BANCO

Northwest Bancorporation 1977 Annual Report

Northwest Bancorporation

Is a bank holding company with 83 commercial banks in seven states. ■ On the basis of total assets, Banco ranks 18th largest among bank holding companies in the United States. ■ Other subsidiaries engage in international banking, leasing, mortgage banking, insurance, trust management, commercial financing, and agricultural lending. ■ Banco also owns a 56% interest in a small business investment company.

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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 (National Association), New York
The First National Bank of Chicago

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

Debenture and Note Trustee
Morgan Guaranty Trust Company of New York

ANNUAL MEETING
The Annual Stockholders Meeting will be held on Monday, April 24, 1978, in Minneapolis. A proxy statement and form of proxy will be mailed to stockholders on or about March 27, 1978.

Highlights

	1977	1976	Increase Amount	Increase %
FOR THE YEAR (In thousands of dollars)				
Consolidated income before securities transactions	**$77,090**	65,742	11,348	17.3%
Consolidated net income	**76,234**	65,382	10,852	16.6
Dividends paid	**24,802**	21,769	3,033	13.9
PER SHARE				
Consolidated income before securities transactions	**$ 3.00**	2.63	.37	14.1%
Consolidated net income	**2.97**	2.62	.35	13.4
Dividends paid	**.98**	.87½	.10½	12.0
Stockholders' equity	**22.53**	20.56	1.97	9.6
AT YEAR END (In millions of dollars)				
Assets	**$ 9,528**	8,358	1,170	14.0%
Deposits	**7,562**	6,627	935	14.1
Loans	**5,550**	4,548	1,002	22.0
Securities	**2,234**	2,211	23	1.0
Stockholders' equity	**579**	520	59	11.4

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To Our Stockholders:

Consolidated income before securities transactions for 1977 reached $77.1 million, marking the 30th consecutive year that Banco's earnings have increased and surpassing last year's record high by 17.3 percent. Earnings per share were $3.00 in 1977, a 14.1 percent increase over per share earnings of $2.63 in 1976. In recognition of the strength in earnings performance, Banco increased its dividend twice during 1977 to a new annual rate of $1.04 per share. It is significant to note that increased dividends have been paid in every year for the last 15 years.

While our performance in 1977 is gratifying, our primary emphasis is long term profitability. It is simplistic to expect that each succeeding year will automatically be better than the previous one. We believe, however that Banco is uniquely positioned financially, geographically and in people to participate in a long period of sustained growth.

Banco's consistent earnings record over the years is due in large part to the environment of our seven-state marketplace. The word we use to describe that environment is *diverse*. The economic, social and cultural diversity of our region in turn creates a climate of stability.

The economy of Banco's seven-state region has tended to move in concert with the national economy, but without the severe fluctuations that have periodically influenced so many other sections of the country. Historically, the regional unemployment rate has been below the national average, due in part to the stability of the agricultural and service industries in the region. During the recession of the mid-seventies the non-farm economy slowed, but the strength of the agricultural sector helped support the regional economy. Although farm income in certain areas of our region is currently under intense pressure, improved performance in the service and manufacturing sectors are contributing to a continuation of overall economic growth.

Current population trends are serving to further improve the diversity of our region. Since 1970, non-metropolitan population has grown faster than metropolitan population. As a result, economic development is accelerating in rural communities, providing additional opportunities for Banco.

There are, of course, critical issues that must be considered in addressing the future, both by the region and the nation as a whole. Principal among these are a continuation of inflation and the potential for high money market interest rates that could cause an outflow of deposits from financial institutions. These challenges create an increased need for disciplined planning in order to maintain appropriate liquidity and interest margins throughout our banking system.

Regional economic diversity and the stability it engenders has been a major theme in nearly every Banco statement on how we serve our customers and stockholders. In this annual report we intend to build on our basic theme again. We have asked the chief executive officers of several of our affiliated banks to write about their marketplaces — the parts which make up the whole of the Banco region. Their perspectives, we hope, provide some insights into the unique characteristics of a multi-bank organization, with 83 banks in seven states.

We wish to thank Robert J. Christianson, partner, Faegre & Benson law firm; John E. Griffin, president of Lewis Drugs, Inc.; Robert W. Downing, retired vice chairman, Burlington Northern, Inc.; and Philip B. Harris, retired chairman of Northwestern National Bank of Minneapolis, for their many years of service to Banco. These gentlemen retired from the board of directors in 1977. We are pleased to welcome Kenneth N. Dayton, chairman, executive committee of Dayton Hudson Corporation, and M. Joseph Lapensky, president of Northwest Airlines, Inc., as new members of the board. Henry T. Rutledge, who retired as Banco's chairman and chief executive officer in May of 1977, continues to serve on the board of directors, and I am particularly grateful for his counsel.

Sincerely,

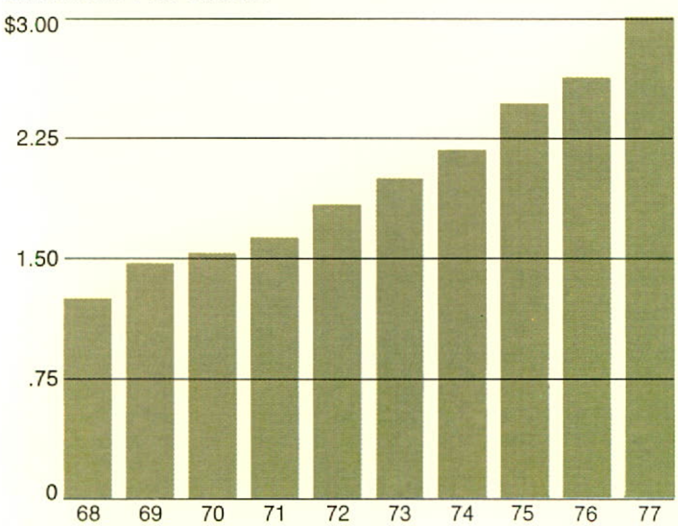
Richard H. Vaughan

Richard H. Vaughan
President

March 1, 1978

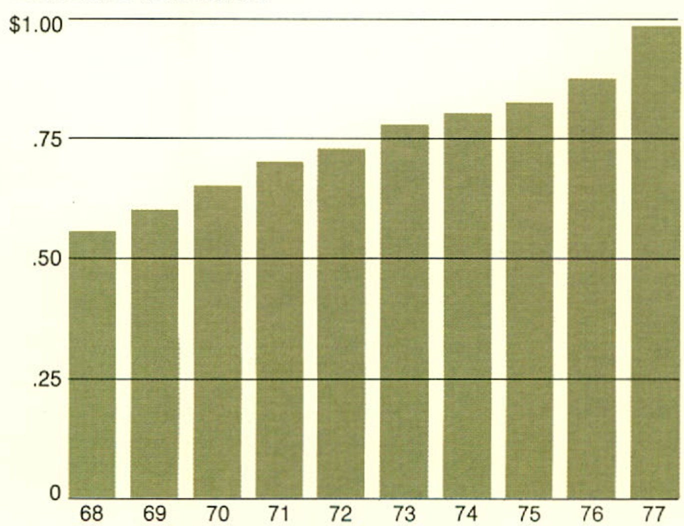
President Richard H. Vaughan, right, with Executive Vice Presidents Walter C. Johnson and Chester C. Lind

EARNINGS PER SHARE*



*Earnings are the historical earnings per share adjusted for the two-for-one stock splits in March, 1969 and in May, 1977.

DIVIDENDS PER SHARE*



*Dividends are the historical dividends per share adjusted for the two-for-one stock splits in March, 1969 and in May, 1977.

Events of the Year

Banco Acquires Two Iowa Banks

Two Iowa banks were acquired during the year—First National Bank of Ottumwa and First National Bank of Fort Dodge. Banco also reached an agreement in principle, subject to approval by regulatory authorities, to acquire The First National Bank of Marion, located in a suburb of Cedar Rapids and Iowa's oldest national bank, chartered in 1863. The bank had deposits of $39.2 million at December 31, 1977.

The Ottumwa bank had deposits of $45.5 million at year-end. Deposits of the Fort Dodge bank totaled $72.6 million. With the new acquisitions, Banco has eight banks in Iowa.

New Trust Companies Formed in Two States

Banco formed two new trust companies during the year. Northwestern Trust Company of Nebraska and Northwestern Trust Company of North Dakota assumed the trust functions formerly performed by the individual banks within those states.

The new trust companies continue Banco's efforts to improve efficiencies in customer service. Banco now operates statewide trust companies in four of the seven states it serves.

International Banking Activities Consolidated

International banking activities were consolidated in Northwestern National Bank of Minneapolis in 1977 as the bank acquired full ownership of Canadian American Bank S.A., an international merchant bank with offices in Luxembourg and London.

Canadian American was acquired from Banco and two other shareholders. Banco previously had owned 35% of Canadian American.

New Facilities Authorized For Minnesota Banks

The Minnesota Legislature passed a bill allowing each bank in the state to open two additional offices. Banco banks have applied for permission to open 21 of these "detached facilities," which offer limited banking services.

As of February 15, banking authorities had approved 17 of these applications, and the first two facilities had been opened in Burnsville, a suburb of Minneapolis, and in Marshall, Minnesota.

Instant Cash Services Package is Expanded

The Instant Cash card, which provides access to automatic-teller machines for customers of 70 Banco affiliates, was offered to correspondent banks late in 1977.

Nine correspondent banks had joined the network at year-end, giving their customers access to the automatic-teller machines now in place. Fifteen more machines will be installed in 1978.

Operations Center Planned in Minneapolis

Northwestern National Bank of Minneapolis announced plans to build a new operations facility in the Gateway Center of Minneapolis. The $28 million building will house check processing and mail distribution services of the bank and also the activities of Northwest Computer Services, Inc., Banco's data processing subsidiary.

Northwest Computer Services serves 600 correspondent and affiliate banks and their branches throughout the region. The building will be designed to meet the special requirements of computer equipment and also to provide for expansion space.

Northwestern National Bank of Minneapolis also announced that it will be a major tenant in the planned City Center, a development encompassing two blocks in the heart of downtown Minneapolis.

Code of Ethics Is Reaffirmed

Banco has a reputation for integrity, and in 1977 it reaffirmed the principles on which that reputation was earned. The provisions and spirit of the code provide a guideline for Banco and its employees to follow in carrying out their obligations to operate fairly and to provide impartial access to banking services.

Banco Forms Two New Divisions

In recognition of the increasing complexity of the environment in which it operates, Banco created two new divisions in 1977.

The legal division provides an improved means of dealing with proliferating rules and regulations governing banking, and includes the functions of the corporate secretary and government relations.

The corporate analysis and development division gives greater emphasis to strategic planning. The division is responsible for analyzing and providing alternative solutions to major strategic issues.

Policy on Corporate Responsibility Is Adopted

During the year, Banco adopted a new policy statement on corporate responsibility to society, and is developing strategies in support of the policy.

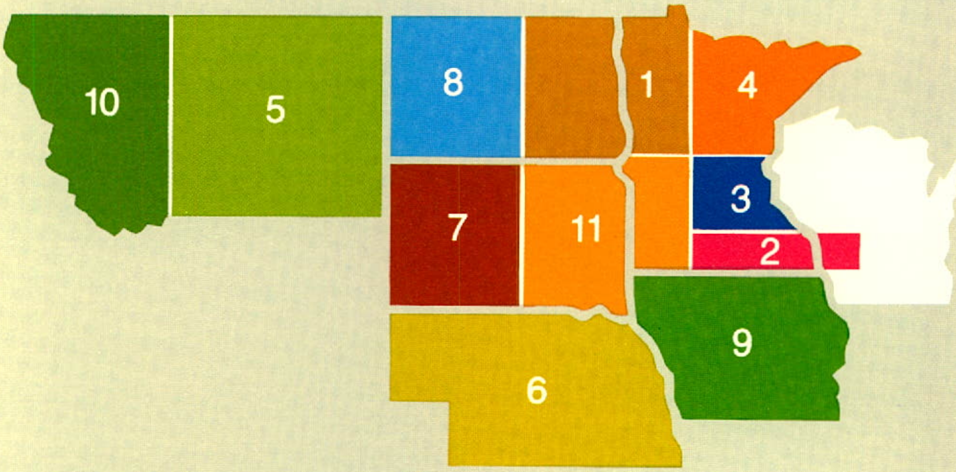
A variety of Banco and affiliate activities underline concern for the communities they serve. One of these activities recently involved Banco as the catalyst in bringing together labor, government and private business in forming an innovative housing rehabilitation program in Minneapolis. "Partners for Strong Neighborhoods" is the city's first housing rehabilitation program to involve modification of the apprenticeship system of the building trades unions to facilitate the hiring of unemployed neighborhood youth and minorities.

Capital Spending Totals $21.6 Million

Capital expenditures during the year for new or remodeled buildings, furniture, fixtures and equipment totaled $21.6 million. Among major projects completed were a new building for First Northwestern National Bank of Denison, Iowa, and three new auto banks. Eleven banks were remodeled during the year, including completion of a three-year project at Northwestern National Bank of Minneapolis.

At year-end, nine buildings were under construction, including new headquarters offices for six banks and three detached facilities in Minnesota.

The following sketches provide some insights into the earnings dynamics, developing opportunities and outstanding features of 11 areas within the Banco seven-state region. They speak to specific questions of loan portfolio mix, and general questions of social and economic trends. The taconite industry in northern Minnesota, inner city housing rehabilitation in the Twin Cities, the developing coal industry in western North Dakota and Montana, the manufacturing cities in Iowa, dairy farming in southeastern Minnesota, the new industries of Sioux Falls, South Dakota, the commercial and industrial diversification and vitality of our metropolitan areas — these and many other aspects of local color — underlie our success in 1977 and in every year of our history.



SECTION
1

Red River Valley
— First National Bank, Fargo, North Dakota
Robert D. Harkison, President

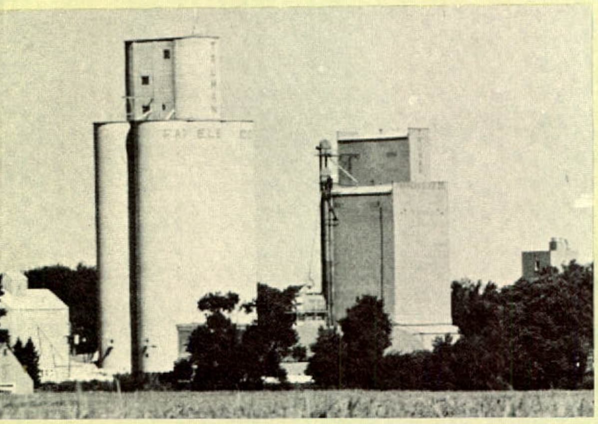
Fargo, North Dakota, and Moorhead, Minnesota, separated by the Red River, but working together, have developed as the core of a medical, financial, educational, commercial and cultural center. This center draws people from a wide area, including South Dakota and Canada.

Over the past five years, and as a result of fine shopping center improvements, the employment in wholesale and retail trade has jumped 27.6 percent in the Fargo-Moorhead area. Jobs in manufacturing are up 21.4 percent and total employment has been improving at an annual rate of between three and four percent.

