BANCO®

Northwest Bancorporation
1980 Annual Report

Charting a Strategic Course for the 1980s

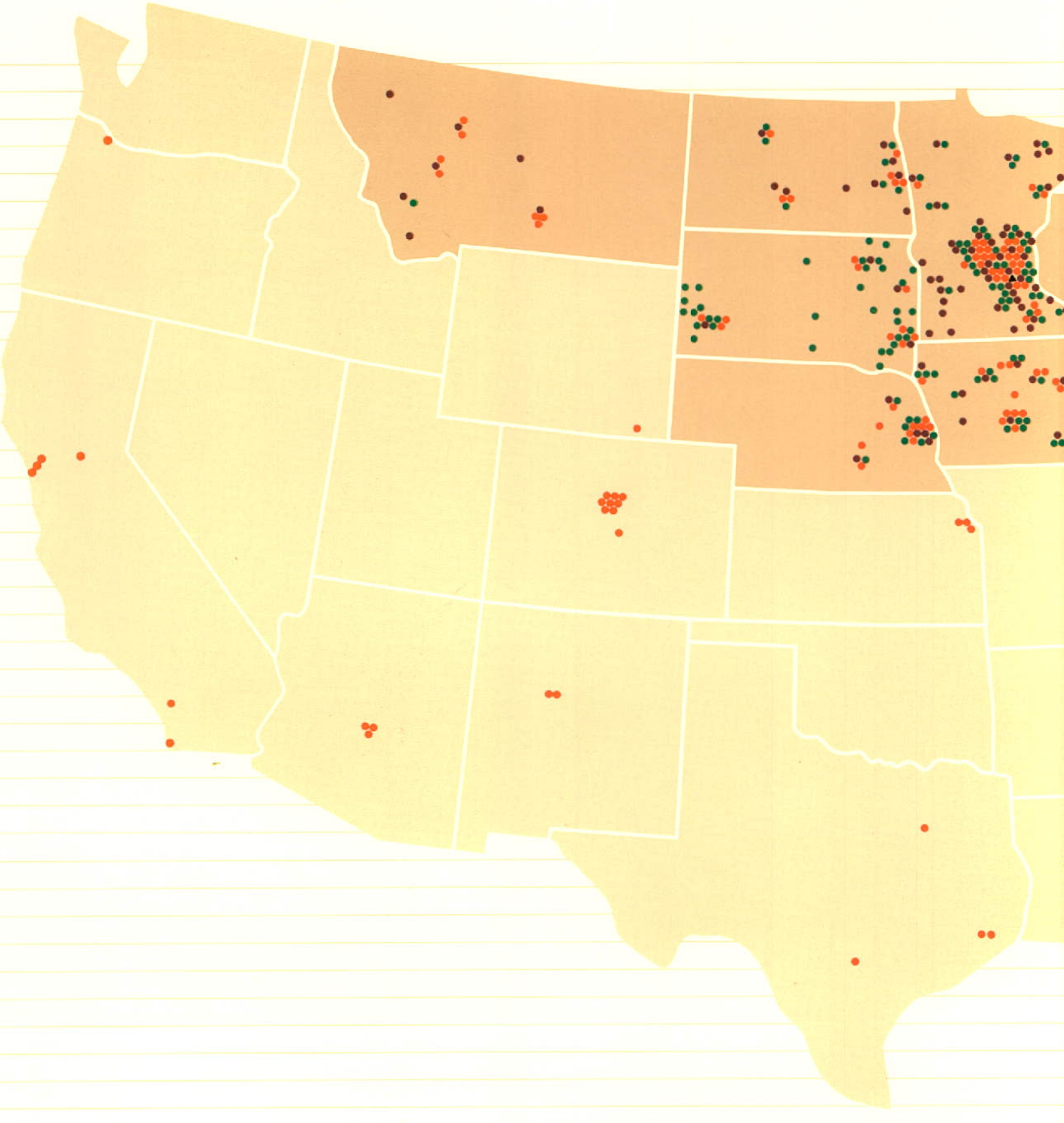
Destiny is not a matter of chance, it is a matter of choice; it is not a thing to be waited for, it is a thing to be achieved.

William Jennings Bryan

About the cover

Like our region's early explorers and travelers, Banco is entering an unknown environment likely to test tradition and create untold new opportunities. It was only natural to use maps of Banco's seven-state region—from territorial days up to the present—to depict the theme of this annual report: "Charting A Strategic Course For The 1980s." Banco's "map" consists of long-range financial objectives and supporting strategies, the results of a corporate planning process strengthened in 1980.

Maps courtesy of the James Ford Bell Library and Map Division, University of Minnesota Libraries, and the Minnesota State Planning Agency, Land Management Information Center.

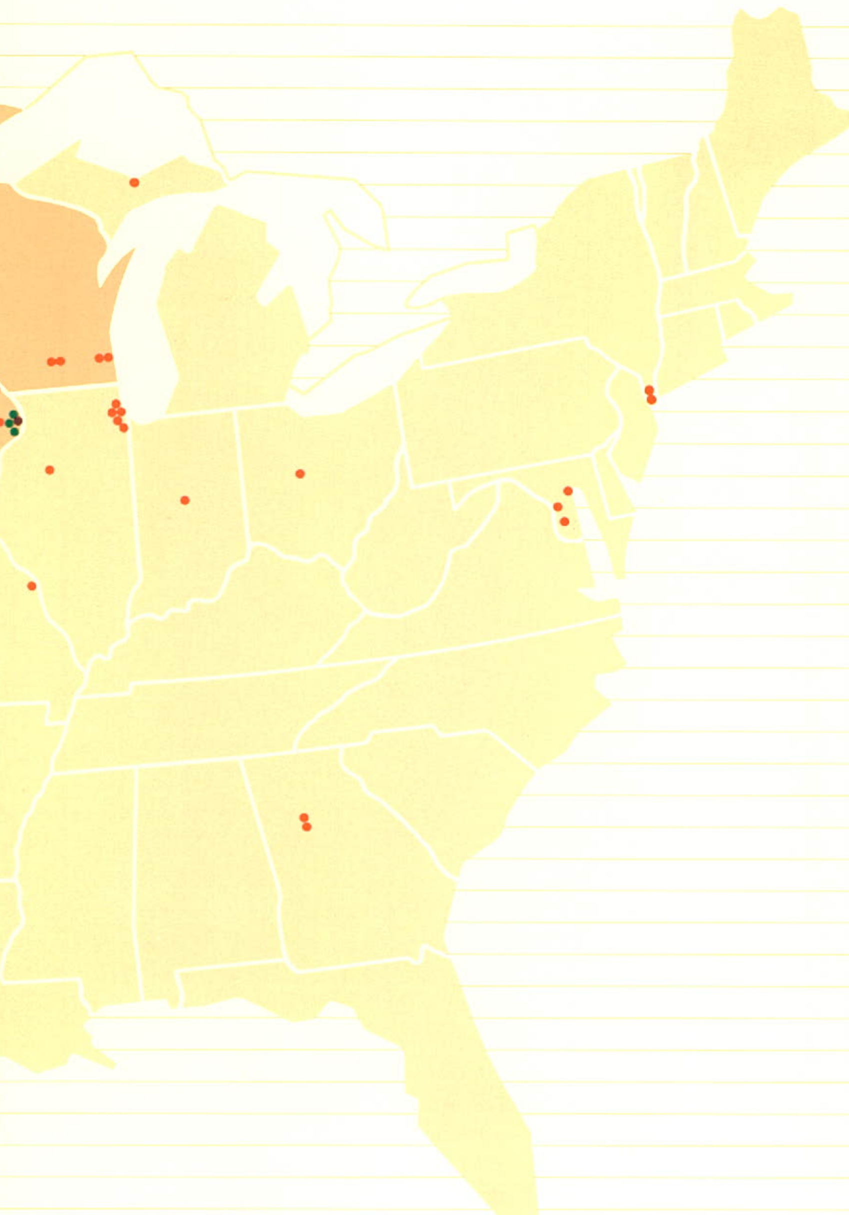


Banco: Poised for the Future

Northwest Bancorporation, also known as Banco, is one of only three major bank holding companies currently operating a multistate franchise. Founded in 1929 as an interstate banking corporation, Banco was permitted to retain its structure although further geographic expansion was banned within the banking industry by legislation passed in 1956.

By year-end 1980, Banco was the 18th largest banking organization in the U.S. in terms of assets and 13th largest when ranked by earnings. The corporation has 86 commercial banks in Minnesota, Wisconsin, North and South Dakota, Montana, Iowa and Nebraska. Twenty-one are metropolitan banks serving Minneapolis, St. Paul, Omaha and Des Moines. Banco's banks are complemented by financial service activities: mortgage banking, venture capital, commercial finance, agricultural lending, leasing, insurance, trust management, international banking, and Eurobond and municipal bond underwriting.

This national network of financial service subsidiaries has offices in 16 states beyond the corporation' seven-state banking region. As a consequence, Banco is well positioned to launch an aggressiv expansion strategy when legislation reopens the door to interstate banking. More than 50 years of experience operating banks and financial service companies across a diverse geographic base makes interstate banking an attractive future optio for Banco.



▲ Corporate headquarters, Northwest Bancorporation

● Main offices of Banco's 86 affiliate banks

● Branches, offices and detached facilities of affiliated banks

● Other Banco subsidiaries including trust companies

International Locations

Cayman Islands
London, England
Luxembourg
Mexico City, Mexico
Nassau, Bahamas
Paris, France
Winnipeg, Manitoba, Canada

	1980	1979	Increase
For the Year (In thousands of dollars)			
Income before securities transactions	$116,695	109,711	6.4%
Net income	113,495	106,642	6.4
Dividends paid	37,247	32,992	12.9
Dividend payout ratio	31.9%	30.1	
Return on shareholders' equity	15.4%	16.1	
Per Share			
Earnings			
Income before securities transactions			
Primary	$ 4.51	4.25	6.1%
Fully diluted	4.29	4.05	5.9
Net income			
Primary	4.39	4.13	6.3
Fully diluted	4.17	3.94	5.8
Dividends paid	1.44	1.28	12.5
Shareholders' equity	30.73	27.80	10.5
Stock price			
High	30¼	29¼	
Low	18	23	
Close	28⅞	25½	
Price/earnings ratio	6.4 ×	6.0	
At Year-end (In millions of dollars)			
Assets	$ 14,395	12,416	15.9%
Deposits	11,044	9,573	15.4
Total loans	7,813	7,642	2.2
Investment securities	2,448	2,106	16.2
Shareholders' equity	797	719	10.8

The past year was a satisfying period for Northwest Bancorporation as we registered a gain in earnings in spite of the unsettled economic environment. Our 6.4 percent increase in income before securities transactions for 1980 marked the 33rd consecutive year that Banco has reported higher earnings. This increase again underscored Banco's ability to prosper in lean as well as good years.

Income before securities transactions for 1980 totaled $116.7 million, up from the $109.7 million earned in 1979. On a per share basis, earnings rose to $4.51, compared with $4.25 per share in 1979. Last year also marked the 18th consecutive year that Banco increased dividends paid to shareholders. Dividends amounted to $1.44 per share in 1980, 12.5 percent higher than the $1.28 per share paid in 1979.

Banco's earnings performance was fueled by increases in earning assets, which rose 12.1 percent above their 1979 level to $11.2 billion. Banco's financial service companies also made excellent contributions to our earnings. Altogether, these rapidly growing subsidiaries, including Banco Mortgage Company, Northwest Growth Fund (venture capital), Banco Financial Corporation (commercial finance) and Northwest Agricultural Credit Company (agricultural lending), contributed $9.9 million, up 58 percent from last year.

Banco's Executive Office, from left to right: Gerald M. Kanne, Executive Vice President; John W. Morrison, Vice Chairman; Chester C. Lind, Chairman and Chief Executive Officer; Robert A. Krane, President; and Walter C. Johnson, Executive Vice President.

Executive Office

In November, the top management of Banco was restructured to provide the corporation with a smooth management succession in preparation for my retirement later this year. Effective January 1, I became chairman and John W. Morrison, formerly chairman and chief executive officer of Northwestern National Bank of Minneapolis, was elected vice chairman. As part of this transition, I will continue as Banco's chief executive officer, but Mr. Morrison will assume this position and take over leadership of Banco when I step down. In addition, Executive Vice President Robert A. Krane was named president of Banco and a director. The other members of the Banco executive office are Walter C. Johnson and Gerald M. Kanne, both executive vice presidents. In a related move, E. Peter Gillette, Jr. was named president and chief executive officer of Northwestern of Minneapolis. I am confident that this strong management team will provide Banco with the type of skilled leadership that will enable the corporation to deal successfully with the complex challenges of the 1980s.

There can be little doubt that 1980 was a difficult year for the banking industry. This corporation dealt with a more complex set of economic conditions than it has in many years: interest rates that were volatile and unpredictable; strong competitive pressure; double-digit inflation which at one point climbed to 18 percent; and a generally weak national economy.

Banco's financial strength, diversification and commitment to long-range planning enabled us to manage these challenges. Our policy of emphasizing asset quality and disciplined growth equipped Banco to lessen the impact of recessionary forces on our operations. However, we, like most other financial institutions, did not foresee the swift movements in interest rates during the year. Although we incurred bond trading losses as a result, Banco more than offset these losses with gains in other areas of non-interest income.

The past year gave further credence to the fact that the banking industry is passing through a period of evolution, one that is set in a new and increasingly unstable economic order. Inflation has increased our reliance on purchased liabilities and contributed to interest rate volatility. And whereas inflation has caused assets to grow rapidly, profitability has not always kept pace.

By any standard, Banco ranks as one of the most profitable major bank holding companies in the country. However, we are not immune to these troublesome profitability trends. In response, we have adopted a number of long-term corporate strategies designed not only to preserve but also to build upon today's profitability.

Three years ago, we initiated a program to reformulate our pricing policies on a variety of services, including personal checking accounts. The object has been to offer non-credit services at prices equal to their value so that we can generate an adequate return. As a result, fees on deposit accounts have risen at an average annual rate of 25 percent over the past three years. This income category today stands at 22 cents per $100 of assets. This has been accomplished with less than a one percent loss of business.

Our Interest Plus Checking service (IPC) was repositioned as a pre-NOW account through aggressive marketing by Banco banks beginning in February 1980. This represented a second thrust of our profitability strategy—protecting and expanding our market share of high-balance customers. IPC was a zero-balance checking account with an automatic funds transfer feature from a savings account. Priced as a NOW account, Interest Plus Checking fully reflected our underlying costs. In this respect, IPC accounts, which automatically became NOW accounts in January, enabled Banco to achieve its goal of retaining and enlarging its base of high-balance customers through this early offering of a pre-NOW account type of service. Moreover, customer acceptance of this service was extremely good, and by year-end, IPC deposits totaled $427 million.

Productivity Strategies

Although we are encouraged by the results thus far of our repricing strategy, we realize that improved profitability is not simply a matter of putting prices in line with our true costs. The markets in which we operate are too competitive to permit such an exclusive reliance on repricing. Consequently, our repricing strategy has been implemented side-by-side with another strategy designed to control delivery costs by improving our productivity.

In August, we opened the Northwestern Operations Center in Minneapolis, a 553,000-square-foot facility housing the operations of Northwestern National Bank of Minneapolis and data processing activities of Northwest Computer Services, Inc. This consolidation will enable Banco to achieve considerable operating economies in the years ahead.

The productivity of Banco banks will receive another boost from our pioneering work with new in-bank distributed data processing systems. In addition, we have continued our extensive investment in lower-cost delivery systems for our services, the most important being the development of our debit card networks which now include more than 200 automated teller machines. This banking technology not only provides greater convenience to our customers, it also has the potential to lower our delivery costs.

In other news, we were pleased to announce the election of three new directors to the Banco board: Sister Marybelle Leick, a director of First National Bank of Duluth and president of St. Mary's Hospital in Duluth; William G. Roth, chairman and chief executive officer of The Trane Company and a director of First National Bank of La Crosse; and William G. Stocks, chairman and chief executive officer of Peavey Company and a director of Midland National Bank in Minneapolis. We would like to express our deepest appreciation to those members of the Banco board who stepped down in 1980 for their many years of dedicated service: Fredric H. Corrigan, Sylvester Laskin, Donald G. McNeely, Harriet W. Sheridan and Thomas H. Wyman. In addition, Eugene G. Precht was elected president and chief executive officer of Iowa-Des Moines National Bank, Iowa's largest commercial bank and Banco's second largest bank. Precht had been president and chief executive officer of Northwestern National Bank Southwest in the Twin Cities.

Finally, Banco continued its policy of strategic acquisitions in 1980 by acquiring the Atlantic State Bank in Atlantic, Iowa, and signing a purchase agreement with the State Bank of Worthington in Worthington, Minnesota. Located in the southwestern part of the state, the Worthington bank, with assets of $46.5 million as of December 31, would become Banco's 87th bank, pending approval by appropriate regulatory agencies.

Economic Outlook

Our repricing and cost-structure strategies are particularly important in light of the sluggish economic conditions we anticipate throughout 1981. This outlook includes: continued high levels of inflation; low GNP growth; relatively high unemployment; and volatile interest rates. However, several factors should help lessen the impact of weak economic conditions nationally.

We anticipate stronger loan demand at our community banks in 1981, particularly in the area of agricultural lending. This should reflect the upward march in both farm production costs and prices for a wide range of commodities. Renewed agricultural lending also will boost agribusiness activities such as farm equipment manufacturers and dealers. The regional economy also will continue to benefit from high levels of oil and gas exploration in the Williston Basin of the Dakotas and Montana, and from the heavy concentration of computer and electronics industries in and around the Twin Cities.

Altogether, we are expecting another year of earnings growth for Banco. We are prepared to operate effectively during periods of sluggish economic activity, but we also are ready to capitalize on the special opportunities presented by our region. Our financial strength and diversification, our commitment to long-range planning, and the dedicated efforts of our 13,200 employees should combine to make 1981 another rewarding year for Banco.

Sincerely,

Chester C. Lind
Chairman and
Chief Executive Officer

January 19, 1981

Charting a Strategic Course for the 1980s

The banking industry is passing through a major evolutionary period. Banco is an active and eager participant.

Over the past few years, the industry's economic and regulatory environment, its competitive framework and ability to cope with technological advances have changed dramatically. The pace of change will accelerate even further throughout the decade of the 1980s in response to new and intensified competition, deregulation and unsettled economic conditions. In short, we believe that the current national banking structure, which has survived virtually intact since the 1930s, is giving way to a new framework set in a new environment. By 1990, banking may well bear little resemblance to the industry that existed prior to 1980.

To chart a prudent and prosperous course through the 1980s, Banco strengthened its corporate-wide planning process last year. Our initial task was to formulate a new set of long-range corporate objectives, which will serve as general parameters for more specific strategic plans.

These objectives are all linked by a common denominator: our determination to provide Banco shareholders with a superior return on their investment in relation to other banking and non-banking organizations, in terms of both stock appreciation and dividend yield. The ability to accomplish this depends upon striking the correct but delicate balance between those strategies centered around profitability and those which foster long-term growth. As such, our corporate objectives have been designed to maintain Banco's profitability and growth near the top of the industry while simultaneously preserving one of the strongest and most liquid balance sheets to be found among major bank holding companies. This is intended to maintain our standing as an attractive investment and to permit continued access to public capital markets on favorable terms. Although we do not anticipate raising funds through the sale of common stock over the near term, we will be able to do so, should a future need arise, if we attain our objectives.

The performance of Banco will continue to be affected by such external factors as inflation. This represents a special concern owing to the major and immediate impact it can have on a balance sheet which is principally monetary in nature. Consequently, we realize that progress toward our financial objectives may be marked by periodic divergences from the desired trend line. This is why we fully intend to re-examine our objectives and assess our progress on a regular basis.

Essentially, we intend to increase our profitability throughout the 1980s without increasing leverage or jeopardizing our position as one of only three regional banking organizations in the country with a AAA/Aaa credit rating. This will enable us to internally generate the capital needed for future growth and keep our dividend payout at its current relationship to earnings.

We hope to attain these goals by 1985 by implementing a series of corporate strategies keyed into our long-range objectives. The following pages outline several of the more important strategies adopted by Banco for the 1980s.

You can never plan the future by the past.
Edmund Burke

Expanding Banco's reach to different geographic markets is the newest office of the international division of Northwestern National Bank of Minneapolis which was opened last year in Mexico City, site of the country's famous "Monument to Independence."

Courtesy of Mexican Government Tourism office.


NORTH WEST
Mississippi
Montreal B.
Little B.
St. Marys
Nepissing
Rapids
HURON
Simcoe
Six Nations
York

Regulatory Environment

The 1980s will be a decade of deregulation for the banking industry which will provide us with much greater access to customers by liberalizing restrictions on electronic banking technology, branching and, most importantly, on interstate banking. We are excited about these prospects because Banco is in an excellent position to prosper in an interstate environment. One of only three major banking organizations in the country which had implemented an interstate structure before passage of the Bank Holding Company Act of 1956, Banco already is practicing interstate banking in seven states. Our well-established process of controlled but decentralized management serves us well in attracting acquisition candidates. Consequently, easing the bans on geographic expansion would allow Banco to take full advantage of our 51 years of experience as a multistate franchise.

However, it would not be prudent to wait idly for the advent of a full-fledged interstate banking structure. Rather, Banco is actively working for legislative change and preparing for future deregulation. Equally important, we realize that effective current strategies must be developed within the context of the existing legal framework. Until deregulation becomes a reality, banking will remain a tightly controlled industry, and the decisions of federal and state regulators will continue dictating how and where we conduct our business.

