency, at any meeting of the Board of Directors, a quorum shall consist of one-third of the number of Directors fixed at the time pursuant to Article III of the Bylaws. If the Directors present at any particular meeting shall be fewer than the number required for such quorum, other persons present, to the number necessary to make up such quorum, shall be deemed Directors for such particular meeting as determined by the following provisions and in the following order of priority:

(a) All Executive Vice Presidents of the Corporation in order of their seniority of first election to such office, or if two or more shall have been first elected to such office on the same day, in the order of their seniority in age; and

(b) All Senior Vice Presidents of the Corporation in order of their seniority of first election to such office, or if two or more shall have been first elected to such office on the same day, in the order of their seniority in age; and

(c) All Vice Presidents of the Corporation in order of their seniority of first election to such office, or if two or more shall have been first elected to such office on the same day, in the order of their seniority in age; and

(d) Any other persons that are designated on a list that shall have been approved by the Board of Directors before the emergency, such persons to be taken in such order of priority and subject to such conditions as may be provided in the resolution approving the list.

### Section 4. Lines of Management Succession.

The Board of Directors, during as well as before any such emergency, may provide and from time to time modify lines of succession in the event that during such an emergency any or all officers or agents of the Corporation shall for any reason be rendered incapable of discharging their duties.

### Section 5. Office Relocation.

The Board of Directors, during as well as before any such emergency, may, effective in the emergency, change the head office or designate several alternative head offices or regional offices, or authorize the officers to do so.

Section 6. Liability.

No officer, director, or employee acting in accordance with this Emergency Bylaw shall be liable except for willful misconduct.

Section 7. Repeal or Amendment.

This Emergency Bylaw shall be subject to repeal or change by further action of the Board of Directors or by action of the stockholders, except that no such repeal or change shall modify the provisions of the next preceding paragraph with regard to action or inaction prior to the time of such repeal or change. Any such amendment of this Emergency Bylaw may make any further or different provision that may be practical and necessary for the circumstances of the emergency deems it to be in the best interest of the Corporation to do so.

## EMPLOYMENT AGREEMENT

THIS AGREEMENT, dated as of August 1, 1997, by and between U.S. Bancorp (formerly First Bank System, Inc.), a Delaware corporation (as further defined in Section 8.13.11 hereof, "Employer"), and John F. Grundhofer ("Executive"), replacing the Amended and Restated Employment Agreement by and between Executive and Employer dated as of August 15, 1996 (the "Prior Agreement").

In consideration of the respective undertakings of Employer and Executive set forth below, Employer and Executive agree as follows:

1. Employment. Employer hereby employs Executive, and Executive accepts such employment and agrees to perform services for the Employer, for the period and upon the other terms and conditions set forth in this Agreement.

2. Term of Employment. The term of Executive's employment pursuant to this Agreement will commence on August 1, 1997 (the "Commencement Date") and, unless terminated at an earlier date in accordance with Section 5 of this Agreement, shall continue in effect until the fifth anniversary of the Commencement Date; and, commencing on the first anniversary of the Commencement Date and on each anniversary thereafter, the term of this Agreement shall automatically be extended for one additional year unless, not later than 30 days prior to any such date of automatic extension of this Agreement, Employer or Executive shall have given the other party to this Agreement written notice that the Agreement will not be so extended. The term of Executive's employment commencing on the Commencement Date and ending pursuant to the terms hereof is hereinafter referred to as the "Period of Employment."

### 3. Position and Duties.

3.01 Service with Employer. During the Period of Employment, Executive agrees to perform such reasonable executive employment duties as Employer shall assign to him from time to time and shall have the title of President and Chief Executive Officer and upon the earlier of (x) the retirement of Gerry B. Cameron, and (y) January 1, 1999, the Executive shall have the additional title of Chairman of the Board of Directors of the Employer; provided, however, that Employer may name another executive President during the Period of Employment so long as Executive retains the other titles as herein provided. Executive also agrees to serve, for any period for which he is elected, as a director on the Board of Directors of Employer

and to serve as a member of any committee of the Board of Directors of Employer to which Executive may be elected or appointed.

3.02 Performance of Duties. Executive agrees to serve Employer faithfully and to the best of his ability and to devote his full business time, attention and efforts to the business and affairs of Employer during the Period of Employment; provided, however, that Executive may engage in other activities, such as activities involving charitable, educational, religious and similar types of organizations, speaking engagements, membership on the boards of directors of other organizations (as Employer may from time to time approve), management of Executive's personal investments, and similar types of activities to the extent that such other activities do not inhibit in any material way or prohibit the performance of Executive's duties under this Agreement, or inhibit in any material way or conflict with the business of Employer and its subsidiaries.

### 4. Compensation.

4.01 Base Salary. As base compensation for all services to be rendered by Executive under this Agreement, Employer will pay to Executive during the Period of Employment a base annual salary ("Annual Salary") to be paid in substantially equal installments in accordance with Employer's standard payroll procedures and policies. The Annual Salary will be at least \$840,000, but the Annual Salary may be increased (but not reduced) from time to time in the sole discretion of Employer; provided, however, that for any of the three years beginning after a Change in Control, as defined in Section 8.13, during the Period of Employment Executive's Annual Salary shall be increased by a percentage not less than the average percentage increase in the base annual salary for each of the next five highest paid officers of Employer for such year.

4.02 Annual Bonus. During the Period of Employment, Executive will be entitled to participate in the Employer's Executive Incentive Plan (or, if such Plan shall cease to exist, Employer's annual bonus award program, if any, for Employer's executives at Executive's grade level) with a target bonus opportunity at least as great as that provided to the Executive immediately prior to the Commencement Date. The award of an annual bonus is highly discretionary and is subject to the terms and provisions of the Executive Incentive Plan (or, if such Plan shall cease to exist, Employer's annual bonus award program, if any, for Employer's executives at Executive's grade level).

4.03 Options and Restricted Stock. During the Period of Employment, Executive will be eligible to receive grants of Employer's stock options and restricted stock, or other awards pursuant to equity-based plans of Employer. Such grants are highly discretionary and would be subject to the terms of the applicable agreements prescribed by Employer from time to time.

Notwithstanding the foregoing, the Executive shall be granted on the date hereof 50,000 shares of restricted common stock of the Employer (the "Restricted Stock"). The Restricted Stock shall vest in five equal installments on each of the first through fifth anniversaries of the date of grant but shall vest immediately upon the Executive's death or Disability (as defined in the Employer's Disability Program) or upon a termination of the Executive's employment by the Employer without Cause or by the Executive for Good Reason, or upon a Full Change in Control. The Executive shall be granted as of the date hereof an option (the "Option") to acquire 150,000 shares of the Employer's common stock at their Fair Market Value on the date of grant (as defined in the Employer's 1997 Stock Incentive Plan). The Option shall have a term of 10 years and shall vest and become exercisable in full on the fifth anniversary of the date of grant, subject to acceleration in the event of achievement of performance targets set forth in the grant of the Option, and shall be subject to all other terms and conditions currently applicable to options granted under such Plan to other executive officers of the Employer. The Option shall vest and become immediately exercisable upon the Executive's death or Disability (as defined in the Employer's Disability Program) or upon a termination of the Executive's employment by the Employer without Cause or by the Executive for Good Reason, or upon a Full Change in Control.