A marked increase has been noted in Canadian visitors, who find our prices attractive for both shopping excursions and vacations. At the same time we have seen rapid growth in our service industries with increases in the number and quality of our motels, dining and entertainment facilities.

Indicative of the importance of our medical center growth is the report showing that five of our 20 largest employers are in the health field. Two universities and one private college have helped establish the educational and cultural climate.

Increased exploration for oil and gas in the state of North Dakota and the expanded use of lignite coal as a primary fuel and in the generation of electric power all have an impact on the Fargo-Moorhead economy. If work on the Garrison Dam could proceed as originally planned, it would provide an



Grain elevators — sign of the region's agricultural abundance.

assured water supply for the Red River Valley.

Thick black topsoil gives the Red River Valley of the North some of the richest farmland in the country. Productivity is limited only by the comparatively short growing season and lack of the optimum amount of moisture. Nine Banco banks are located in the Valley or within its economic sphere.

Diversification in the types of crops produced, utilization of new and better machinery, scientific application of chemicals and improved farming practices have all tended to strengthen the agricultural economy and offset to some degree the effect of depressed grain prices.

Many of the newer crops are processed locally, increasing our industrial base and providing ready markets, new jobs and new tax base. "Value added by manufacture" brings welcomed additional income. Crops now processed include: sugar beets (six plants), potatoes (five plants), barley (one malting plant and two more scheduled), beans (one plant), wheat (one plant), and sunflowers (three plants).

Much of our industry, it follows, is agriculturally oriented. For example, the manufacture of four-wheel-drive tractors by two local plants make Fargo the "four-wheel-drive tractor capital of the world." Another of our new industries is a health food processor, which utilizes sunflower seeds and soybeans. Projected growth will make this firm one of the largest employers in the area.

Perhaps the biggest deterrent to confident planning by our farmers and our agri-businesses is the lack of certainty as to what Washington plans to do to agriculture. But barring negative action from Washington, it appears that sugar will recoup some of its losses next year. In 1978, we should see the start of more reasonable returns for livestock. Demands for sunflower seed for both confection and oil looks good. A good market is indicated for beans. Barley should give better returns.

Which leads us to wheat, our most important crop. An inventory equaling about two years production can be a real price deterrent. It's too bad that more people (especially politicians) fail to realize that unless agriculture receives an adequate return, it can no longer provide an ample supply of food. The consuming public, which has temporarily enjoyed uneconomically low food prices, will eventually bear the burden of this lack of understanding.

Despite depressed grain prices and uncertain national farm policy, many people feel that 1978 will be as good or slightly better than 1977. Our bank anticipates a modest increase in commercial loan demand, principally in financing inventories and receivables. Real estate and installment loan demand will remain at a high level, provided the low unemployment rate of less than four percent is maintained.

The borrowing of our farmers and ranchers has been maintained due to the constantly rising prices of farm land. But as the margin between land value and indebtedness narrows, it will become more difficult for financial institutions to provide the desired credit.

During the last half of 1976 loans slowed as concerns over the lack of soil moisture grew. Banks accumulated excess liquidity in the form of short term securities. In 1977, on the other hand, we saw average moisture produce near record level production on our farms, and this recovery increased demand for business credit, producing a record level of outstanding loans.

Our Fargo bank will observe its 100th anniversary in 1978, which will permit opportunities for excellent exposure for the bank, its people and its services. Marketing programs will be directed at attracting savings deposits and promoting multiple service relationships. As we are successful in having present customers avail themselves of additional beneficial services, we will be better able to reduce possible future attrition to other financial institutions.

SECTION 2

Southeastern Minnesota/Western Wisconsin — The First National Bank of La Crosse — La Crosse, Wisconsin

Duane W. Ring, President

The Mississippi River basin between La Crosse, Wisconsin, and Winona, Minnesota, delights the eye. If the area were judged on its natural beauty alone, one would expect many more thousands of inhabitants. As it is, more than 100,000 people live in what we call the La Crosse area, which is at the hub of a larger region comprised of northeastern Iowa, southeastern Minnesota and southwestern Wisconsin.

La Crosse is the major retail and wholesale center for nearly half a million people in this tri-state area. The city is the region's financial headquarters with five banks and two savings and loan associations. In addition, a dozen neighboring communities provide convenient financial services. Most importantly, La Crosse is up to its ears in urban development.

Adjacent to the central business district in La Crosse is a modern multimillion dollar Civic Center covering 31 acres. It contains the City Hall, County Court House, Western Wisconsin Technical Institute and the Federal Building.

Near downtown is Harborview Plaza, a multi-million dollar shopping center development. Adjacent to this shopping development is Riverside Park, with a panoramic view of the Mississippi River.

The year 1977 was the beginning of the building boom and 1978 appears to be following suit, with more than $100 million in building projects planned for the immediate area. Plans for a new city convention center, a high-rise hotel, a regional shopping center, expansion in industrial plants, new housing and office buildings are underway. The First National Bank of La Crosse recently built the area's largest motor bank and doubled the size of its main bank building. Since then, other financial organizations have followed with building plans and improvement projects. First Northwestern National Bank of Winona, a Banco affiliate on the Minnesota side of the river, led the way in new motor bank facilities and main bank expansion in a downtown renewal program.

The cause of all this sudden growth in construction is difficult to pinpoint. Some suggest that the people of La Crosse and the surrounding area have suddenly awakened to the fact that they are blessed with one of the best places in the world to live and are beginning to tell others about it. In the fall of 1975, the Midwest Research Institute based in Kansas City, Missouri, proclaimed La Crosse the number one small city in the nation in terms of quality of life. This endorsement has made both natives and outside investors take a second look.

First National Bank of La Crosse will experience both loan and deposit growth from this expansion and will be in a good position to do so with newly expanded facilities. We will continue to provide the services that consumers want, such as 24-hour Instant Cash Banking, an exclusive in La Crosse.

Our bank serves the credit needs of diverse industries, including a regional transportation firm, a multi-national air-conditioning and heating manufacturing company, a major brewing company and other companies producing such products as vending machines, garments, gun cleaning equipment, tools and dies, and rubber goods.

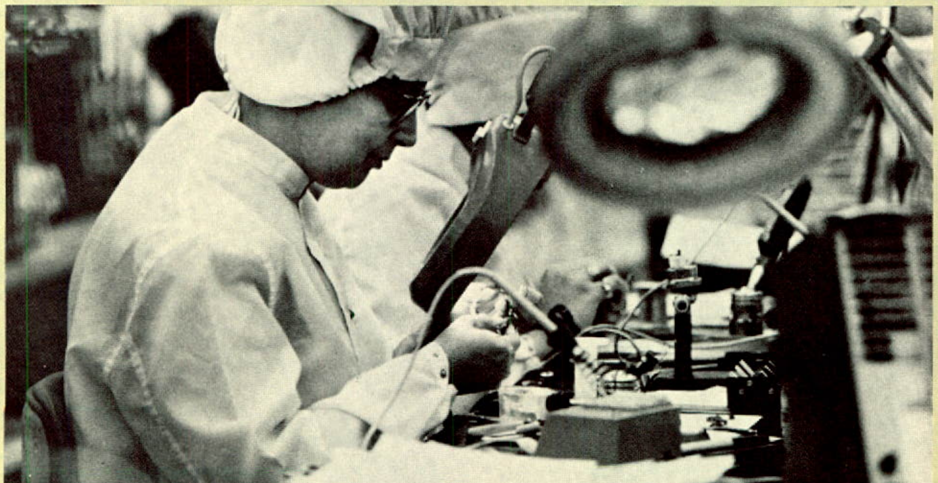
The transportation facilities for both freight and passengers are excellent. Two regional airlines and three major railroads connect La Crosse to the other markets and cities of the nation. Mississippi River barge traffic provides numerous freight options to shippers.

The La Crosse area is well established as a learning center. State universities are situated on both sides of the Mississippi. Private colleges and vocational schools add diversity to the educational opportunities. There are new facilities on all campuses. The University of Wisconsin-La Crosse, with more than 8,000 students, is a major factor in this region's economy.

Two large hospitals and three multi-specialty clinics provide excellent health care in La Crosse. The Mayo Clinic is only 80 miles away in Rochester, Minnesota, also the home of another Banco affiliate, Northwestern National Bank of Rochester.

The entire area is surrounded by fertile farmland and dairy farms. The cities and towns are blessed with industries of all sizes, making the economy and future bright for this area. Economic consideration in the future will be affected by agriculture, which produced record crops in 1977. And the outlook for 1978 in agriculture is very favorable.

Among many manufacturing enterprises in the region is this assembly line for heart pacemakers in Minneapolis.



SECTION

3

Twin Cities — Northwestern National Bank of Minneapolis, Minneapolis, Minnesota

John W. Morrison, Chairman

The Twin Cities area experienced and benefited from a continuing economic recovery in 1977 with our local economy sustaining growth well ahead of most other parts of the nation. This strength can be attributed to the traditionally broad diversity of industries and the significant number of large and medium-sized companies headquartered in the Twin Cities. In addition, the Minneapolis-St. Paul area is the principal service center for the Upper Midwest, and the resulting high percentage of employment in the trade industries helps stabilize the employment situation in the metropolitan area compared with the nation as a whole.

The metropolitan area is served by Northwestern National Bank of Minneapolis and 16 other Banco banks.

The upbeat economy brought a healthy increase in earnings to Northwestern National Bank during 1977. Deposit gains were substantial but because interest rates rose in the second half, consumer savings and demand deposits at year-end were off slightly from record levels at mid-year. Loan demand was exceptionally strong, with manufacturing, agri-business, building and construction industries showing greatly increased activity. International loans, as well as loans and overlines to correspondent banks and affiliates of Northwest Bancorporation, were up substantially.

Momentum in the construction industry that started in 1976 picked up speed in 1977, with much of the increased activity coming in residential building construction. Many projects Northwestern helped finance during the year are within easy walking distance of the bank, including condominiums and townhouses in the Loring Park neighborhood near downtown Minneapolis and the first stage of a restoration and redevelopment project along the Mississippi River that will create a showcase of specialty shops, restaurants and markets. The bank helped finance Oxford Development Group Ltd. of Canada's $67-million acquisition of two major blocks of downtown Minneapolis real estate, considered the largest real estate sale in the history of the city. In addition, the bank announced plans to participate in City Center, a two-block development flanking Nicollet Mall in the heart of downtown Minneapolis, and plans to build a new downtown computer and operations facility.

While we are heavily reinvesting in our own immediate neighborhood, we also expanded our international activities significantly and strengthened our position of international banking leadership in the region. A major factor was the acquisition of Canadian American Bank S.A., a Luxembourg-based merchant bank with a London representative office, which increases our capability to finance international transactions for regional exporters. We continue to expand our overseas presence and capabilities in order to serve the many multi-national companies represented in our domestic customer base and to serve customers of our affiliates and correspondent banks.

Several steps were taken in 1977 to build on the bank's solid foundation. In the retail banking area, we applied for two detached facilities, helping us prepare for the possibility of some form of branch banking in Minnesota. In the correspondent banking area, we offered an Instant Cash Services package, a system which will eventually lead to an electronic funds transfer (EFT) network.

Additionally, we positioned ourselves to take advantage of the agricultural and energy resources of our region in support of correspondent banks and Banco affiliates. In the commercial banking area, we accelerated industry-targeting and aggressive marketing efforts to increase our share of business from the large and medium-sized companies in our territory.

Facing us in the coming years are several critical issues, from the potential impact of branch banking and EFT legislation, to the increasing competition from the thrift institutions, to the potential impact of NOW accounts, to the increased competition from the large money center banks.

However, we see continued stable economic growth in 1978. Expanding farm production and improving profit margins should augur well for local agribusiness. Commercial construction should improve in 1978, but cautious attitudes toward business spending may limit this improvement. While single-family housing construction should plateau during the coming year, multifamily construction should strengthen and pick up the slack.

With Minnesota personal income growing at about the national pace and the unemployment rate lower than the national level, we look forward to healthy deposit levels in 1978, but we are concerned about continued inflation pressures and the resulting increases in interest rates. The more moderate economic growth may slow expansion of loan demand, although conditions in the agricultural section may enable us to increase our overlines and participations with other regional banks.

We are optimistic about the future. We have increased our staff and expanded business development activities to take full advantage of anticipated opportunities in 1978. We look forward to a good year.

SECTION 4

Northeastern Minnesota —
First National Bank of Duluth, Duluth, Minnesota
Dennis W. Dunne, President

The rebirth of northeastern Minnesota, home of eight Banco banks, started in 1964 when the voters of Minnesota encouraged the taconite industry by pledging equitable taxation in a constitutional amendment. In the 10 years that followed, taconite production more than doubled, with four new plants, and expansion of the pioneer production facilities.

The second taconite decade began in 1974 with three major expansions and new plants. By 1979, annual taconite production on the Mesabi Range will total 65.5 million tons; the industry will employ 12,500 people. Employment in natural ore production continues at 2,000. Investment in this second taconite decade will be close to $1 billion, and will increase taconite pellet capacity by more than 50 percent. This

New taconite shipment facility at Duluth-Superior port went into service in 1977.

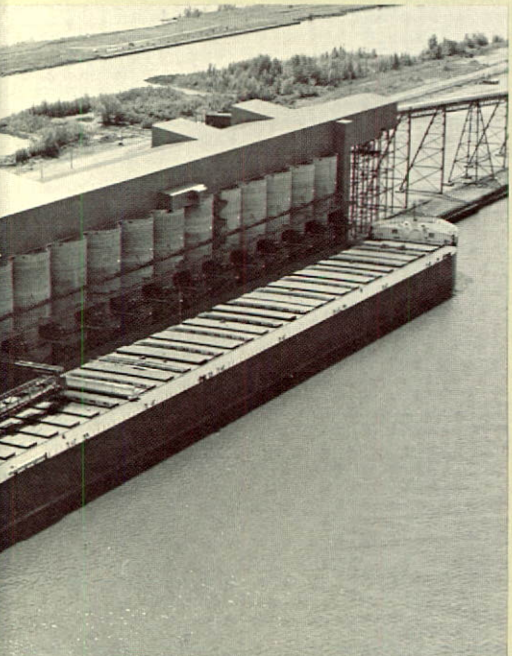
activity has renewed faith in this area and spurred a number of other projects.

Reserve Mining Company resolved its environmental problems in 1977 and is beginning construction of a new $390 million tailings basin at Silver Bay.

The Burlington Northern Railroad has just completed a $70 million taconite transshipment terminal in Superior to move the increased production of this product. In addition, the Duluth Missabi and Iron Range Railway Co. is constructing a similar facility in Two Harbors at a cost of $35 million.