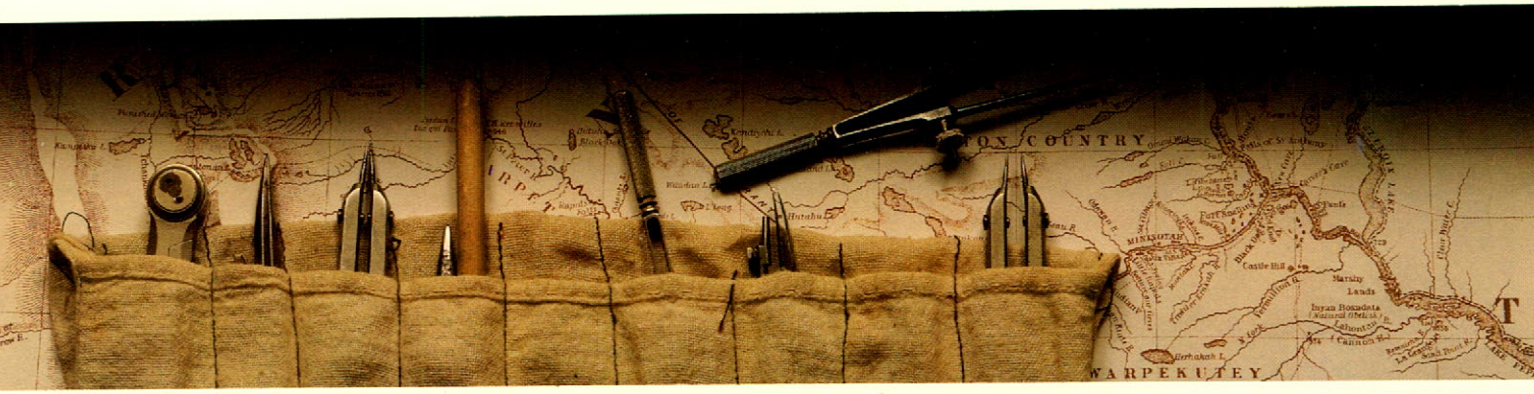
Banco's financial service companies currently represent our principal vehicles for geographic expansion within a highly regulated environment. Our largest subsidiaries—Banco Mortgage Company, Banco Financial Corporation and Northwest Growth Fund—already have a high degree of flexibility, which is why they now operate in 16 states beyond Banco's traditional seven-state market. In this way, our financial service companies have enabled Banco to begin penetrating such promising regions as the Sunbelt. Other Banco companies also are involved in this process of strategic geographic expansion. For example, Lease Northwest, Inc., the leasing subsidiary of Northwestern National Bank of Minneapolis, recently opened a regional office in Billings, Montana.

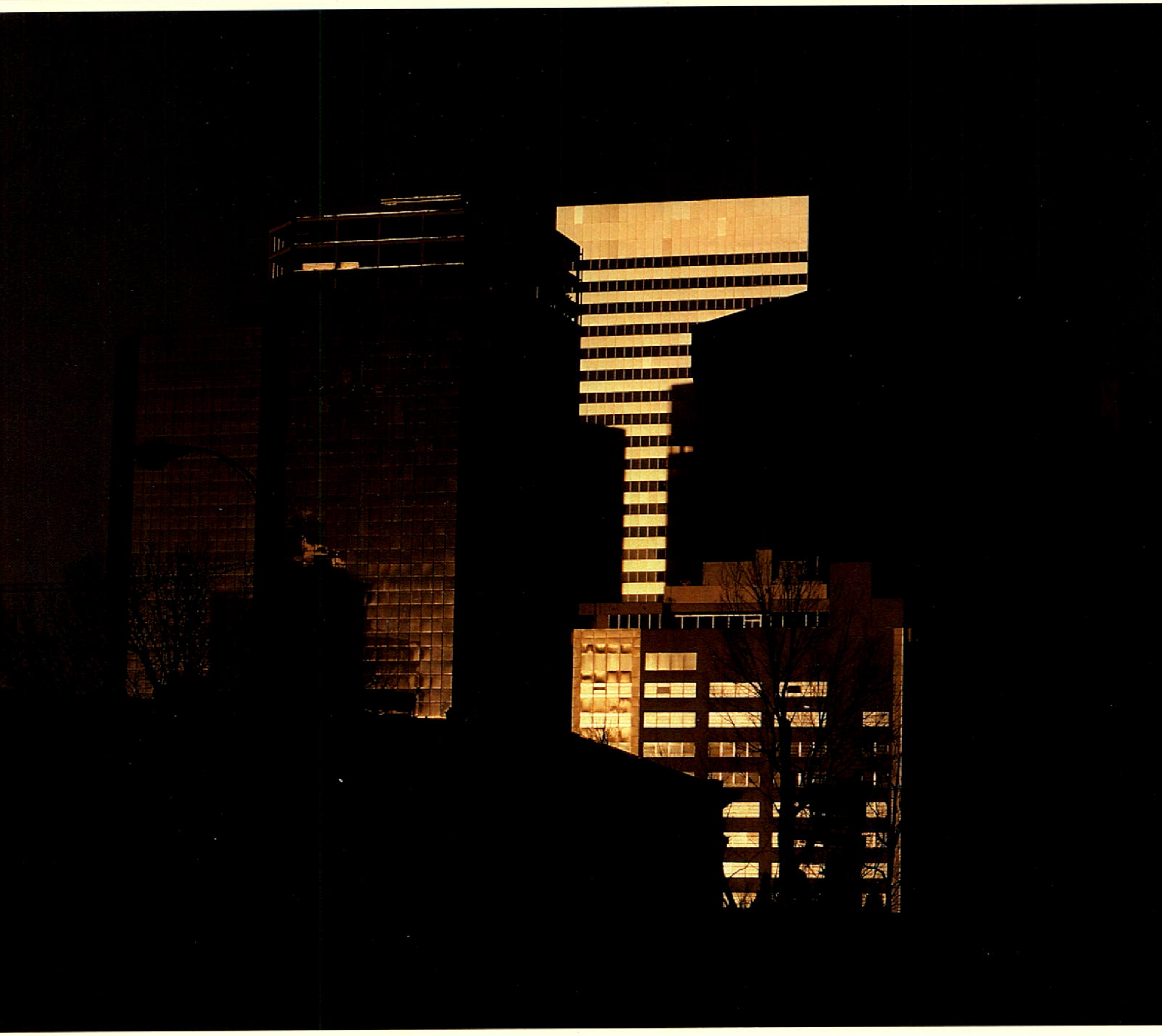
The deregulation of the 1980s will not be limited to the sphere of geographic expansion. We also should expect additional deregulation in the area of interest rates. This process began in the mid-1970s when usury laws were gradually eased in response to tight credit conditions and high interest rates. Deregulation was carried one step further with the gradual dismantling of Regulation Q which is now under way. The challenge of the 1980s is to work for the logical completion of this process. We are striving to end remaining interest rate regulations, with the objective of augmenting a system whereby the competitive market will be free to determine rates. Such a free market system would put an end to the arbitrary allocation of credit to certain sectors of the economy, a condition which has periodically worked to the detriment of the consumer both as a saver and a borrower.

The era of bank deregulation is upon us. Now it is our job to channel the forces of change down constructive avenues and prepare for the freer, more competitive banking structure that lies ahead.

I like the dreams of the future better than the history of the past.
Thomas Jefferson

Denver will be the location of Banco Financial Corporation's first branch office later this year. Two other financial service subsidiaries—Banco Mortgage Company and Northwest Growth Fund—already serve the growing Denver market and provide marketing opportunities beyond Banco's existing regional base.


COUNTRY
Castle Hill
Marshy Lands
WARPEKUTEY



Asset/Liability Management

Asset/liability management is basic to the business of banking and has become increasingly important in this era of high inflation, volatile interest rates and growing reliance on purchased liabilities. Sound asset/liability management has become crucial to the profitability of all banks—small as well as large.

Banco has two primary objectives in the important area of asset/liability management. First, we intend to maintain consistency in the performance of net interest margin. The market expects a well-managed financial institution to achieve a consistent level of margin performance. Over the last eight quarters, Banco has ranked second among major bank organizations in the stability of its margin. We have been able to achieve this with a decentralized management process in which operating decisions are made at the bank level, not at the corporate office.

To reduce expenses and assure future growth of credit card activities, Banco's Visa and MasterCard operations will be consolidated later this year at Iowa-Des Moines National Bank, Banco's second largest bank.

Although this first objective—consistency in margin performance—has been largely realized, we have been less successful in achieving our second objective: improving the magnitude of net interest margin. In examining the profitability of our organization, we have not been satisfied with the magnitude of our margin, the single most important source of our income. While our consolidated margin compares favorably with other large banking organizations, Banco's margin has declined on a relative basis when compared with those of other regional banking institutions.

Improving this situation will be the focus of much of our future work in asset/liability management. We believe that we can successfully deal with this situation by applying the following strategies:

- First, we have sufficient flexibility under existing usury laws to improve yields on commercial and agricultural loans. Relatedly, we intend to increase the relative proportion of our assets composed of commercial and industrial loans. Banco Financial Corporation, our commercial finance subsidiary, and Northwest Agricultural Credit Company, our agricultural lending subsidiary, will play increasingly important roles in this strategy.
- Second, we are committed to managing both sides of our balance sheet. As such, we intend to better match the interest-sensitivity of our assets with that of our liabilities. We can accomplish this by repricing loans and extending the maturities on purchased liabilities.
- Third, we have been actively working on a program for the resale of fixed-rate, long-maturity assets. A market has long existed for single-family mortgages sold to investors as GNMA mortgage-backed securities, and Banco Mortgage already is a leader in this field. We believe that a market also exists for other types of properly priced and structured assets.


IOWA-DES MOINES NATIONAL BANK
PO BOX 911
DES MOINES IA 50330
MasterCard
MINIMUM PAYMENT DUE
10.00
PAYMENT DUE DATE
NEW BALANCE
23.76
MASTERCARD DEPARTMEN
PO BOX 911
DES MOINES IA 5033
TELEPHONE NO.
ACCOUNT NUMBER
5173 5150 2612
IOWA - DES MOINES NATIONAL
P. O. BOX 10359
DES MOINES, IOWA 50306
VISA
MINIMUM PAYMENT DUE
16.00
PAST DUE AMOUNT
0.00
USE ENCLOSED ENVELOPE AND MAKE PAYMENT TO
VISA DEPARTMENT
P. O. BOX 10359
DES MOINES, IOWA 50306
Payments received at the above mailing address before 12:00 noon will be credited to your account as of the date received. Payments received at any other location may be subject to a delay in crediting of up to 5 days after the date of receipt.
TELEPHONE NO. (See reverse side, paragraph 1a). 515-245-3163
ACCOUNT NUMBER
4205 150 123 456
CREDIT LIMIT
700
AVAILABLE CREDIT
365
DAYS IN BILLING CYCLE
34
STATEMENT DATE
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CHARGES, PAYMENTS AND CREDITS SINCE LAST STATEMENT
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VISA
MasterCard

Product Management

Product management, a discipline whereby companies manage each of their product lines or services as a separate business, is a relatively new concept to the banking industry. The absence of product management disciplines in banking has been due in part to the highly regulated nature of the financial marketplace. In the banking industry, regulations have dictated product design to a large extent. Moreover, banks have not organized themselves to manage their products as businesses. The result is fragmented responsibility, with one area designing the product, another area pricing it, another marketing it and another monitoring its bottom-line performance.

This fragmented approach will not be suitable to this period of deregulation. The banking industry is emerging from an era of protected and controlled markets into an environment characterized by intense competition, open markets and changing technology. One of the keys to profitability in this freer, deregulated environment will be better, more comprehensive management of individual banking services.

Banco already has had experience in the disciplines of product management and, relatedly, in the consolidation of certain functions. For example, Banco achieved excellent results by applying variations of product management techniques to the repricing of checking and savings accounts. The success of Interest Plus Checking, a precursor of the NOW account, also could be attributed to sound product development at the corporate level and then coordinated product management by our banks where it is marketed.

We also have applied the disciplines of product management to our credit card business in order to increase its profitability, reduce expenses and assure future growth. Our first step in this process was to consolidate our previously decentralized credit card operations into three banks. Now we again are consolidating all credit card operations at Iowa-Des Moines National Bank, a move that will eliminate wasteful duplication and solidify our position as a major credit card provider in our seven-state market.

The future interstate banking environment will require a more centralized approach to bank marketing. In this respect, we will stress product management disciplines in Banco for the benefit of all our affiliate banks. Related to this, we will bolster our capabilities by emphasizing more of an interdisciplinary approach to management.

A highly effective advertising campaign featuring customer testimonials was launched in 1980 to promote Interest Plus Checking, a pre-NOW account strategy resulting in more than $400 million in deposits and advance customer acceptance of NOW accounts, which became legal on January 1, 1981.


IS NOW

Technology Management

The 1980s will not only be a decade of deregulation, it also will be a period of new technologies for the industry. From the standpoint of enhancing productivity, stabilizing operating costs and realizing future savings, new electronic technology offers us a new vista of opportunities. Banco clearly has made a commitment to implementing electronic banking technology and stands well-positioned to benefit from future technological developments. However, since people remain the driving force behind technology, it is essential that we keep all levels of our organization staffed with people who are adept at working in a technologically sophisticated environment.

Our new $30 million Northwestern Operations Center in Minneapolis is probably our single greatest expression of commitment to new technologies. One of the largest such facilities in the industry, the Operations Center should yield lasting improvements in the productivity of our operations area through this massive consolidation of related functions. The Operations Center typifies the efficiencies that can be realized from sound product management and standardization.

Equipped with high-speed, state-of-the-art equipment, Northwestern Operations Center is processing more than 500 million affiliate and correspondent demand deposit transactions per year. This volume permits us to spread fixed expenses over a large base, resulting in lower unit cost. In addition, the Operations Center will permit Banco to improve its management information systems by enabling all affiliate banks to process and transmit reports to corporate management electronically.

The introduction of several new in-bank distributed processing systems (IDP) in 1980 also will boost the productivity of many Banco banks in terms of reduced data processing costs and dependency on couriers, in addition to improved float management. Several Banco affiliates already are using these IDP systems, developed in conjunction with IBM and NCR. Estimates of savings realized by these banks are in excess of $100,000 annually from improved float management and reduced data processing costs. Other significant results include improved morale among operations employees, greater local control over data processing and proof operations, and the potential for accommodating future growth without proportionate increases in operations personnel.

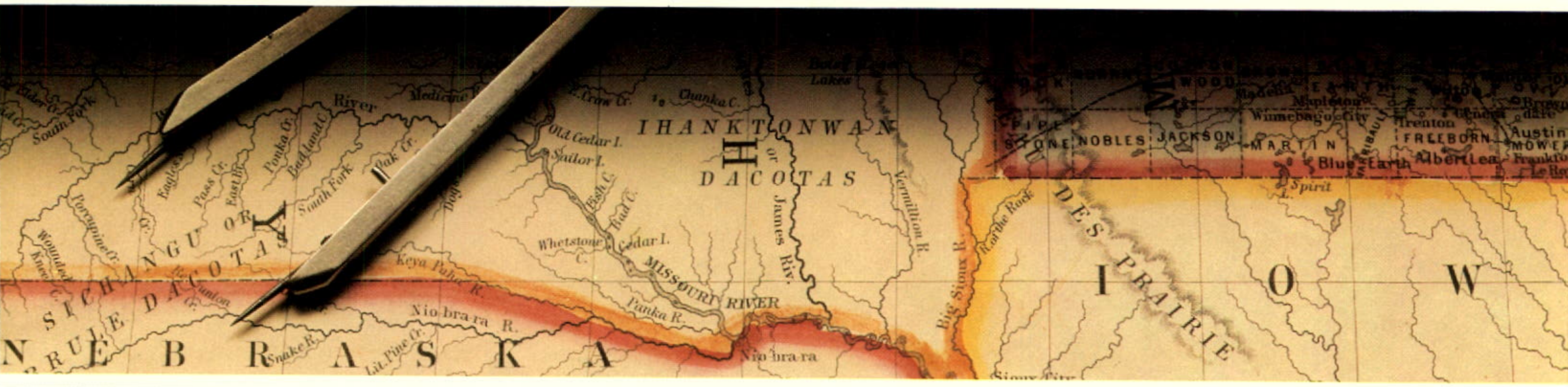
Finally, we intend to expand our commitment to electronic delivery systems for our services—such as automated teller machines—as a means of stabilizing our costs while increasing customer convenience. Since the cost of ATMs is volume-dependent, we will continue to educate our customers about the merits of using electronic technology instead of paper for their transactions. By doing so, we want to gradually shift transaction volumes from paper-based to electronic systems, thus being in a position to realize all of the cost efficiencies of electronic technology.

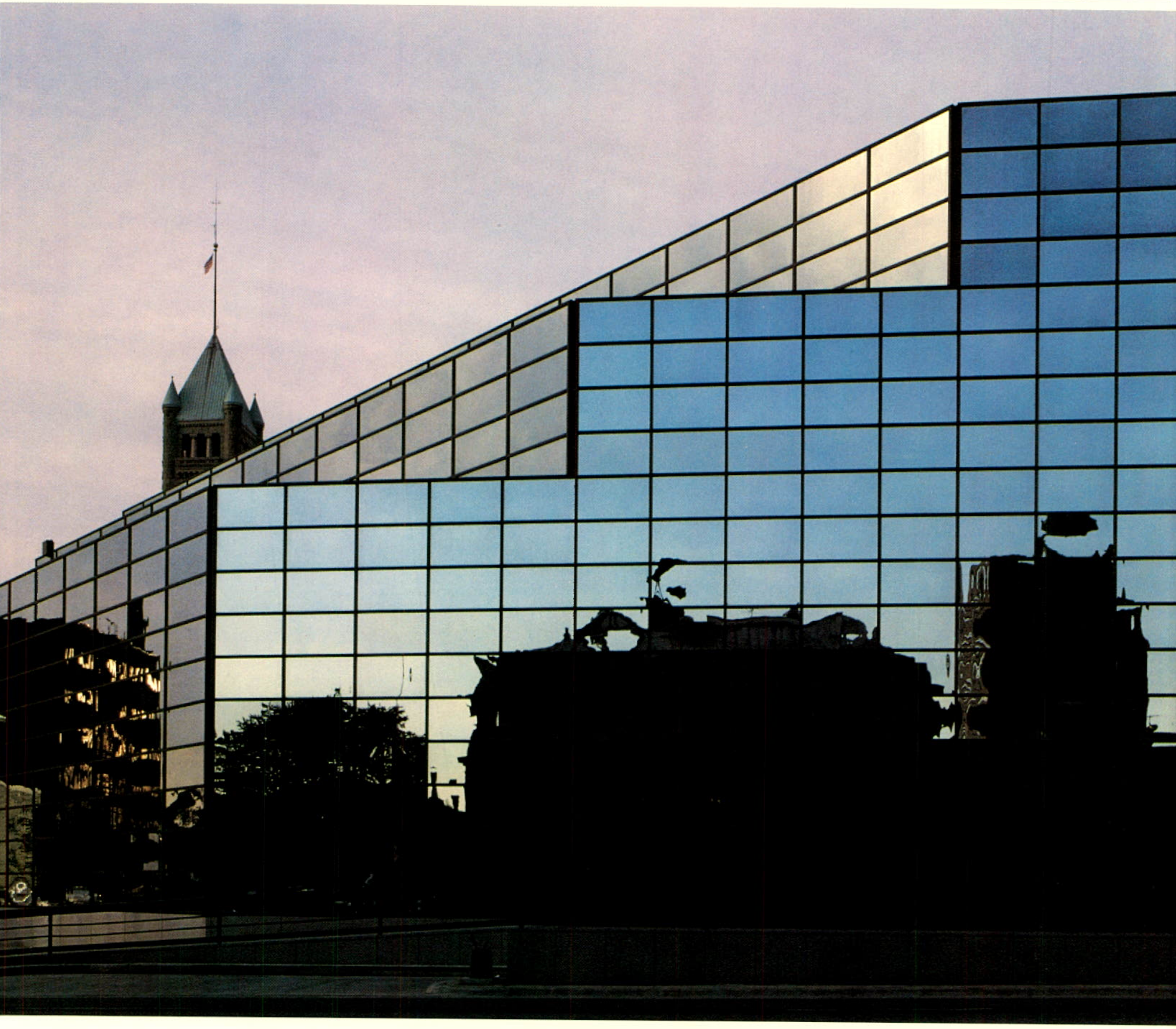
Banco's long-term financial objectives and corresponding strategies have been formulated to help this organization chart a safe and profitable course through the changing environment of the 1980s. Our commitment to planning will not only be a source of corporate strength, but also an essential ingredient to our ability to prosper in this decade of uncertainty and new opportunities.

The people who get on in this world are the people who get up and look for the circumstances they want, and, if they can't find them, make them.

George Bernard Shaw

The operations of Northwestern National Bank of Minneapolis and data processing activities of Northwest Computer Services, Inc. were consolidated within Northwestern Operations Center in Minneapolis, opened in August 1980. This facility will greatly enhance Banco's productivity and technological capabilities.


IHANKTONWAN
DACOTAS
MISSOURI RIVER
N E B R A S K A
DES PRAIRIE
I O W
James Riv.
Vermillion R.
Big Sioux R.
Nio bra ra R.
Keya Paha R.
Whetstone C.
Old Cedar I.
Sailor I.
Chanka C.
NOBLES
JACKSON
FREEBORN
Austin
Blue Earth
Albert Lea
Spirit



Banco's earnings increased for the 33rd consecutive year in 1980, with income before securities transactions growing 6.4 percent to $116.7 million, or $4.51 per share. In 1979, earnings increased 16.8 percent to $109.7 million, or $4.25 per share. On a fully diluted basis, income before securities transactions was $4.29 per share in 1980, compared with $4.05 in 1979.

The earnings gain in 1980 was attributable to increases in both net interest income, resulting from a larger volume of earning assets, and non-interest income. Increases in fees and service charges on deposit accounts, the growth of mortgage banking revenues and gains on the sale of venture capital investments were primary factors in the growth of non-interest income. Also contributing to the growth of non-interest income were gains on the repurchase of long-term debt. The impact of bond trading losses incurred early in the year and higher levels of non-interest expenses reduced the effect of increased revenues.