4.04 Participation in Other Benefit Plans. During the Period of Employment, Executive will be entitled to participate in such retirement plans, major medical, hospital, surgical and dental plans, executive disability plans and other Employer benefits not described elsewhere in this Section 4 as are being provided by Employer to executives at Executive's grade level from time to time to the extent that Executive's age, positions and other factors qualify him for such benefits. If, for any period during the Period of Employment, Executive is not eligible by reason of length of service to participate in such plans maintained by Employer, Employer shall provide Executive with benefits equivalent to those provided under such plans and, with respect to benefits provided by Employer equivalent to those provided under Employer's major medical, hospital, surgical and dental plans, shall compensate Executive on an after-tax basis for any additional income taxes payable by



Executive by reason of Employer providing such benefits directly rather than through such plans. Upon a termination of employment for any reason and for the remainder of the Executive's life and that of his current spouse, the Employer shall continue to provide medical and dental benefits in the aggregate to the Executive and his current spouse pursuant to the Employer's Retiree Health Care Program at a subsidized cost on the same basis as the Employer subsidizes premiums for retirees of the Employer who retired prior to January 1, 1993 (collectively "Medical Benefits"). The Executive and his current spouse's entitlement to Medical Benefits shall survive the termination of this Agreement.

4.05 Long-Term Disability Benefits. During the Period of Employment, Executive's annual benefit under Employer's long-term disability plan not be less than 60% of the total of (i) Executive's base annual salary at the date of disability plus (ii) the annual average of bonuses received by Executive during the three prior Executive Incentive Plan years (or, if such Plan shall cease to exist, such other annual bonus award program, if any, pursuant to which Executive received annual bonus payments), and Employer agrees to pay Executive (at the time benefits are payable under the long-term disability plan) the excess, if any, of such annual benefit over the annual benefit provided by Employer's long-term disability plan.

4.06 Survivor Benefit Programs; Life Insurance. During the Period of Employment, Executive will be entitled to participate in survivor benefit programs covering Employer's executives at Executive's grade level in effect on the Commencement Date or as modified or supplemented by Employer from time to time. If, for any period during the Period of Employment, Executive is not eligible to participate in such survivor benefit programs, Employer shall provide Executive with benefits equivalent to those provided under such programs. In addition, during the Period of Employment Employer shall continue to provide a life insurance policy with a face value of at least \$1 million for the benefit of a beneficiary designated by Executive (or, if no beneficiary is designated, for the benefit of Executive's spouse). Such insurance policy shall be in addition to the amount of group term insurance, if any, provided to Executive under an insurance plan maintained by Employer for its employees generally. Executive hereby represents to Employer that Executive is insurable on normal terms and conditions.

4.07 Retirement Benefits. The Executive shall be entitled to a retirement benefit pursuant to the Employer's Non-Qualified Supplemental Executive Retirement Plan in effect

as of the date hereof (the "NQSRRP"), with the following modifications: (i) the Executive's lifetime annual pension benefit commencing at age 65 shall be 57.5% of his final three year's average compensation, (ii) the Executive shall be fully vested in this benefit at age 60, with no actuarial or other reduction for retirement prior to age 65 but after age 60 but with a reduction for commencement of benefits prior to age 65, (iii) the Prior Plans' Offset (as defined in the NQSRRP) shall be fixed at \$270,000 per year, and (iv) the Executive's minimum actual pension from all Employer qualified plans and the NQSRRP shall not be less than \$1 million per year, commencing at age 65 and, if the joint and survivor form of benefit is elected, his spouse's minimum total survivor benefit from all sources upon executive's death at or after age 65 shall not be less than \$500,000 per year. In the event of any conflict between the terms of this Section 4.07 and the NQSRRP, the provisions of this Section 4.07 shall prevail.

4.08 Vacation and Sick Leave. During the Period of Employment, Executive will be entitled to reasonable paid vacation periods each year, will be entitled to carry over to subsequent years unused vacation periods, and upon termination of employment will be entitled to be paid for unused vacation periods, in each case in accordance with Employer's policy for executives at Executive's grade level from time to time. Executive will also be entitled to reasonable sick leave in accordance with Employer's policy for executives at Executive's grade level from time to time.

4.09 Perquisites. During the Period of Employment, Employer will provide Executive with such perquisites as Employer from time to time provides to executives at Executive's grade level including, without limitation, (a) an automobile or automobile allowance consistent with Employer's policies for an executive at Executive's grade level, (b) reimbursement of initiation fees, if any, and dues for one country club and one business club of Executive's choice, and (c) the reimbursement of the cost of financial and tax counseling (subject to an annual limit of two percent of current base annual salary). Additionally, during the Period of Employment, Employer will reimburse Executive for the difference between (i) interest payments made by Executive on Executive's real estate mortgage loan for his personal residence (with the loan amount not to exceed 80% of the purchase price for such residence) and (ii) the interest payments that would apply to such loan if the interest rate on such loan were one percentage point less than the interest rate generally prevailing in the market at the time the loan was entered into.

4.10 Expenses. Employer will reimburse Executive for all expenses and disbursements reasonably incurred by Executive in the performance of his duties during the Period of Employment, and such other facilities or services as Employer and Executive may, from time to time, agree are reimbursable, subject to the presentation of appropriate vouchers in accordance with the Employer's normal policies for expense verification.

4.11 Indemnity and Hold Harmless. Except to the extent inconsistent with Employer's charter or bylaws, Employer will indemnify Executive and hold Executive harmless to the fullest extent permitted by law with respect to acts of Executive as an officer and director of Employer during the Period of Employment. Employer further agrees that if and to the extent Employer in its sole discretion maintains directors' and officers' insurance policies, Executive will be covered by such policies with respect to acts of Executive as an officer and director of Employer during the Period of Employment to the same extent as all other officers and directors of Employer under such policies.

4.12 Payments on Account of Restricted Stock Relating to Former Employment. Employer has established and is maintaining a bookkeeping account for Executive (the "Bookkeeping Account"), which account was initially credited with \$305,074, representing the amount agreed to be paid to Executive and not paid to date in respect of shares of Wells Fargo & Company ("Wells Fargo") Common Stock transferred by Wells Fargo to Executive, but not vested, as of January 30, 1990. The amount credited to the Bookkeeping Account shall be deemed to have been invested in such stock, bonds or other securities as Executive shall, from time to time, designate in writing to Employer's Executive Vice President, Human Resources, or such other individual as Employer shall designate, which deemed investments must be reasonably acceptable to Employer and must be of a type that Employer would be permitted to make under applicable laws and regulations. The Bookkeeping Account shall be credited or debited, as the case may be, with gains or losses deemed incurred as a result of such designated, deemed investments.

Certain debits have been made to the Bookkeeping Account as provided in the Employment Agreement dated December 30, 1992 by and between Employer and Executive (the "1992 Employment Agreement"). The balance of the Bookkeeping Account shall become payable to, or with respect to, Executive upon the earliest of the following events (i) January 30, 2003, (ii) Executive's death or (iii) Executive's termination of employment for any reason within 24 months after a Change in Control.