Minnesota Power and Light Company has announced construction projects of $640 million through 1980 to supply electrical power to this expanding industry. Other major industrial projects recently completed, under construction or announced include:

- *A new $35 million storage and transshipment terminal in the port of Superior for low-sulfur coal. This facility, owned by Midwest Energy Resources Company, a subsidiary of Detroit Edison Company, has the capacity to ship 20 million tons of Montana coal to Great Lakes ports.*
- *A recently completed $30 million Cargill meal pelletizing and grain terminal in the Duluth harbor. In addition, a Cargill subsidiary, North Star Steel, began operations in a new $5 million grinding ball steel plant in Duluth.*



- *A new $5 million back hoe assembly plant completed in 1977 by American Hoist and Derrick.*
- *A new $24 million, 25,000 ton foundry which will employ 300 people, is being built by Minneapolis Electric Steel Casting.*

Minnesota Power and Light Company has announced the Lake Superior Plaza, a $5 million, five-story home office and plaza. A new $6 million library is also under construction in downtown Duluth.

Freeway construction through downtown Duluth will begin in late 1978 after years of delay. Efforts are underway to build a new shopping mall over the freeway with a connection to the downtown retail complex. A major developer is currently working to secure leases with major retailers to make this $40 million center a reality.

While industrial expansion has been the base for growth in northeastern Minnesota, education and the recreation industry have also added to the health of the economy. The University of Minnesota at Duluth, with 6,200 students, has under construction an $8 million building to house a four-year medical school. St. Scholastica College, with 1,300 students, is in the second phase of a $9.5 million fund drive.

Hotel receipts have increased rapidly, thanks to a healthy ski industry and expanded convention facilities in Duluth. A new 242 room hotel with an additional 66,000 square feet of retail space opened in January. This $10 million complex is connected by an indoor skywalk system to the Arena-Auditorium through Banco's First National Bank. The skywalk system will provide climate controlled access to most of downtown Duluth by 1980.

In 1977, northeastern Minnesota had the best construction year experienced in recent history, blunting the effects of a five-month steelworkers' strike. With this strike behind us, 1978 should be a good year for this part of Bancoland.

SECTION 5

Eastern Montana — First Northwestern National Bank of Billings, Montana
Albert F. Winegardner, Jr., President

Billings was named the "Magic City" by early pioneers because it seemed to spring overnight from the prairies. Early Billings was a center of transportation and distribution, served by riverboats, railroads and wagons. That same magic formula is still at work today. Billings is the wholesale-retail, transportation, medical, government, agriculture and business center of most of Montana and northern Wyoming. As one wholesaler put it, "Our competition used to be other cities in the state but now we compete directly with Denver, Spokane, Omaha and Minneapolis."

The largest city in a 600 mile radius, Billings, in Yellowstone County, has the following impressive statistics: an annual growth rate of about 3.4 percent for the past few years with a 17 percent increase since 1970; estimated 1977 metro population of 99,000, and for 1980 and 1990, population projections of 103,700 and 148,300, respectively, reflecting perhaps the continuation of a population migration from the eastern part of the state to the south central area. Five percent of population is considered by the U.S. Census Bureau as minority, primarily Chicano and Native American.

A new 14-story structure, situated in the heart of this bustling mini-city, houses the First Northwestern National Bank of Billings. Our new facility and strength in our human resources prepares us for an exciting growth period for south central Montana. If Houston is the energy capital of the United States and Denver a booming runner-up, then Billings will soon be a principal point on the north-south axis for coal mining and oil development.

Adjacent to Yellowstone County lies a vast energy rich area of coal and oil. The presence of these natural resources will shape both population and employment-intensive industry. For the most part, any permanent increases in employment levels will come in the transportation industry, which will have the responsibility of delivering the product to export markets. The basic energy industry may grow slowly; the derivative activity, however, will grow much faster. At this time, one major uncertainty in the state's outlook is the level of future coal production and energy conversion. The Montana Energy Advisory Council has provided two levels of possible development for 1980 and 1985. The low scenario features 37.5 million tons of coal production for 1980 and 43.5 million tons for 1985. Each forecast is dependent upon the development of coal conversion plants now on the horizon.

Eastern Montana generally experienced greater prosperity in the early 1970s than in the 1960s; the blessings, however, have been mixed. Cattle prices have been sharply lower since 1973 and grain prices took a critical dip in 1976. We have had low levels of precipitation, and production costs have increased at least twice as fast as inflation. These facts have caused great economic hardships for some producers and for nearly all ranchers who depend primarily on cattle. Grain producers joined this list in 1976. The increase in the general level of agriculture prosperity in the early 1970s was largely due to increased production and better grain prices.

The prosperity of Montana's agriculture depends upon its competitive strength. The abilities of Montana's farmers and ranchers, the vigor of its agri-business community and the environment established by state and local government will all influence that competitive strength. The price of grain, the price of beef, inflation and the uncertainty of weather will likewise bear heavily on Montana's agricultural future.

South Dakota's famous Mount Rushmore is among Bancoland tourist attractions.

First Northwestern National Bank is in a good position to take advantage of our location and area economy. Our loan portfolio is diversified in much the same way as the local economy is diversified. We place strong emphasis on our wholesalers and manufacturers. We have an active consumer loan department and also take advantage of opportunities involved in the housing needs of our many new citizens. We will continue to assist the efficient farmer-rancher. He is still our community's bread and butter.

SECTION 6

Nebraska — U.S. National Bank, Omaha, Nebraska
Donald J. Murphy, Chairman

Serving Nebraska is the core of activity for the five Banco banks in the state, but we also serve banking and industry in four adjacent states. On a combined basis we form the largest commercial banking entity in Nebraska.

In the 1970s a significant shift took place in Nebraska: agriculture and manufacturing changed places as major employers. In 1970 agriculture employed 89,700 people; manufacturing employed 81,300 people. At the start of 1977, manufacturing employed 88,200, and agriculture had declined to 82,100.

These figures highlight the diversification that has taken place in the state. Manufacturing and assembly operations have grown in the smaller towns, while the growth in the Omaha area has been in the "services" category. The result is a balanced economy, generally stable and less subject to the swings of one dominant industry.

Soil, water and people are the state's key resources — a combination that bears on all other economic sectors. Even though agriculture is the fourth largest contributor to gross state product, wholesale/retail, manufacturing and financial groups each contribute more dollars to the gross economy. And yet all sectors are closely interrelated and move according to the pace set by agriculture. Financing of agri-business is and will be our main thrust.

Prices for agricultural products in 1978, it follows, are a main concern. If prices are favorable, then the farmers and ranchers have demonstrated they can produce and the other elements of the economy will benefit in turn.

Wyoming cattle have been a big element in our state's livestock operations, but that state's coal is now a greater factor. The mining itself, the rail distribution systems and the activity involved in upgrading tracks, cars and switching yards provide benefits to Nebraska. The short haul of coal to utilities and manufacturing plants produces an economic benefit for the state, and Banco banks participate in financing such movements.

The Omaha area was strong in construction and livestock processing in 1977. Retail and wholesale sales in Omaha led the state in growth last year. Grain receipts were down less than three percent. Employment was up three percent in the Omaha area. Bank clearings were up six percent. U.S. National Bank has had five consecutive quarters of market share growth and a 36 percent increase in credit card income.

In 1978 economic trends will be influenced by climatic conditions, agricultural product prices, attractive electric power rates, beneficial taxes on inventory and labor that gives a full day's work for fair wages. Legislatively, we must settle the matter of the amount and source of state aid to education, clarify water rights, and work for expanded banking opportunities in service and ownership.

All Banco banks in the state had increased earnings in 1977. Service, aggressive marketing, and attention to expenses were the key reasons. And each bank has added a new building or facility in the past two years, a boon to customer convenience.

We look for a solid year but not a spectacular one. All major indicators point to a year similar to 1977, but the momentum of past efforts at each of the banks, the stronger, leaner staffs, the persistent development of business, and the competitive edge we feel we have over other financial institutions will contribute toward an even better 1978 than the averages indicate.

SECTION 7

Western South Dakota — First National Bank of the Black Hills, Rapid City, South Dakota
Charles T. Undlin, President

The marketplace of the First National Bank of the Black Hills is in one word "diversified." We have 11 banking locations, covering approximately the western one-fourth of South Dakota, the southeastern portion of Montana, the northeastern portion of Wyoming, and limited areas of northwestern Nebraska and southwestern North Dakota. Included in our branch system are several locations heavily dependent upon cattle and sheep ranching. One branch is located in a one-industry (gold mining) town; another is in a tourist center; one has nearly all military customers; one is in a college town, and several are in suburban locations.

The key sources of income in the six counties in which we are located are government services (including all federal, state, local and school district expenditures) $330 million; tourism (summer travel and winter recreation) $330 million; military (Ellsworth, AFB) $150 million; agriculture, $113 million; wholesaling, $100 million; mining, $65 million; contract construction, $63 million; and lumbering, $55 million.

The largest single employer in our area is the federal government at Ellsworth AFB. This base, a crucial element of the Strategic Air Command, is staffed with approximately 6,500 personnel, plus their families and other civilian employees. The principal mission is maintaining at operational readiness a Minute-Man Missile Wing, a B-52 Bomb Wing, KC-135 tankers and the necessary support facilities. Current indications are that the strength of the base will remain at the present level.

The largest single civilian employer in our area is the Homestake Mining Company. This company employs approximately 2,000 people in a gold-mining operation that has continued for more than 100 years. Homestake is currently mining 7,000 feet below the surface. This operation is directly affected by our country's monetary policies and the strength of the dollar. Other mining in our area is diversified, with the largest potential impact in the immediate area coming from the Tennessee Valley Authority's substantial mining claims for uranium deposits in the southern Black Hills.

Although we are not directly in the coal fields of Wyoming, we are influenced by the major developments in that area. Many of our customers have opened up branch operations in Gillette, Wyoming, and we are feeling the ripple-effect in retail sales and other activities, even though our closest branch is approximately 90 miles from Gillette.

Our bank's earnings last year were strong, with very strong loan demand throughout the entire year. We anticipate continuing earnings progress in 1978 and we expect loan demand to be strong across the board, including construction, housing, retail, commercial and agricultural loans.

We had very little impact from the drought in 1976, but somewhat more in certain parts of our trade area during 1977. At this time we have had good fall moisture and should be starting off 1978 with relatively normal conditions. Our bank is more directly affected by livestock prices than by grain prices, but obviously they interrelate. Sheep and wool prices have been good during 1977 and the outlook continues to be excellent. Cattle prices have improved over 1976, but will have to improve more to be considered healthy. We feel most of our customers are in a strong position and should be able to ride out this period of low prices.

The customers of this bank are optimistic for 1978, with the only soft spot being the farm price levels. On balance, we anticipate a good year for this bank and this area during 1978.

SECTION 8

Western North Dakota — Dakota Northwestern Bank, Bismarck, North Dakota
A. Ned Mayer, President

The key issue in western North Dakota over the next 10 years is energy development. Energy development within the Bismarck and Mandan area of North Dakota should run at a fairly fast pace in this decade. As a result of these developments, Bismarck will benefit the most of any city in the region. The entire area must look to Bismarck and Mandan for all the services and the labor force needed during the construction period. If coal gasification becomes a reality, which at this point we feel it will, it will definitely increase the economic activity of the area and will extend energy development much longer than we now anticipate.

Another significant happening in our region was Shell Oil Company's major oil discovery last fall in Renville County. According to sources active in oil exploration in North Dakota for many years, the Renville County discovery is the most important one ever made in this state because oil was discovered in a new formation, which has not occurred in North Dakota since the first oil discovery in 1951. At the present time, there are 40 oil drilling rigs operating in the state. That number is expected to increase significantly during the next year.

We will continue to see a very strong loan demand in Bismarck because of commercial and residential construction. As a result of that demand, we have geared ourselves to be the area's most active lender in real estate loans. All of the loans that we handle at this bank are set up to sell on the secondary market. In recent years we have developed that secondary market to a point where we feel we are in a position to sell all real estate loans.

We see retail development on the rise. The Kirkwood Shopping Center, which now consists of 42 stores and over 400,000 square feet, has announced plans to expand. Dayton's department store and Penney's are the two major retailers that will be added in the expansion program. In addition to the two majors, the centers will have approximately 40 other smaller stores. It is expected that $8 million will be expended during this expansion program. In addition to the expansion of the Kirkwood Shopping Center, we expect a large number of additional businesses to be opened in Bismarck, which will enable the city to better serve western North Dakota, eastern Montana, and northern South Dakota in the very important retail trade area.

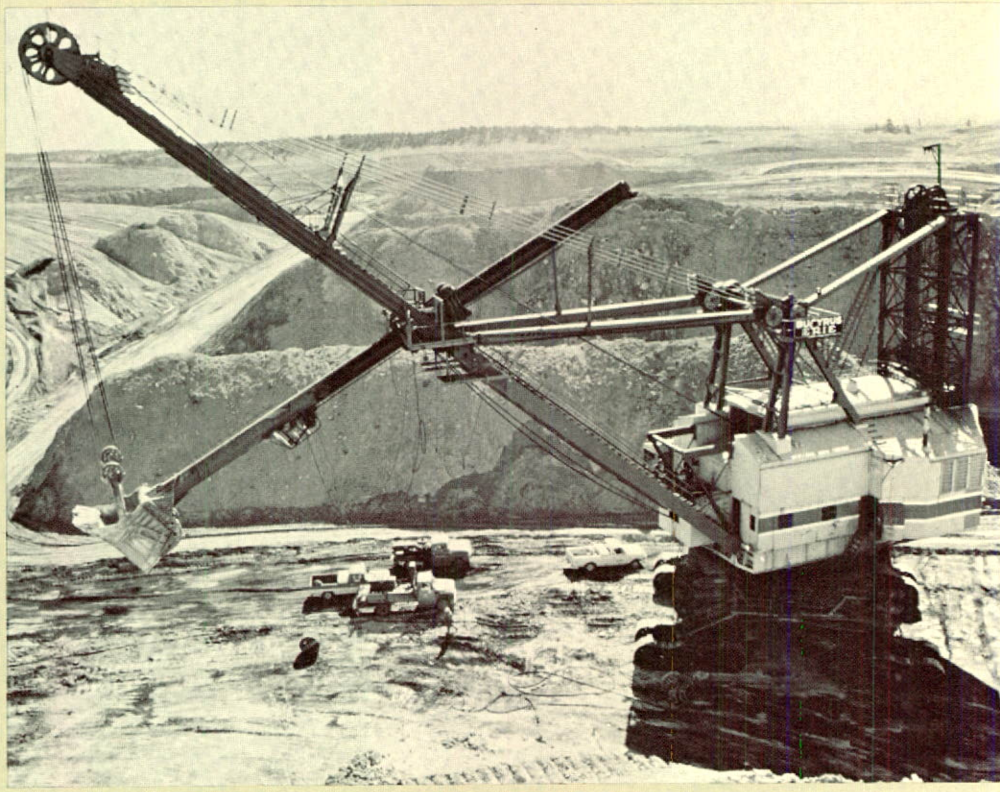
SECTION 9

Iowa — Iowa – Des Moines National Bank, Des Moines, Iowa
John R. Fitzgibbon, Chairman

Iowa continues to enjoy a well-balanced, highly productive agricultural and industrial base, served by a productive work force, enjoying an excellent standard of living.