In 1979, earnings increased due to the growth of earning assets, which reflected the strong demand for loans for most of the year. Also contributing to higher earnings was the growth of non-interest income, resulting from bond trading profits, increased fee income from deposit accounts and a greater volume of business at Banco's financial service companies, especially Banco Mortgage Company.

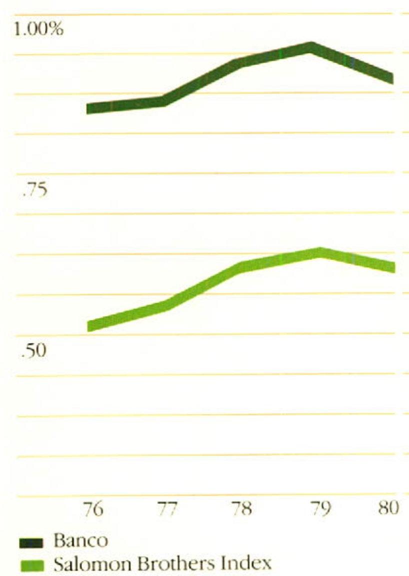
To evaluate Banco's long-term earnings performance, Charts 1-3 present three of the most widely used performance measurements and compare Banco against the Salomon Brothers Index of 35 major bank holding companies. Chart 4 compares the growth of Banco's earnings and dividends with increases of the Consumer Price Index.

Return on Assets (Per $100 of average resources)	1980	Increase (Decrease)	1979	Increase (Decrease)	1978	1977	1976
Net interest income—tax equivalent basis	$3.53	(.01)	3.54	(.12)	3.66	3.63	3.70
Provision for loan losses	.20	.02	.18	(.02)	.20	.20	.23
Net interest income after the provision for loan losses	3.33	(.03)	3.36	(.10)	3.46	3.43	3.47
Non-interest income	1.20	.07	1.13	.07	1.06	.94	.95
Non-interest expense	2.90	.17	2.73	.02	2.71	2.62	2.69
Income before income taxes and securities transactions	1.63	(.13)	1.76	(.05)	1.81	1.75	1.73
Applicable income taxes	.18	(.08)	.26	(.03)	.29	.30	.26
Tax equivalent adjustment	.55	—	.55	(.04)	.59	.58	.61
Income before securities transactions	$ .90	(.05)	.95	.02	.93	.87	.86

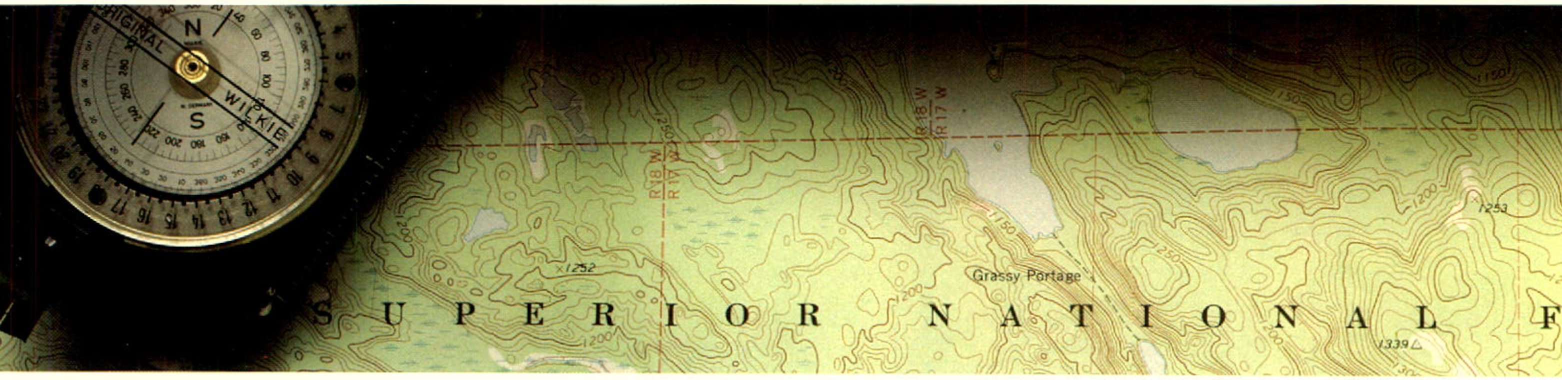
More than once I have come back.... telling myself I had made my last journey. And back I went, time after time, until, at last, my dream of years came true.

Adm. Robert E. Peary

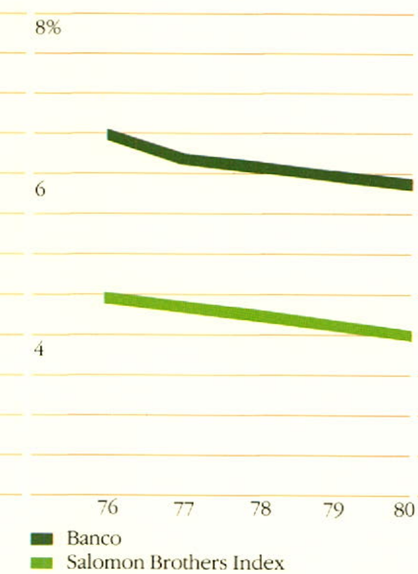
1. Return on Assets



A basic measure of earnings power is the ratio of income before securities transactions to average assets. In 1980 Banco earned 90 cents for each $100 of assets, one of the highest in the Salomon Brothers Index. From 1976 through 1979, Banco's return on assets improved due to gains in non-interest income and the 1979 reduction in the federal corporate income tax rate. The 1980 decline resulted from the impact of inflation on expenses, slower asset growth and bond trading losses.

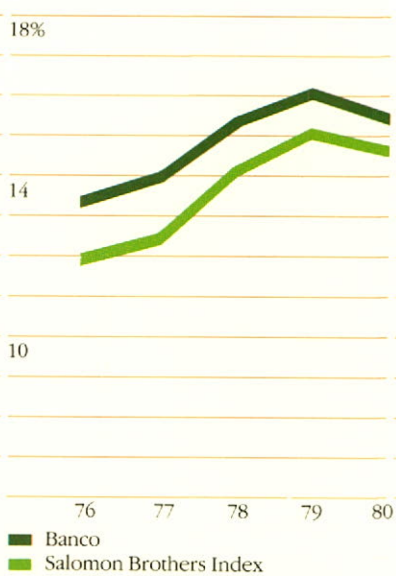


2. Equity to Assets



While increasing dividends to shareholders, Banco has retained sufficient capital to support a 10 percent annual increase in asset growth. During the past five years, assets grew at a 13.5 percent compound annual rate, resulting in a modest increase in financial leverage. Banco has maintained its equity capital averages well above the average of the Salomon Brothers Index.

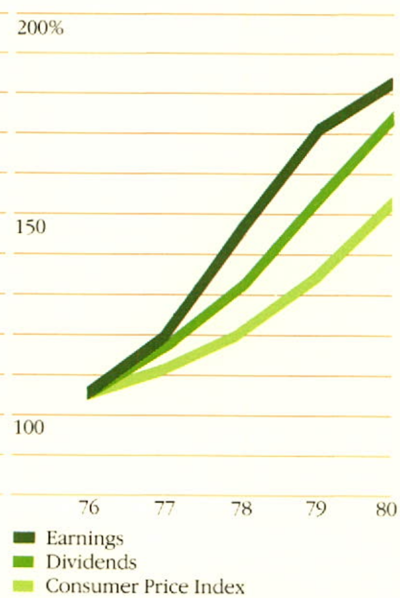
3. Return on Equity



During the past five years Banco has earned one of the highest returns on shareholders' equity in the banking industry. The return has grown from 13.4 percent in 1976 to 15.4 percent in 1980, the second highest return during that period. This improvement has been accomplished without a significant increase in financial leverage or asset risk. The slight decline in return on equity for 1980 is attributable to the lower return on assets.

4. Earnings and Dividend Growth

(1975 = 100)



From 1976 through 1979, after adjusting for inflation, the growth of Banco's earnings and dividends exceeded the rate of inflation due to increases in the volume of assets and improvements in profitability. For 1980, dividends were increased in line with the rate of inflation, while earnings grew at a slightly slower rate because of lower credit demand and a modest decline in profitability.

Net Interest Income

Banco derives the majority of its earnings from net interest income, the difference between the cost of acquiring funds and the interest and fees earned on loans and investments made with those funds. As such, changes in the mix and volume of assets and liabilities have a major impact on earnings. Regarding all of these factors, the past five years have been a period of rapid change for Banco. See Charts 5 through 11.

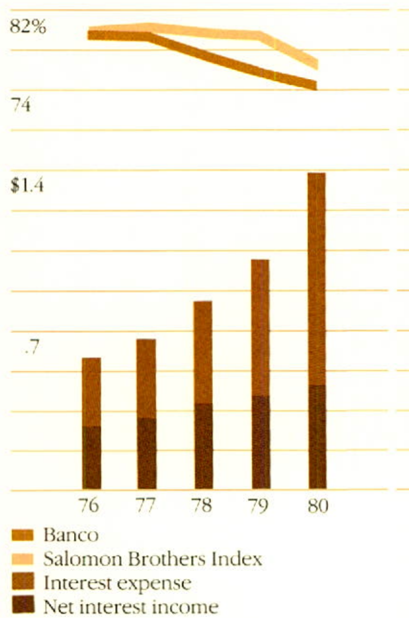
Many of the traditional rules of banking were altered over the latter half of the 1970s, profoundly affecting the discipline of asset/liability management. Many of these changes were legislated in response to a new and volatile set of economic conditions. Inflation became the hallmark of this new economic environment. As uncertainty about the stability of future prices stimulated demand for goods and services, consumers and businesses borrowed heavily to finance purchases. Moreover, depositors and investors began seeking higher yields on their funds in order to preserve purchasing power, a move which reduced the availability of low-cost funds to banks.

To enable banks to serve their customers more effectively, the Federal Reserve System,Congress and state legislatures initiated several major changes in laws and regulations governing interest rates for both depositors and borrowers. This process began in June 1978 with the introduction of 26-week money market certificates, which had an immediate impact on the cost and composition of Banco's liabilities.

Historically, the majority of Banco's liabilities were composed of relatively low-cost demand and consumer time deposits, which were used to finance fixed-rate assets. Due to the nature of Banco's market, there was little need to fund assets with rate-sensitive purchased funds, such as large certificates of deposit and short-term borrowings. This was in marked contrast to organizations with a larger commercial customer base that have a higher proportion of purchased liabilities and rate-sensitive assets. Consequently, market conditions and regulatory changes tended to have a generally greater impact on consumer-oriented organizations such as Banco, where interest-bearing liabilities have grown rapidly in relation to total assets since the mid-1970s.

Changes in Net Interest Income (In millions of dollars)	1980 Over 1979 Volume	Yield/ Rate	Total	1979 Over 1978 Volume	Yield/ Rate	Total
Increase (decrease) in						
Interest income						
Loans	$ 56.5	144.5	201.0	102.4	103.3	205.7
Investment securities	7.7	17.3	25.0	(4.8)	13.2	8.4
Money market and trading account securities	66.6	21.4	88.0	14.8	20.6	35.4
Direct lease financing	1.7	(.8)	.9	1.5	.2	1.7
Total	132.5	182.4	314.9	113.9	137.3	251.2
Interest expense						
Time deposits	72.3	115.6	187.9	51.6	82.8	134.4
Short-term borrowings	36.7	32.7	69.4	23.5	48.3	71.8
Long-term debt and convertible subordinated debentures	2.4	4.5	6.9	5.0	1.6	6.6
Total	111.4	152.8	264.2	80.1	132.7	212.8
Increase in net interest income	$ 21.1	29.6	50.7	33.8	4.6	38.4

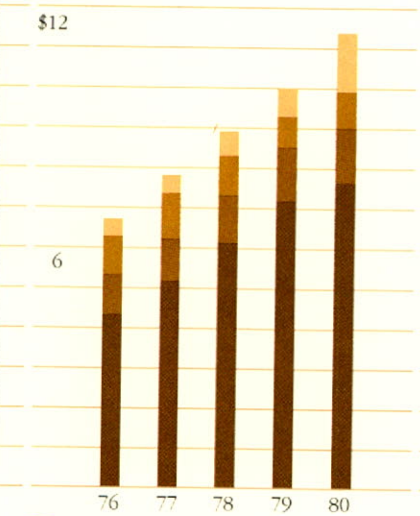
5. Net Interest Income— Tax Equivalent Basis
($ in billions)



Net interest income increased at a compound annual rate of 12.1 percent during the last five years. The proportion of net interest income to revenues (tax equivalent net interest income plus non-interest income) has declined from 79.6 percent in 1976 to 74.5 percent in 1980. This reflects the rapid growth of non-interest income. In comparison, this relationship has remained relatively stable for the Salomon Brothers Index until 1980.

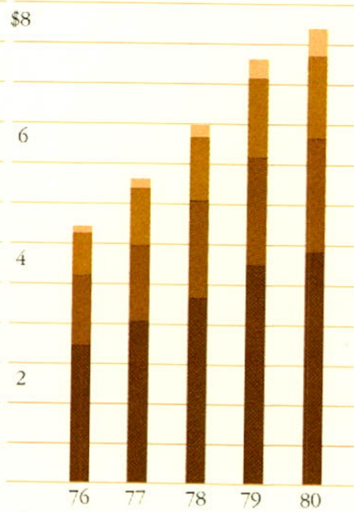
Consolidated Income Summary (In millions of dollars)	1980	Increase (Decrease) Amount	%	1979	Increase (Decrease) Amount	%	1978	1977	1976	Five Yr. Growth Rate
Interest income—tax equivalent basis	$1,392.8	314.9	29.2%	$1,077.9	251.2	30.4%	$826.7	663.5	562.4	21.8%
Interest expense	934.3	264.2	39.4	670.1	212.8	46.5	457.3	341.2	279.9	29.0
Net interest income	458.5	50.7	12.4	407.8	38.4	10.4	369.4	322.3	282.5	12.2
Provision for loan losses	25.8	5.4	26.3	20.4	.3	1.6	20.1	17.8	17.8	10.4
Net interest income after provision for loan losses	432.7	45.3	11.7	387.4	38.1	10.9	349.3	304.5	264.7	12.3
Non-interest income	156.5	26.2	20.1	130.3	23.0	21.5	107.3	83.3	72.4	20.8
Non-interest expenses	377.6	62.7	19.9	314.9	41.6	15.2	273.3	232.4	205.0	15.4
Income before income taxes and securities transactions	211.6	8.8	4.4	202.8	19.5	10.6	183.3	155.4	132.1	12.3
Applicable income taxes	23.3	(6.8)	(22.5)	30.1	—	—	30.1	26.7	19.6	2.6
Tax equivalent adjustment	71.6	8.6	13.9	63.0	3.8	6.4	59.2	51.6	46.8	12.4
Income before securities transactions	116.7	7.0	6.4	109.7	15.7	16.7	94.0	77.1	65.7	14.9
Net securities losses	3.2	.1	4.3	3.1	.7	31.7	2.4	.9	.3	28.9
Net income	$ 113.5	6.9	6.4	$ 106.6	15.0	16.4	$ 91.6	76.2	65.4	14.6

6. Earning Assets
($ in billions)



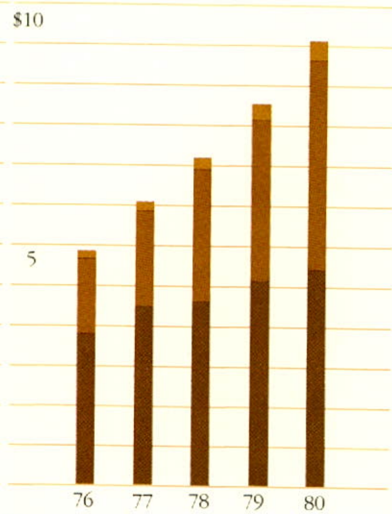
Earning assets have grown at a compound annual rate of 13.4 percent during the last five years. Loans amounted to 64.0 percent of earning assets in 1976, increased to 70.3 percent in 1979, and averaged 67.2 percent in 1980. In 1980, money market investments were increased to $1.4 billion and U.S. Treasury and federal agency securities were increased to $0.9 billion, thus providing additional liquidity.

7. Loans
($ in billions)



Loans have increased at a compound annual rate of 13.5 percent during the last five years. In 1980 Banco began increasing the proportion of commercial loans in the portfolio to improve overall rate-sensitivity. The maturity structure of commercial loans was shortened, with $3.3 billion now due within one year. Of those loans due after one year, $0.7 billion were rate-sensitive.

8. Interest-bearing Liabilities
($ in billions)



The composition of consumer time deposits has changed with 26-week money market certificates and 30-month certificates, totaling 42.1 percent of consumer time deposits, compared with 6.6 percent at the end of 1978. Interest-bearing transaction accounts increased to $427.4 million at December 31, compared with $61.0 million at year-end 1979. In 1980, purchased funds averaged 46.6 percent of interest-bearing liabilities, up from 36.5 percent in 1975.

With the changes in the composition of liabilities, Banco's asset mix did not match these new funding conditions. Working out this imbalance between interest-sensitive liabilities and fixed-rate assets has been the focus of considerable activity at Banco.

Earning assets consist of loans, investment and trading account securities, money market investments and direct lease financing and average about 86 percent of total assets. With the strong demand for credit over the past few years, earning assets have grown significantly, with more than two-thirds of earning assets consisting of loans.

Banco's large base of fixed-rate real estate mortgage loans and municipal securities has prevented the corporation from quickly changing its mix of earning assets in response to the changing composition of its liabilities. To better match Banco's assets with the growing reliance on interest-sensitive liabilities, Banco is:

- selling new fixed-rate real estate loans into secondary markets, thus helping reduce the portfolio of fixed-rate assets. In 1980, Banco Mortgage Company sold $774 million of residential mortgages to long-term investors, and plans are under way to market other types of fixed-rate assets, such as commercial mortgage loans.
- improving the overall rate-sensitivity of commercial loans through repricing. Relatedly, Banco is increasing the proportion of its loan portfolio composed of rate-sensitive loans.
- reducing holdings of longer-maturity municipal securities. This is being done not only to shorten the overall maturity of Banco's portfolio, but also to maintain taxable income at a level which assures maximum utilization of deductions and tax credits.

As the corporation continues to make progress in increasing the rate-sensitivity of its assets, Banco's interest margins should compare even more favorably with other major banking organizations that were less affected by fundamental alterations in the cost and mix of liabilities.

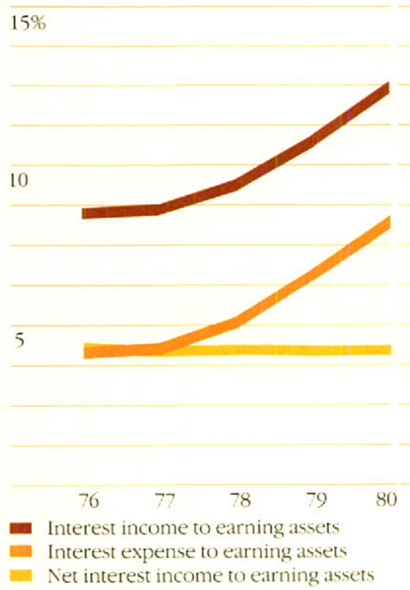
Net interest margin, the relationship between net interest income and earning assets, is an important factor affecting Banco's earnings. Even though liabilities were slightly more rate-sensitive than assets in 1980, Banco's net interest margin remained relatively unchanged last year, improving slightly to 4.09 percent from 4.08 percent for 1979. This margin performance was achieved in spite of this period's high and volatile interest rates. For 1979 and 1980, the effect on net interest income of changes in the mix and volume of earning assets and interest-bearing liabilities and the effects of changes in yields and rates are presented on page 18.

Maturity of Selected Loans* at December 31, 1980
(In millions of dollars)

	Within 1 Year	1-5 Years	After 5 Years	Total
Commercial	$2,962.7	572.4	113.8	3,648.9
Construction and land development	121.2	34.8	6.5	162.5
Real estate	121.8	127.8	385.5	635.1
Foreign	138.1	208.2	210.7	557.0
Total	$3,343.8	943.2	716.5	5,003.5
Predetermined interest rates	$1,319.9	395.7	568.1	2,283.7
Floating interest rates	2,023.9	547.5	148.4	2,719.8
Total	$3,343.8	943.2	716.5	5,003.5

*Excludes consumer and residential mortgage loans of $2,809,771,000.

9. Net Interest Margin



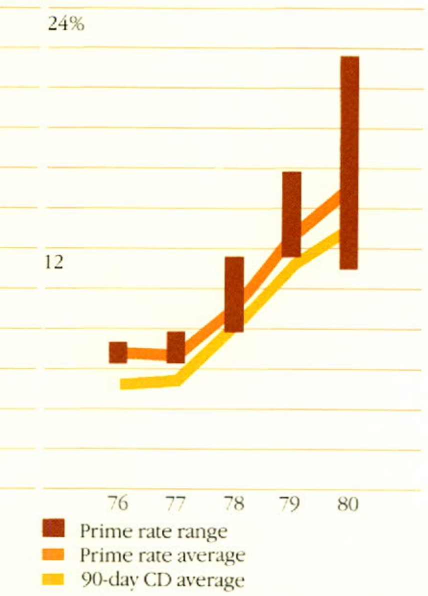
Net interest margin declined from 4.24 percent in 1976 to 4.09 percent in 1980 because of the increased reliance on interest-bearing liabilities and a decline in yield spread due to the change in the mix of interest-bearing liabilities. For 1980, net interest margin remained relatively stable in comparison with 1979 despite the volatile interest rate environment, indicating that efforts to improve the rate-sensitivity of assets are having a positive effect.