In the event the balance of the Bookkeeping Account becomes payable upon Executive's termination of employment for any reason other than death within 24 months after a Change in Control, the entire balance shall be paid within 30 days of such event. In the event the balance of the Bookkeeping Account becomes payable upon Executive's death, the entire balance shall be paid by December 31 of the calendar year in which Executive dies. Upon the occurrence of any other event giving rise to Employer's obligation to pay Executive the balance of the Bookkeeping Account, on January 30 of each year beginning in the year 2003 and for each of the next nine consecutive years, after taking into account any amount credited or debited to the Bookkeeping Account as a result of the deemed investment thereof or otherwise pursuant to the terms of this Section 4.12, the following proportions of the Bookkeeping Account shall be paid to Executive: 1/10, 1/9, 1/8, 1/7, 1/6, 1/5, 1/4, 1/3, 1/2 and the entire remaining balance thereof.

Employer, in its sole and absolute discretion, may alter the timing or manner of payment of the balance of the Bookkeeping Account in the event that Executive establishes to the satisfaction of Employer severe financial hardship. Severe financial hardship will be deemed to have occurred in the event of Executive's impending bankruptcy, a dependent's long and serious illness or other events of similar magnitude. Executive may designate a beneficiary or beneficiaries who, upon his death, are to receive distributions that otherwise would have been paid to Executive. All designations shall be in writing and shall be effective only if and when delivered to Employer during the lifetime of Executive.

Employer shall have the right to deduct from all payments made pursuant to this Section 4.12 any federal, state or local taxes required by law to be withheld with respect to such payments. Executive and Employer understand and agree that the timetable set forth above with respect to the payment of the balance of the Bookkeeping Account is irrevocable and shall not be subject to any amendment or modification. Further, Executive and Employer understand and agree that Employer is under a contractual obligation to make payments to Executive in accordance with this Section 4.12. Such payments shall not be financed from any trust fund, insurance or otherwise and shall be paid solely out of the general funds of Employer, and Executive shall have no interest whatsoever in any investments made by Employer on account of Executive's request with respect to deemed investments of the Bookkeeping Account. Executive will not have any interest whatsoever in any specific asset of Employer as a result of this Agreement, and Executive's rights to payments hereunder shall be no greater than the right of any other general, unsecured creditor of Employer. In no event

shall Employer make any payment hereunder to any assignee or creditor of Executive or a beneficiary. Prior to the time of payment hereunder, Executive or a beneficiary thereof shall have no rights by way of anticipation or otherwise to assign or otherwise dispose of any interest under this Section 4.12, nor shall such rights be assigned or transferred by operation of law.

#### 5. Termination.

5.01 Grounds for Termination. The Period of Employment will terminate prior to the expiration of the term set forth in Section 2 of this Agreement in the event that:

- (a) Executive shall die.
- (b) Executive shall qualify for and accrue payments under Employer's Disability Program for a period covering 90 consecutive days.
- (c) Employer shall terminate the Period of Employment for Cause. "Cause" means termination upon (i) the willful and continued failure by Executive to substantially perform his duties with Employer (other than any such failure resulting from his disability or from termination by Executive for Good Reason), after a written demand for substantial performance is delivered to Executive that specifically identifies the manner in which Employer believes that Executive has not substantially performed his duties, and Executive has failed to resume substantial performance of his duties on a continuous basis within 14 days of receiving such demand, (ii) the willful engaging by Executive in conduct which is demonstrably and materially injurious to Employer, monetarily or otherwise, (iii) Executive's conviction of a felony which impairs his ability substantially to perform his duties with Employer or (iv) the issuance of an order under Section 8(e)(4) or 8(g)(1) of the Federal Deposit Insurance Act ("FDIC") by which Executive is removed and/or permanently prohibited from participating in the conduct of the affairs of Employer and/or any other Affiliate of Employer. For purposes of this paragraph, no act, or failure to act, on Executive's part will be deemed "willful" unless done, or omitted to be done, by Executive not in good faith and without reasonable belief that his action or

omission was in the best interest of Employer. Failure to perform Executive's duties with Employer during any period of disability shall not constitute Cause.

- (d) Executive shall terminate the Period of Employment for Good Reason. "Good Reason" means termination by Executive upon the occurrence, without Executive's consent, of any one or more of the following: (i) the assignment to Executive of any duties inconsistent in any respect with Executive's position (including status, offices, titles, and reporting requirements), authorities, duties, or other responsibilities as in effect immediately prior to such assignment or any other action of Employer which results in a diminishment in such position, authority, duties, or responsibilities, other than an insubstantial and inadvertent action which is remedied by Employer promptly after receipt of notice thereof given by Executive, and other than the Employer's providing the title of President of the Employer to another executive, provided that the Executive continues as Chairman of the Board (if he is then Chairman of the Board) and Chief Executive Officer of the Employer; (ii) a reduction by Employer in Executive's base salary as in effect on the Commencement Date or as the same shall be increased from time to time; (iii) Employer's requiring Executive to be based at a location in excess of 30 miles from the location of Executive's principal office as of the Commencement Date; (iv) the failure by Employer to provide Executive with compensation and benefits at least equal (in terms of benefit levels and/or reward opportunities) to those provided for under each compensation or benefit plan, program, policy and practice as in effect at the Commencement Date (or as in effect following the Commencement Date, if greater); (v) the failure of Employer to obtain a satisfactory agreement from the Resulting Corporation (as hereinafter defined) or any other successor to Employer to assume and agree to perform this Agreement; (vi) a material breach by Employer of its obligations under this Agreement after notice in writing from Executive and a reasonable opportunity for Employer to correct such conduct; (vii) any purported termination by Employer of Executive's employment that is not effected pursuant to a Notice of Termination (as hereinafter defined); (viii) for the 24 month period following a Full Change in Control (as hereinafter defined) (or prior to a Full Change in Control in the event of an

Anticipatory Termination (as hereinafter defined)), the failure by the Employer to provide Executive total cash compensation (consisting of base salary plus cash bonus) with respect to any fiscal year or portion thereof at least equal to the greater of (x) actual total cash compensation paid to Executive with respect to the prior fiscal year or (y) the average annual total cash compensation paid to Executive with respect to the prior two fiscal years (total cash compensation with respect to any fiscal year or portion thereof shall be determined at the time the bonus with respect to such fiscal year or portion thereof is determined, even if such bonus is determined after the 24-month period following a Full Change in Control, and the bonus portion of cash compensation for services rendered in any portion of a fiscal year within 24 months following a Full Change in Control shall be determined by reference to the pro-rata portion of any annual bonus for such fiscal year) and (ix) within 24 months following a Partial Change in Control (as hereinafter defined) (or prior to a Partial Change in Control in the event of an Anticipatory Termination), a reduction by Employer in Executive's annual target bonus or maximum bonus award opportunities as in effect in the prior fiscal year Executive's right to terminate the Period of Employment for Good Reason shall not be affected by Executive's incapacity due to physical or mental illness. Executive's continued employment shall not constitute consent to, or a waiver of rights with respect to, any circumstance constituting Good Reason. Termination by Executive of the Period of Employment for Good Reason shall constitute termination for Good Reason for all purposes of this Agreement, notwithstanding that Executive may also thereby be deemed to have "retired" under any applicable retirement programs of Employer.

- (e) Employer terminates the Period of Employment other than for "Cause."
- (f) Executive terminates the Period of Employment for any reason not constituting Good Reason.