Unemployment is well below the national averages. At year end statewide unemployment stood at 3.2 percent; in Des Moines, the capital city, it was at 2.9 percent. Less than 20 employers in the state have more than 3,000 em-

Montana's coal deposits are an increasingly important resource.



ployees, but among them are such mainstays as Deere & Company, Northwestern Bell Telephone Co., Hy Vee Food Stores, Sears Roebuck & Co., J.C. Penney and the Maytag Company. Iowa State University, the University of Iowa, Drake University and the state government are also major employers. A statewide system of community vocational schools, state universities, and more than 30 private colleges and universities produce a highly educated work force.

Energy requirements may be met by the "rediscovery" of Iowa coal. This sizable resource, situated in the central and southeastern counties of the state, becomes economically feasible and environmentally acceptable as the recovery and coal-washing technology progresses. Iowa State University sponsored one of the first experimental coal washing facilities in the nation.

Loan demand for retail and commercial needs is strong and manageable. The agricultural needs of a seasonal nature are serviced well by the Banco banks and the well-established correspondent banking contacts throughout the state. This loan demand, statewide, enabled the Iowa-Des Moines to maintain a strong market presence despite lower interest spreads, in contrast to low demands in major money center banks. Among the major concerns of Iowa farmers in 1978 are size of the anticipated export demand and the rising cost of all areas of production, including seed, fertilizer, chemicals and farming machinery.

The outlook for single and multiple housing demand is very good, with significant increases in units and total dollar sales anticipated.

The capital city of Des Moines makes up approximately 10 percent of the total state population of 2,825,000. The population is well dispersed throughout the state; Banco is likewise, being represented in such population centers as Sioux City, Fort Dodge, Denison, Mason City, the Quad-Cities, Keokuk and Ottumwa.

Major programs and goals for the Iowa-Des Moines National Bank include stressing deposit growth, servicing a strong loan demand, and maintaining market share and momentum in the face of increasing competition from other banks and financial institutions. The Iowa banks established the first statewide EFT network in the nation in 1977, and the Iowa-Des Moines and other Banco affiliates were important to this success. An Iowa-Des Moines customer can now have his basic banking needs met at more than 75 locations throughout the state.

The keys to growth in 1978 are a more productive work force, control of interest rate spreads and expenses and an improved funds management program. With a continued emphasis on service for the banking customer and the ability to fulfill the financial needs of a state that contains one-fourth of the grade A farmland in the world, the prospects are bright.

SECTION

10

Western Montana — Northwestern Bank, Helena, Montana
William B. Andrews, President

Western Montana is 60,000 square miles of rugged mountains and fertile valleys. Immense forests and mineral resources, rich ranching and farm land, the great drainage systems of the Yellowstone, Missouri and Columbia rivers are its natural assets. On the southern edge of the region is Yellowstone National Park; 250 miles to the north is Glacier National Park. Western Montana supports a lively tourist industry; the streams, mountains and parks attract thousands of visitors each year. This region is also home for the major units of the Montana University system and the center of state government.

Banco banks serve four of the principal population areas of the territory and are dedicated to support of the industries most prevalent in their respective communities. We are optimistic about 1978 because the factors bearing on success of our industries appear almost uniformly more favorable than last year. A possible exception is the price of copper, which remains below cost of production. Substantial layoffs have occurred in the Butte-Anaconda area. To an important degree this loss has been offset by activity in development of a pilot magneto hydrodynamics plant designed to convert coal directly into electricity without production of steam.

A year ago an acute shortage of snow pack in the mountains was cause for great concern throughout the northwest. Use of electrical energy in Montana, Idaho and Washington was curtailed. By contrast, above average snow has now fallen throughout the Rocky Mountain region, assuring normal power generation so necessary to business and agricultural success. Benefiting, too, are the numerous ski resorts which had poor snow last year.

The continuing high level of home building throughout the nation ensures good prices for lumber and consequently high activity in the timber business. This industry is the biggest single component of the economy in the northwest quarter of Montana. Hoerner Waldorf, Missoula's largest employer with 1,100 people, is embarking on a $150 million expansion of its plant.

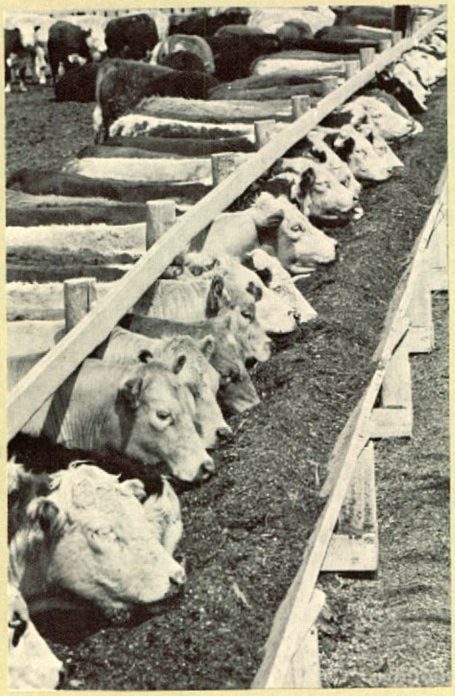
Cattle prices have been inching up all fall, and the best informed observers expect some small further advances. There is optimism, also, about wheat prices as farmers plan to reduce planting and switch to other grain production. No one expects strike actions to have much effect, but reduced production of wheat in other parts of the world might.

The quest for additional energy sources has brought renewed mineral leasing, drilling and exploration activity along both slopes of the Continental Divide. Advanced technology may enable production of both fossil and metallic minerals, but the effect of this activity will not impact on the economy for some years.

Employment has remained stable this past winter, contrary to the usual seasonal pattern, because of the demand for labor in the logging and construction industries.

Additionally, the number of state and federal employees continues to increase to the benefit of the Helena area. And finally, tourism, which is really a reflection of the entire nation's economic well-being, is expected to reach new high levels in 1978.

In 1978 western Montana Banco banks look for increased deposits, a sound and steady demand for loans in all categories and exanded profits. Barring a national disaster or a complete drought, our expectations should be realized.



Banco's seven states provide a large portion of the country's beef.

SECTION

11

Eastern South Dakota —
Northwestern National Bank, Sioux Falls, South Dakota
Charles P. Moore, President

The Missouri River divides South Dakota into an east and a west, each with its own set of special characteristics and needs. Eastern South Dakota is heavily oriented towards livestock and agriculture. Industry, however, particularly in the communities of Sioux Falls, Aberdeen and Brookings, is becoming increasingly important to our economy. These businesses provide a major source of employment for a portion of the underemployed agricultural community.

The Northwestern National Bank of Sioux Falls and the First National Bank of Aberdeen, along with their respective branch systems, and the First National Bank of Watertown are the three Banco affiliates serving the eastern half of the state.

The South Dakota business climate is enhanced by a right to work law, a first-rate workmen's compensation program, a fair and equitable unemployment compensation program, the absence of state corporate or personal income tax, and a healthy, productive work force.

In addition to the general business climate, Sioux Falls has a number of pluses in regard to industrial development.

Interstate highways 90 and 29 intersect at Sioux Falls. Eight interstate carriers maintain terminals here, and three commercial airlines serve Sioux Falls with 36 flights daily. Nearly a half-million passengers yearly fly in and out of Sioux Falls.

Sioux Falls is a large retail/wholesale service center with almost 2,000 such establishments in the community.

Sioux Falls has two private four year co-educational liberal arts colleges. Three units of the university system are within 55 miles of the city. In addition, there are a number of private schools where hundreds of students obtain certificates for various vocations.

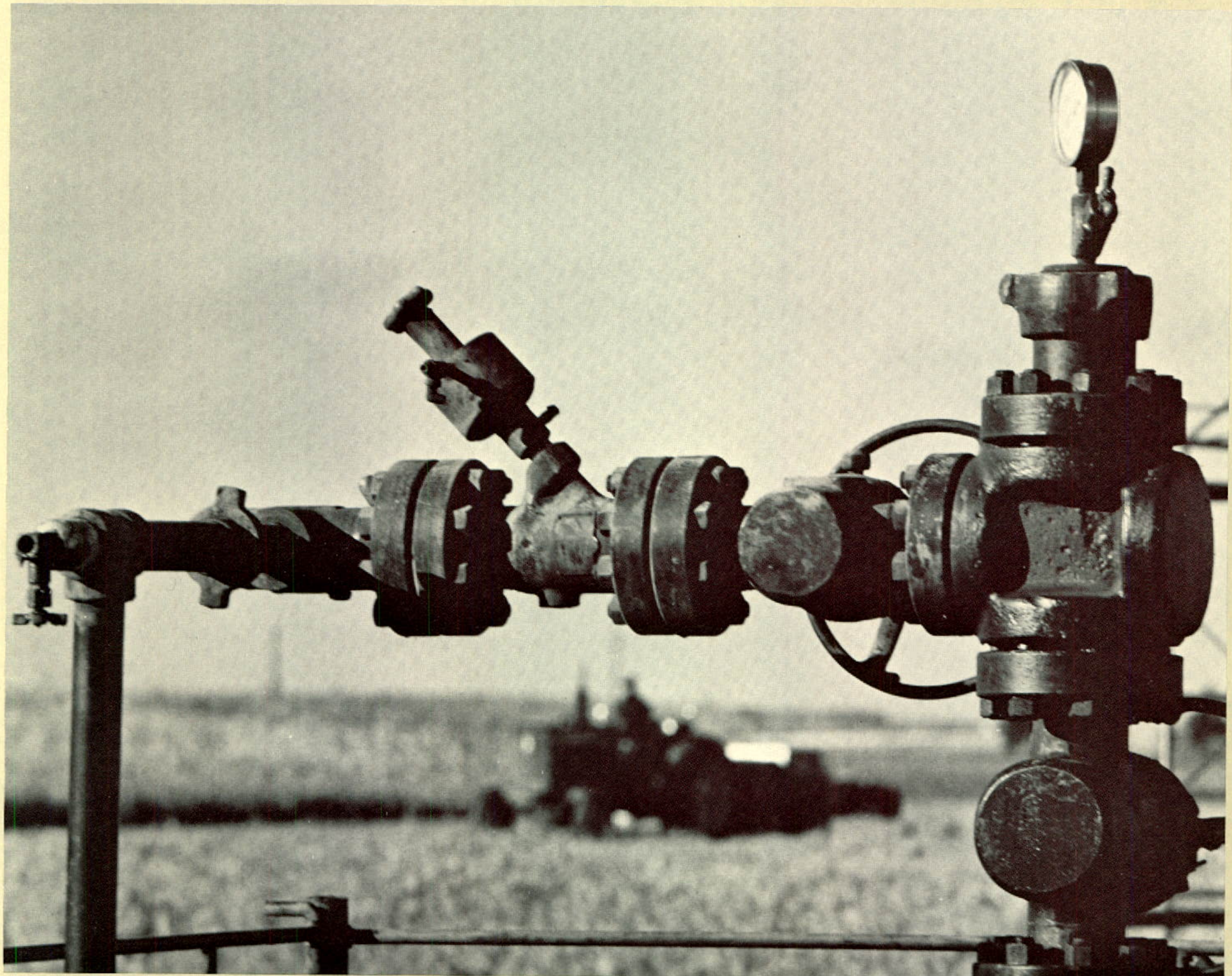
Sioux Falls has four hospitals with approximately 1,000 beds and 40 doctors, plus the University of South Dakota Medical School. There is also a family practice residency program here.

Two major businesses, employing approximately 1,000 people, moved into Sioux Falls in 1977.

There are likewise reasons to expect continued growth in Brookings, where the Northwestern National has one of its 11 branches. South Dakota State University, with an enrollment of 6,200, is situated there. The 3M Company established a plant in Brookings a few years ago. The plant has almost doubled in size and now employs more than 500 people. Coast-to-Coast has built a large distribution warehouse in Brookings, and this past year Mid-Tex Company from Mankato, Minnesota, established a plant there. These organizations employ 200 and 100 people, respectively.

South Dakota's largest natural resource is the water of the Great Lakes of South Dakota (the Missouri River). The biggest challenge confronting the citizens of South Dakota is to develop a water delivery system from the river for irrigation, municipal and industrial use, wildlife and recreation. A sound water development policy is critical to the ongoing success of tourism in South Dakota, the state's second most important industry.

An acceleration in water development (irrigation) will also allow for more intensive agriculture production and lend increased stability to this important economic base.



Oil wells, like this one in North Dakota, are a familiar sight in much of Banco's territory.

Unemployment in South Dakota is well below the national average. With the continued growth of South Dakota's industries at a realistic pace, it would appear that our unemployment should continue at a low level.

Agriculture and livestock, as we noted, are of primary importance to our area. Some agricultural producers are having cost-price squeeze problems. Such problems are real. However, 85 percent of our agricultural production is in the hands of financially strong operators who are efficient and proficient managers. Large family farm units will continue to be a reality; they are simply the most efficient form of agricultural production.

We had excellent moisture in 1977, providing an adequate supply of subsoil moisture. Farm real estate values have increased, although the rate of increase lessened in 1977. There is still a margin in real estate that gives farm operators a cushion. Part of that value, however, is equity that may be realized only when land is sold.

Young people who are entering the farming business generally have more schooling and technical training than their parents. This is much needed in today's agriculture.

The Northwestern Bank has a balanced loan portfolio with about 30 percent of the loans in real estate, 20 percent installment loans, 25 percent in business/commercial and 25 percent in agricultural/livestock. Through participation with other Banco affiliates, Northwest Agricultural Credit Company and Banco Mortgage Company, and our projected deposit growth, we will be able to continue serving the needs of our communities and maintain a proper asset mix and liquidity.

Financial Review

A BRIEF SUMMARY

Banco had another record earnings year in 1977. Consolidated income before securities transactions increased to $77.1 million, up 17.3% over $65.7 million in 1976. This amounted to $3.00 per share, a gain of 14.1% over $2.63 per share in 1976. The five-year compound growth rate of consolidated income before securities transactions, in total and per share, is 13.2% and 10.4%, respectively.

After net securities losses, consolidated net income amounted to $76.2 million, or $2.97 per share, an increase of 13.4% over $2.62 per share in 1976.

Several factors contributed to the record earnings. Net interest income on a tax equivalent basis was up 15.3%. The gain resulted from higher earning assets, primarily loans. Average earning assets increased to $7.8 billion, up 16.9%. Paralleling the growth in earning assets was a 14.7% increase in average deposits to $6.9 billion. Net interest margins, however, declined slightly to 4.18% from 4.24% in 1976. The decline is primarily the result of a greater proportion of average interest bearing liabilities to average earning assets in 1977 than in 1976.

Loan quality improved and net loan losses declined to $11.9 million from $18.1 million in 1976. The provision for loan losses, however, remained the same in 1977 as in 1976, because of loan growth.

Non-interest income increased 15.1% to $83.3 million in 1977. Contributing to this increase were substantially higher revenues from loan placement and servicing activities, credit card fees and insurance revenues.

Non-interest expenses increased 13.4% to $230.7 million in 1977. In general, the increase reflects higher levels of activity and increased costs of doing business.

Income taxes increased to $26.7 million in 1977 because a greater portion of earnings were subject to tax in 1977 than in 1976.

At December 31, 1977, stockholders' equity totaled $579.1 million, or $22.53 per share, up 9.6% from $20.56 per share at the end of 1976. The return on stockholders' equity increased to 14.0% in 1977 from 13.4% in 1976.