Maturity of Securities at December 31, 1980
(In millions of dollars)

	Carrying Value											
	Within 1 Year		1-5 Years		5-10 Years		After 10 Years		Total		Total Market Value	Average Maturity in Years
	Amt.	Yield	Amt.	Yield	Amt.	Yield	Amt.	Yield	Amt.	Yield		
U.S. Treasury and federal agencies	$678.1	11.2%	$394.7	10.4%	$ 54.8	8.1%	$ 5.8	8.0%	$1,133.4	10.8%	$1,095.7	1.4
State, municipal and housing*	78.1	9.1	340.7	9.7	451.9	10.0	398.1	10.9	1,268.8	10.1	1,000.3	8.5
Other investment securities	41.3	6.0	4.0	8.1	.5	7.7	.3	5.5	46.1	6.0	76.8	.6
Total investment securities	$797.5	10.8	$739.4	10.1	$507.2	9.8	$404.2	10.9	$2,448.3	10.4	$2,172.8	5.2

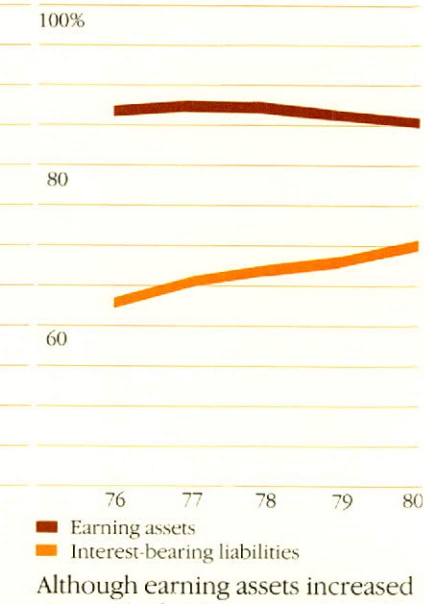
*The yield on state, municipal and housing securities is increased by the benefit of tax exemption, assuming a 46% federal income tax rate. The amount of the increases in the yield for these securities and for total investment securities are 4.7% and 2.4%, respectively.

10. Market Rates



Insight into margin performance can be gained by examining two barometers of the interest rate environment: the prime rate and the rate paid for 90-day certificates of deposit. The average prime rate increased from 6.84 percent in 1976 to 15.23 percent in 1980, accompanied by a similar increase in the cost of 90-day CDs. Despite the 1,050 basis point range in the prime rate during 1980, Banco's net interest margin remained stable.

11. Earning Assets, Interest-bearing Liabilities to Average Assets



Although earning assets increased during the last five years, the ratio of earning assets to total assets has remained relatively stable. In contrast, interest-bearing liabilities increased from 63.8 percent in 1976 to 70.6 percent of total assets in 1980 due to slower growth of demand deposits, the most significant source of non-interest-bearing funds. During this period, demand deposits increased at an annual rate of 5.8 percent.

Provision for Loan Losses

Controlling credit risk to minimize loan losses and non-performing assets entails a continuous process of credit evaluation, because factors determining risk can change with fluctuations in the economy. Diversification, both geographically and by type of borrower, also tends to reduce overall risk. The table on page 44 provides a breakdown of Banco's loans by type of borrower.

The cost associated with credit risk is represented by the provision for loan losses. In 1979 the provision was maintained at the same level as in 1978, despite a reduction in the net loan losses to maintain the ratio of the allowance to loans. In 1980, the provision was increased, reflecting the significant increase in loan charge-offs, an increase in past due loans and current economic conditions. See Charts 12 through 15.

Banco has chosen not to improve its yield on assets by increasing asset risk. This is indicated by Banco's relatively low loan loss ratio in comparison with those of other major banking organizations. Despite this historically lower loss ratio, Banco has maintained its allowance for loan losses to total loans at about the same ratio as other major banking organizations. At December 31, 1980, the allowance for loan losses was equal to .98 percent of outstanding loans, up from .96 percent a year ago. An analysis of the changes in the allowance during the past five years is presented on page 44.

Loan losses increased during 1980, but were confined primarily to loans with small and medium-sized businesses, which were least able to withstand escalating interest rates and the weak economy. Historical data on Banco's loan loss experience by type of borrower is presented on page 44.

Non-performing Assets at December 31
(In millions of dollars)

	1980	1979	1978	1977	1976
Non-accrual loans	$29.0	22.6	18.5	20.7	32.8
Reduced rate loans	8.7	4.6	9.4	14.3	21.9
Total non-accrual and reduced rate loans	37.7	27.2	27.9	35.0	54.7
Real estate acquired through foreclosure	23.2	27.5	19.5	29.3	31.3
Total non-performing assets	$60.9	54.7	47.4	64.3	86.0

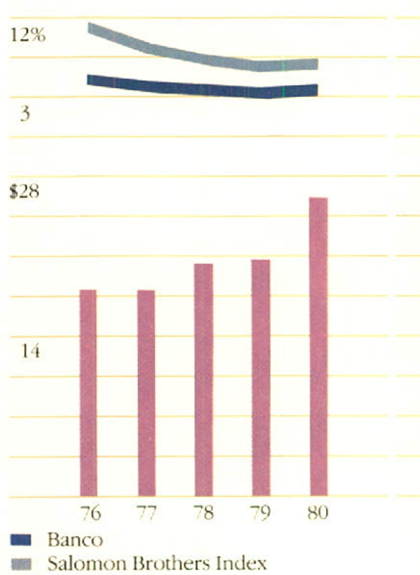
Loan Delinquencies
(90 days or more past due)

	December 31				
	1980	1979	1978	1977	1976
Commercial	1.11%	.57	.67	.83	1.08
Construction and land development	6.00	2.16	4.28	7.07	11.43
Real estate	.50	.49	.38	.55	.56
Consumer	.52	.38	.33	.50	.53
Credit card and check credit plans	1.20	1.57	1.35	1.01	1.07
Total loans	.96	.58	.64	.85	1.03
Past due loans which are also on a non-accrual or a reduced rate basis	.33%	.24	.26	.49	.60

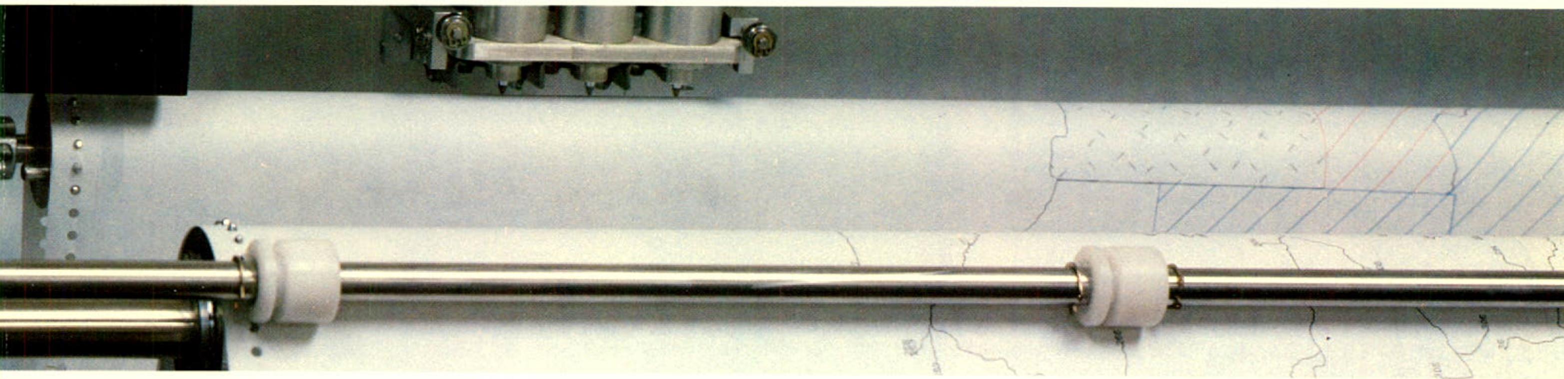
In the construction of a country, it is not the practical workers but the idealists and planners that are difficult to find.

Sun Yat-Sen

12. Provision for Loan Losses



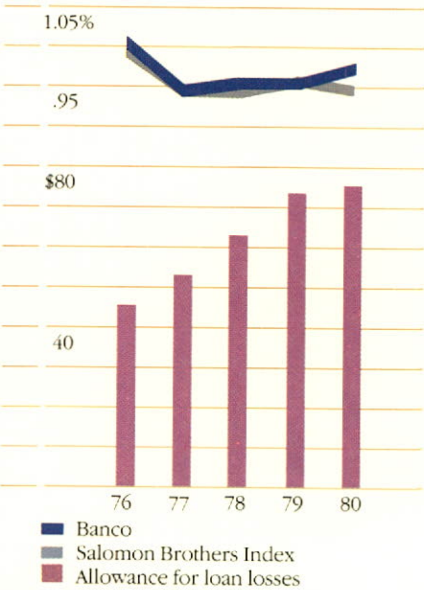
For Banco the ratio of the provision for loan losses to revenues has been more stable and held to a lower level than for most other major banking organizations. During the last five years, Banco's provision amounted to less than 5 cents for each dollar of revenue, compared with a range of 11 cents to 7 cents for the Salomon Brothers Index.



13. Loan Loss Ratio

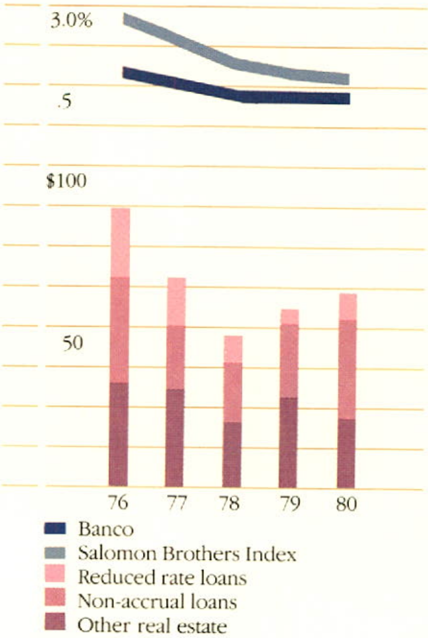
An indicator of current credit risk is the ratio of net loan losses to average loans. Net loan losses increased to .31 percent of average loans in 1980, reflecting the effects of high interest rates and weak economic conditions. The 1980 loan loss ratio was lower than the .42 percent recorded in 1976 and has averaged .26 percent of average loans for the last five years. Banco's historical loss experience also compares very favorably with the Salomon Brothers Index.

14. Allowance for Loan Losses
($ in millions)



Consistent with Banco's desire to maintain a strong balance sheet, the allowance for loan losses is generally maintained at or above the level of other major banking organizations, despite Banco's more favorable loan loss history. At December 31, 1980, the ratio of the allowance for loan losses to outstanding loans was .98 percent, up from .96 percent a year ago.

15. Non-performing Assets
($ in millions)



The level of non-performing assets is another indicator of credit risk. During each of the past four years, Banco's non-performing assets at year-end have amounted to less than one percent of total assets, significantly lower than the ratio for the Salomon Brothers Index. At December 31, 1980, non-performing assets amounted to .4 percent of assets, a ratio which has remained unchanged since 1978.

Non-performing assets are loans placed on a non-accrual status, loans on which the rate of interest has been reduced below the market rate due to the financial condition of the borrower, and real estate acquired in satisfaction of a loan. The amount of these assets declined steadily through 1978, but increased in 1979 and 1980 reflecting the deterioration of economic conditions.

Banco's success in controlling non-performing assets is significantly better than the industry average as represented by the Salomon Brothers Index. The amount of non-performing loans at December 31 in the past five years is presented in the table on page 22.

As with non-performing assets, loans 90 days or more past due have also increased recently, reflecting the weak economy. Historical data on Banco's past due loans by type of borrower is also presented on page 22.

Non-interest Income

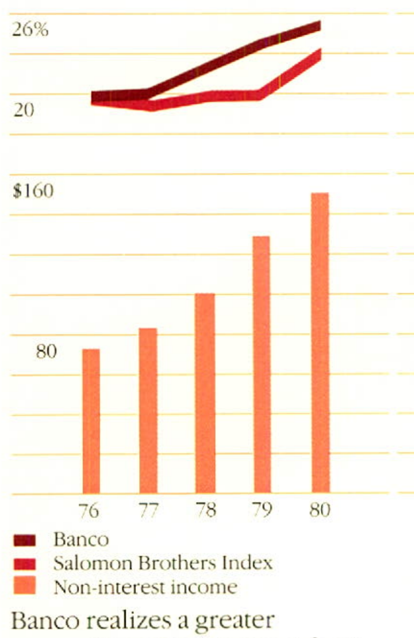
Non-interest income has been Banco's fastest growing source of revenue, having increased 20.1 percent in 1980 and 21.5 percent in 1979. During the last five years, Banco has improved its profitability by developing non-credit services, which have assisted Banco in attaining one of the highest returns on average assets among major banking organizations. The growth of non-interest income has resulted primarily from the repricing of deposit and credit card services and the growth of several other non-credit services. See Chart 16.

During 1979 and 1980, fees on deposit accounts increased 31.6 percent and 29.7 percent, respectively, reflecting Banco's intention to make fees more indicative of the true costs of servicing these accounts.

Banco Mortgage Company and Northwest Growth Fund have also made significant contributions to the growth of non-interest income. Banco Mortgage, the nation's third largest mortgage banker, has increased its non-interest revenues at an annual rate of 45.2 percent during the last five years. Northwest Growth Fund, one of the five largest small business investment companies in the country, has realized steadily higher gains from the sale of venture capital investments.

Banco also has sought to expand non-interest income through its banking activities. Revenues from trust activities have grown since the formation of statewide trust companies in Montana, Nebraska, and North and South Dakota. Moreover, revenues from data processing services have risen at an

16. Non-interest Income
($ in millions)



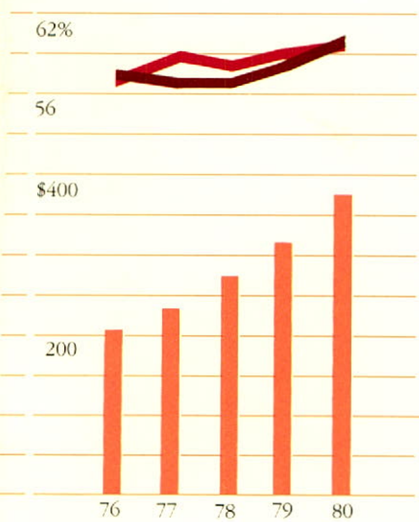
Banco realizes a greater proportion of its revenues from non-credit services than many other major banking organizations. In 1980, 25.4 percent of total revenue was derived from non-interest income, up from 20.4 percent in 1976. Increases in non-interest income have been fueled primarily by revenues from mortgage banking and venture capital activities. The 1980 increase also included $5.2 million in gains on the repurchase of long-term debt.

annual rate of 15.4 percent during the last five years. Northwest Computer Services, Inc. provides data processing services for Banco's 86 affiliate banks and more than 500 correspondent customers. Other significant increases in fees have been derived from insurance income and fees on credit cards. The centralization of credit card operations at Iowa-Des Moines National Bank during 1981 should enable Banco to expand its credit card business and improve its profitability. Revenues earned in each of the last five years from each of the major non-credit services is presented in the table on page 45.

Non-interest Expenses

Non-interest expenses reflect basic operating costs in addition to expenditures for product development, processing systems, staff training and other development programs needed to maintain a sound base for future growth. Non-interest expenses increased 19.9 percent in 1980, compared with increases of 15.2 percent in 1979 and 17.6 percent in 1978. See Chart 17.

17. Non-interest Expenses
($ in millions)



Banco
Salomon Brothers Index.
Non-interest expenses

Banco's ratio of non-interest expenses to revenues has generally been lower than that of the Salomon Brothers Index, reflecting Banco's higher profitability. The increase in the ratio since 1979 was due primarily to slower growth of net interest income, staff increases, and the effect of inflation on salary and benefit costs. At year-end total employment was 13,276, up 5.8 percent from 1979. Banco Mortgage Company and Northwest Computer Services, Inc. accounted for one-third of this increase.

18. Income Taxes—Tax Equivalent Basis
($ in millions)

Banco
Salomon Brothers Index
Tax equivalent adjustment
Income tax expense

On a tax equivalent basis, Banco's ratio of income taxes to revenues has been greater than the ratio for the Salomon Brothers Index due to Banco's higher profitability. The decline in Banco's income tax ratio in 1979 and 1980 was due to the 1979 reduction in the federal corporate tax rate, an increase in earnings subject to capital gains rates, and an increase in investment tax credits which reduced income tax expense.

There are several reasons for the increases. Most important is the effect of inflation on salaries and benefits and on the cost of goods and services. Increases in staff of 5.8 percent in 1980 and 10.6 percent in 1979 were major contributors to the increases in salary and benefit expenses. Another and increasingly important consideration is the cost of expanding non-credit services.

Banco's active commitment to telecommunication technology offers a promising opportunity for greater efficiencies and lower operating costs. The large-scale consolidation of operations and data processing activities within the new Northwestern Operations Center in Minneapolis should yield lasting productivity improvements. Banco's recent pioneering of in-bank distributed processing systems and its extensive network of automated teller machines show promise of providing considerable cost savings. In addition, these systems will enable many Banco banks to grow without proportionate increases in personnel. A breakdown of Banco's non-interest expenses in the last five years appears in the table on page 45.

Capital and Liquidity

Banco believes that a strong equity capital position is vital to continued profitability because it promotes depositor and investor confidence, enhances flexibility and should help assure continued access to capital markets on favorable terms. In addition, it enables the corporation to take advantage of expansion opportunities as they arise. On average, Banco's ratio of equity to assets was 5.8 percent in 1980, compared with 5.9 percent in 1979, which is well above the average for the Salomon Brothers Index. See Charts 19 through 21.

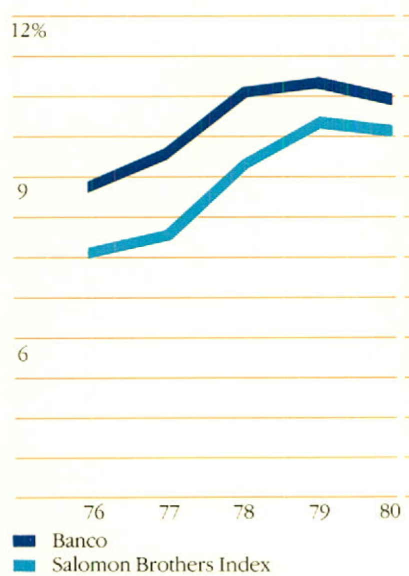
The key to Banco's financial strength is its ability to internally generate equity capital to support asset growth and maintain a strong capital position. Banco's long-term debt and commercial paper notes carry the highest ratings available, AAA/Aaa and A-1 and P-1, from the two major credit rating services, Standard & Poor's Corporation and Moody's Investors Services, Inc. This permits Banco to access public capital markets on favorable terms.

A strong capital position is also an important element of liquidity because it impacts the ability of an organization to acquire liabilities on favorable terms. In spite of the changing economic environment, local customers remain a stable source of funds for the majority of Banco banks. In addition, Northwestern National Bank of Minneapolis, Banco's largest affiliate, regularly accesses national and international markets for purchased funds when favorable terms exist. Banco sells commercial paper notes in both local and national markets to establish reliable sources of funds for the financial service companies.

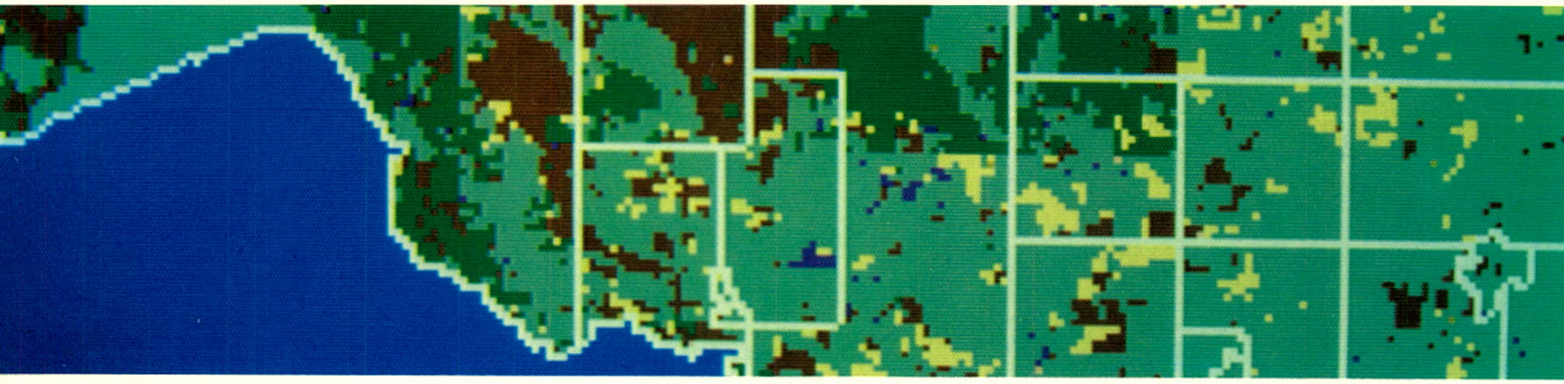
Liquidity is also available from Banco's loan portfolio in that $3.3 billion of loans will mature within one year, excluding principal reductions on consumer installment loans and residential mortgages. To improve interest rate-sensitivity and liquidity, the maturity structure of investment securities was reduced from 6.2 years to 5.2 years. The $797.5 million of investment securities that will mature in 1981 represents another source of liquidity.

Progress occurs when courageous, skillful leaders seize the opportunity to change things for the better.
Harry S Truman

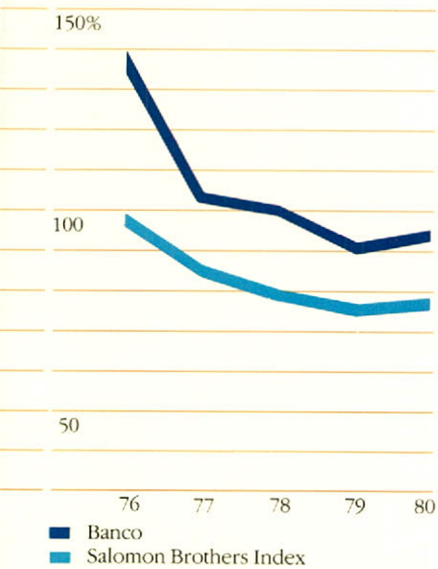
19. Internal Equity Growth Rate



A key to Banco's financial strength is its ability to internally generate equity capital to support asset growth and maintain a strong capital position. During the past five years, Banco's internal equity growth rate has averaged 10 percent annually, which compares favorably with the Salomon Brothers Index.