Notwithstanding any termination of the Period of Employment, Executive, in consideration of his employment hereunder to the date of such termination, will remain bound by the provisions of this Agreement that specifically relate to periods, activities or obligations upon or subsequent to the termination of Executive's employment.

## 5.02 Effect of Termination.

- (a) In the event of termination of the Period of Employment pursuant to the provisions of Section 5.01(a) above, Executive's trust estate or estate, as the case may be (as determined in accordance with Section 8.02 of this Agreement), will be entitled to be paid the base annual salary otherwise payable to Executive pursuant to Section 4.01 of this Agreement only through the date of such termination. Additionally, Executive's survivors will be entitled to any benefits provided under Employer's survivor benefit program. If the joint and survivor form of benefit is elected, the Executive's current spouse, should she survive the Executive, shall be entitled to a survivor benefit based on a 50% joint and survivor annuity pursuant to the Executive's retirement benefits described in Section 4.07, commencing on what would have been the Executive's 65th birthday. In addition, the Restricted Stock shall vest immediately and the Option shall vest and become immediately exercisable. The Executive's current spouse shall also be entitled to the provision of Medical Benefits.
- (b) In the event of termination of the Period of Employment pursuant to the provisions of Section 5.01(b) above, Executive will be entitled to be paid the base annual salary otherwise payable to Executive pursuant to Section 4.01 of this Agreement only through the date of such termination. Executive will be entitled to benefits under Employer's Disability Program and to the benefits provided for in Section 4.05 in connection with Employer's Disability Plan. If Executive shall cease to be eligible for long-term disability payments pursuant to the Disability Plan within three years following the date of such termination, Employer will pay Executive a lump sum payment in the amount of Executive's annual base salary at the time of such termination. The Executive shall receive the retirement benefits described in Section 4.07 commencing on his 65th birthday. In addition, the Restricted Stock shall vest immediately and the Option shall vest and become immediately exercisable. The Executive and his current spouse shall also be entitled to the provision of Medical Benefits.
- (c) In the event of termination of the Period of Employment pursuant to the provisions of Section 5.01(c) or (f) above, Employer will have no further obligations hereunder except that Employer will pay Executive his



base salary, at the rate then in effect, and continue to provide Executive and his current spouse Medical Benefits. Executive will not be paid any annual bonus pursuant to Section 4.02 of this Agreement for the calendar year in which the termination occurs or any subsequent calendar year.

- (d) In the event of termination of the Period of Employment pursuant to the provisions of Sections 5.01(d) or 5.01(e) above, Employer will (i) pay Executive his full base salary through the date of termination at the rate in effect at the time Notice of Termination is given; (ii) pay as damages to Executive, not later than 30 days following the date of termination, a lump sum payment equal to three times the sum of (A) Executive's annual base salary in effect at the time Notice of Termination is given and (B) the annual target bonus potential available to Executive at the time Notice of Termination is given (or, in the event of termination within 24 months following a Change in Control or in the event of an Anticipatory Termination, if either of the following amounts is greater, the bonus earned in the last fiscal year prior to the date of termination or the average bonus earned in the last three fiscal years prior to the date of termination, whichever is larger), (iii) continue to provide the employee benefits described in Sections 4.04, 4.05 (with disability benefits to be calculated as of the date of termination), and 4.06 to which Executive was entitled on the date of such termination for a period of three years from the date of such termination and thereafter, to provide the Executive and his current spouse with Medical Benefits, (iv) continue to provide the perquisites described in Section 4.09 to which Executive was entitled on the date of such termination for a period of three years from the date of such termination, (v) cause the acceleration of the exercisability of any stock option or the vesting of any restricted stock grants (other than those pursuant to Employer's Restricted Stock and Performance Plan) that would have become exercisable or vested, as the case may be, during the remaining Period of Employment had no such termination occurred, and cause the Restricted Stock and the Option to become immediately vested and exercisable, as the case may be, (vi) cause the acceleration of vesting of restricted stock grants under Employer's Restricted Stock and Performance Plan if the vesting schedule has been determined at the time of such termination and such vesting would have occurred during

the remaining Period of Employment had no such termination occurred, (vii) give Executive credit for three additional years of age and service (or five additional years in the event of termination within 24 months following a Change in Control or in the event of an Anticipatory Termination) for all purposes in determining Executive's retirement benefits pursuant to Section 4.07 and the NQSRP, (viii) in the event of termination within 24 months following a Change in Control or in the event of an Anticipatory Termination, pay Executive the full amount of any long-term cash incentive award for any plan periods then in progress to the extent not provided for in any Employer long-term cash incentive plan or plans, (ix) in the event of termination within 24 months following a Change in Control or in the event of an Anticipatory Termination, pay Executive the year-to-date pro-rata amount of any annual cash incentive award for any plan as in effect immediately prior to the Change in Control to the extent not provided for in such plan or plans, and (x) pay for individual outplacement counseling services to Executive up to a maximum of \$60,000. Except as otherwise provided in clause (ix) of this Section 5.02(d), Executive will not be paid any annual bonus pursuant to Section 4.02 of this Agreement for the calendar year in which the termination occurs.

5.03 Notice of Termination. Any purported termination by Employer or Executive of the Period of Employment shall be communicated by written Notice of Termination to the other party hereto. For purposes of this Agreement, a "Notice of Termination" shall mean a notice which indicates the specific termination provision in Section 5.01 above relied upon.

5.04 Offsets. Executive shall have no duty to seek other employment. However, in the event of termination of the Period of Employment pursuant to the provisions of Sections 5.01(d) or 5.01(e), the following offsets will apply to reduce the payments and benefits which Executive shall be entitled to receive pursuant to Section 5.02(d): (i)(A) in the event of termination within 24 months following a Change in Control or in the event of an Anticipatory Termination, the amount payable to Executive pursuant to Section 5.02(d)(ii) will be offset by any salary, cash bonus and other earned income (within the meaning of Section 911(d)(2)(A) of the Internal Revenue Code of 1986, as amended (the "Code")) received by Executive for services rendered by Executive to persons or entities other than the Employer during or with respect to the 36-month period after the date of termination, or (B) in the event of termination

at any time not within 24 months following a Change in Control and that is not an Anticipatory Termination, one-third of the amount payable to Executive pursuant to Section 5.02(d)(ii)(A) and the entire amount payable to Executive pursuant to Section 5.02(d)(ii)(B) shall be offset by amounts received by Executive which are described in subparagraph (A) above; (ii) the benefits payable to Executive pursuant to Section 5.02(d)(iii) and (iv) shall be discontinued if Executive obtains full-time employment providing welfare benefits during the 36-month period following the date of termination; and (iii) in the event of termination at any time within 24 months following a Change in Control or in the event of an Anticipatory Termination, any additional benefits under Employer's SERP pursuant to Section 5.02(d) will be reduced by the amount of vested defined benefit pension benefits and vested defined benefit non-qualified supplemental retirement benefits actually payable to Executive without any risk of forfeiture from persons or entities other than Employer which are attributable to services rendered by Executive to such other persons or entities during the 36 months following the date of termination of Executive's employment. Such reduction shall be calculated based on the vested benefits payable at age 65 under the single life annuity form of payment under the applicable plans which are accrued by Executive during such period. The foregoing calculations for a particular plan shall be made by the actuary for such plan in accordance with generally accepted actuarial principles. The amount of such reduction at age 65 shall be actuarially reduced if Executive's benefits under the Employer's NQSRP, as modified by Section 4.07, commence before Executive attains age 65.