Dividends paid to stockholders were increased twice in 1977, and amounted to 98 cents per share, up 10½ cents from the 87½ cents per share paid in 1976. The most current quarterly dividend rate of 26 cents results in an annualized rate of $1.04 per share.

An understanding of specific items affecting net income in 1977 and 1976 is made easier by expressing interest income on a tax equivalent basis. For this purpose, interest earned on tax-exempt loans and securities is adjusted by the benefit of tax exemption. The following table presents a summary of consolidated operating results on a tax equivalent basis for the years ended December 31, 1977 and 1976.

Consolidated Income Summary (In thousands of dollars)	1977	Increase (Decrease) Amount	%	1976	Increase (Decrease) Amount	%
Interest income — tax equivalent basis	$666,948	104,492	18.6%	$562,456	43,184	8.3%
Interest expense	341,216	61,259	21.9	279,957	18,778	7.2
Net interest income	325,732	43,233	15.3	282,499	24,406	9.5
Provision for loan losses	17,796	3	—	17,793	2,065	13.1
Net interest income after the provision for loan losses	307,936	43,230	16.3	264,706	22,341	9.2
Non-interest income	83,331	10,943	15.1	72,388	11,566	19.0
Non-interest expenses	230,656	27,344	13.4	203,312	20,464	11.2
Income before income taxes and securities losses	160,611	26,829	20.1	133,782	13,443	11.2
Less:						
Tax equivalent adjustment	55,025	8,171	17.4	46,854	7,039	17.7
Applicable income taxes	26,657	7,091	36.2	19,566	(1,001)	(4.9)
Minority interest	1,839	219	13.5	1,620	(36)	(2.2)
Consolidated income before securities transactions	77,090	11,348	17.3	65,742	7,441	12.8
Net securities losses	856	496	137.8	360	572	(61.4)
Consolidated net income	$ 76,234	10,852	16.6%	$ 65,382	8,013	14.0%
Per share of common stock:						
Consolidated income before securities losses	$ 3.00	.37	14.1%	$ 2.63	.16	6.5%
Consolidated net income	2.97	.35	13.4	2.62	.19	7.8
Dividends paid	.98	.10½	12.0	.87½	.05	5.7

NET INTEREST INCOME

The major portion of Banco's income results from net interest income, the difference between interest income on earning assets, primarily loans and securities, and interest paid on time deposits and borrowed funds. Net interest income is affected by changes in the mix and volume of the various types of earning assets, deposits and borrowed funds, and by changes in interest rates.

On a tax equivalent basis, net interest income reached a record $325.7 million in 1977, 15.3% above $282.5 million in 1976. These increases resulted primarily from the growth of earning assets. During the five years ended December 31, 1977, net interest income has increased at a compound growth rate of 13.4%.

Earning Assets

Earning assets, consisting of investment and trading account securities, money market investments, loans (before deducting the valuation reserve for loans) and direct lease financing, averaged $7.8 billion during 1977, up 16.9% over the 1976 average of $6.7 billion. The compound growth rate of earning assets has averaged 12.9% during the last five years. Since 1972 the proportion of earning assets to total assets has been increased from 84.4% to 87.7%. As a result, the five-year compound growth rate of earning assets has exceeded the 12.1% five-year compound growth rate of total assets.

Growth in the two major categories of earning assets — investment securities and loans — was substantially different during 1977 and 1976. With moderate loan demand and rapid inflows of savings deposits in 1976, Banco banks invested a larger proportion of funds in securities. In contrast, loan demand, in all categories, increased in each quarter of 1977 in comparison to the previous quarter. The increasing demand for loans was funded by purchased funds and the continued growth of time deposits.

Total portfolio securities amounted to $2.2 billion at year-end, the same as a year ago, and averaged $2.3 billion, up 14.1% from the 1976 average of $2.0 billion. A portion of savings inflows during 1976 and early 1977 was invested in short-term securities to provide liquidity for anticipated loan demand. Funds obtained from the maturity of these securities satisfied a portion of the increased loan demand. At December 31, 1977, the average maturity of portfolio securities was 5.1 years, compared with 4.4 years in 1976. The average maturity of the tax-exempt portfolio was lengthened to improve average yield. Liquidity holdings due within one year total $602.6 million, which appears adequate to meet seasonal fund requirements, including some continued expansion of loan volume.

The average yield on portfolio securities was 7.94%, compared with 8.02% in 1976. The lower yield reflects lower rates on short-term securities which were available in 1976 and the first quarter of 1977. This trend was reversed in the second and subsequent quarters of 1977. Although yields on portfolio securities declined overall, the yield on state, municipal and housing securities increased .29 percentage points to 9.56%.

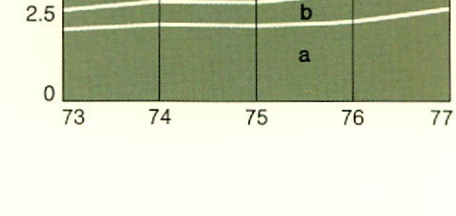
Maturity of Securities at December 31, 1977
(In thousands of dollars)

	Par Value						
	Under 1 Year	1-5 Years	5-10 Years	Over 10 Years	Total	Yield*	Average Maturity in Years
U.S. Treasury	$411,766	370,682	56,083	2,227	840,758	6.7%	1.7
State, municipal and housing	81,180	271,892	382,199	397,410	1,132,681	9.7	8.4
Federal agencies and other	109,615	135,512	9,522	534	255,183	6.9	1.8
Total investment securities	$602,561	778,086	447,804	400,171	2,228,622	8.3%	5.1

*The yield on state, municipal and housing securities is increased by the benefit of tax exemption, assuming a 48% Federal income tax rate. The amount of the increases in the yield for these securities and for total investment securities are 4.6% and 2.4%, respectively.

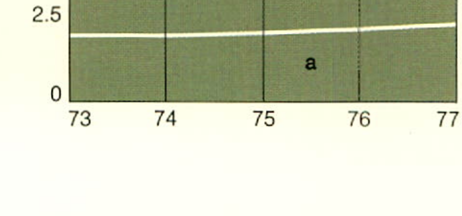
AVERAGE ASSETS

a Commercial Loans b Installment Loans
c Real Estate Loans d Tax Exempt Securities
e Other Securities f Other Assets



AVERAGE LIABILITIES AND STOCKHOLDERS' EQUITY

a Demand Deposits b Consumer Time Deposits
c C/D's and Other Time d Borrowed Funds
e Stockholders' Equity f Other Liabilities



Financial Review

Loans at year-end amounted to $5.5 billion, an increase of 22.0% from 1976 year-end. Total loans at year-end include $189.5 million in the loan portfolios of the First National Bank of Ottumwa, Iowa, Canadian American Bank S.A. and First National Bank, Fort Dodge, Iowa, which were acquired during 1977.

On an average basis, total loans increased 17.9% in 1977. There was increased loan demand throughout the seven-state region. Loan demand in rural areas, the primary source of loan growth in 1976, continued to increase in 1977. However, the strongest loan demand during the year was from the metropolitan areas.

In contrast to the moderate loan demand in 1976, commercial, industrial, agricultural and other loans were up 19.2% on an average basis, and real estate loans were up 13.5%. These increases, generally, reflect the continued economic improvements in the nation and in Banco's seven-state region.

On an average basis, consumer loans were up 21.2% for the year. In part, this increase reflects the first full year of the Master Charge and VISA/BankAmericard programs of Banco banks in Minnesota.

Loan yields averaged 8.95% in 1977, compared with 8.85% in 1976. The decline in loan yields during 1976 continued into the first quarter of 1977. In the remainder of the year, loan demand increased and yields improved.

Deposits and Borrowed Funds

Paralleling the growth in earnings assets was a 14.7% increase in average deposits. At year-end deposits totaled $7.6 billion, up 14.1% from a year ago.

Demand deposits averaged $2.2 billion in 1977. Of the total 7.7% increase, approximately 1.4% resulted from the acquisition of subsidiaries during the year.

The most significant deposit growth was in regular savings and savings certificates, which are largely deposits of individuals. On an average basis, these deposits increased 16.3%. At year-end these deposits amounted to $3.6 billion, an increase of 10.5% from a year ago. The lower rate of increase for the year-end balances is in part attributable to a decline in the rate of growth of regular savings in the last half of 1977.

The large demand deposit and consumer time deposit base enables management to minimize its use of purchased funds, which are generally more sensitive to interest rate changes. Purchased funds, consisting of certificates of deposit, other time deposits and short-term borrowings, however, increased in 1977. This increase is due to the rapid loan growth and the decline in the rate of growth of regular savings in the last half of 1977.

Certificates of deposit and other time deposits increased 26.7% on an average basis, reflecting in part the acquisition of Canadian American Bank S.A. Most of the international loans made by that bank are funded through the acquisition of foreign time deposits. Management also used large denomination certificates with fixed interest rates and maturities to fund the acquisition of interest-sensitive earning assets, in an effort to improve yield spreads in a rising rate environment. Short-term borrowings averaged $988 million in 1977, compared with $780 million in the previous year.

Changes in Net Interest Income (In thousands of dollars)	Year Ended December 31 1977 Over 1976 Volume	Yield/Rate	Total	1976 Over 1975 Volume	Yield/Rate	Total
Increase (decrease) in:						
Interest income:						
Loans	$67,309	5,006	72,315	23,507	(8,487)	15,020
Investment securities	22,320	(1,803)	20,517	37,870	(4,574)	33,296
Money market and trading account securities	3,550	4,492	8,042	(2,909)	(3,244)	(6,153)
Direct lease financing	3,802	(184)	3,618	1,033	(12)	1,021
Total	96,981	7,511	104,492	59,501	(16,317)	43,184
Interest expense:						
Time deposits	41,790	—	41,790	22,689	(9,306)	13,383
Short-term borrowings	10,818	3,453	14,271	8,905	(5,145)	3,760
Long-term debt	4,615	583	5,198	1,449	186	1,635
Total	57,223	4,036	61,259	33,043	(14,265)	18,778
Increase (decrease) in net interest income	$39,758	3,475	43,233	26,458	(2,052)	24,406

The average rate paid on time deposits was 5.80%, unchanged from the 1976 average rate paid. The rate paid on short-term borrowings was 5.58% in 1977, up from 5.23% in 1976. Rates paid on time deposits and short-term borrowings declined in 1976 and the first quarter of 1977 but increased in each subsequent quarter of 1977.

Net Interest Margins

Management of the relationship between yields on earning assets and rates paid on interest-bearing liabilities is a key element in the management of net interest margins. To maintain consistent growth in net interest income, Banco manages the mix of earning assets and liabilities to minimize the cyclical movement in net interest margins and net interest income.

Yield spreads — the difference between yields on earning assets and rates paid on interest-bearing liabilities — improved slightly in 1977, averaging 2.75%, compared with 2.70% in 1976. Although yield spreads improved, net interest margins, or the relationship of net interest income to average earning assets, declined slightly to 4.18% from 4.24%, as a result of a greater proportion of interest-bearing liabilities required to fund earning assets in 1977.

PROVISION FOR LOAN LOSSES

Risk is an inherent characteristic in the extension of credit and is provided for by a valuation reserve for loans. The cost associated with credit risk is represented by the provision for loan losses.

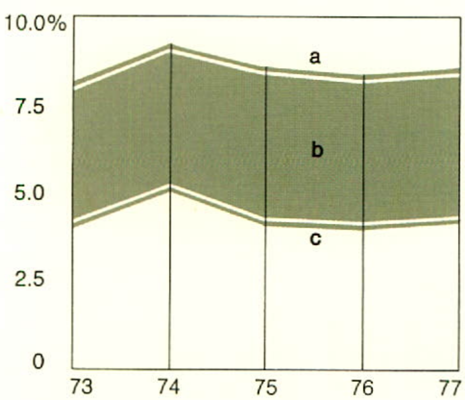
The valuation reserve for loans amounted to $52.7 million, equal to .95% of outstanding loans at year-end. The adequacy of the reserve, and therefore the level of the provision for loan losses, is determined by management's evaluation of a number of factors, including loan loss experience, a continuing review of problem loans and overall portfolio quality, periodic examinations and appraisals of loan portfolios of subsidiaries, and current and expected economic conditions.

The provision for loan losses amounted to $17.8 million in 1977. The current year's provision reflects an improvement in the amount and trend of net loan losses in 1977, in comparison to prior years, and higher loan quality. The higher loan quality is evidenced by lower amounts of non-accrual and reduced rate loans and reductions in the relationship of past due loans to the total outstanding. Due to the significant growth in outstanding loans, the provision for loan losses remained the same as in 1976.

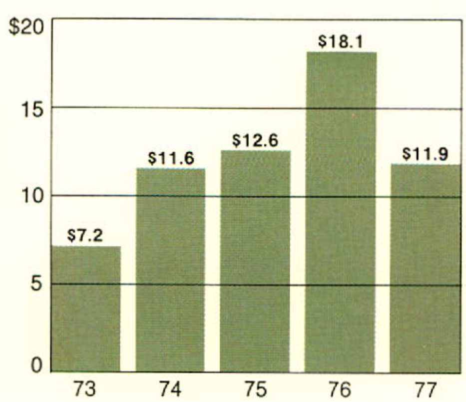
Loan Loss Experience

Net loan losses in 1977 declined to $11.9 million, .24% of average outstanding loans, compared with $18.1 million, .42% of average outstanding loans, in 1976. This decline is attributable to the general improvement in economic conditions and higher loan quality. Charge-offs of loans to real estate investment trusts (REITs) declined to $2.3 million in 1977 from $5.0 million in the previous year.

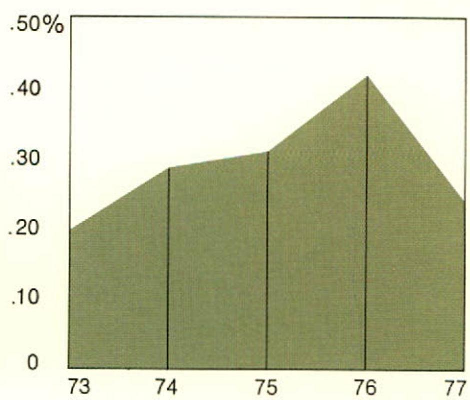
NET INTEREST MARGIN
As a Percentage of Average Earning Assets
a Interest Income b Net Interest Margin
c Interest Expense



NET LOAN LOSSES
In millions



NET LOAN LOSS RATIO*



*Net Loan Losses—as a Percent of Average Loans.

NON-INTEREST INCOME

Non-Performing Assets

Non-performing assets and past-due loans were reduced substantially during 1977. At the end of 1977, non-performing assets amounted to $64.3 million, down from $86.0 million at the end of 1976. As with non-performing assets, the trend of past-due loans declined significantly in 1977.