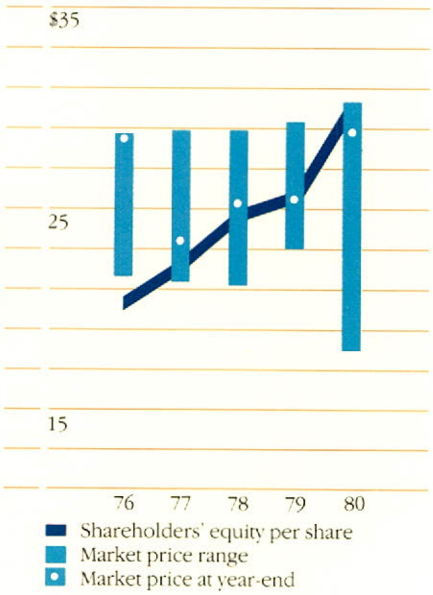


20. Market Price to Book Value at Year-end



Volatile economic conditions and higher dividend yield requirements on the part of investors have contributed to a general reduction in the ratio of market price to book value for most equity securities. However, Banco's ratio remains considerably higher than that of the Salomon Brothers Index, which can be attributed to Banco's earnings power and consistent performance.

21. Shareholders' Equity Per Share and Market Price Range



Shareholders' equity per share was $30.73 at December 31, 1980, up 10.5 percent from 1979. During 1980, the market price of Banco's common stock traded between a range of $30¼ to $18 per share and closed at $28⅞ per share on December 31.

A factor in determining the market price of common stock is the yield equivalent of the current dividend. As a result, the widening range of Banco's market price correlates with the widening range of interest rates.

Impact of Price Level Changes

Large public companies are required to report the estimated effects of changes in purchasing power on selected financial data. This enables the reader to evaluate historical numbers in terms of "constant dollars," that is, dollars adjusted to represent a uniform level of purchasing power. Certain adjustments to restate depreciation expense are omitted because they are not material. Similarly, presentation under the current-cost method of adjusting for inflation would not differ significantly from the data shown in the table below.

The effects of inflation on banking organizations may be overstated since monetary assets are those most affected by changes in interest rates. Moreover, the impact of inflation on monetary assets is not always the same as that on the prices of other goods and services.

The high cost of borrowing which persisted throughout 1980 reduced the demand for credit, which in turn reduced both the growth of assets and earnings. In addition, inflation has significantly impacted the growth of non-interest expenses, in particular salaries and benefits. As a result, 1980 comparisons of inflation-adjusted earnings and assets show a decline from 1979. Also, since Banco's monetary assets exceed monetary liabilities, the purchasing power of net monetary assets will decline when the Consumer Price Index (CPI) is increasing.

Banco's dividend growth has generally exceeded increases in the CPI. The market price of the corporation's common stock, when expressed in constant dollars, has been relatively stable for the last four years.

Selected Financial Data
Adjusted for Effects of Changing Prices*
(In millions of dollars)

		1980	1979	1978	1977	1976
Net interest income	$	**386.8**	391.2	391.8	368.1	341.2
Income before securities transactions		**116.7**	124.5	118.7	104.8	95.1
Net income		**113.5**	121.0	115.7	103.6	94.7
Net assets (at year-end)		**760.8**	771.5	782.0	768.0	736.0
Purchasing power loss on net monetary items		**49.4**	51.9	38.4	22.9	15.3
Average assets		**13,000**	13,085	12,733	12,066	11,041
Per share						
Income before securities transactions	$	**4.51**	4.82	4.61	4.08	3.81
Net income		**4.39**	4.69	4.50	4.04	3.79
Dividends paid		**1.44**	1.45	1.39	1.33	1.27
Stock price (at year-end)		**27.58**	27.37	30.57	30.83	40.89
Average Consumer Price Index		**246.8**	217.4	195.4	181.5	170.5

*The data presented are based upon an historical cost/constant dollar method of accounting, adjusting all historical data into 1980 average dollars using the Consumer Price Index for All Urban Consumers.

Organizational Highlights

Banco banks and trust companies accounted for 95 percent of total assets at the end of 1980 and contributed 88 percent of Banco's 1980 earnings. Banco's financial service companies, an increasingly important source of earnings, contributed 5 percent of earnings in 1980. Selected financial information for the banks and trust companies and for the financial service companies is presented in the tables below.

Financial information for Banco's largest affiliate, Northwestern National Bank of Minneapolis, is presented on page 48. Additional information concerning the financial service companies and Northwest Growth Fund, Inc., Banco's venture capital subsidiary, is presented on pages 50 and 51.

At Year-end	Banks and Trust Companies		Financial Service Companies	
(In millions of dollars)	1980	1979	1980	1979
Securities	$ 4,123.3	2,797.9	—	—
Net loans and lease financing	7,550.4	7,273.6	203.4	304.3
Total assets	13,703.8	12,050.4	243.1	335.3
Deposits	11,105.4	9,833.9	—	—
Short-term borrowings	1,267.6	1,006.1	156.3	261.7
Long-term debt	192.1	161.8	44.1	38.7
Shareholders' equity	761.3	698.2	27.7	21.9

For the Year	Banks and Trust Companies			Financial Service Companies		
(In millions of dollars)	1980	1979	1978	1980	1979	1978
Net interest income after provision for loan losses	$351.3	319.2	284.4	5.2	3.0	3.5
Non-interest income	104.2	98.6	84.7	36.2	30.5	20.0
Non-interest expenses	334.9	288.5	255.7	29.8	23.2	17.1
Income before securities transactions	105.1	104.5	88.6	5.8	5.1	3.2
Net income	101.8	101.4	86.2	5.8	5.1	3.2

The financial statements of Northwest Bancorporation were prepared by management, which is responsible for their integrity and objectivity. Management believes that the financial statements have been prepared in conformity with generally accepted accounting principles appropriate in the circumstances to reflect in all material respects the substance of events and transactions that should be included, and that other information in the annual report is consistent with those statements. In preparing the financial statements, management makes judgments and estimates of the expected effects of events and transactions that are currently being accounted for and relies on the Corporation's system of internal accounting control. In designing these controls, management recognizes that errors or irregularities may nevertheless occur. Also, estimates and judgments are required to assess and balance the relative costs and expected benefits of the controls. This system is augmented by written policies, operating procedures and accounting manuals, plus a strong program of internal audit carried out with carefully selected and qualified personnel.

The board of directors pursues its role of overseeing these financial statements through an Audit and Examination Committee composed solely of directors who are not officers or employees of the Corporation. The Committee meets periodically with management, internal auditors and examiners to review the work of each and to monitor the discharge by each of its responsibilities. The Committee also meets with the independent auditors who have free access to the Committee or the Board, without management present, to discuss internal accounting control, auditing and financial reporting matters.

The independent auditors are engaged to express an opinion of the financial statements. Their opinion is based on procedures that they believe are sufficient to provide reasonable assurance that the financial statements are not materially misleading and do not contain material errors.

Management has long recognized the responsibility for conducting the Corporation's affairs with a high level of integrity and accountability to its shareholders, customers and society. This is reflected in policy statements which include a Code of Ethics and compliance with various regulatory and consumer laws. Educational and review programs are designed to help ensure that these policies are understood and followed.

Chester C. Lind
Chairman and Chief Executive Officer

Walter C. Johnson
Executive Vice President and Chief Financial Officer

January 19, 1981

Report Of Independent Certified Public Accountants

The Shareholders of Northwest Bancorporation:

We have examined the consolidated balance sheets of Northwest Bancorporation and subsidiaries and the balance sheets of Northwest Bancorporation (Corporation only) as of December 31, 1980 and 1979, and the related statements of income, shareholders' equity and changes in financial position for each of the years in the three-year period ended December 31, 1980. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the aforementioned financial statements present fairly the consolidated financial position of Northwest Bancorporation and subsidiaries and the financial position of Northwest Bancorporation (Corporation only) at December 31, 1980 and 1979 and the results of their operations and the changes in their financial position for each of the years in the three-year period ended December 31, 1980, in conformity with generally accepted accounting principles applied on a consistent basis.

Peat, Marwick, Mitchell & Co.

Minneapolis, Minnesota
January 19, 1981

Consolidated Balance Sheets

Northwest Bancorporation and Subsidiaries

(In thousands of dollars) December 31,	1980	1979
Assets		
Cash and due from banks	$ 1,290,294	1,092,533
Interest-bearing deposits with banks		
Domestic	130,721	37,134
Foreign	715,839	363,245
Total interest-bearing deposits with banks	846,560	400,379
Investment securities—market value $2,172,794 in 1980 and $1,976,381 in 1979	2,448,281	2,106,192
Trading account securities—market value $96,348 in 1980 and $121,919 in 1979	96,299	121,908
Federal funds sold and resale agreements	1,223,088	485,034
Loans		
Commercial	3,648,881	3,526,448
Construction and land development	162,548	210,697
Real estate	1,989,554	1,973,390
Consumer	1,455,259	1,563,641
Foreign	556,980	368,179
Total loans	7,813,222	7,642,355
Unearned discount	(120,521)	(126,191)
Allowance for loan losses	(75,083)	(72,571)
Net loans	7,617,618	7,443,593
Lease financing	139,662	137,751
Premises and equipment	259,486	194,114
Customers' liability on acceptances	174,175	178,981
Interest receivable and other assets	299,467	255,338
Total assets	$14,394,930	12,415,823

Liabilities and Shareholders' Equity		
Deposits		
Demand	$ 3,133,184	3,089,164
Regular savings	1,739,642	1,569,456
Savings certificates	3,104,051	2,583,476
Certificates of deposit and other time	2,540,315	1,689,781
Foreign time	527,041	641,353
Total deposits	11,044,233	9,573,230
Short-term borrowings	1,723,553	1,310,979
Acceptances outstanding	174,223	179,206
Accrued expenses and other liabilities	274,701	238,893
Long-term debt	315,680	329,547
Convertible subordinated debentures	50,000	50,000
Total liabilities	13,582,390	11,681,855
Minority interest	15,935	15,235
Shareholders' equity		
Preferred stock—authorized 5,000,000 shares without par value None outstanding	—	—
Common stock, $1⅔ par value—authorized 50,000,000 shares Outstanding 25,926,623 shares in 1980 and 25,852,413 shares in 1979, excluding 545,342 shares held in treasury carried at par value of $909 in 1980 and 1979	43,211	43,087
Surplus	44,510	43,010
Retained earnings	708,884	632,636
Total shareholders' equity	796,605	718,733
Total liabilities and shareholders' equity	$14,394,930	12,415,823

See notes to financial statements.

(In thousands of dollars) Year Ended December 31,	1980	1979	1978
Interest Income			
Interest and fees on loans	$ 978,839	785,205	581,688
Interest on investment securities			
U.S. Treasury and federal agencies	85,320	64,066	65,835
State, municipal and housing	71,723	69,642	61,956
Other investment securities	1,950	1,916	1,774
Total interest on investment securities	158,993	135,624	129,565
Interest on deposits with banks	86,374	32,072	12,566
Interest on trading account securities	8,783	7,042	7,393
Interest on federal funds sold and resale agreements	78,676	45,485	23,795
Other	9,491	9,441	12,488
Total interest income	1,321,156	1,014,869	767,495
Interest Expense			
Interest on time deposits	668,026	480,090	345,691
Interest on short-term borrowings	232,361	162,984	91,178
Interest on long-term debt and convertible subordinated debentures	33,939	26,987	20,452
Total interest expense	934,326	670,061	457,321
Net interest income	386,830	344,808	310,174
Provision for Loan Losses	25,755	20,388	20,064
Net interest income after provision for loan losses	361,075	324,420	290,110
Non-interest Income			
Trading account securities profits (losses) and commissions	(5,411)	5,243	2,100
Trust fees	26,915	24,389	21,970
Service charges on deposit accounts	28,990	22,345	16,979
Other fees and service charges	77,784	64,655	52,019
Other	28,271	13,677	14,213
Total non-interest income	156,549	130,309	107,281
Non-interest Expenses			
Salaries and benefits	217,877	178,005	147,366
Occupancy, net	26,053	23,063	20,376
Furniture and equipment	35,018	28,925	25,998
Business development	24,259	21,400	18,727
Communication	15,440	13,761	12,344
Other	58,991	49,804	48,543
Total non-interest expenses	377,638	314,958	273,354
Income Before Income Taxes and Securities Transactions	139,986	139,771	124,037
Applicable Income Taxes	23,291	30,060	30,086
Income Before Securities Transactions	116,695	109,711	93,951
Securities losses after applicable income tax credits of $3,328 in 1980, $3,302 in 1979 and $2,602 in 1978	3,200	3,069	2,330
Net Income	$ 113,495	106,642	91,621
Per Share			
Income before securities transactions			
Primary	$ 4.51	4.25	3.65
Fully diluted	4.29	4.05	3.57
Net income			
Primary	4.39	4.13	3.56
Fully diluted	4.17	3.94	3.48
Dividends paid	1.44	1.28	1.10

See notes to financial statements.

Consolidated Statements of Changes in Financial Position

Northwest Bancorporation and Subsidiaries

(In thousands of dollars) Year Ended December 31,	1980		1979		1978	
	Financial Resources		Financial Resources		Financial Resources	
	Provided	Used	Provided	Used	Provided	Used
Operations						
Net Income	$ 113,495	—	106,642	—	91,621	—
Add items not requiring resources in the current period						
Amortization of investment securities premiums and discounts, net	2,638	—	1,335	—	2,123	—
Depreciation and amortization	16,216	—	13,992	—	13,733	—
Provision for loan losses	25,755	—	20,388	—	20,064	—
Deferred income taxes	7,672	—	15,285	—	5,602	—
Resources from operations	165,776	—	157,642	—	133,143	—
Proceeds from exercise of stock options and delivery of treasury stock	1,624	—	2,156	—	444	—
Dividends paid	—	37,247	—	32,992	—	28,282
Resources from operations and equity	167,400	37,247	159,798	32,992	133,587	28,282
Interest-bearing deposits with banks	—	446,181	—	147,976	—	45,061
Investment securities	—	344,727	—	20,168	144,591	—
Trading account securities	25,609	—	14,980	—	—	56,068
Federal funds sold and resale agreements	—	738,054	—	222,860	—	121,260
Loans	—	207,263	—	1,031,095	—	966,487
Lease financing	5,122	—	—	23,258	—	2,361
Earning assets	30,731	1,736,225	14,980	1,445,357	144,591	1,191,237
Deposits	1,471,003	—	1,111,225	—	900,159	—
Short-term borrowings	412,574	—	131,571	—	293,476	—
Long-term debt	34,558	48,425	100,806	2,453	5,762	30,320
Convertible subordinated debentures	—	—	—	—	50,000	—
Deposits and borrowings	1,918,135	48,425	1,343,602	2,453	1,249,397	30,320
Cash and due from banks	—	197,761	22,016	—	—	219,492
Interest receivable and other assets	—	132,750	—	108,232	—	101,275
Accrued expenses and other liabilities	32,942	—	79,737	—	64,941	—
Other, net	3,200	—	—	31,099	—	21,910
Total other	36,142	330,511	101,753	139,331	64,941	342,677
Total	$2,152,408	2,152,408	1,620,133	1,620,133	1,592,516	1,592,516

See notes to financial statements.

Consolidated and Corporation Only Statements of Shareholders' Equity

Northwest Bancorporation and Subsidiaries
Northwest Bancorporation
(Corporation Only)

(In thousands of dollars)	Total	Common Stock	Surplus	Retained Earnings
Balance, December 31, 1977	$579,144	42,840	40,657	495,647
Net income	91,621	—	—	91,621
Dividends paid	(28,282)	—	—	(28,282)
Issuance of 25,180 shares upon exercise of options	444	42	402	—
Balance, December 31, 1978	642,927	42,882	41,059	558,986
Net income	106,642	—	—	106,642
Dividends paid	(32,992)	—	—	(32,992)
Delivery of 780 shares of treasury stock to acquire additional interests in subsidiaries	20	1	19	—
Issuance of 122,360 shares upon exercise of options	2,136	204	1,932	—
Balance, December 31, 1979	718,733	43,087	43,010	632,636
Net income	113,495	—	—	113,495
Dividends paid	(37,247)	—	—	(37,247)
Issuance of 74,210 shares upon exercise of options	1,624	124	1,500	—
Balance, December 31, 1980	$796,605	43,211	44,510	708,884

(In thousands of dollars) December 31,	1980	1979
Assets		
Cash and due from banks	$ 927	496
Interest-bearing deposits with banks	378,300	138,300
Marketable securities, at amortized cost (market value $2,342 in 1980 and $35,411 in 1979)	1,356	34,745
Commercial loans	843	1,436
Investments in and advances to subsidiaries		
Banks		
Capital notes	141,400	140,900
Capital stock	746,861	683,849
Total banks	888,261	824,749
Other companies		
Advances	169,347	271,499
Term loans	29,700	22,000
Capital notes	21,000	16,000
Capital stock	58,009	46,437
Total other companies	278,056	355,936
Total investments in and advances to subsidiaries	1,166,317	1,180,685
Other assets	18,048	10,406
Total assets	$1,565,791	1,366,068
Liabilities and Shareholders' Equity		
Commercial paper notes payable	$ 453,146	302,610
Accrued expenses and other liabilities	16,161	12,778
Long-term debt	249,879	281,947
Convertible subordinated debentures	50,000	50,000
Total liabilities	769,186	647,335
Shareholders' equity		
Preferred stock—authorized 5,000,000 shares, without par value None outstanding	—	—
Common stock, $1⅔ par value—authorized 50,000,000 shares Outstanding 25,926,623 shares in 1980 and 25,852,413 shares in 1979, excluding 545,342 shares held in treasury carried at par value of $909 in 1980 and 1979	43,211	43,087
Surplus	44,510	43,010
Retained earnings		
Undistributed income of corporation	57,060	46,806
Equity in undistributed income of subsidiaries	651,824	585,830
Total retained earnings	708,884	632,636
Total shareholders' equity	796,605	718,733
Total liabilities and shareholders' equity	$1,565,791	1,366,068

Statements of Income

Northwest Bancorporation
(Corporation Only)

(In thousands of dollars) Year Ended December 31,	1980	1979	1978
Income			
Dividends from subsidiaries			
Banks	$ 45,149	38,943	30,303
Other companies	794	569	748
Total dividends	45,943	39,512	31,051
Interest			
Interest on deposits with banks	40,125	12,753	3,483
Marketable securities and commercial loans	768	4,023	2,265
Advances to subsidiaries	31,264	28,015	14,568
Term loans to subsidiaries	2,286	1,792	1,892
Capital notes of subsidiaries	12,677	12,139	10,340
Total interest	87,120	58,722	32,548
Service fees from subsidiaries	6,971	6,412	5,928
Other	5,187	347	1,449
Total income	145,221	104,993	70,976
Expenses			
Salaries and benefits	7,422	6,191	5,282
Interest on short-term borrowings	51,140	31,876	13,152
Interest on long-term debt and convertible subordinated debentures	30,847	23,580	16,608
Occupancy	618	549	490
Other	6,546	4,346	4,133
Total expenses	96,573	66,542	39,665
Income before income taxes and equity in undistributed income of subsidiaries	48,648	38,451	31,311
Applicable income taxes (credits)	1,147	(316)	(266)
Income before equity in undistributed income of subsidiaries	47,501	38,767	31,577
Equity in undistributed income of subsidiaries			
Banks	53,519	59,061	53,751
Other companies	12,475	8,814	6,293
Total equity in undistributed income of subsidiaries	65,994	67,875	60,044
Net Income	$113,495	106,642	91,621

See notes to financial statements.

(In thousands of dollars) Year Ended December 31,	1980		1979		1978	
	Financial Resources		Financial Resources		Financial Resources	
	Provided	Used	Provided	Used	Provided	Used
Net income	$113,495	—	106,642	—	91,621	—
Deduct equity in undistributed income of subsidiaries	65,994	—	67,875	—	60,044	—
Net income before undistributed income of subsidiaries	47,501	—	38,767	—	31,577	—
Proceeds from exercise of stock options and delivery of treasury stock	1,624	—	2,156	—	444	—
Dividends paid	—	37,247	—	32,992	—	28,282
Resources from operations and equity	49,125	37,247	40,923	32,992	32,021	28,282
Interest-bearing deposits with banks	—	240,000	—	107,100	—	31,200
Marketable securities	33,389	—	—	16,396	1,458	—
Commercial loans	593	—	830	—	1,183	—
Advances to subsidiaries	102,152	—	—	31,724	—	104,442
Term loans of subsidiaries	—	7,700	1,000	—	4,000	—
Investments in capital notes of subsidiaries	—	5,500	—	1,000	—	19,800
Investments in capital stock of subsidiaries	—	8,590	—	15,738	—	17,803
Earning assets	136,134	261,790	1,830	171,958	6,641	173,245
Securities sold to subsidiary under agreements to repurchase	—	—	—	3,300	3,300	—
Commercial paper notes payable	150,536	—	62,150	—	142,012	—
Long-term debt	3,379	35,447	100,000	367	2,314	30,000
Convertible subordinated debentures	—	—	—	—	50,000	—
Interest-bearing liabilities	153,915	35,447	162,150	3,667	197,626	30,000
Cash and due from banks	—	431	1,620	—	—	1,144
Other assets	—	7,642	—	3,082	—	1,443
Accrued expenses and other liabilities	3,383	—	5,176	—	—	2,174
Total other	3,383	8,073	6,796	3,082	—	4,761
Total	$342,557	342,557	211,699	211,699	236,288	236,288

See notes to financial statements.

Summary of Significant Accounting Policies.