Not less frequently than annually (by December 31 of each year), Executive shall account to Employer with respect to all payments and benefits received by Executive which are required hereunder to be offset against payments or benefits received by Executive from Employer. If the Employer has paid amounts in excess of those to which Executive is entitled (after giving effect to the offsets provided above), Executive shall reimburse Employer for such excess by December 31 of such year. The requirements imposed under this paragraph shall terminate on December 31 of the calendar year which includes the third anniversary of the date of termination.

5.05 Additional Payments. In the event any payment or distribution of any type by Employer to Executive or for his benefit, whether paid or payable or distributed or distributable pursuant to the terms of this Agreement or otherwise (the "Total Payments"), would be subject to the excise tax imposed by Section 4999 of the Code, or any interest or penalties with respect to such excise tax (such excise tax, together with any such interest and penalties, are collectively referred to as

the "Excise Tax"), then Executive shall be entitled to receive an additional cash payment (a "Gross-Up Payment") equal to an amount such that after payment by Executive of all taxes (including any interest or penalties imposed with respect to such taxes), including any Excise Tax, imposed upon the Gross-Up Payment, Executive would retain an amount of the Gross-Up Payment equal to the Excise Tax imposed upon the Total Payments. For purposes of determining the amount of the Gross-Up Payment, which determination shall be made by the Employer's independent auditors, at the Employer's sole expense, Executive's tax rate shall be deemed to be the highest statutory marginal state and Federal tax rate (on a combined basis) (including Executive's share of F.I.C.A. and Medicare taxes) then in effect. If no determination by Employer's auditors is made prior to the time a tax return reflecting the Total Payments is required to be filed by Executive, Executive will be entitled to receive a Gross-Up Payment calculated on the basis of the Total Payments reported by Executive in such tax return, within 30 days of the filing of such tax return. In all events, if any tax authority determines that a greater Excise Tax should be imposed upon the Total Payments than is determined by the Employer's independent auditors or reflected in Executive's tax return pursuant to this Section 5.05, Executive shall be entitled to receive the full Gross-Up Payment calculated on the basis of the amount of Excise Tax determined to be payable by such tax authority from Employer within 30 days of such determination.

5.06 Nonexclusivity of Rights. Nothing in this Agreement shall prevent or limit Executive from continuing or future participation in any benefit, bonus, incentive, retirement or other plan or program provided by Employer and for which Executive may qualify, nor, except as expressly provided in this Agreement, shall anything herein limit or reduce such rights as Executive may have under any other agreement with, or plan, program, policy or practice of, Employer. Amounts which are vested benefits or which Executive is otherwise entitled to receive under any agreement with, or plan, program, policy or practice of, Employer (including, without limitation, the cash-out of unused vacation days upon termination of employment) shall be payable in accordance with such agreement, plan, program, policy or practice, except as explicitly modified by this Agreement. Notwithstanding the foregoing, if Executive becomes entitled to benefits under Article 5 of this Agreement, Executive shall not be entitled to receive payments under any other severance pay plan or program sponsored or maintained by Employer or any of its Affiliates.

## 6. Non-Competition and Unfair Competition.

6.01 Agreement Not to Compete. Without the approval by resolution of the Board of Directors of Employer, upon termination of Executive's employment with Employer by Employer for Cause pursuant to Section 5.01(c) or by Executive without Good Reason pursuant to Section 5.01(f), Executive will not, for a period of three years thereafter, become an officer, employee, agent, partner, director or substantial stockholder (holding more than 5% of the voting securities), of any bank, savings bank, trust company, bank and trust company, savings and loan association or holding company thereof, in each case if such entity conducts business in the State of California, the State of Colorado, the State of Idaho, the State of Illinois, the State of Iowa, the State of Kansas, the State of Minnesota, the State of Montana, the State of Nebraska, the State of Nevada, the State of North Dakota, the State of Oregon, the State of South Dakota, the State of Utah, the State of Washington, the State of Wisconsin, the State of Wyoming or any other State in which Employer has substantial operations.

6.02 Agreement Not to Solicit. Without the approval by resolution of the Board of Directors of Employer, upon termination of Executive's employment with Employer for any reason whatsoever, Executive will not, for the remainder of the Period of Employment if no termination had occurred (or, if longer, for the one-year period following such termination), (i) solicit or aid in soliciting as a customer or client of banking or related financial services (including, without limitation trust, credit card and investment management services) any person, firm, corporation, association or other entity (A) that was a customer or client of Employer or any other Affiliate of Employer, and for which Executive or anyone under Executive's supervision performed any services or with which substantial business relations were maintained by Employer or any other Affiliate of Employer at any time during the five years prior to the termination of the Period of Employment or (B) whose identity or particular needs Executive otherwise discovered as a result of his employment with Employer, or (ii) solicit or aid in soliciting any employees of Employer or any other Affiliate of Employer to leave their employment. Without the approval by resolution of the Board of Directors of Employer, upon termination of Executive's Employment with Employer for any reason whatsoever, Executive agrees never to copy, remove from Employer or its Affiliates, dispose or make any use of any confidential customer list, confidential business information with respect to customers, confidential materials relating to the practices or procedures of Employer or its Affiliates, or any other proprietary information.

7. Taxes. All payments to be made to Executive under this Agreement will be net of required withholding of federal, state and local income and employment taxes. Whenever under this Agreement Executive is to be compensated or reimbursed on an "after-tax basis," Executive will be assumed to be subject to federal income taxes at the highest marginal rate applicable to individuals and to state income taxes at the highest marginal effective rate for residents of Minneapolis, Minnesota.

8. Miscellaneous.

8.01 Governing Law. This Agreement is made under and shall be governed by and construed in accordance with the laws of the State of Minnesota.

8.02 Successor. This Agreement shall be binding upon and inure to the benefit of Employer and its successors. This Agreement will inure to the benefit of, be enforceable by, and any amounts and benefits owed to Executive at the time of Executive's death, unless otherwise provided herein, will be paid to, the Trustee under the John F. and Beverly J. Grundhofer Living Trust Agreement, or, if such Trust is not then in existence, the personal representative or personal representatives of Executive's estate. Reference to the "John F. and Beverly J. Grundhofer Living Trust Agreement" means that certain Declaration of Trust, John F. and Beverly J. Grundhofer Living Trust, dated February 22, 1988, by and between John F. and Beverly J. Grundhofer, as donors and as original Trustees, as amended and existing at John F. Grundhofer's death. Reference to the Trustee under the John F. and Beverly J. Grundhofer Living Trust Agreement means the then acting Trustee or Trustees under the John F. and Beverly J. Grundhofer Living Trust Agreement and any successor Trustees.