Non-Performing Assets (In millions of dollars)	December 31 1977	1976	1975
Construction and land development loans	**$ 8.0**	10.6	21.6
Loans to REITs	**16.6**	26.3	39.9
Other loans	**10.4**	17.8	9.8
Total cash basis and reduced rate loans	**35.0**	54.7	71.3
Real estate acquired through foreclosure	**29.3**	31.3	18.3
Total non-performing assets	**$64.3**	86.0	89.6

Loan Delinquencies* percentage 60 days or more past due	December 31 1977	1976	1975
Commercial, industrial, agricultural, and other loans	**.85%**	1.31	1.65
Residential mortgages and other real estate loans	**1.27**	1.86	2.97
Consumer (installment) loans	**.94**	.97	1.29
Credit card and check credit plans	**1.56**	1.86	1.64
Total	**1.01%**	1.42	1.96

*Includes .32%, .66% and .96% representing loans on cash or reduced-rate basis at December 31, 1977, 1976 and 1975, respectively.

The effect on consolidated net income of the cash basis and reduced rate loans was equivalent to 5 cents per share in 1977, compared with 9 cents in 1976. The effect on earnings of real estate acquired through foreclosure amounted to 2 cents per share in 1977, compared with 5 cents in the prior year. The total reduction in earnings from non-performing assets amounted to 7 cents per share in 1977, approximately 2.4% of per share earnings.

Other sources of income result primarily from the performance of services for customers. Non-interest income increased 15.1% to $83.3 million in 1977. The rate of increase was lower than the 19.0% increase in 1976 primarily as a result of lower trading account profits and commissions.

Income from trust operations increased 11.1% in 1977, compared with a 16.5% increase in 1976. Other fees and service charges include computer fees, insurance income, fee income from mortgage banking activities and fees and service charges on credit cards. Significant increases in revenues were achieved in all categories in 1977. Increased levels of loan placement and servicing activities by Banco Mortgage Company and the first full year of operations for the credit card programs in Minnesota contributed to the higher level of revenue. In addition, the increased volume of consumer lending in 1977 contributed to improvements in insurance revenues.

Non-Interest Income (In thousands of dollars)	1977	Increase (Decrease) Amount	%	1976	Increase (Decrease) Amount	%
Trading account securities profits and commissions	$ 2,424	(3,469)	(58.9)%	$ 5,893	2,039	52.9%
Trust department income	19,900	1,994	11.1	17,906	2,542	16.5
Service charges on deposit accounts	14,816	1,285	9.5	13,531	590	4.6
Other fees and service charges	41,410	12,016	40.9	29,394	7,029	31.4
Other operating income	4,781	(883)	(15.6)	5,664	(634)	(10.1)
Total	$83,331	10,943	15.1%	$72,388	11,566	19.0%

NON-INTEREST EXPENSES

Non-interest expenses primarily reflect costs associated with operations, but also include expenditures associated with research for new products, development of new processing systems, staff training and development programs to build a sound base for future growth. Non-interest expenses increased 13.4% to $230.7 million in 1977. The increase includes $3.4 million representing the non-interest expenses of three new subsidiaries acquired in 1977. Excluding their expenses, non-interest expenses increased 11.8% in 1977, compared with an increase of 11.2% in 1976.

Since 1972, non-interest expenses have increased at a compound growth rate of 13.7%. The relationship, however, of non-interest expenses to the total of net interest income and non-interest income, and to consolidated income before securities transactions, has remained relatively stable as shown in the table below.

Non-Interest Expense Trends	1977	1976	1975	1974	1973
Non-interest expenses:					
As a percent of net interest income and other income	56.4%	57.3	57.3	57.4	57.0
As a multiple of consolidated income before securities transactions	3.0x	3.1	3.1	3.1	2.9

Total salaries and employee benefits increased $15.8 million, or 14.4%, compared with the 11.4% increase in 1976. This increase includes $1.6 million in expenses attributable to acquired subsidiaries in 1977. In addition, the increase reflects a higher number of employees required to conduct the expanding volume of business, normal increases in compensation, and higher employee benefit costs. In 1977 and 1976, the cost of employee benefits increased more rapidly than salaries, up 18.3% and 19.2%, respectively. At year-end, there were 8,650 full-time employees, an increase of 549 over the prior year. Total employment, including part-time personnel, was 10,481.

Occupancy and furniture and equipment expenses increased 12.2% and 14.3%, respectively, in 1977. These increases reflect depreciation on a number of building and remodeling projects completed during 1976 and 1977. In addition, higher utility costs, real estate taxes, maintenance and repair costs, and equipment rental expenses have added to the increase. Also reflected in 1977 are increased processing costs attributable to the first full year of operations for the Master Charge credit card and VISA/BankAmericard programs in Minnesota.

Other operating expenses increased 11.7% to $63.0 million in 1977. Contributing to this increase was the introduction of the "We're On Your Side" advertising campaign throughout the seven-state region. In addition, the increase reflects higher prices for supplies and services and expanding volumes of business.

Income Taxes

Income before income taxes and securities transactions increased 21.5% in 1977, while income from tax-exempt earning assets increased approximately 10.2%. As a result of the lower rate of increase in tax-exempt income, a greater portion of earnings in 1977 was subject to income taxes than in 1976.

Non-Interest Expenses (In thousands of dollars)	1977	Increase (Decrease) Amount	Increase (Decrease) %	1976	Increase (Decrease) Amount	Increase (Decrease) %
Salaries	$106,737	12,839	13.7%	$ 93,898	8,672	10.2%
Employee benefits	19,375	2,997	18.3	16,378	2,637	19.2
Occupancy expenses, net	18,787	2,039	12.2	16,748	1,116	7.1
Furniture and equipment expenses	22,717	2,847	14.3	19,870	3,415	20.8
Other operating expenses:						
Marketing and business development	14,939	2,274	18.0	12,665	(13)	(.1)
Communication	10,422	1,014	10.8	9,408	1,593	20.4
Professional fees	5,083	(88)	(1.7)	5,171	760	17.2
Printing, stationery and supplies	7,903	821	11.6	7,082	442	6.7
Other operating expenses	24,693	2,601	11.8	22,092	1,842	9.1
Total other operating expenses	63,040	6,622	11.7	56,418	4,624	8.9
Total	$230,656	27,344	13.4%	$203,312	20,464	11.2%

STOCKHOLDERS' EQUITY

Banco believes that a strong equity capital position is important to the continued success of a banking organization. Thus, it maintains stockholders' equity at levels which promote public confidence, enhance financing flexibility, and assure continued access to capital markets on favorable terms. In addition, a strong equity capital position enables the corporation to serve as a source of financial strength to its subsidiaries, and to take advantage of expansion opportunities as they arise.

Reflecting this philosophy, Banco maintains equity capital at levels generally higher than other large bank holding companies. On the basis of the relationship of equity capital to total assets at December 31, 1977, Banco ranked third among the 20 largest bank holding companies in the industry.

To maintain this capital position, stockholders' equity must increase at a rate which approximates the growth in assets. Currently, Banco's internal equity growth rate will support a 9-10% growth in assets without an increase in leverage. The internal equity growth rate was 9.3% in 1977 and has averaged 8.8% over the last five years.

Stockholders' equity increased by $59.4 million or 11.4% during the year to $579.1 million at the end of 1977. The retention of earnings provided $51.4 million of the increase; the balance resulted mainly from the issuance of 386,527 shares of common stock to acquire the First National Bank, Fort Dodge, Iowa. Book value per share was $22.53 at the end of 1977.

A two-for-one stock split was effected on June 17, 1977, in the form of a stock dividend to stockholders of record May 17, 1977. The purpose of the split was to reduce the stock price to a range which would be attractive to more individual investors.

Stockholders' equity and minority interest, which together support the consolidated assets of the corporation, approximated 6.4% of average assets in 1977, down from 6.6% in 1976.

Return on Equity

Two important measurements of the degree of efficiency that a banking company achieves in the employment of funds and capital are the relationship of net operating income to average assets and to stockholders' equity.

The return on average assets was .87% in 1977, reflecting generally stable net interest margins, increased levels of non-interest income and operating expense increases at a lower rate than the increase of average assets.

The return on average stockholders' equity increased to 14.0% in 1977, exceeding the 13.6% average for the last five years. The higher return in 1977 was caused by a slightly higher return on average assets and a modest increase in leverage, the key factors in determining this ratio. Leverage — the amount of assets funded by stockholders' equity — still remains below levels experienced in years prior to 1976.

Dividends Paid

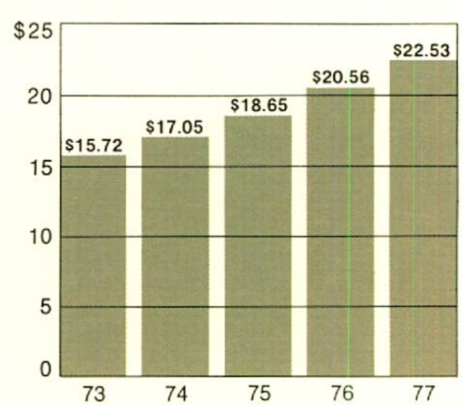
Dividends paid to stockholders have been increased in each of the last 15 years. In 1977, dividends paid amounted to 98 cents per share, up 10½ cents from the 87½ cents per share paid in 1976. On a per share basis dividends increased 12.0% in 1977, compared with a compound growth rate of 6.2% during the last five years.

In order to retain equity capital to support asset growth, dividend increases prior to 1976 were held below the rate of earnings growth. During the past three years approximately one-third of earnings were paid out in dividends to stockholders.

Return on Stockholders' Equity*	Return on Assets	× Leverage =	Return on Stockholders' Equity*
1977	.87%	16.1x	14.0%
1976	.86	15.5	13.4
1975	.84	16.4	13.8
1974	.78	17.0	13.3
1973	.80	16.6	13.3
Five year average	.83	16.3	13.6

*Based on average balances and consolidated income before securities transactions.

STOCKHOLDERS' EQUITY PER SHARE*



*Adjusted to reflect the two-for-one stock split in May,1977.

NORTHWESTERN NATIONAL BANK OF MINNEAPOLIS

Northwestern National Bank of Minneapolis, Banco's largest subsidiary, provides regional, national and international banking services. International banking is centralized in Minneapolis, supplemented by branches in Luxembourg and Nassau, a representative office in Winnipeg, Canada, and by two wholly-owned subsidiaries, Northwest International Bank, an Edge Act corporation, and Canadian American Bank S.A., a Luxembourg-based merchant bank with a London office. Lease Northwest, Inc., a wholly-owned subsidiary, conducts an equipment leasing business. The bank is joint owner with two other Banco banks of BancNorthwest, an underwriter and distributor of tax-exempt securities.

The bank's consolidated income before securities transactions reached a record level in 1977, up 13.2%. Since 1972, the five-year compound growth rate of consolidated income before securities transactions has been 12.8%. Several factors contributed to the record earnings. Net interest income, on a tax equivalent basis, was up 19.4%. This gain resulted from increased earnings assets, primarily loans. Average earning assets were $1.9 billion, compared with $1.6 billion in 1976. Net interest margins, however, declined to 3.77% in 1977 from 3.90% in 1976, when a lesser proportion of earning assets was funded by interest-bearing liabilities.

The 1977 provision for loan losses was $6.3 million, compared with $6.0 million in 1976. Net loan losses were $4.9 million, well below $7.5 million in 1976. The valuation reserve for loans as a percentage of outstanding loans was .95% at year-end.

Non-interest income declined 1.6%, as a result of the decline in trading account profits and commissions. To capitalize on opportunities for future growth, the bank made significant staff additions in 1977. Salaries and employee benefits increased 15.6%. Other non-interest expenses also increased, reflecting increased costs and the expanded volume of business.

Condensed Statements of Financial Condition
Northwestern National Bank of Minneapolis and Subsidiaries

(In thousands of dollars)	December 31 1977	December 31 1976
Assets		
Cash and due from banks	$ 283,112	310,278
Investment securities	498,192	584,233
Federal funds sold and other short-term investments	314,350	293,129
Loans, net of unearned discount of $7,402,000 and $7,139,000 at December 31, 1977 and 1976, respectively	1,290,643	983,891
Valuation reserve for loans	(12,236)	(10,195)
Total loans, net of the valuation reserve	1,278,407	973,696
Direct lease financing	55,360	29,907
Other assets	145,862	99,848
	$2,575,283	2,291,091
Liabilities and Stockholders' Equity		
Demand deposits	$ 763,935	775,057
Regular savings and time deposits	1,003,652	711,028
Total deposits	1,767,587	1,486,085
Federal funds purchased and other short-term borrowings	504,389	537,485
Accrued expenses and other liabilities	137,901	116,977
Subordinated notes due to parent company	20,000	20,000
Total liabilities	2,429,877	2,160,547
Stockholders' equity	145,406	130,544
	$2,575,283	2,291,091

Condensed Statements of Income
Northwestern National Bank of Minneapolis and Subsidiaries

(In thousands of dollars)	Year Ended December 31 1977	Year Ended December 31 1976
Interest income	$ 144,794	111,863
Interest expense	81,661	59,533
Net interest income	63,133	52,330
Provision for loan losses	6,344	6,000
Net interest income after provision for loan losses	56,789	46,330
Non-interest income	23,651	24,047
Non-interest expenses:		
Salaries and employee benefits	27,420	23,727
Other expenses	26,388	22,012
Total non-interest expenses	53,808	45,739
Income before income taxes and securities transactions	26,632	24,638
Applicable income taxes	7,406	7,650
Consolidated income before securities transactions	19,226	16,988
Securities losses less applicable income taxes	(191)	(84)
Consolidated net income	$ 19,035	16,904

Financial Review

BANK-RELATED SUBSIDIARIES

Banco operates a number of bank-related companies. These companies provide financial, insurance, trust and venture capital services primarily in the seven-state area served by affiliate banks.

Bank-related companies are a relatively small, but integral part of Banco's operations. They provide independent sources of earnings and also complement the range of services available from Banco banks. Bank-related companies contributed approximately 11 cents or 3.8% of consolidated earnings per share in 1977. A discussion of the 1977 results and accomplishments of certain of the larger bank-related companies follows.

Financial Service Companies

The condensed combined balance sheets and statements of income include the accounts of Banco Mortgage Company and subsidiaries, Northwest Agricultural Credit Company and Banco Financial Corporation.

Net income of these companies amounted to $1,594,000 in 1977, compared with $802,000 in 1976. The increase in net income resulted primarily from increases in interest and fees on agricultural and secured commercial loans, income from origination of a larger volume of FHA and VA residential mortgages and loan servicing activities. Expense from properties acquired through foreclosure declined in 1977, which also contributed to the increase in net income.

Banco Mortgage Company provides a full range of residential and commercial mortgage banking services through offices in Banco's seven-state region and in the states of Arizona, California, Colorado, Illinois, Indiana, Kansas, Ohio and New Mexico. In 1977, Banco Mortgage Company opened two new offices in California, one in Colorado and its first office in New Mexico.

Production of residential mortgages reached an all-time high of $400 million, of which $69 million was originated through Banco banks. In addition, as a result of the company's expertise in the origination and administration of loans insured under various programs of the Department of Housing and Urban Development, production of these loans reached a record high of $225 million. The company is one of the largest sources of such financing in the country. At year-end the company was servicing 52,750 mortgage loans totaling $1.7 billion. At June 30, 1977, Banco Mortgage was the 14th largest mortgage banking firm in the United States based upon the principal amount of loans serviced and is the fourth largest issuer of mortgage-backed securities insured by the Government National Mortgage Association.