Northwest Bancorporation (the "Corporation") is a bank holding company organized in 1929. Subsidiary banks and trust companies provide a full range of commercial banking, leasing, Eurobond and municipal bond underwriting, and trust services. In addition, other subsidiaries provide mortgage banking, insurance, commercial financing, agricultural lending and venture capital services.

The accounting and reporting policies of the Corporation and its subsidiaries conform to generally accepted accounting principles and the general practices within the banking industry. The more significant accounting policies of the Corporation and its subsidiaries are summarized below.

Certain accounts in the 1978 and 1979 financial statements have been reclassified for comparative purposes.

Consolidation. The consolidated financial statements include the accounts of the Corporation and all subsidiaries. Significant intercompany accounts and transactions have been eliminated.

The Corporation generally carries its investment in subsidiaries on the basis of its equity in their net assets.

Securities. Investment securities are stated at cost adjusted for amortization of premiums and accrual of discounts. Gains or losses on the sales of investment securities (computed on a specifically-identified cost basis) are recognized upon realization. Trading account securities are stated at the lower of average cost or market.

Loans. Loans are stated at their principal amount. Accrual of interest is suspended when a consumer loan becomes 90 days past due unless scheduled payments are being received or the loan is insured for credit loss; when foreclosure proceedings begin on a real estate or a construction and land development loan; when a commercial loan has been in default for 90 days unless secured by collateral whose value at least equals the carrying value of the loan plus any unpaid accrued interest. When a loan is placed on non-accrual, any uncollected interest accrued in prior years, but not collected, is charged against the allowance for loan losses.

Unearned discount, primarily interest on consumer loans, is deferred and is taken into income by the sum-of-the-digits method over the outstanding periods of the related loans.

Allowance for Loan Losses. The provision for loan losses is based upon management's evaluation of a number of factors, including loan loss experience, a continuing review of problem loans and overall portfolio quality, periodic examinations and analyses of loan portfolios of subsidiaries, and current and expected economic conditions. Such provisions, less net loan losses comprise the allowance for loan losses which is available for future loan losses.

All loans evaluated as loss and other loans when warranted are charged off.

Lease Financing. Aggregate lease rentals are recorded as receivables, net of the related unearned income, which includes deferred investment tax credits and related nonrecourse debt. Leasing income is recognized by the interest method.

Premises and Equipment. Premises and equipment are stated at cost less accumulated depreciation and amortization. Depreciation of owned property is provided generally over estimated useful lives of 20 to 50 years for buildings and 4 to 10 years for furniture, fixtures and equipment, computed generally by an accelerated method for assets acquired prior to 1977 and on a straight-line method for assets acquired thereafter. Amortization of assets recorded as capital leases is provided over the lease term by an accelerated method for leases entered into prior to 1977 and on a straight-line method for leases entered into thereafter. Leasehold improvements are amortized over the terms of the respective leases.

The cost of betterments and interest incurred in connection with the construction of certain premises and equipment is capitalized. Maintenance and repairs and gains or losses on dispositions are included in non-interest expenses.

Other Real Estate. Real estate acquired in satisfaction of loans is included in other assets at the lower of cost or estimated fair value upon disposition. At the time title to the property is acquired the excess of the recorded investment in the property over the estimated fair value, if any, is charged to the allowance for loan losses. Subsequent changes in the estimated fair value, not to exceed the initial recorded investment, and net operating results from these properties are included in non-interest expenses.

Income Taxes. The income tax effects of transactions are recognized for financial reporting purposes in the year in which they enter into the determination of recorded income, regardless of when they are recognized for income tax purposes. Accordingly, applicable income taxes in the statements of income include charges or credits for deferred income taxes relating to timing differences.

Investment tax credits on purchases of equipment for lease are deferred and amortized over the terms of the respective leases. Investment tax credits on purchases of premises and equipment are recognized at the time of purchase as a reduction of income tax expense.

The Corporation and its U.S. subsidiaries file a consolidated federal income tax return. Federal income taxes or tax reductions are allocated to each U.S. subsidiary on the basis of its taxable income or loss included in the return. Foreign income taxes are taken as a foreign tax credit in the current year and reduce the liability for federal income tax.

Earnings Per Share. Primary earnings per share data are computed based on the weighted average number of common shares outstanding and the incremental shares arising from the assumed exercise of outstanding stock options. Fully diluted earnings per share data are computed by using such average common shares increased by the assumed conversion of the 6¾ percent convertible subordinated debentures into common stock. Income is adjusted for interest expense and amortization of debt expense related to these debentures, net of related income tax effect.

Investment Securities.

The amounts at which investment securities are carried on the books and their market values at December 31 were:

	1980		1979	
(In thousands of dollars)	Carrying Value	Market Value	Carrying Value	Market Value
U.S. Treasury and federal agencies	$1,133,366	1,095,669	713,457	690,296
State, municipal and housing	1,268,819	1,000,304	1,359,242	1,241,267
Other investment securities	46,096	76,821	33,493	44,818
Total	$2,448,281	2,172,794	2,106,192	1,976,381

Assets, primarily securities, carried at $1,433,644,000 were pledged to secure public or trust deposits or for other purposes at December 31, 1980.

Loans.

Changes in the allowance for loan losses were:

(In thousands of dollars)	1980	1979	1978
Balance at beginning of year	$72,571	62,662	52,739
Reserves of acquired banks	199	232	213
Provision for loan losses	25,755	20,388	20,064
Loan losses	(30,725)	(16,390)	(15,300)
Recoveries	7,283	5,679	4,946
Net loan losses	(23,442)	(10,711)	(10,354)
Balance at end of year	$75,083	72,571	62,662

At December 31, 1980 loans included $82,091,000 owed by directors and executive officers (and their beneficial interests) of the Corporation and its principal subsidiary Northwestern National Bank of Minneapolis; such amount includes real estate loans but does not include consumer loans made in the ordinary course of business.

Lease Financing.

On December 31 lease financing consisted of:

(In thousands of dollars)	1980	1979
Direct financing	$ 77,467	82,589
Leveraged	62,195	55,162
Total	$139,662	137,751

Deferred income taxes related to leveraged leases amounted to $45,642,000 and $34,918,000 at December 31, 1980 and 1979, respectively.

Premises and Equipment.

The net carrying value of premises and equipment at December 31 was:

(In thousands of dollars)	1980	1979
Owned		
Land	$ 29,999	30,190
Premises and improvements	161,056	109,203
Furniture, fixtures and equipment	51,121	37,641
	242,176	177,034
Capitalized leases		
Premises	16,486	15,922
Equipment	824	1,158
	17,310	17,080
Total	$259,486	194,114

$2,695,000 and $1,544,000 of interest expense related to the construction of premises and equipment was capitalized in 1980 and 1979, respectively.

Deposits.

Time deposits in amounts of $100,000 or more by time remaining until maturity at December 31 were:

(In thousands of dollars)	Certificates of Deposit	Other Time	Foreign Time
1980			
Less than three months	$1,951,808	28,346	462,475
Three to six months	447,536	23,418	51,856
Six to twelve months	45,810	521	10,910
Over twelve months	40,817	1,361	—
Total	$2,485,971	53,646	525,241
1979			
Less than three months	$1,116,040	31,000	485,472
Three to six months	415,755	13,934	121,128
Six to twelve months	66,369	500	34,645
Over twelve months	16,142	2,281	—
Total	$1,614,306	47,715	641,245

Interest expense on time deposits was:

(In thousands of dollars)	1980	1979	1978
Regular savings	$ 88,999	86,461	89,534
Savings certificates	267,694	177,632	135,881
Certificates of deposit and other time	227,847	161,061	95,057
Foreign time deposits	83,486	54,936	25,219
Total	$668,026	480,090	345,691

Interest expense on domestic time deposits of $100,000 or more was $228,869,000 in 1980 and $153,575,000 in 1979.

Short-term Borrowings.

Short-term borrowings at December 31 consisted of:

(In thousands of dollars)	1980 Amount	1980 Average Rate	1979 Amount	1979 Average Rate
Corporation only				
Commercial paper notes payable	$ 453,146	17.59%	$ 302,610	13.15%
Consolidated subsidiaries				
Federal funds purchased and securities sold under agreements to repurchase	815,033	17.40	812,201	12.88
U.S. Treasury demand notes	91,707	16.01	147,332	13.49
Other	363,667	18.82	48,836	13.51
Total	$1,723,553	17.67	$1,310,979	13.03

Federal funds purchased generally mature the day following the date of purchase while securities sold under agreements to repurchase generally mature within 60 days from the various dates of sale. Commercial paper notes payable generally mature within 90 days from the date of issuance. Other short-term borrowings generally mature within twelve months.

The following information relates to short-term borrowings:

(In thousands of dollars)	1980 Consolidated	1980 Corporation Only	1979 Consolidated	1979 Corporation Only
Maximum outstanding at month-end	$2,194,878	453,716	1,634,951	334,011
Average outstanding	$1,851,398	396,848	1,507,619	276,953
Weighted average interest rate	12.70%	12.89	10.91	11.41

On December 31, 1980, the Corporation had available lines of credit with banks totaling $90,000,000. These financing arrangements require the maintenance of compensating balances, or payment of fees, which are not material.

Long-term Debt.

At December 31 long-term debt consisted of:

(In thousands of dollars)	1980	1979
Corporation only		
8% to 8½% Notes due 1980 through 1985	$ 4,879	1,947
7⅞% Notes due 1986	75,000	75,000
Floating rate notes due 1989	65,000	100,000
5⅛% (4¾% prior to February 1, 1980) Debentures due 1990	30,000	30,000
7¾% Sinking Fund Debentures due 2003	75,000	75,000
	249,879	281,947
Consolidated subsidiaries		
5% to 8-3/10% Notes and Subordinated Debentures due 1980 through 1986	4,514	6,718
7% to 8-1/10% Notes guaranteed by Small Business Administration due 1982 through 1984	7,300	7,300
7½% to 8½% Notes and Debentures due 1980 through 1986	570	585
Mortgages payable	41,170	12,258
Capital lease obligations	21,182	20,739
	74,736	47,600
Less 7¾% Sinking Fund Debentures due 2003 held by subsidiaries	(8,935)	—
Total	$315,680	329,547

During 1980, $8,935,000 of the 7¾ percent sinking fund debentures were purchased, at a discount, by subsidiaries of the Corporation. Also during the year, the Corporation purchased, at a discount, $35,000,000 of the floating rate notes. The purchases, accounted for as a retirement of debt, resulted in gains of $5,205,000, before applicable income taxes. The gains are reported in other non-interest income.

The notes and debentures are unsecured. The 7⅞ percent notes are redeemable on or after September 15, 1983, at the principal amount plus accrued interest.

The interest rate on the floating rate notes due 1989, determined semi-annually at .50 percent above the interest yield equivalent of the then current market discount rate for six-month U.S. Treasury bills, was 12.35 percent at December 31, 1980. The notes are redeemable on or after May 1, 1986 at the option of the Corporation, at the principal amount plus accrued interest. The notes are convertible at the option of the note holders at any time prior to May 1, 1988, into an equivalent principal amount of 8⅝ percent debentures due 2004. A mandatory sinking fund beginning May 1, 1990 will retire prior to maturity 91 percent of the aggregate principal amount of the debentures issued upon conversion. The Corporation may increase the sinking fund payment in any year by an amount not exceeding the mandatory payment.

The 5⅛ percent debentures are redeemable, at the principal amount plus a premium ranging from 1.16 percent in 1981 to 0.20 percent in 1986, and thereafter without premium.

The 7¾ percent sinking fund debentures are redeemable on or after March 15, 1983, at the principal amount plus a premium ranging from 4.65 percent in 1983 to 0.31 percent in 1997, and thereafter without premium. The indenture relating to the debentures provides for mandatory sinking fund payments beginning March 15, 1983 to retire 50 percent of the debentures prior to maturity. The Corporation may increase the payment in any year by an amount not exceeding the mandatory payment.

Mortgages payable consisted of notes secured by deeds of trust on premises with a net book value of $47,444,000 at December 31, 1980. Interest rates on the notes ranged from 6.75 percent to 9.25 percent with maturities to the year 2010.

Maturities of long-term debt at December 31, 1980 were:

(In thousands of dollars)	Consolidated	Corporation Only
1981	$ 4,856	1,154
1982	3,379	1,169
1983	4,821	1,205
1984	5,449	676
1985	2,772	675
Thereafter	294,403	245,000
Total	$315,680	249,879

Under the terms of indentures, an additional $627,526,000 of indebtedness could be incurred or guaranteed by the Corporation and $490,692,000 of retained earnings was available for dividends or the purchase or redemption of stock at December 31, 1980.

Convertible Subordinated Debentures.

The 6¾ percent convertible subordinated debentures are convertible into common stock of the Corporation at a price of $30 per share subject to adjustment in certain events. Repayment is subordinated to the prior payment in full of any indebtedness for borrowed money for which the Corporation is liable. At December 31, 1980 the debentures were subordinated to all of the Corporation's obligations for borrowed money. The subordinated debentures are redeemable at the principal amount plus a premium ranging from 5.738 percent in 1981 to 0.338 percent in 1997, and thereafter without premium.

Shareholders' Equity.

At their annual meeting held on April 21, 1980, shareholders approved a change in the authorized preferred stock to 5,000,000 shares, without par value, from 200,000 shares, $100 par value. Shareholders also approved an increase in authorized common stock, $1⅔ par value, to 50,000,000 shares from 36,000,000 shares.

Stock Option Plans.

During the five-year term of the 1978 Stock Option Plan the number of shares of common stock that may be granted may not exceed 1,127,900 shares plus shares covered by options under the 1970 Plan which lapse or terminate. At the discretion of a committee consisting of non-management directors, the option agreement may provide for alternative settlement methods. Alternative settlement methods permit an optionee to receive the excess of the market value of shares over the option price of such shares in cash, stock, or a combination of both, provided that the aggregate value shall not exceed 100 percent of the aggregate option price.

Stock options may be granted to key employees of the Corporation and its subsidiaries at prices not less than 100 percent of the fair market value on dates of grant. Options granted may be exercised after one year and within five years from dates of grant. Proceeds from stock options exercised are credited to common stock at par value and the remainder to surplus. There are no charges or credits to expense with respect to the granting or exercise of options, except for changes in the amount of potential payments under the alternative settlement methods.

The following is a summary of transactions under the plan:

	Options		Option Price	
	Available for Grant	Outstanding*	Per Share	Total (In thousands)
December 31, 1978	1,008,700	492,220	$16.53-26.22	$10,952
Granted	(252,100)	252,100	25.75	6,492
Exercised		(122,360)	16.53-26.22	(2,136)
Cancelled	5,300	(5,300)	16.53-26.22	(106)
December 31, 1979	761,900	616,660	18.63-26.22	15,202
Granted	(300,900)	300,900	24.38	7,336
Exercised		(74,210)	18.63-26.22	(1,624)
Cancelled	55,850	(55,850)	20.63-26.22	(1,271)
December 31, 1980	516,850	787,500	24.38-26.22	19,643

*Includes 176,400 shares and 87,040 shares at December 31, 1980 and 1979, respectively, subject to alternative settlement methods.

At December 31, 1980 and 1979 options for 486,800 shares and 364,560 shares, respectively, were exercisable under the plans.

At December 31 the Corporation had reserved shares of authorized but unissued common stock as follows:

	1980	1979
Stock option plans	1,304,350	1,378,560
Convertible subordinated debentures	1,666,667	1,666,667
Total	2,971,017	3,045,227

Retirement Plan.

A noncontributory retirement plan covers substantially all full-time employees. Contributions to fund accrued and currently accruing benefits were:

(In thousands of dollars)	Consolidated	Corporation Only
1980	$9,857	393
1979	8,334	347
1978	5,812	237

A comparison of accumulated plan benefits and plan net assets for the Corporation's retirement plan is presented below.

	January 1	
(In thousands of dollars)	1980	1979
Actuarial present value of accumulated plan benefits		
Vested	$76,081	71,639
Nonvested	8,614	2,577
Total	$84,695	74,216
Net assets available for plan benefits	$79,500	66,511

The assumed annual rate of return used in determining the actuarial present value of accumulated plan benefits was 7 percent for 1980 and 6 percent for 1979. The 1980 accumulated plan benefits includes allowances aggregating $11,110,000 for early retirement, for pre- and post-retirement spouse benefits and for post-retirement lump sum death benefits.

In 1979, a pension supplement for participants who retired before 1977 and the effect of amendments to the Social Security Retirement Act increased retirement plan expense by approximately $993,000.

The actuarial present value of accumulated plan benefits does not anticipate increased benefits related to future salary increases. In determining the amount of pension cost accounted for and funded each year the Corporation uses actuarial methods which do anticipate such increases.

Income Taxes.

Income taxes (credits) applicable to income before income taxes and securities transactions, and for the Corporation Only to income before income taxes and equity in undistributed income of subsidiaries were:

(In thousands of dollars)	Consolidated 1980	1979	1978	Corporation Only 1980	1979	1978
Current						
Federal	$ 4,501	2,013	11,266	501	(565)	(529)
State	7,226	9,836	10,057	638	229	251
Foreign	3,892	2,926	3,161	—	—	—
	15,619	14,775	24,484	1,139	(336)	(278)
Deferred						
Federal	4,523	13,485	4,874	6	15	9
State	3,149	1,800	728	2	5	3
	7,672	15,285	5,602	8	20	12
Total	$23,291	30,060	30,086	1,147	(316)	(266)

The sources of timing differences resulting in deferred income taxes and the tax effect of each were:

(In thousands of dollars)	Consolidated 1980	1979	1978	Corporation Only 1980	1979	1978
Provision for loan losses	$ 125	(3,255)	(3,971)	—	—	—
Lease financing	8,733	17,367	9,216	—	—	—
Depreciation of fixed assets	1,448	1,122	1,038	24	11	7
Capitalized lease expense	(367)	(100)	(1,660)	—	—	—
Capitalized interest expense	1,379	801	—	—	—	—
Excess investment tax credit	(3,501)	—	—	—	—	—
Other, net	(145)	(650)	979	(16)	9	5
Total	$7,672	15,285	5,602	8	20	12

A reconciliation of federal income tax rate to the effective income tax rate is as follows:

	Consolidated 1980	1979	1978	Corporation Only 1980	1979	1978
Federal income tax rate	46.0%	46.0	48.0	46.0	46.0	48.0
State income taxes	4.0	4.5	4.4	.7	.3	.4
Dividends from subsidiaries	—	—	—	(43.4)	(47.2)	(47.6)
Tax-exempt income	(27.9)	(25.1)	(24.6)	—	—	—
Investment tax credits	(4.7)	(3.3)	(2.0)	(.1)	—	—
Other, net	(.8)	(.6)	(2.2)	(.8)	.1	(1.6)
Total	16.6%	21.5	23.6	2.4	(.8)	(.8)

At December 31, 1980 and 1979 income taxes currently refundable, included in interest receivable and other assets, amounted to $10,065,403 and $2,471,000, respectively. Deferred income taxes included in accrued expenses and other liabilities, amounted to $77,958,000 and $70,286,000 at December 31, 1980 and 1979, respectively.

Income before income taxes and securities transactions from operations outside the United States was not material.

Equity in Undistributed Income of Subsidiaries.

Payment of dividends to the Corporation by the subsidiary banks is subject to various state and federal regulatory limitations. In general, state bank subsidiaries must obtain regulatory approval before payment of dividends.

A national bank may pay dividends without approval of the Comptroller of the Currency if the total dividends declared by the bank in any calendar year does not exceed the total of its earnings for that year combined with its retained earnings for the preceding two years. Under this formula, as of December 31, 1980, national banking subsidiaries could have declared additional dividends of approximately $151,385,000.

Commitments and Contingent Liabilities.

At December 31, 1980, the Corporation's subsidiaries are obligated under noncancellable leases for premises and equipment with terms, including renewal options, ranging from one to 50 years, which provide for increased rentals based upon increases in real estate taxes, operating costs or selected price indices.

Rental expenses (including taxes, insurance and maintenance when included in rent, and contingent rentals) net of sublease rentals, related to operating leases amounted to $17,927,000 in 1980, $15,049,000 in 1979 and $12,840,000 in 1978.

Future minimum rental payments under capital leases and noncancellable operating leases with terms of one year or more at December 31, 1980 were:

(In thousands of dollars)	Capital Leases	Operating Leases
1981	$ 2,605	9,659
1982	2,605	6,376
1983	2,186	4,071
1984	1,890	3,527
1985	1,891	2,494
Thereafter	58,327	8,692
Total minimum rental payments	$69,504	34,819
Less interest	48,322	
Present value of net minimum rental payments	$21,182	

Outstanding standby letters of credit amounted to $155,832,000 at December 31, 1980. In the normal course of business there are other commitments and contingent liabilities such as commitments to extend credit or guarantees which are not reflected in the accompanying financial statements. Management does not anticipate any material loss as a result of these transactions.

The Corporation and certain subsidiaries are defendants in various matters of litigation generally incidental to their business. Legal counsel have advised that the Corporation and its subsidiaries have meritorious defenses or are covered by insurance, and the ultimate liability, if any, will not be significant. In the opinion of management, disposition of these matters will not materially affect the consolidated financial position of the Corporation and its subsidiaries.