Employer will require the Resulting Corporation or any other successor (whether direct or indirect, by purchase, merger, consolidation, or otherwise) to all or substantially all of the business and/or consolidated assets of Employer and its subsidiaries to expressly assume and agree to perform this Agreement in the same manner and to the same extent that the Employer would be required to perform if no such succession had taken place. Failure of Employer to obtain such assumption and agreement prior to the effectiveness of any such succession shall be a breach of this Agreement and shall entitle Executive to compensation from Employer in the same amount and on the same terms as Executive would be entitled to hereunder if Executive terminated his employment for Good Reason following a Change in Control, except that for purposes of implementing the

foregoing, the date on which any such succession becomes effective shall be deemed the date of termination and Notice of Termination shall be deemed to have been given on such date. In any case where a successor assumes the Employer's obligations under this Agreement by operation of law, the requirements imposed in this paragraph will be satisfied if the successor acknowledges to Executive in writing that it has assumed the Employer's obligations under this Agreement by operation of law within 30 days of receipt of a written notice from Executive requesting such acknowledgment.

8.03 Prior Agreements. This Agreement contains the entire agreement of the parties relating to the employment of Executive by Employer and the other matters discussed herein and supersedes all prior agreements and understandings with respect to such subject matter, and the parties hereto have made no agreements, representations or warranties relating to the subject matter of this Agreement which are not set forth herein. The Prior Agreement is hereby terminated and shall have no further force or effect. The Change in Control Severance Pay Agreement entered into between Employer and Executive on March 16, 1992, which was attached as Exhibit A to the 1992 Employment Agreement with Employer, remains terminated and of no force or effect.

8.04 Amendments. No amendment or modification of this Agreement will be deemed effective unless made in writing and signed by each party hereto.

8.05 No Waiver. No term or condition of this Agreement will be deemed to have been waived, nor will there be any estoppel to enforce any provisions of this Agreement, except by a statement in writing signed by the party against whom enforcement of the waiver or estoppel is sought. Any written waiver will not be deemed a continuing waiver unless specifically stated, will operate only as to the specific term or condition waived and will not constitute a waiver of such term or condition for the future or as to any act other than that specifically waived.

8.06 Assignment. This Agreement is not assignable, in whole or in part, by any party without the written consent of the other party.

8.07 Injunctive Relief. Executive agrees that it would be difficult to compensate Employer fully for damages for any violation of the provisions of this Agreement, including without limitation the provisions of Section 6. Accordingly, Executive specifically agrees that Employer will be entitled to

temporary and permanent injunctive relief to enforce the provisions of this Agreement and that such relief may be granted without the necessity of proving actual damages. This provision with respect to injunctive relief will not, however, diminish the right of Employer to claim and recover damages in addition to injunctive relief.

8.08 Disputes and Legal Fees.

- (a) Before a Change in Control. Any controversy or claim arising out of or relating to this Agreement, or the breach thereof, which is not resolved by the parties will not sooner than 30 days after the dispute shall arise, be settled by arbitration before three arbitrators in accordance with the rules of the American Arbitration Association, and judgment upon an award rendered by the arbitrators, or at least a majority of them, may be entered in any court having jurisdiction thereof; provided, however, that Employer will be entitled to seek injunctive or other equitable relief in a court of law to enforce the provisions of Section 6. Such arbitration shall be conducted in Minneapolis, Minnesota. The expenses incurred in connection with any arbitration, including but not limited to each party's legal fees and the arbitrators' fees and expenses, will be allocated between the parties according to the relative fault of each, as determined by the arbitrators.
- (b) After a Change in Control. Subparagraph (a) above shall not apply after a Change in Control, and the provisions of this subparagraph (b) shall apply instead. If Executive so elects, any dispute or controversy arising under or in connection with this Agreement shall be settled exclusively by arbitration in accordance with the rules of the American Arbitration Association then in effect. Judgment may be entered on the arbitrator's award in any court having jurisdiction. If Executive does not elect arbitration, Executive may pursue any and all legal remedies available to him. Employer shall pay to Executive any legal fees and expenses reasonably incurred by him after a Change in Control. If Executive elects arbitration, Employer will pay all fees and expenses of the arbitrator.

8.09 Severability. To the extent that any provision of this Agreement shall be determined to be invalid or unenforceable, the invalid or unenforceable portion of such provision will be deleted from this Agreement, and the validity and



enforceability of the remainder of such provision and of this Agreement will be unaffected. In furtherance of and not in limitation of the foregoing, it is expressly agreed that should the duration of or geographical extent of, or business activities covered by, the noncompetition covenant contained in Section 6 be determined to be in excess of that which is valid or enforceable under applicable law, then such provision will be construed to cover only that duration or extent, or those activities which may validly or enforceably be covered. Executive acknowledges the uncertainty of the law in this respect and expressly stipulates that this Agreement will be construed in a manner which renders its provisions valid and enforceable to the maximum extent (not exceeding its express terms) possible under applicable law.

8.10 Notices. All notices under this Agreement will be in writing and will be deemed effective when delivered in person (in Employer's case, to its Secretary) or twenty-four (24) hours after deposit thereof in the U.S. mails, postage prepaid, for delivery as registered or certified mail -- addressed, the case of Executive, to him at his last residential address known by Employer and, in the case of Employer, to its corporate headquarters attention of its Secretary, or to such other address as Executive or Employer may designate in writing at any time or from time to time to the other party. In lieu of notice by deposit in the U.S. mails, a party may give notice by telegram, telex or telecopy, in which case such notice will be deemed effective upon receipt.

8.11 Counterparts. This Agreement may be executed by the parties hereto in counterparts, each of which will be deemed to be an original, but all such counterparts will together constitute one and the same instrument.

8.12 Headings. The headings of paragraphs herein are included solely for convenience of reference and shall not control the meaning or interpretation of any of the provisions of this Agreement.

8.13 Change in Control. For purposes of this Agreement, the following additional definitions shall apply:

8.13.1 "Acquiring Person" shall mean any Person who or which, together with all Affiliates and Associates of such person, is the Beneficial Owner, directly or indirectly, of securities of Employer representing 20% or more of the combined voting power of Employer's then outstanding securities, but shall not include any Company Entity.

8.13.2 "Affiliate" shall have the meaning ascribed to such term in Rule 12b-2 promulgated under the Exchange Act.

8.13.3 "Announcement Date" shall mean the date of the public announcement of the transaction, event or course of action that results in a Change in Control.

8.13.4 "Anticipatory Termination" shall mean a termination of employment pursuant to Section 5.01(d) or 5.01(e) hereof as a result of an act or event that occurs prior to a Change in Control and after the Announcement Date and either (i) at the request of any other party to a transaction, or any Person associated with the event or course of events (other than Employer or a Company Entity), that results in a Change in Control, or (ii) otherwise in contemplation of a Change in Control; provided, that no termination shall be deemed an Anticipatory Termination unless the Change in Control to which it relates actually occurs.

8.13.5 "Associate" shall have the meaning ascribed to such term in Rule 12b-2 promulgated under the Exchange Act.

8.13.6 "Beneficial Owner" shall have the meaning ascribed to such term in Rule 13d-3 promulgated under the Exchange Act.

8.13.7 "Board of Directors" shall mean the board of directors of Employer.

8.13.8 "Change in Control" shall mean a Full Change in Control or a Partial Change in Control.

8.13.9 "Company Entity" shall mean Employer, any subsidiary of Employer or any employee benefit plan of Employer or of any subsidiary of Employer or any entity holding shares of the voting capital stock of Employer organized, appointed or established for, or pursuant to the terms of, any such plan.