Northwest Agricultural Credit Company, based in Sioux Falls, South Dakota, conducts a specialized lending and advisory business in conjunction with Banco banks. At December 31, 1977, its participation in loans totaled $35.1 million.

Banco Financial Corporation also supports activities of Banco banks. It provides commercial and industrial loans secured by accounts receivable, inventories and equipment. At December 31, 1977, its participation in loans totaled $44.7 million.

Other Companies

Banco made its first move in 1975 to consolidate trust activities on a state-wide basis with the formation of a new trust company in Montana. Since then, state-wide trust companies have been formed in South Dakota, North Dakota and Nebraska. The consolidation of trust activities into a state-wide company benefits both Banco and its customers. The important element of personal contact is preserved by locating trust representatives in the communities served by the affiliate banks. These representatives are now able to offer a wider range of specialized trust services.

Banco's wholly-owned data processing affiliate, Northwest Computer Services, Inc., provides data processing services to 600 correspondent and affiliate banks and their branches. These banks and their branches are served by 16 regional centers located in six states.

Monthly, an average of 5.8 million accounts were processed during 1977, an increase of 9.0% over the previous year. The number of demand deposit transactions handled during the year totaled 450.8 million, up 9.1% over 1976.

In 1977, the company developed back-up capabilities in its regional network, enabling each center to process the work of another. In addition, a second central facility became operational, completing the first step toward full back-up capabilities for the main processing center where account information for all customers is updated and stored.

Banco Credit Life Company reinsures credit life and accident and health insurance for customers of Banco banks. Insurance premiums written and commissions earned by the banks showed favorable gains over 1976.

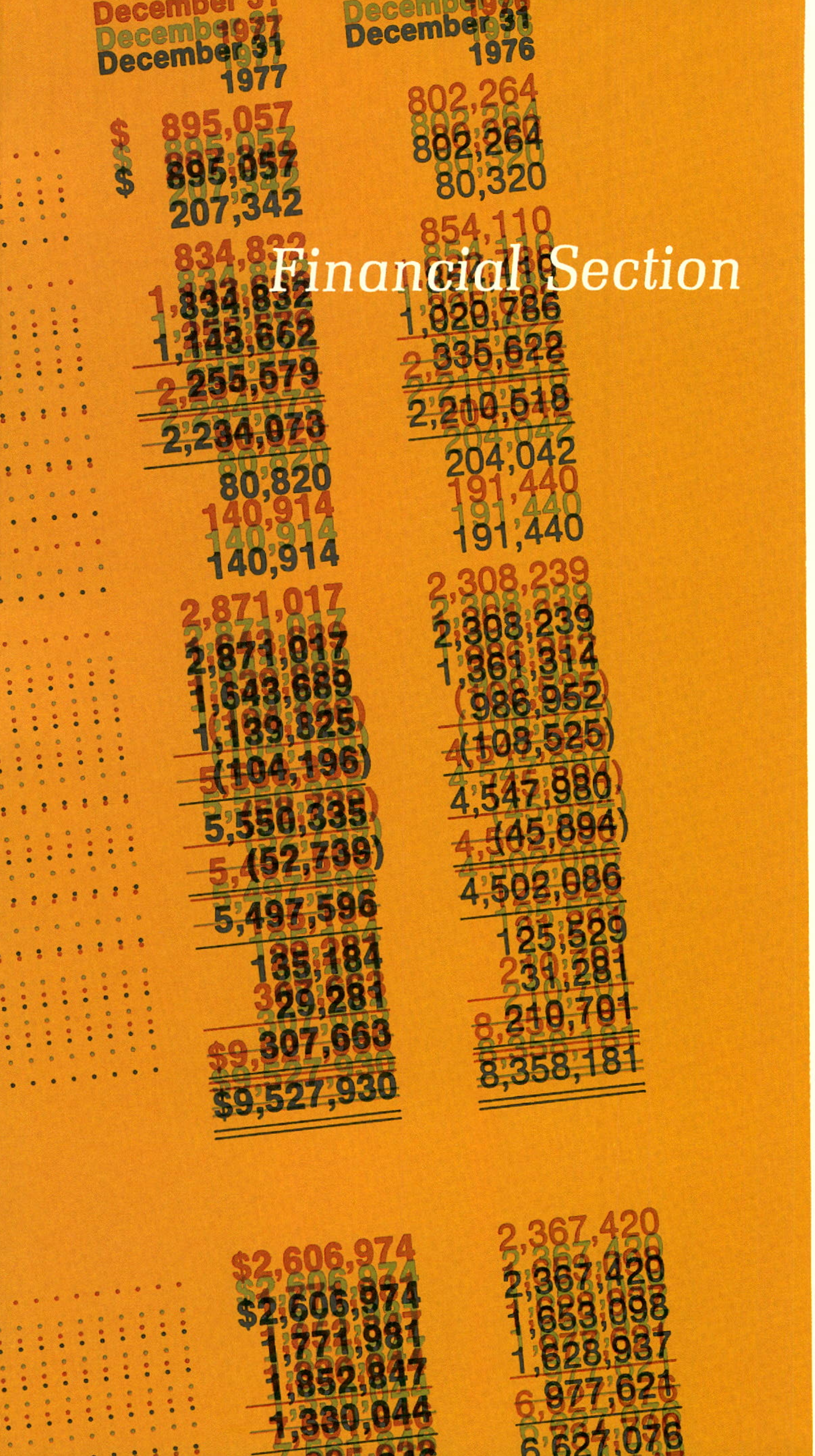
Banco owns 56% of the stock of Northwest Growth Fund, Inc., a small business investment company. This Minneapolis-based company has specialized in providing venture capital to new and expanding businesses throughout the nation for the past 15 years. At 1977 year-end, the company held investments with an estimated value of $22.2 million, making it one of the larger venture capital companies in the country. The company operates a subsidiary in Portland, Oregon, and in January 1978, agreed in principle to acquire an office in Denver, Colorado.

Condensed Combined Balance Sheets
Financial Services Companies

(In thousands of dollars)	December 31 1977	1976
Assets		
Cash and due from banks	$ 1,357	1,779
Permanent mortgage loans held for sale	62,904	36,429
Loans and real estate acquired through foreclosure, net of valuation reserve for loans and real estate of $2,560,000 and $2,225,000 at December 31, 1977 and 1976, respectively	134,664	117,012
Other assets	7,677	7,034
	$206,602	162,254
Liabilities and Stockholder's Equity		
Short-term borrowings, including advances from parent company of $124,680,000 and $95,696,000 at December 31, 1977 and 1976, respectively	$131,847	101,617
Accrued expenses and other liabilities	4,170	2,913
Mortgages and special assessments payable on real estate acquired through foreclosure	15,160	13,872
Long-term debt, including term loans and subordinated notes due to parent company of $41,000,000 and $31,000,000 at December 31, 1977 and 1976, respectively	41,676	31,697
Stockholder's equity	13,749	12,155
	$206,602	162,254

Condensed Combined Statements of Income
Financial Services Companies

(In thousands of dollars)	Year Ended December 31 1977	1976
Income		
Interest and fees on loans	$ 13,981	10,533
Loan origination	7,627	5,344
Loan servicing	5,241	4,005
Other income	477	602
Total income	27,326	20,484
Expenses		
Salaries and employee benefits	7,490	5,603
Interest on short-term borrowings and long-term debt	10,669	8,263
Provision for losses on loans and real estate	1,299	954
Other expenses	4,670	4,064
Total expenses	24,128	18,884
Income before income taxes	3,198	1,600
Applicable income taxes	1,604	798
Net income	$ 1,594	802



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Consolidated Statements of Financial Condition

Northwest Bancorporation and Subsidiaries

(In thousands of dollars)	**December 31 1977**	December 31 1976
ASSETS		
Cash and due from banks	**$ 895,057**	802,264
Interest bearing deposits with banks	**207,342**	80,320
Investment securities (Note 2):		
U.S. Treasury	**834,832**	854,110
State, municipal and housing	**1,143,662**	1,020,786
Federal agencies and other	**255,579**	335,622
Total investment securities	**2,234,073**	2,210,518
Trading account securities	**80,820**	204,042
Federal funds sold and securities purchased under agreements to resell	**140,914**	191,440
Loans:		
Commercial, industrial, agricultural and other	**2,871,017**	2,308,239
Real estate mortgages	**1,643,689**	1,361,314
Consumer	**1,139,825**	986,952
Less unearned discount on loans	**(104,196)**	(108,525)
Total loans	**5,550,335**	4,547,980
Valuation reserve for loans (Note 3)	**(52,739)**	(45,894)
Total loans, net of the valuation reserve	**5,497,596**	4,502,086
Bank premises and equipment (Note 4)	**135,184**	125,529
Real estate acquired through foreclosure	**29,281**	31,281
Interest receivable and other assets	**307,663**	210,701
	$9,527,930	8,358,181
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits:		
Demand	**$2,606,974**	2,367,420
Regular savings	**1,771,981**	1,653,098
Savings certificates	**1,852,847**	1,628,937
Certificates of deposit and other time	**1,330,044**	977,621
Total deposits	**7,561,846**	6,627,076
Federal funds purchased and other short-term borrowings (Note 5)	**885,932**	734,730
Accrued expenses and other liabilities	**252,534**	228,547
Mortgages payable	**11,770**	12,087
Notes and debentures (Note 6)	**222,394**	222,434
Total liabilities	**8,934,476**	7,824,874
Minority interest	**14,310**	13,533
Stockholders' equity (Notes 6 and 7):		
Preferred stock, $100 par value — authorized 200,000 shares None outstanding	**—**	—
Common stock, $1⅔ par value — authorized 36,000,000 shares Outstanding 25,704,093 shares at December 31, 1977 and 25,281,982 shares at December 31, 1976, excluding 546,122 shares held in treasury carried at par value of $910,000 in 1977 and 559,290 shares carried at par value of $932,000 in 1976	**42,840**	42,137
Capital surplus	**40,657**	37,168
Retained earnings	**495,647**	440,469
Total stockholders' equity	**579,144**	519,774
	$9,527,930	8,358,181

See notes to financial statements.

Consolidated Statements of Income

Northwest Bancorporation and Subsidiaries

(In thousands of dollars)	Year Ended December 31 1977	Year Ended December 31 1976
Interest Income		
Interest and fees on loans	$ 448,631	376,405
Interest and dividends on investment securities:		
U.S. Treasury	56,712	45,080
State, municipal and housing	53,782	48,837
Federal agencies and other	19,910	20,500
Total interest and dividends on investment securities	130,404	114,417
Interest on trading account securities	4,995	3,953
Interest on Federal funds sold and resale agreements	11,624	11,573
Other interest income	16,269	9,254
Total interest income	611,923	515,602
Interest Expense		
Interest on time deposits	269,011	227,221
Interest on Federal funds purchased and repurchase agreements	48,625	35,758
Interest on other short-term borrowings	6,470	5,066
Interest on notes, debentures and mortgages payable	17,110	11,912
Total interest expense	341,216	279,957
Net interest income	270,707	235,645
Provision for Loan Losses (Note 3)	17,796	17,793
Net interest income after provision for loan losses	252,911	217,852
Non-Interest Income		
Trading account securities profits and commissions	2,424	5,893
Trust department income	19,900	17,906
Service charges on deposit accounts	14,816	13,531
Other fees and service charges	41,410	29,394
Other operating income	4,781	5,664
Total non-interest income	83,331	72,388
Non-Interest Expenses		
Salaries	106,737	93,898
Pensions, profit sharing and other benefits (Note 8)	19,375	16,378
Total salaries and employee benefits	126,112	110,276
Occupancy expenses, net (Note 4)	18,787	16,748
Furniture and equipment expenses (Note 4)	22,717	19,870
Other operating expenses	63,040	56,418
Total non-interest expenses	230,656	203,312
Income Before Income Taxes and Securities Transactions	105,586	86,928
Applicable Income Taxes (Note 9)	26,657	19,566
Income Before Securities Transactions	78,929	67,362
Minority Interest	1,839	1,620
CONSOLIDATED INCOME BEFORE SECURITIES TRANSACTIONS	77,090	65,742
Securities Transactions		
Net losses	(1,835)	(781)
Applicable income taxes	954	411
Minority interest	25	10
	(856)	(360)
CONSOLIDATED NET INCOME	$ 76,234	65,382
Weighted Average Number of Common Shares Outstanding (Note 7)	25,693,971	24,985,630
Per Share of Common Stock		
Consolidated income before securities transactions	$ 3.00	2.63
Consolidated net income	2.97	2.62
Dividends paid	.98	.87½

See notes to financial statements.

Consolidated Statements of Changes in Financial Position

Northwest Bancorporation and Subsidiaries

(In thousands of dollars)	**Year Ended December 31 1977**	Year Ended December 31 1976
FUNDS PROVIDED		
Operations:		
Net income	**$ 76,234**	65,382
Add items not requiring funds in the current period:		
Amortization of investment securities premiums and discounts, net	**4,545**	4,498
Depreciation and amortization	**11,979**	11,274
Provision for loan losses	**17,796**	17,793
Deferred income taxes	**5,108**	7,229
Funds provided from operations	**115,662**	106,176
Proceeds from shares of common stock issued upon exercise of options	**456**	538
Proceeds from sale of 1,600,000 shares of common stock	**—**	34,515
Common stock issued in merger and treasury stock delivered to acquire additional interests in subsidiaries	**7,482**	55
Increase in:		
Deposits	**934,770**	533,226
Federal funds purchased and other short-term borrowings	**151,202**	201,965
Accrued expenses and other liabilities	**18,880**	60,429
Notes and debentures	**—**	86,834
Decrease in:		
Trading account securities	**123,222**	—
Federal funds sold and securities purchased under agreements to resell	**50,526**	72,528
Total funds provided	**$1,402,200**	1,096,266
FUNDS USED		
Dividends paid	**$ 24,802**	21,769
Increase in:		
Cash and due from banks and interest bearing deposits with banks	**219,815**	29,658
Investment securities	**28,100**	427,801
Trading account securities	**—**	133,656
Loans	**1,018,270**	411,029
Interest receivable and other assets	**96,962**	46,441
Other, net	**14,251**	25,912
Total funds used	**$1,402,200**	1,096,266

See notes to financial statements.

Consolidated and Corporation Only Statements of Stockholders' Equity

Northwest Bancorporation and Subsidiaries
Northwest Bancorporation (Corporation Only)

(In thousands of dollars)	Total	Common Stock	Capital Surplus	Retained Earnings
BALANCE, DECEMBER 31, 1975	$441,053	39,418	4,779	396,856
Net income	65,382	—	—	65,382
Dividends paid	(21,769)	—	—	(21,769)
Sale of 1,600,000 shares of common stock	34,515	2,667	31,848	—
Delivery of 2,794 shares of treasury stock to acquire additional interests in subsidiaries	55	5	50	—
Issuance of 28,252 shares of common stock upon exercise of options (Note 7)	538	47	491	—
BALANCE, DECEMBER 31, 1976	519,774	42,137	37,168	440,469
Net income	76,234	—	—	76,234
Dividends paid	(24,802)	—	—	(24,802)
Delivery of 13,168 shares of treasury stock to acquire additional interests in subsidiaries	275	22	253	—
Issuance of 22,416 shares of common stock upon exercise of options (Note 7)	456	37	419	—
Issuance of 386,527 shares of common stock to acquire a bank (Note 7)	7,207	644	2,817	3,746
BALANCE, DECEMBER 31, 1977	$579,144	42,840	40,657	495,647

See notes to financial statements.