Loans at December 31
(In millions of dollars)

	1980	1979	1978	1977	1976
Commercial					
To financial institutions					
Real estate investment trusts and mortgage companies	$ 44.1	73.2	74.6	73.0	73.1
Other financial institutions	110.0	178.8	129.3	132.8	86.6
For purchasing or carrying securities	123.1	134.1	133.3	101.0	102.1
Commercial and industrial	2,574.3	2,305.9	1,965.1	1,755.8	1,403.0
Agricultural	797.4	834.5	667.7	581.4	532.4
Construction and land development	162.5	210.7	169.8	141.7	90.0
Real estate					
Mortgages held for sale	65.7	152.6	130.6	62.9	36.4
Secured by 1-4 family residential properties	1,289.4	1,378.0	1,261.2	1,027.5	932.1
Secured by other properties	634.4	442.7	417.6	411.8	302.8
Consumer	1,455.3	1,563.7	1,363.5	1,139.8	987.0
Foreign	557.0	368.2	301.7	226.8	111.0
Total loans	$7,813.2	7,642.4	6,614.4	5,654.5	4,656.5

Allowance for Loan Losses
(In millions of dollars)

	1980	1979	1978	1977	1976
Balance at beginning of year	$ 72.6	62.6	52.7	45.9	46.2
Reserves of acquired banks	.2	.3	.2	.9	—
Provision for loan losses	25.8	20.4	20.1	17.8	17.8
Loan losses	(30.7)	(16.4)	(15.3)	(15.9)	(22.1)
Recoveries	7.2	5.7	4.9	4.0	4.0
Net loan losses	(23.5)	(10.7)	(10.4)	(11.9)	(18.1)
Balance at end of year	$ 75.1	72.6	62.6	52.7	45.9
Allowance for loan losses to					
Total loans at year-end	.98%	.96	.96	.95	1.01
Net loan losses	3.21 ×	6.74	6.05	4.41	2.54
Provision for loan losses to average loans	.34%	.29	.34	.35	.42
Earnings coverage of net loan losses	7.08 ×	14.88	14.28	10.33	5.80

Loan Losses
(In millions of dollars)

	1980	1979	1978	1977	1976
Gross loan losses					
Commercial	$ 17.4	7.1	8.0	9.5	17.3
Construction and land development	—	.2	*	*	*
Real estate	.5	.9	.6	1.3	.8
Consumer	7.9	5.1	4.3	3.4	2.6
Credit card	4.9	3.1	2.4	1.7	1.4
Total	$ 30.7	16.4	15.3	15.9	22.1
Net loan losses					
Commercial	$ 13.5	4.2	5.4	7.3	14.5
Construction and land development	(.3)	.1	*	*	*
Real estate	.3	.8	.1	1.0	.7
Consumer	5.8	3.2	2.9	2.3	1.7
Credit card	4.2	2.4	2.0	1.3	1.2
Total	$ 23.5	10.7	10.4	11.9	18.1
Net loan loss ratio					
Commercial	.33%	.11	.17	.27	.59
Construction and land development	—	.03	*	*	*
Real estate	.02	.04	.01	.08	.06
Consumer	.48	.28	.29	.28	.26
Credit card	2.19	1.36	1.35	1.09	1.15
Total	.31	.15	.17	.24	.42

*Loan losses and recoveries for construction and land development loans are included in commercial loans for periods prior to 1979.

Consolidated Statements of Income

(In millions of dollars)	1980	1979	1978	1977	1976
Interest income	**$1,321.2**	1,014.9	767.5	611.9	515.6
Interest expense	**934.3**	670.1	457.3	341.2	279.9
Net interest income	**386.9**	344.8	310.2	270.7	235.7
Provision for loan losses	**25.8**	20.4	20.1	17.8	17.8
Net interest income after provision for loan losses	**361.1**	324.4	290.1	252.9	217.9
Non-interest income					
Trading account securities profits (losses) and commissions	**(5.4)**	5.2	2.1	2.4	6.0
Trust fees	**26.9**	24.4	22.0	19.9	17.9
Service charges on deposit accounts	**29.0**	22.3	17.0	14.8	13.5
Other fees and services charges					
Loan origination and administration	**25.7**	22.6	17.3	12.5	7.6
Data processing	**13.4**	10.6	8.2	7.4	7.0
Credit cards	**14.0**	8.5	7.6	5.1	.7
Insurance	**12.0**	14.3	12.6	11.0	8.8
Other	**12.7**	8.7	6.3	5.4	5.3
Total other fees and service charges	**77.8**	64.7	52.0	41.4	29.4
Other					
Sale of mortgages	**9.0**	7.7	2.6	1.6	1.7
Sale of venture capital securities	**8.2**	1.1	5.5	.2	—
Other income	**11.0**	4.9	6.1	3.0	3.9
Total other	**28.2**	13.7	14.2	4.8	5.6
Total non-interest income	**156.5**	130.3	107.3	83.3	72.4
Non-interest expenses					
Salaries and benefits	**217.9**	178.0	147.3	126.1	110.3
Occupancy, net	**26.0**	23.0	20.4	18.8	16.8
Furniture and equipment	**35.0**	28.9	26.0	22.7	19.9
Business development	**24.3**	21.4	18.7	14.9	12.7
Communication	**15.4**	13.8	12.3	10.4	9.4
Other	**59.0**	49.8	48.6	39.5	35.9
Total non-interest expenses	**377.6**	314.9	273.3	232.4	205.0
Income before income taxes and securities transactions	**140.0**	139.8	124.1	103.8	85.3
Applicable income taxes	**23.3**	30.1	30.1	26.7	19.6
Income before securities transactions	**116.7**	109.7	94.0	77.1	65.7
Net securities losses	**3.2**	3.1	2.4	.9	.3
Net income	**$ 113.5**	106.6	91.6	76.2	65.4

Per Share

Income before securities transactions					
Primary	**$ 4.51**	4.25	3.65	3.00	2.63
Fully diluted	**4.29**	4.05	3.57	3.00	2.63
Net income					
Primary	**4.39**	4.13	3.56	2.97	2.62
Fully diluted	**4.17**	3.94	3.48	2.97	2.62
Dividends paid	**1.44**	1.28	1.10	.98	.87½
Shareholder's equity at year-end	**30.73**	27.80	24.99	22.53	20.56
Stock price range	**30¼-18**	29¼-23	28¾-21⅛	28¾-21¼	28⅝-21⅝

Ratios

Return on assets	**.90%**	.95	.93	.87	.86
× Leverage	**17.2×**	16.9	16.5	16.1	15.5
= Return on equity	**15.4%**	16.1	15.4	14.0	13.4
Dividend payout	**31.9%**	30.1	30.1	32.2	33.1
Shareholder's equity to average assets	**5.8%**	5.9	6.1	6.2	6.5

(In millions of dollars)	1980 Average Balance	1980 Interest Income/ Expense	1980 Average Yields/ Rates	1979 Average Balance	1979 Interest Income/ Expense	1979 Average Yields/ Rates
Assets						
Investment securities						
U.S. Treasury and federal agencies	$ 847	$ 85.3	10.07%	$ 760	$ 64.1	8.43%
State, municipal and housing	1,319	132.2	10.02	1,325	128.4	9.69
Other investment securities	33	1.9	5.88	30	1.9	6.80
Total investment securities	2,199	219.4	9.98	2,115	194.4	9.19
Trading account securities, net	90	9.9	10.97	83	8.3	9.96
Money market investments	1,300	165.1	12.70	704	78.7	11.17
Loans (net of unearned discount)						
Commercial	4,311	639.1	14.83	3,909	471.9	12.07
Real estate	1,834	177.3	9.67	1,788	163.9	9.16
Consumer	1,387	171.7	12.39	1,329	151.3	11.38
Total loans	7,532	988.1	13.12	7,026	787.1	11.20
Allowance for loan losses	(77)			(68)		
Net loans	7,455			6,958		
Direct lease financing	81	10.3	12.85	68	9.4	13.88
Total earning assets (before the allowance for loan losses)	11,202	1,392.8	12.44	9,996	1,077.9	10.78
Cash and due from banks	1,100			999		
Other assets	775			604		
Total assets	$13,000			$11,531		
Liabilities and Shareholders' Equity						
Demand deposits	$ 2,605			$ 2,550		
Time deposits						
Regular savings	1,686	89.0	5.25	1,689	86.5	5.12
Savings certificates	2,841	267.7	9.42	2,338	177.6	7.60
Certificates of deposit	1,787	229.8	12.86	1,538	162.3	10.56
Other time deposits	638	81.5	12.77	512	53.7	10.48
Total time deposits	6,952	668.0	9.61	6,077	480.1	7.90
Short-term borrowings	1,851	235.1	12.70	1,508	164.5	10.91
Long-term debt and convertible subordinated debentures	368	33.9	9.22	338	27.0	7.98
Interest-bearing liabilities	9,171	937.0	10.22	7,923	671.6	8.48
Less capitalized interest expense		(2.7)			(1.5)	
Net interest expense		934.3			670.1	
Other liabilities	452			363		
Minority interest	16			15		
Shareholders' equity	756			680		
Total liabilities and shareholders' equity	$13,000			$11,531		
Net interest income		$458.5			$ 407.8	
Yield spread			2.22%			2.30%
Interest expense to earning assets			8.35%			6.70%
Net interest income to earning assets			4.09%			4.08%

1978			1977			1976			Average Balance	
Average Balance	Interest Income/ Expense	Average Yields/ Rates	Average Balance	Interest Income/ Expense	Average Yields/ Rates	Average Balance	Interest Income/ Expense	Average Yields/ Rates	5 Year Growth Rate	% Change 1980 Over 1979
$ 925	$ 65.8	7.12%	$1,145	$ 75.1	6.56%	$ 960	$ 64.6	6.73%	6.3%	11.5%
1,217	118.4	9.73	1,076	102.9	9.56	1,008	93.4	9.27	8.3	(.5)
28	1.8	6.33	40	1.5	3.69	14	.9	6.69	15.6	12.2
2,170	186.0	8.57	2,261	179.5	7.94	1,982	158.9	8.02	7.6	4.0
92	8.6	9.38	96	6.2	6.44	88	5.1	5.78	2.1	8.9
520	43.0	8.28	353	20.6	5.86	299	17.1	5.73	30.0	84.6
3,278	319.3	9.74	2,735	232.1	8.49	2,295	194.1	8.46	14.7	10.3
1,591	140.0	8.80	1,364	116.2	8.52	1,202	97.8	8.14	10.0	2.5
1,107	122.1	11.02	926	101.2	10.93	764	85.3	11.15	15.0	4.3
5,976	581.4	9.73	5,025	449.5	8.95	4,261	377.2	8.85	13.5	7.2
(59)			(51)			(49)			11.3	11.5
5,917			4,974			4,212			13.5	7.1
57	7.7	13.57	47	7.7	16.33	25	4.1	16.72	35.1	18.6
8,815	826.7	9.38	7,782	663.5	8.53	6,655	562.4	8.45	13.4	12.1
877			770			706			10.5	10.0
448			372			315			19.6	28.2
$10,081			$8,873			$7,627			13.5	12.7
$ 2,414			$2,222			$2,063			5.8	2.1
1,790	89.5	5.00	1,791	89.2	4.98	1,502	74.7	4.97	8.6	(.2)
1,990	135.9	6.83	1,841	122.4	6.65	1,622	106.3	6.55	14.0	21.5
1,209	92.9	7.68	755	43.6	5.78	665	39.6	5.95	16.9	16.2
360	27.4	7.61	252	13.8	5.44	130	6.6	5.12	37.2	24.7
5,349	345.7	6.46	4,639	269.0	5.80	3,919	227.2	5.80	14.5	14.4
1,187	91.2	7.68	988	55.1	5.58	780	40.8	5.23	24.2	22.8
272	20.4	7.52	233	17.1	7.33	168	11.9	7.08	20.1	8.8
6,808	457.3	6.72	5,860	341.2	5.82	4,867	279.9	5.75	16.3	15.8
	—			—			—		—	
	457.3			341.2			279.9		—	
233			226			193			17.2	24.8
16			14			12			7.8	1.3
610			551			492			12.3	11.1
$10,081			$8,873			$7,627			13.5	12.7
	$369.4			$322.3			$282.5			
		2.66%			2.71%			2.70%		
		5.19%			4.39%			4.21%		
		4.19%			4.14%			4.24%		

Statements of Average Financial Condition

(In millions of dollars)

	1980	1979	1978	1977	1976
Assets					
Cash and due from banks	$ 422.8	380.9	325.2	288.8	267.9
Interest-bearing deposits with banks	325.4	158.1	126.3	109.4	66.5
Securities	693.3	732.8	749.9	701.9	581.5
Loans, net of unearned discount	2,098.1	1,754.0	1,395.8	1,075.8	897.7
Allowance for loan losses	(23.0)	(18.4)	(15.1)	(11.2)	(11.5)
Net loans	2,075.1	1,735.6	1,380.7	1,064.6	886.2
Direct lease financing	80.4	67.9	56.5	48.1	26.3
Other assets	366.5	272.0	156.9	129.0	90.2
Total assets	$3,963.5	3,347.3	2,795.5	2,341.8	1,918.6
Liabilities and Shareholders' Equity					
Demand deposits	$ 801.6	747.8	690.8	644.3	604.7
Consumer time deposits	344.9	336.0	344.7	355.3	305.8
Certificates of deposit and other time deposits	1,454.6	1,165.2	848.2	471.6	250.0
Total deposits	2,601.1	2,249.0	1,883.7	1,471.2	1,160.5
Short-term borrowings	837.3	649.3	594.6	607.2	522.3
Accrued expenses and other liabilities	299.4	239.4	143.3	101.5	96.5
Long-term debt	32.5	30.0	20.1	20.0	20.0
Total liabilities	3,770.3	3,167.7	2,641.7	2,199.9	1,799.3
Shareholders' equity	193.2	179.6	153.8	141.9	119.3
Total liabilities and shareholders' equity	$3,963.5	3,347.3	2,795.5	2,341.8	1,918.6

Statements of Income

(In millions of dollars)

	1980	1979	1978	1977	1976
Interest income—tax equivalent basis	$ 427.2	315.6	218.8	154.3	121.1
Interest expense	325.5	220.3	132.7	81.7	59.5
Net interest income	101.7	95.3	86.1	72.6	61.6
Provision for loan losses	8.8	8.1	5.6	6.3	6.0
Net interest income after provision for loan losses	92.9	87.2	80.5	66.3	55.6
Non-interest income	33.4	38.6	28.7	25.4	24.7
Non-interest expenses					
Salaries and benefits	50.3	39.6	32.1	27.4	23.7
Other	40.9	37.5	33.9	26.4	22.0
Total non-interest expenses	91.2	77.1	66.0	53.8	45.7
Income before income taxes and securities transactions	35.1	48.7	43.2	37.9	34.6
Applicable income taxes (credits)	(10.9)	1.9	4.4	7.4	7.6
Tax equivalent adjustment	23.8	19.4	16.0	11.3	10.0
Income before securities transactions	22.2	27.4	22.8	19.2	17.0
Net securities losses	—	1.0	.5	.2	.1
Net income	$ 22.2	26.4	22.3	19.0	16.9
Ratios					
Return on average shareholders' equity	11.5%	15.2	14.8	13.5	14.2
Return on average assets	.56	.82	.82	.82	.89

Consolidated Statements of Income
(In millions of dollars)

	1980 Quarters				1979 Quarters			
	Fourth	Third	Second	First	Fourth	Third	Second	First
Interest income	$366.2	309.4	332.6	313.0	287.8	257.7	245.5	223.9
Interest expense	261.8	214.5	238.5	219.5	197.1	171.4	159.7	141.9
Net interest income	104.4	94.9	94.1	93.5	90.7	86.3	85.8	82.0
Provision for loan losses	9.4	5.9	5.8	4.7	6.4	5.3	4.7	4.0
Non-interest income	44.5	38.6	42.0	31.4	37.7	32.6	31.3	28.7
Non-interest expenses	103.1	93.7	91.3	89.5	87.6	79.1	75.5	72.7
Income before income taxes and securities transactions	36.4	33.9	39.0	30.7	34.4	34.5	36.9	34.0
Applicable income taxes	5.6	5.8	8.3	3.6	5.0	7.7	8.7	8.7
Income before securities transactions	30.8	28.1	30.7	27.1	29.4	26.8	28.2	25.3
Net securities losses	2.1	.4	.2	.5	1.5	.6	.3	.7
Net income	$ 28.7	27.7	30.5	26.6	27.9	26.2	27.9	24.6

Per Share								
Income before securities transactions								
Primary	$ 1.19	1.09	1.18	1.05	1.13	1.04	1.10	.98
Fully diluted	1.13	1.03	1.13	1.00	1.08	.99	1.04	.94
Net income								
Primary	1.11	1.07	1.18	1.03	1.08	1.01	1.08	.96
Fully diluted	1.05	1.02	1.12	.98	1.03	.97	1.03	.91
Dividends paid	.37	.37	.37	.33	.33	.33	.33	.29
Shareholders' equity at quarter-end	30.73	30.01	29.31	28.50	27.80	27.08	26.40	25.65
Stock price range	30¼-23¼	26-23⅛	25¼-19¾	26-18	27⅛-24	29¼-25½	26½-23⅝	27¾-23

Tax Equivalent Yields and Rates								
Investment securities	10.13%	9.93	10.01	9.83	9.46	9.25	9.18	8.87
Money market investments	13.65	10.30	13.09	14.62	13.07	10.70	10.39	10.30
Trading account securities, net	11.45	9.58	11.74	11.28	9.89	11.68	9.02	9.52
Total loans, net	13.66	12.16	13.73	12.97	12.05	11.09	10.92	10.66
Direct lease financing	14.06	12.70	12.58	12.00	12.78	13.95	14.88	14.15
Total earning assets	12.93	11.47	12.90	12.44	11.58	10.71	10.51	10.25
Total time deposits	9.56	9.04	10.37	9.48	8.77	7.79	7.57	7.35
Short-term borrowings	14.70	9.75	12.49	14.00	12.74	10.77	10.13	10.02
Long-term debt and convertible subordinated debentures	9.13	9.67	9.42	8.68	8.48	8.07	7.81	7.40
Interest-bearing liabilities	10.65	9.22	10.72	10.27	9.46	8.38	8.11	7.84
Yield spread	2.28%	2.25	2.18	2.17	2.12	2.33	2.40	2.41
Interest expense to earning assets	8.80%	7.52	8.78	8.17	7.49	6.67	6.44	6.13
Net interest income to earning assets	4.14%	3.95	4.12	4.17	4.09	4.04	4.07	4.12
Ratios								
Return on assets	.89%	.86	.96	.88	.97	.91	.99	.94
× Leverage	17.6×	17.2	17.1	16.9	17.1	17.1	17.0	16.6
= Return on equity	15.7%	14.8	16.5	14.9	16.5	15.6	16.8	15.6

Banco Mortgage Company

Banco Mortgage Company, Banco's largest financial service subsidiary, was the nation's third largest mortgage banker as of June 30, 1980. A full-line mortgage banker, the company originates and services mortgage loans. Operations are conducted through three divisions: Residential, Commercial and Insured Project.

By year-end 1980, Banco Mortgage's servicing volume amounted to $4.6 billion, up 27 percent from the 1979 servicing volume of $3.6 billion. The company currently has 50 loan production offices in 17 states.

Northwest Growth Fund

Northwest Growth Fund ranks among the top five small business investment companies (SBICs) in the country. A pioneer SBIC, Growth Fund's primary objective is capital appreciation through the investment of funds in companies that qualify as small business concerns under federal guidelines. Growth Fund investments typically range between $250,000 and $1 million but can go higher.

By year-end 1980, Growth Fund's net asset value stood at $38.7 million, up 64 percent from 1979. The firm's total assets were valued at $64.7 million at the end of 1980, an increase of 42 percent from 1979, and its portfolio included investments in 60 companies. Headquartered in Minneapolis, Northwest Growth Fund has branch offices in Portland and Denver.

Banco Financial Corporation

Banco Financial Corporation is an asset-based lending subsidiary of Banco. A growth leader in the commercial finance industry, Banco Financial lends funds secured by its clients' assets. In this way, Banco Financial can provide specially-tailored revolving credit and term financing programs when traditional avenues of financing are closed or inadequate to a firm. The majority of Banco Financial's lending involves bank participations, with the participant usually being the bank that referred the client to Banco Financial.

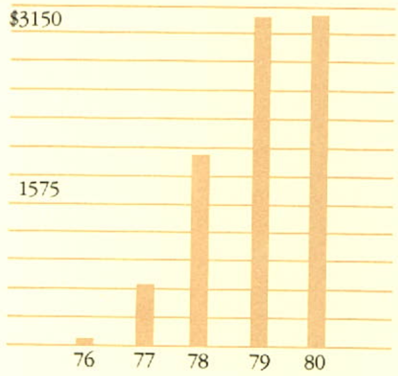
By the end of 1980, Banco Financial was managing more than $100 million in loans. Of this total 85 percent represented participations with Banco banks and other financial organizations.

Northwest Agricultural Credit Company

Headquartered in Sioux Falls, South Dakota, Northwest Agricultural Credit Company works with Banco banks as a source of overline credit for this region's farmers and ranchers. Moreover, Northwest Ag Credit can be of special assistance in complex agricultural credits and when Banco banks are experiencing tight liquidity due to high loan demand.

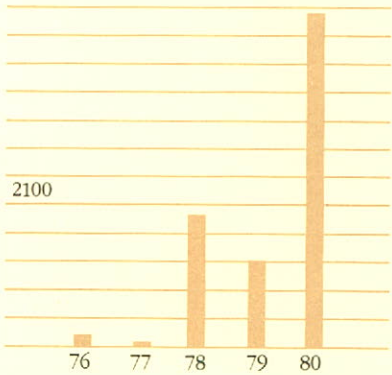
Northwest Agricultural Credit Company had average loans outstanding of $40.3 million by year-end 1980, down 10 percent from 1979, representing business with 14 Banco affiliates. The decline in lending volume was attributable to lower levels of agricultural spending due to the summer's hot, dry weather, and to higher levels of liquidity at most Banco affiliates.

Net Operating Income (In thousands of dollars)	*Major Developments During 1980*	*Beyond 1980*



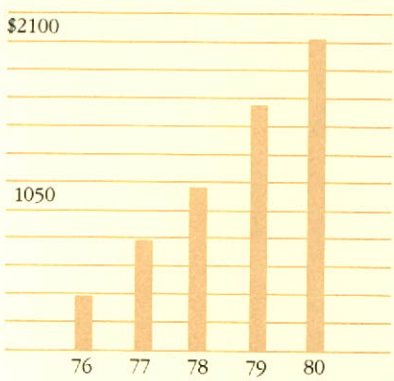
Banco Mortgage became one of the first major mortgage bankers to begin pricing FHA/VA loans at the date of closing, not at the time of loan application. This new pricing system, initiated in response to the year's extremely volatile interest rates, has provided Banco Mortgage an added measure of protection for its forward commitments in light of frequent changes in the FHA/VA rate.