8.13.10 "Continuing Director" shall mean any person who is a member of the Board of Directors, while such person is a member of the Board of Directors, who is not an Acquiring Person or an Affiliate or Associate of an Acquiring Person, or a representative of an Acquiring Person or of any such Affiliate or Associate, and who (x) was a member of the Board of Directors as of the date of this Agreement or (y) subsequently becomes a member of the

Board of Directors, if such person's initial nomination for election or initial election to the Board of Directors has been approved in advance by the Continuing Directors; provided that any director designated by or on behalf of a Person who has entered into an agreement with Employer (or who is contemplating entering into such an agreement) to effect a consolidation or merger of Employer or a Company Entity, or other reorganization, with or into one or more entities which are not Company Entities, and any director that serves in connection with the act of the Board of Directors of increasing the number of directors and filling vacancies in connection with, or in contemplation of, any such transaction, shall not be deemed to have received such advance approval for initial nomination or election, and any such director shall not be deemed to be a Continuing Director; provided, further, that any such director shall subsequently become a Continuing Director at such time as a new term of office as a director is approved by Employer's shareholders at an annual meeting of shareholders occurring subsequent to the completion of any such transaction (and excluding any annual meeting at which the shareholders approve any such transaction), and, provided, further, that in the case of a Permitted Transaction, any such director shall not become a Continuing Director until the later of (i) the end of the three-year period following consummation of such Permitted Transaction or (ii) such time as a new term of office as a director is approved by Employer's shareholders at an annual meeting of shareholders occurring subsequent to the completion of such Permitted Transaction.

8.13.11 "Employer" shall mean U.S. Bancorp (formerly First Bank System, Inc.), a Delaware corporation, or any successor thereto pursuant to Section 8.02 hereof (including a Resulting Corporation) or by operation of law.

8.13.12 "Exchange Act" shall mean the Securities Exchange Act of 1934, as amended.

8.13.13 "Full Change In Control" shall mean:

(A) the public announcement (which, for purposes of this definition, shall include, without limitations a report filed pursuant to Section 13(d) of the Exchange Act) by Employer or any Person that a Person (other than a Company Entity) has become the Beneficial Owner, directly or indirectly, of securities of Employer (x) representing 20% or more, but not more than 50%, of the combined voting power of Employer's then outstanding securities unless the transaction resulting in such ownership has been approved

in advance by the Continuing Directors or (y) representing more than 50% of the combined voting power of Employer's then outstanding securities (regardless of any approval by the Continuing Directors); or

(B) the Continuing Directors cease to constitute a majority of the Board of Directors of Employer or the Resulting Corporation, except in accordance with the terms of a Permitted Transaction and except as a result of the death, retirement or disability of one or more Continuing Directors (unless any such death, retirement or disability occurs following a Permitted Transaction and any vacancies created thereby are not filled in accordance with the terms of the written agreement governing such Permitted Transaction); or

(C) any sale, lease, exchange or other transfer (in one transaction or a series of related transactions) of all or substantially all of the consolidated assets of Employer and its subsidiaries or the adoption of any plan of liquidation or dissolution of Employer.

8.13.14 "Partial Change in Control" shall mean:

(A) a consolidation or merger of Employer or a Company Entity, or other reorganization, with or into one or more entities which are not Company Entities, as a result of which less than 60% of the outstanding voting securities of the Resulting Corporation are, or are to be, owned by former shareholders of Employer as determined immediately prior to consummation of such transaction (excluding voting securities of the Resulting Corporation owned, or to be owned, by such shareholders by reason of their ownership prior to such transaction of securities of any entity other than Employer) and as a result of which the Continuing Directors constitute (i) more than 50% of the Board of Directors of the Resulting Corporation or (ii) exactly 50% of the Board of Directors of the Resulting Corporation if the transaction resulting in such event is a Permitted Transaction;

(B) the public announcement (which, for purposes of this definition, shall include, without limitation, a report filed pursuant to Section 13(d) of the Exchange Act) by Employer or any Person that a Person (other than a Company Entity) has become the Beneficial Owner, directly or indirectly, of securities of Employer representing 20% or more, but not more than 50% of the combined voting power

of Employer's then outstanding securities if the transaction resulting in such ownership has been approved in advance by the Continuing Directors; or

(C) the effective date of the merger of First Bank System, Inc. and U.S. Bancorp.

8.13.15 "Permitted Transaction" shall mean a transaction in which, pursuant to a written agreement between Employer and all Persons who have entered into an agreement with Employer to effect a transaction described in paragraph (A) of the definition of Partial Change in Control, it is agreed that (w) the Chief Executive Officer of Employer immediately prior to the consummation of such transaction shall be the Chief Executive Officer of the Resulting Corporation for not less than three years following consummation of such transaction, (x) upon termination of service of any Continuing Director for any reason, including upon death, disability or retirement, prior to the expiration of such director's term during such three-year period, the vacancy thereby created shall be filled by a nominee selected solely by the Continuing Directors, (y) upon expiration of the term of any such director during such three-year period, the nominee to succeed such director shall be selected solely by the Continuing Directors and (z) the parties will take other appropriate steps to ensure that the Board of Directors of the Resulting Corporation will be evenly divided between Continuing Directors and all directors designated by other parties to the transaction during such three-year period.

8.13.16 "Person" shall have the meaning ascribed to such term as such term is used in Sections 13(d) and 14(d) of the Exchange Act.

8.13.17 "Resulting Corporation" shall mean the surviving corporation in any consolidation, merger or other reorganization to which Employer is a party; provided, however, that if the surviving corporation in any such transaction is a subsidiary of another corporation, then the Resulting Corporation is the ultimate parent corporation of such surviving corporation; and provided, further, that in the event of a consolidation, merger or other reorganization to which a Company Entity (other than Employer) is a party, then Employer shall be deemed the Resulting Corporation.

8.14 Code Section 162(m). Notwithstanding any other provision of this Agreement to the contrary, to the extent that Employer's tax deduction for remuneration in respect of the

payment of any amount under Sections 5.02, 5.05 or 8.02 of this Agreement would be disallowed under Code Section 162(m) by reason of the fact that Executive's applicable employee remuneration, as defined in Code Section 162(m)(4), either exceeds or, if such amount were paid, would exceed the \$1,000,000 limitation in Code Section 162(m)(1), Employer may, in its sole discretion, defer the payment of such amount, but only to the extent that, and for so long as, Employer's tax deduction in respect of the payment thereof would be so disallowed under Code Section 162(m); provided that no payment may be deferred beyond three months after the end of Employer's fiscal year in which Executive's termination of employment occurs, and Employer may accelerate the payment of previously deferred amounts if it determines that the amount of the tax deduction that would be disallowed is not significant. Amounts which are deferred under this Section 8.14 will be credited with interest at a rate determined by Employer from time to time, but in no event less than the long-term applicable federal rate under Code Section 1274(d) in effect from time to time.

IN WITNESS WHEREOF, Executive and Employer have executed this Agreement as of the date set forth in the first paragraph hereof.

U.S. BANCORP

By /s/ Lee R. Mitau

-----  
Its Executive Vice President,  
General Counsel and Secretary

/s/ John F. Grundhofer

-----  
John F. Grundhofer

FIRST AMENDMENT  
TO  
EMPLOYMENT AGREEMENT

THIS FIRST AMENDMENT to the Employment Agreement dated as of August 1, 1997 by and between U.S. Bancorp and John F. Grundhofer is made as of June 11, 1998 by and between U.S. Bancorp, a Delaware corporation ("Employer") and John F. Grundhofer ("Executive").