It is expected that the larger mortgage bankers, such as Banco Mortgage, will gain an increasing market share during the 1980s. Since many undercapitalized firms may not be able to cope with persistently high and erratic interest rates, the 1980s could be a period of industry consolidation. Banco Mortgage also will increase its emphasis on single-family conventional loans in addition to its traditional FHA/VA business.



The excellent year recorded by Growth Fund was attributable in large measure to continuing investor enthusiasm for high technology companies, which accounted for 50 percent of Growth Fund's 1980 investment portfolio. In 1980, Northwest Growth Fund invested $10 million, the largest amount ever invested by the company in one year.

Northwest Growth Fund will continue to stress investments in "early stage" companies, those that are less than one to two years old and which are unique or proprietary in nature. In addition, Growth Fund will continue to invest in promising high technology companies, without relaxing its investment criteria for prospects.



In 1980, Banco Financial handled 80 accounts, of which 68 represented bank participations. Banco Financial's pricing policy also tended to help the company prosper in last year's difficult interest rate environment. Since loan rates are pegged to the prime rate on the last day of the month for the following 30 days, the client can receive the lowest possible lending rate during periods of rising rates.

Later this year, Banco Financial will open its first branch office in Denver, one of the most rapidly growing markets in the country. When this office is opened, Denver will become the first city outside Banco's traditional regional market with offices of the three largest financial service subsidiaries, Banco Mortgage and Northwest Growth Fund as well as Banco Financial.

Toward the end of the summer, many commodity prices began to climb sharply, boosting initial estimates for 1980 regional agricultural income. In addition, yields for a variety of crops, including wheat, soybeans and corn, surpassed preliminary estimates. These facts, coupled with 1980's lighter debt load and decreased spending, should result in higher levels of agricultural loan demand in 1981.

Banco views agriculture as a profitable, long-term growth industry that will remain the backbone of its seven-state economy. It has been projected that total farm debt will increase from its present U.S. level of $169 billion to $450-$600 billion by the end of the decade. With this type of growth, the role of Northwest Agricultural Credit Company in meeting farm credit needs should continue to expand.

		Name of Bank	Managing Officer	Deposits December 31, 1980 (In thousands of dollars)
Minnesota	Minneapolis	Northwestern National Bank	E. Peter Gillette, Jr., President	$3,388,517
Twin Cities Metropolitan Area		Midland National Bank	Harry C. Benson, President	238,437
		Camden Northwestern State Bank	Harold D. Jensen, President	69,509
		Central Northwestern National Bank	Ralph A. Emerson, Chairman	120,310
		Second Northwestern National Bank	Don W. Zollars, President	47,161
		Third Northwestern National Bank	John R. Silseth, President	53,297
		Fifth Northwestern National Bank	Wesley J. Hein, President	81,114
		Northwestern National Bank South	W. Merton Dresser, President	48,116
	Bloomington	Northwestern National Bank Southwest	William H. Queenan, President	188,679
	Hastings	Northwestern National Bank	Merle D. Borchers, President	59,070
	Hopkins	Northwestern National BankWest	William D. Wilkening, President	95,787
	Jordan	Northwestern State Bank	Robert L. Bue, President	16,996
	Maple Grove	Northwestern State Bank Northwest	E. James Heig, President	56,888
	St. Paul	Northwestern National Bank	G. Richard Slade, President	294,236
		Northwestern State Bank	Marvin L. Ellison, President	60,603
	South St. Paul	Northwestern National Bank	Robert S. Branham, President	85,044
	Stillwater	Northwestern State Bank	James C. Graham, President	21,949
			Total—Twin Cities Metropolitan Area	4,925,713
Other Minnesota Banks	Albert Lea	First Northwestern National Bank	Carroll C. Bergerson, President	47,081
	Austin	Northwestern State Bank	Allyn C. Martinson, President	43,005
	Dawson	Northwestern State Bank	Everett Kelley, President	26,236
	Dodge Center	Northwestern State Bank	L. Kenneth Erickson, President	17,794
	Duluth	First National Bank	Dennis W. Dunne, President	193,188
	Ely	First Northwestern National Bank	Joseph G. Kastelic, President	32,964
	Eveleth	First Northwestern National Bank	Robert P. Hatten, President	22,677
	Faribault	First Northwestern National Bank	James A. Loehr, President	72,437
	Fergus Falls	Northwestern National Bank	Robert D. Phillips, President	65,386
	Grand Rapids	First Northwestern National Bank	Douglas J. Gallop, President	59,551
	Hoyt Lakes	First Northwestern National Bank	Roger L. Pagel, President	13,478
	Litchfield	Northwestern National Bank	Roger O. DeBoer, President	32,388
	Luverne	Northwestern State Bank	Gerald V. Wethor, President	28,128
	Mankato	Northwestern National Bank	George W. Sugden, President	97,482
	Marshall	First Northwestern National Bank	John T. Suedbeck, President	82,547
	Montevideo	Northwestern State Bank	Lyle F. McCormick, President	33,913
	Moorhead	First National Bank	Douglas M. Johnson, President	93,415
	Northfield	Northwestern State Bank	Wilmer C. Brosz, President	30,542
	Ortonville	Northwestern State Bank	Ronald A. Arndt, President	21,561
	Owatonna	Northwestern National Bank	Kenneth E. Wilcox, President	65,881
	Red Wing	First Northwestern National Bank	Norman J. Sampson, President	35,063
	Redwood Falls	First Northwestern National Bank	Leon P. Hennes, President	52,977
	Rochester	Northwestern National Bank	John R. Cochran, President	147,031
	St. Cloud	Northwestern Bank and Trust Company	Tim V. Stern, President	54,340
	Sauk Rapids	Northwestern State Bank	Ronald J. Havlik, President	36,625
	Silver Bay	First Northwestern State Bank	Robert L. Draeger, President	13,413
	Slayton	Northwestern State Bank	Palmer A. Hoffland, Jr., President	25,940
	Thief River Falls	First Northwestern State Bank	Roger J. Reuter, President	51,996
	Tracy	Northwestern State Bank	Wendell H. Anderson, President	35,704
	Two Harbors	First Northwestern National Bank	Edward E. Thornberg, President	21,873
	Virginia	Northwestern State Bank	John R. Oltmanns, President	64,089
	Winona	First Northwestern National Bank	Curtis H. Holmquist, President	80,385
			Total—Other Minnesota Banks	1,699,090
			Total—Minnesota	6,624,803

		Name of Bank	Managing Officer	Deposits December 31, 1980 (In thousands of dollars)
Iowa	Atlantic	Atlantic State Bank	William G. Beatty, President	$ 58,976
	Bettendorf	Bettendorf Bank and Trust Company	George C. Heninger, President	65,224
	Cedar Falls	First National Bank	Dean Beneke, President	42,429
	Denison	First Northwestern National Bank	Joseph G. Vaage, President	28,518
	Des Moines	Iowa-Des Moines National Bank	Eugene G. Precht, President	742,211
	Fort Dodge	First National Bank	Earl J. Underbrink, President	93,106
	Keokuk	Security State Bank	J. Agnew Rovane, President	27,984
	Marion	First National Bank	Phil Morris, President	53,357
	Mason City	First National Bank	Jack W. Nielsen, President	115,623
	Ottumwa	First National Bank	John S. Zdychnec, President	53,655
	Sioux City	Northwestern National Bank	Stanley W. Evans, President	106,545
			Total—Iowa	1,387,628
South Dakota	Aberdeen	First National Bank	Allan M. Severson, President	267,342
	Rapid City	First National Bank of the Black Hills	Charles T. Undlin, President	280,755
	Sioux Falls	Northwestern National Bank	Charles P. Moore, President	425,109
	Watertown	First National Bank	Burdette C. Solum, President	71,173
			Total—South Dakota	1,044,379
Nebraska	Hastings	First National Bank	Norman G. Nackerud, President	122,130
	Norfolk	Northwestern National Bank	Thomas F. Finnigan, President	41,438
	Omaha	United States National Bank	Donald J. Murphy, Chairman	376,533
		Northwestern National Bank	Edward A. Kohout, President	128,043
		Center Bank	Harold M. Walton, President	77,615
			Total—Nebraska	745,759
North Dakota	Bismarck	Dakota Northwestern Bank N.A.	W. Warren DeKrey, President	120,880
	Fargo	First National Bank	George W. Schwartz, President	120,714
	Grafton	First National Bank	Raymond A. Charlton, President	42,612
	Hillsboro	Northwestern State Bank	Harry Eisenbeis, President	26,198
	Jamestown	First National Bank	Daniel P. Schorsch, President	65,377
	Mandan	First Northwestern National Bank	James E. Noonan, President	71,219
	Minot	First National Bank	George M. Johnson, President	109,913
	Valley City	Northwestern National Bank	Kent B. Cummings, President	42,160
	Wahpeton	First National Bank	Norman K. Christensen, President	45,061
			Total—North Dakota	644,134
Montana	Anaconda/Butte	First National Bank	William R. Tait, President	72,465
	Billings	First Northwestern National Bank	Albert F. Winegardner, Jr., President	141,151
	Dillon	First Northwestern National Bank	Robert G. Mountain, President	27,727
	Great Falls	Northwestern National Bank	Dale W. Anderson, President	114,861
	Helena	Northwestern Bank	Edwin H. Jasmin, President	80,948
	Kalispell	First Northwestern National Bank	Victor H. Lohn, President	66,667
	Lewistown	Northwestern Bank	Warren H. Will, President	48,987
			Total—Montana	552,806
Wisconsin	La Crosse	First National Bank	Duane W. Ring, President	116,565
			Total—All Seven States	$11,116,074†

†Before elimination of intercompany deposits.

Subsidiaries of Northwestern National Bank Of Minneapolis

	Managing Officer	Principal Office	Primary Function
Canadian American Bank S.A.	Jackson L. Schutte, Managing Director	Luxembourg Rep. Office: London, England	International banking
Lease Northwest, Inc.	Daniel A. Leclerc, President	Minneapolis, Minnesota	Lease financing
Northwest International Bank	James W. Johnson, President	Minneapolis, Minnesota	International financing
Northwestern Trust Company	George S. Warren, President	New York, New York	Security clearance, safekeeping and stock transfer
Division of Northwestern National Bank of Minneapolis			
BancNorthwest	Robert C. Brown, President	Minneapolis, Minnesota	Municipal bond underwriting
Subsidiary, Canadian American Bank S.A.			
Canadian American G.I.E.	Alessandro Carboni, Managing Director	Paris, France	Eurobond underwriting

Other Banco Subsidiaries

Bank Service Companies	Managing Officer	Principal Office	Primary Function
Banco Credit Life Insurance Company	Arthur F. Rossberg, President	Minneapolis, Minnesota	Reinsurer of credit life insurance
South Side Insurance Agency	Clifford W. Olson, President	Minneapolis, Minnesota	Insurance agency
Union Investment Company	Arthur F. Rossberg, President	Minneapolis, Minnesota	Insurance agencies
Banco Incorporated	Roger N. Carolus, President	Minneapolis, Minnesota	Audit services to affiliates
Banco Properties, Inc.	John H. Beal, President	Minneapolis, Minnesota	Bank building services to affiliates
Northwest Computer Services, Inc.	Frank S. Powell, President	Minneapolis, Minnesota	Data processing services to affiliates
Financial Service Companies			
Banco Financial Corporation	John H. Olson, President	Minneapolis, Minnesota	Secured financing
Banco Mortgage Company	David W. Beal, President	Minneapolis, Minnesota	Mortgage banking
Northwest Agricultural Credit Company	Carl O. Myers, President	Sioux Falls, South Dakota	Agricultural financing
Trust Companies			
First Northwestern Trust Co. of Nebraska	H. David Neely, President	Omaha, Nebraska	Trust services
First Northwestern Trust Co. of North Dakota	Arthur R. Olson, President	Fargo, North Dakota	Trust services
First Northwestern Trust Co. of South Dakota	Orley Rath, President	Sioux Falls, South Dakota	Trust services
Northwestern-Arizona Trust Company	John A. Miller, President	Scottsdale, Arizona	Trust services
Northwestern Union Trust Co.	Robert M. Nelson, President	Billings, Montana	Trust services
Small Business Investment Company			
Northwest Growth Fund, Inc.	Robert F. Zicarelli, Chairman	Minneapolis, Minnesota	Venture capital

Executive Office
Chester C. Lind, *Chairman and Chief Executive Officer*
John W. Morrison, *Vice Chairman*
Robert A. Krane, *President*
Walter C. Johnson, *Executive Vice President*
Gerald M. Kanne, *Executive Vice President*

Banking Business Group
Banking—Western Division
Daniel G. Beck, *Senior Vice President*
Charles L. Kretchman, *Vice President*
John S. Lasher, *Vice President*

Banking—Eastern Division
Ronald D. Mc Lellan, *Senior Vice President*
Richard A. Bishop, *Vice President*
Charles A. Russell, *Vice President*
John P. Sampson, *Assistant Vice President*

Loan Administration
Thomas M. Hinnenthal, *Senior Vice President*
Edgar M. Morsman, *Vice President*
Allan L. Grefe, *Vice President and Chief Examiner*
Douglas R. Harding, *Assistant Vice President*
Francis P. Pintens, *Credit Officer*

Marketing
Carl W. Olson, *Senior Vice President*
Berardino R. Lanzi, *Vice President*
Elizabeth H. Bennett, *Director, Advertising and Sales Promotion*
John L. Clay, *Assistant Vice President*
Josie H. Corning, *Director, Corporate Communications*
Roger J. Forbord, *Assistant Vice President*
Diane A. Merrifield, *Assistant Vice President*
George R. Slaughter, *Director, Product Development Services*
Barbara A. Klaas, *Marketing Officer*

Operations
Donald N. Smith, *Vice President*
Dennis C. Folz, *Assistant Vice President*
Wayne A. Johnson, *Assistant Vice President*
Ann Hoke, *Purchasing Officer*
Kenneth F. Dohmen, *Operations Officer*
John C. Shirley, *Operations Officer*

Trust
Myron C. Carlson, *Vice President*
Thomas H. Ogg, *Assistant Vice President*

Financial
John M. Eggemeyer III, *Senior Vice President*
Control
David A. McGowan, *Vice President and Controller*
William J. Brechtel, *Vice President*
Roger D. Bryan, *Vice President*
Bernie Renander, *Vice President*
Larry W. Hilden, *Tax Officer*
David A. Ven Huizen, *Financial Systems Officer*

Corporate Development
Thomas E. Dolan, *Vice President*

Treasury
Victor G. Caruso, *Vice President and Treasurer*
Richard H. Klovstad, *Vice President*
Robert S. Strickland, *Assistant Treasurer*
Beth R. Eickholt, *Risk Management Officer*

Administration
Peter R. Spokes, *Vice President*
Marilyn J. Schlee, *Library Services Officer*

Audit
Roger N. Carolus, *Chief Auditor*

Corporate Responsibility and Planning
Thomas V. Markle, *Senior Vice President*
Donn L Waage, *Vice President*
Harold H. Wachs, *Vice President*
Richard J. Lovett, *Government Relations Officer*
Diane M. Palmer, *Government Relations Officer*

Human Resources
Glen M. Smyth, *Senior Vice President*
R. Michael Holt, *Vice President*
Howard H. Amborn, *Assistant Vice President*
F. Randall Czeswik, *Assistant Vice President*
Dean H. Hoppe, *Assistant Vice President*
James H. Treanor, *Assistant Vice President*
Judith J. Hansen, *Personnel Officer*
William R. Hrabe, *Personnel Officer*
Mary B. Martin, *Personnel Officer*

Investments
LeRoy F. Piche, *Senior Vice President*
Ronald R. Hedger, *Vice President*
Robert A. Schuette, *Vice President*
Anita M. Johnson, *Assistant Vice President*
Patricia D. Hovanetz, *Investment Officer*

Law
Jack W. Greene, *Vice President and General Counsel*
John M. Dickerson, *Secretary*
Bruce U. Moland, *Assistant Vice President and Assistant Secretary*

○ H. Brewster Atwater, Jr.
△ *(1973) President, General Mills, Inc. (Foods and Other Consumer Products), Minneapolis, Minnesota*

▲ David A. Christensen
□ *(1977) President and Chief Executive Officer, Raven Industries, Inc. (Developer and Manufacturer of Balloons and Blimps, Outdoor Sportswear, Agricultural and Chemical Storage Tanks, and Electronic Systems), Sioux Falls, South Dakota*

○ D. Michael Curran
△ *(1969) President, Curran Oil Company (Oil Production and Real Estate), Great Falls, Montana*

□ Kenneth N. Dayton
△ *(1977) Chairman, Executive Committee, Dayton Hudson Corporation (Retailing), Minneapolis, Minnesota*

□ E. Peter Gillette, Jr.
○ *(1980) President and Chief Executive Officer, Northwestern National Bank, Minneapolis, Minnesota*

□ William A. Hodder
◇ *(1971) President, Donaldson Company, Inc. (Manufacturer of Engine Filters and Noise Abatement Equipment), Minneapolis, Minnesota*

▲ George C. Howe, Jr.
◇ *(1973) President—Managing Partner, Howe Farms (Farming), Casselton, North Dakota*

□ Robert A. Krane
○ *(1980) President, Northwest*
◇ *Bancorporation, Minneapolis, Minnesota*

○ M. Joseph Lapensky
◇ *(1978) President and Chief Executive Officer, Northwest Airlines, Inc. (Air Transportation), St. Paul, Minnesota*

▲ Sister Marybelle Leick
□ *(1980) President, St. Mary's Hospital, Duluth, Minnesota*

□ Chester C. Lind
○ *(1979) Chairman and Chief*
△ *Executive Officer, Northwest*
◇ *Bancorporation, Minneapolis, Minnesota*

▲ Jack A. MacAllister
△ *(1975) President, Northwestern Bell Telephone Company (Communications), Omaha, Nebraska*

▲ Wilbur C. Miller
△ *(1973) President, Drake University, Des Moines, Iowa*

□ John W. Morrison
○ *(1976) Vice Chairman, Northwest*
△ *Bancorporation, Minneapolis,*
◇ *Minnesota*

▲ Gerald Rauenhorst
○ *(1971) Chairman and Chief Executive Officer, Rauenhorst Corporation (Industrial Development Contractor), Minneapolis, Minnesota*

○ William G. Roth
◇ *(1980) Chairman and Chief Executive Officer, The Trane Company (Manufacturer of Air Conditioning and Heat Transfer Equipment), La Crosse, Wisconsin*

○ Henry T. Rutledge
◇ *(1965) Retired Chairman, Northwest Bancorporation, Minneapolis, Minnesota*

□ Otto A. Silha
△ *(1980) Chairman of the Board, The Minneapolis Star and Tribune Company (Diversified Media), Minneapolis, Minnesota*

△ Edson W. Spencer
(1974) Chairman and Chief Executive Officer, Honeywell Inc. (Computer and Control Systems Manufacturer), Minneapolis, Minnesota

▲ William G. Stocks
◇ *(1980) Chairman and Chief Executive Officer, Peavey Company (Food-Specialty Retailing), Minneapolis, Minnesota*

△ Frederick T. Weyerhaeuser
◇ *(1980) President, Conwed Corporation (Diversified Manufacturer of Specialized Industrial and Interior Products), St. Paul, Minnesota*

▲ David Michael Winton
○ *(1980) Chairman, The Pas Lumber Company, Ltd. (Canadian Lumber Manufacturing Company), British Columbia, Canada; and Managing General Partner, Addison and Company (Investment Partnership), Minneapolis, Minnesota*

Year first elected shown in parentheses

Committees of the Board

▲ Audit and Examination Committee
Jack A. MacAllister, *Chairman*
David A. Christensen, *Vice Chairman*

□ Corporate Responsibility Committee
Kenneth N. Dayton, *Chairman*
David A. Christensen, *Vice Chairman*

○ Finance and Investment Committee
H. Brewster Atwater, Jr., *Chairman*
M. Joseph Lapensky, *Vice Chairman*

△ Personnel and Compensation Committee
Edson W. Spencer, *Chairman*
Frederick T. Weyerhaeuser, *Vice Chairman*

◇ Real Estate Committee
William A. Hodder, *Chairman*
Henry T. Rutledge, *Vice Chairman*

Corporate Office
1200 Northwestern Bank Building
Minneapolis, Minnesota 55480
Telephone (612) 372-8123

Common Stock Transfer Agents
Northwestern National Bank
of Minneapolis
Morgan Guaranty Trust Company
of New York
Continental Illinois National Bank
and Trust Company of Chicago

Common Stock Registrars
First National Bank of Minneapolis
The Chase Manhattan Bank,
N.A., New York
The First National Bank of Chicago

Stock Exchange Listings
New York Stock Exchange
Midwest Stock Exchange
Symbol: NOB

Debenture and Note Trustees
Morgan Guaranty Trust Company
of New York
Manufacturers Hanover Trust
Company, New York

Annual Meeting
The annual shareholders' meeting will be held on Monday, April 27, 1981, at 3:00 p.m., at Northwestern National Bank of Minneapolis, 7th and Marquette, Minneapolis. A proxy statement and form of proxy will be mailed to shareholders on or about March 23, 1981.

Shareholder Savings Service
Banco offers two convenient methods for company shareholders to purchase additional shares of common stock. All shareholders may participate in either or both of these Shareholders Savings Service plans. In the Dividend Reinvestment Plan, a shareholder's cash dividends are automatically reinvested in additional Banco shares. A shareholder participating in Banco's Cash Payment Plan makes voluntary cash payments for investment of as little as $25 or as much as $1,000 per month in Banco shares.

For additional information, contact Northwestern National Bank of Minneapolis, Shareholder Savings Service, 7th & Marquette, Minneapolis, Minnesota 55480 at (612) 372-8114.

Equal Employment Opportunity
It is Banco's policy to provide equal employment opportunity.

BANCO®

Northwest Bancorporation
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