WHEREAS, Employer and Executive entered into that certain Employment Agreement dated as of August 1, 1997 (hereinafter referred to as the "Agreement"); and

WHEREAS, Employer and Executive have agreed to amend the Agreement as set forth in this first amendment (this "Amendment").

NOW, THEREFORE, in consideration of the mutual covenants herein contained, and other good and valuable consideration, the parties hereto agree as follows:

1. Clause (ix) of Section 5.02(d) of the Agreement is amended in its entirety to provide as follows:

"(ix) in the event of termination within 24 months following a Change in Control or in the event of an Anticipatory Termination, pay Executive the year-to-date pro-rata amount of any annual cash incentive award for any plan as in effect immediately prior to the Change in Control to the extent not provided for in such plan or plans and the amount of any annual cash incentive award for any plan as in effect for the immediately prior year if Executive would have received such an award if there had been no such termination of employment in the then current year, and"

2. Section 8.13.10 of the Agreement is amended in its entirety to provide as follows:

"8.13.10 'Continuing Director' shall mean any person who is a member of the Board of Directors, while such person is a member of the Board of Directors, who is not an Acquiring Person or an Affiliate or Associate of an Acquiring Person, or a representative of an Acquiring Person or of any such Affiliate or Associate, and who (x) was a member of the Board of Directors as of May 1, 1998 or (y) subsequently becomes a member of the Board of Directors, if such person's initial nomination for election or initial election to the Board of Directors has been approved in advance by the Continuing Directors; provided that

any director designated by or on behalf of a Person who has entered into an agreement with Employer (or who is contemplating entering into such an agreement) to effect a consolidation or merger of Employer or a Company Entity, or other reorganization, with or into one or more entities which are not Company Entities, and any director that serves in connection with the act of the Board of Directors of increasing the number of directors and filling vacancies in connection with, or in contemplation of, any such transaction, shall not be deemed to have received such advance approval for initial nomination or election, and any such director shall not be deemed to be a Continuing Director, in each case solely for the purpose of determining whether the addition of members of the Board of Directors in connection with, or in contemplation of, such transaction results in a Full Change in Control under clause (B) of Section 8.13.13 of this Agreement."

3. Clause (B) of Section 8.13.13 of the Agreement is amended in its entirety to provide as follows:

"(B) the Continuing Directors cease to constitute a majority of the Board of Directors of Employer or the Resulting Corporation, except in accordance with the terms of a Permitted Transaction and except as a result of the death, retirement or disability of one or more Continuing Directors."

4. Section 8.13.16 of the Agreement is amended in its entirety to provide as follows:

"8.13.16 'Permitted Transaction' shall mean a transaction in which, pursuant to a written agreement between Employer and all Persons who have entered into an agreement with Employer to effect a transaction described in paragraph (A) of the definition of Partial Change in Control, it is agreed that (w) the Chief Executive Officer of Employer immediately prior to the consummation of such transaction shall be the Chief Executive Officer of the Resulting Corporation for not less than three years following consummation of such transaction, (x) upon termination of service of any Permitted Director for any reason, including upon death, disability or retirement, prior to the expiration of such director's term during such three-year period, the vacancy thereby created shall be filled by a nominee selected solely by the Permitted Directors, (y) upon expiration of the term of any Permitted Director during such three-year period, the nominee to succeed such director shall be selected solely by the Permitted Directors and (z) the parties will take other appropriate steps to ensure that the Board of Directors of the Resulting Corporation will be evenly divided



between Permitted Directors and all directors designated by other parties to the transaction during such three-year period. Notwithstanding the foregoing, such agreement may provide that directors added to the Board of Directors (x) pursuant to an expansion of the number of members of the Board of Directors approved by 75% of the then current members of the Board of Directors or (y) pursuant to the terms of any subsequent agreement relating to an acquisition by or of the Company, shall not be subject to the foregoing limitations. The determination of whether a transaction constitutes a Permitted Transaction shall be made at the time of consummation of such transaction, and no subsequent events shall cause such transaction to no longer constitute a Permitted Transaction."

5. The Agreement is amended to add a new Section 8.13.18 as follows:

"8.13.18 'Permitted Director' shall mean a director who was a Continuing Director immediately prior to consummation of a Permitted Transaction and any director who fills a vacancy created by the termination of service as a director or expiration of the term as a director of any Permitted Director if such person was selected solely by the then current Permitted Directors."

6. Except as above amended, the Agreement remains in full force and effect.

IN WITNESS WHEREOF, Executive and Employer have executed this Agreement as of the date set forth in the first paragraph hereof.

U.S. BANCORP

By /s/ Lee R. Mitau

-----  
Lee R. Mitau  
Executive Vice President, General  
Counsel and Secretary

/s/ John F. Grundhofer

-----  
John F. Grundhofer

## COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES

	Three Months Ended June 30	Six Months Ended June 30
(Dollars in Millions)	1998	1998
=====		
EARNINGS		
1. Net income .....	\$ 320.6	\$ 649.1
2. Applicable income taxes .....	187.9	377.2
	-----	
3. Net income before taxes (1 + 2) .....	\$ 508.5	\$ 1,026.3
	=====	
4. Fixed charges:		
a. Interest expense excluding interest on deposits .....	\$ 232.4	\$ 447.5
b. Portion of rents representative of interest and amortization of debt expense .....	11.2	22.0
	-----	
c. Fixed charges excluding interest on deposits (4a + 4b) .....	243.6	469.5
d. Interest on deposits .....	352.2	707.3
	-----	
e. Fixed charges including interest on deposits (4c + 4d) .....	\$ 595.8	\$ 1,176.8
	=====	
5. Amortization of interest capitalized .....	\$ --	\$ --
6. Earnings excluding interest on deposits (3 + 4c + 5) .....	752.1	1,495.8
7. Earnings including interest on deposits (3 + 4e + 5) .....	1,104.3	2,203.1
8. Fixed charges excluding interest on deposits (4c) .....	243.6	469.5
9. Fixed charges including interest on deposits (4e) .....	595.8	1,176.8
RATIO OF EARNINGS TO FIXED CHARGES		
10. Excluding interest on deposits (line 6/line 8) .....	3.09	3.19
11. Including interest on deposits (line 7/line 9) .....	1.85	1.87
=====		

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE U.S. BANCORP JUNE 30, 1998, 10-Q AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

1,000

6-MOS	
	DEC-31-1998
	JAN-01-1998
	JUN-30-1998
	4,537,000
	0
	1,337,000
	411,000
5,923,000	
	0
	0
	55,778,000
	981,800
	73,750,000
	49,307,000
	3,490,000
2,203,000	
	11,381,000
	931,000
	0
	0
	5,196,000
73,750,000	
	2,429,800
	195,700
	49,200
	2,674,700
	707,300
	1,154,800
1,519,900	
	183,000
	12,600
	1,330,200
	1,026,300
1,026,300	
	0
	0
	649,100
	.88
	.86
	4.95
	273,200
	86,600
	300
	0
1,008,700	
	280,200
	70,300
	981,800
	0
	0
	0