Statements of Financial Condition

Northwest Bancorporation (Corporation Only)

(In thousands of dollars)	December 31 1977	December 31 1976
ASSETS		
Cash in banks:		
Subsidiary bank	$ 896	634
Other banks	76	76
	972	710
Marketable securities, at amortized cost (approximate market value $20,382,000 at December 31, 1977 and $24,109,000 at December 31, 1976)	19,807	23,386
Commercial loans	3,449	4,882
Investments in and advances to subsidiaries:		
Banks and bank-owned companies:		
Capital notes due 1978	100	100
Capital notes due 1986	54,600	52,100
Capital notes due 1990	29,000	29,000
Capital notes due 2003	38,400	38,400
Capital stock, principally at net asset value	547,051	485,280
Other companies:		
Term loans due 1978 through 1981	27,000	17,000
Capital notes due 1978	2,000	7,000
Capital notes due 1986	7,000	2,000
Capital notes due 2003	5,000	5,000
Capital stock, at net asset value	21,775	20,391
Advances	135,333	106,311
	867,259	762,582
Investment in foreign banking company	—	1,191
Leasehold improvements and fixed assets	337	358
Debt discount and expense, less amortization	1,623	1,817
Other assets	3,921	2,406
	$897,368	797,332
LIABILITIES AND STOCKHOLDERS' EQUITY		
Securities sold to subsidiary under agreements to repurchase (Note 5)	$ —	4,500
Commercial paper notes payable (Note 5)	98,448	58,086
Accrued expenses and other liabilities	9,776	4,972
Notes and debentures (Note 6)	210,000	210,000
Total liabilities	318,224	277,558
Stockholders' equity (Notes 6 and 7):		
Preferred stock, $100 par value — authorized 200,000 shares None outstanding	—	—
Common stock, $1⅔ par value — authorized 36,000,000 shares Outstanding 25,704,093 shares at December 31, 1977 and 25,281,982 shares at December 31, 1976, excluding 546,122 shares held in treasury carried at par value of $910,000 in 1977 and 559,290 shares carried at par value of $932,000 in 1976	42,840	42,137
Capital surplus	40,657	37,168
Retained earnings:		
Undistributed income of Corporation	37,736	36,326
Equity in undistributed income of subsidiaries	457,911	404,143
Total retained earnings	495,647	440,469
Total stockholders' equity	579,144	519,774
	$897,368	797,332

See notes to financial statements.

Statements of Income

Northwest Bancorporation (Corporation Only)

(In thousands of dollars)	Year Ended December 31 1977	Year Ended December 31 1976
INCOME		
Dividends received from:		
Subsidiary banks	**$26,872**	25,430
Subsidiary companies	**115**	210
	26,987	25,640
Interest earned on:		
Term loans of subsidiary	**1,369**	567
Capital notes of subsidiaries	**10,084**	6,777
Advances to and deposits with subsidiaries	**8,636**	7,006
Commercial loans	**357**	452
Marketable securities and temporary investments	**1,381**	1,386
	21,827	16,188
Service fees from subsidiaries	**4,801**	4,497
Other income	**157**	30
Total income	**53,772**	46,355
EXPENSES		
Salaries, employee benefits and directors' fees (Note 8)	**4,240**	3,753
Interest and amortization of debt expense-notes and debentures	**15,400**	11,045
Interest on short-term borrowings	**4,642**	3,481
Occupancy expenses	**409**	370
Other expenses	**3,492**	2,703
Applicable income taxes (credits)	**(569)**	(298)
Total expenses	**27,614**	21,054
Income before equity in undistributed income and securities transactions of subsidiaries	**26,158**	25,301
Equity in undistributed income of subsidiaries, before securities transactions	**50,932**	40,441
INCOME BEFORE EQUITY IN SECURITIES TRANSACTIONS OF SUBSIDIARIES	**77,090**	65,742
Equity in securities transactions of subsidiaries	**(856)**	(360)
NET INCOME	**$76,234**	65,382

See notes to financial statements.

Statements of Changes in Financial Position

Northwest Bancorporation (Corporation Only)

(In thousands of dollars)	**Year Ended December 31 1977**	Year Ended December 31 1976
FUNDS PROVIDED		
Net income	**$76,234**	65,382
Deduct equity in undistributed income of subsidiaries, including securities transactions	**50,076**	40,081
Income before undistributed income of subsidiaries	**26,158**	25,301
Proceeds from shares of common stock issued upon exercise of options	**456**	538
Proceeds from sale of 1,600,000 shares of common stock	**—**	34,515
Common stock issued in merger and treasury stock delivered to acquire additional interests in subsidiaries	**7,482**	55
Increase in:		
Securities sold to subsidiary under agreements to repurchase	**—**	4,500
Commercial paper notes payable	**40,362**	1,880
Accrued expenses and other liabilities	**4,804**	—
Notes and debentures	**—**	75,000
Decrease in:		
Cash and marketable securities	**3,317**	—
Commercial loans	**1,433**	1,459
Deferred discount and debt expense	**194**	—
Total funds provided	**$84,206**	143,248
FUNDS USED		
Dividends paid	**$24,802**	21,769
Increase in:		
Cash and marketable securities	**—**	10,918
Investments in capital notes of subsidiaries, net	**2,500**	42,300
Term loans to subsidiary	**10,000**	17,000
Advances to subsidiaries	**29,022**	33,141
Investments in subsidiaries, net	**11,973**	16,970
Deferred discount and debt expense	**—**	667
Other, net	**1,409**	389
Decrease in:		
Securities sold to subsidiary under agreements to repurchase	**4,500**	—
Accrued expenses and other liabilities	**—**	94
Total funds used	**$84,206**	143,248

See notes to financial statements.

Notes to Financial Statements

Northwest Bancorporation and Subsidiaries
Northwest Bancorporation (Corporation Only)

1 Summary of Significant Accounting Policies. Northwest Bancorporation and subsidiaries provide a full range of banking and trust services. The more significant accounting policies of the Corporation and its subsidiaries are summarized below.

Consolidation. The consolidated financial statements include the accounts of the Corporation and all subsidiary banks and companies. All significant intercompany accounts and transactions have been eliminated. Subsidiary banks and companies employ, in all material respects, similar principles of accounting, including the accrual basis on all major items except income from trust operations which is reported generally on the cash basis.

The Corporation carries its investments in subsidiaries and other companies generally 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 sale of investment securities are recognized upon realization and are shown separately in the statements of income.

Trading account securities are stated at the lower of average cost or market. Gains or losses on the sale of trading account securities are considered part of normal operations and are included in trading account securities profits and commissions.

Income Recognition on Loans. In determining income recognition on commercial, industrial and construction loans, it is the general policy that no interest shall be accrued unless collected in respect of loans on which a default of principal or interest has existed for a period of 90 days, except for loans secured by collateral, the ascertained value of which is at least equal to the amount at which the loan is carried plus all interest accrued thereon. Accrual of interest on installment loans is suspended at the time of write-off and on real estate mortgages upon the initiation of foreclosure proceedings. When a loan is placed on a cash basis any interest previously accrued but not yet collected is reversed against current income. Any subsequent interest on such loan is recorded as interest income only when received.

Unearned discount, relating primarily to interest on consumer installment loans, is deferred and subsequently transferred to income by the sum-of-the-digits method over the outstanding periods of the related loans.

Valuation Reserve for Loans. The provision for loan losses is determined 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 analysis of loan portfolios of subsidiaries, and current and expected economic conditions. Such provisions, less net charge-offs, comprise the valuation reserve for loans which is deducted from loans and is available for future loan losses.

It is the policy of each subsidiary to charge off all loans classified as "loss" by supervisory authorities, the chief examiner of the Corporation or the management of the subsidiary. Loans classified as "doubtful" are also charged off unless, in the opinion of management, charge-off is not warranted.

The reserve for loan losses is increased to the maximum amount allowable for income tax purposes by allocating a portion of retained earnings as a contingency reserve which is not deducted from loans and is not available for future loan losses. The deferred tax liability relating to the accumulated tax deduction in excess of the book provisions is included in accrued expenses and other liabilities.

Real Estate Acquired Through Foreclosure. Real estate acquired through foreclosure or deed in lieu of foreclosure is generally carried at the lower of cost or estimated net realizable value upon disposition. At the time title to the property is acquired, the asset is transferred from loans and the excess of the cost basis of the property acquired over the estimated net realizable value, if any, is charged to the valuation reserve for loans. Subsequent adjustments to the carrying value of the properties to reflect changes in estimated net realizable value and the net operating results from these properties are included in other operating expenses.

Bank Premises and Equipment. Bank premises and equipment are stated at cost less accumulated depreciation and amortization. Depreciation is provided generally over estimated useful lives of 25 to 50 years for buildings and 4 to 10 years for furniture, fixtures and equipment, computed generally by an accelerated method for assets purchased prior to 1977 and on a straight-line method for 1977 purchases. The effect of the change in the method of computing depreciation, made as of January 1, 1977, did not have a material effect on consolidated net income for the year ended December 31, 1977. Leasehold improvements are amortized over the terms of the respective leases. Such depreciation and amortization is credited in the books to the asset account.

Gains or losses on dispositions are included in the statements of income. Maintenance and repairs are included in operating expenses and the costs of betterments are capitalized.

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 lease-financing equipment are deferred and amortized over the terms of the respective leases. Investment tax credits on purchases of bank 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. Earnings per share data have been computed based on the weighted average number of common shares outstanding during each year. Options granted under the Corporation's qualified stock option plan are considered common stock equivalents for the purpose of earnings per share data, but have been excluded from the computation since the dilutive effect is not material.

Lease Financing. Certain subsidiaries of the Corporation are engaged in direct lease financing. These leases are reported for financial statement purposes by the financing method of accounting. Aggregate lease rentals are recorded as receivables net of the related unearned income, which includes investment tax credits retained by the lessor. Unearned income is deferred and subsequently transferred to income by the sum-of-the-digits method for leases entered into prior to January 1, 1977. For leases entered into after January 1, 1977, in accordance with Statement No. 13 of the Financial Accounting Standards Board, "Accounting for Leases," unearned income is amortized by the interest method. The effect of the change in the method of accounting for 1977 leases was not material. The provisions of Statement No. 13 had no impact on consolidated stockholders' equity at December 31, 1976.

Certain subsidiaries are also engaged in leveraged lease financing. The investment in leveraged leases is presented net of nonrecourse debt, deferred investment tax credit and the related unearned income. Unearned income, including investment tax credits retained, is deferred and subsequently transferred to income by the sum-of-the-digits method for leases entered into prior to January 1, 1977 and by the interest method for leases entered into thereafter. Had Statement No. 13 been adopted for pre-1977 leveraged leases, the effect on consolidated assets and liabilities at December 31, 1977 and 1976, and on consolidated net income for 1977, would not have been material.

Statement No. 13 also requires that pre-1977 financial statements be restated in 1981 or earlier to retroactively apply its provisions to pre-1977 leases.

2 Investment Securities. The amounts at which investment securities are carried on the books and their approximate market values at December 31 are as follows:

(In thousands of dollars)	1977 Carrying Value	1977 Approximate Market Value	1976 Carrying Value	1976 Approximate Market Value
U.S. Treasury	$ 834,832	831,991	854,110	866,545
State, municipal and housing	1,143,662	1,143,074	1,020,786	1,036,296
Federal agencies and other	255,579	255,685	335,622	344,930
Total	$2,234,073	2,230,750	2,210,518	2,247,771

Securities carried at $1,311,000,000 were pledged to secure public or trust deposits or for other purposes at December 31, 1977.

3 Valuation Reserve for Loans. Changes in the valuation reserve for the two years ended December 31, 1977 are as follows:

(In thousands of dollars)	Year Ended December 31 1977	1976
Balance at the beginning of the year	$45,894	46,165
Reserves of acquired banks	996	–
Provisions charged to operating expenses	17,796	17,793
Deduct loans charged off, less recoveries (in thousands) of $3,968 in 1977 and $4,034 in 1976	(11,947)	(18,064)
Balance at the end of the year	$52,739	45,894

Most of the subsidiaries had accumulated maximum reserves allowable for income tax purposes based on loan levels at each year-end. The reserve for loan losses for income tax purposes amounted to $77,836,000 and $75,125,000 at December 31, 1977 and 1976, respectively.

4 Bank Premises and Equipment. At December 31, 1977 the net carrying values of bank premises and of furniture, fixtures and equipment were $111,395,000 and $23,789,000, respectively, and at December 31, 1976 amounted to $103,897,000 and $21,632,000, respectively.

Net rent expense and depreciation and amortization charged to operating expense are as follows for the years indicated:

(In thousands of dollars) Year Ended December 31:	Rent Expense: Bank Premises	Rent Expense: Equipment	Rent Expense: Total	Depreciation and Amortization
1976	$3,268	7,730	10,998	11,274
1977	4,311	9,049	13,360	11,979

Minimum rental commitments, representing non-cancelable leases of premises and equipment, which are calculated based on lapse of time, are as follows at December 31, 1977 (in thousands of dollars):

1978	$ 8,417	1983-87	$19,079
1979	7,599	1988-92	11,050
1980	6,579	1993-97	10,761
1981	6,003	Beyond 20 years	17,163
1982	5,572		

These amounts have not been reduced by rentals from subleases as such amounts are not material.

Financial Accounting Standards Board Statement No. 13 is effective for lease agreements entered into on or after January 1, 1977, and prior to 1981 its provisions must be applied retroactively. Certain leases at December 31, 1976, now accounted for by the operating method, would have to be accounted for as capital leases. If these leases were accounted for as capital leases, the effect on consolidated assets and liabilities at December 31, 1977 and 1976 and on consolidated net income for the year ended December 31, 1977 would not have been material.

5 Short-Term Borrowings.

Short-term borrowings and average interest rates at December 31 are as follows:

	1977		1976	
(In thousands of dollars)	Amount	Average Interest Rate	Amount	Average Interest Rate
Consolidated:				
Federal funds purchased	$388,059	6.39%	$325,031	4.82%
Securities sold under agreements to repurchase	371,818	6.24	323,559	4.67
Commercial paper notes payable	98,448	6.55	58,086	4.73
Other short-term borrowings	27,607	6.83	28,054	5.66
Total	$885,932		$734,730	
Corporation only:				
Securities sold to subsidiary under agreements to repurchase	$ —	— %	$ 4,500	5.00%
Commercial paper notes payable	98,448	6.55	58,086	4.73
Total	$ 98,448		$ 62,586	

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 aggregate short-term borrowings:

	Year Ended December 31, 1977		Year Ended December 31, 1976	
(In thousands of dollars)	Consolidated	Corporation Only	Consolidated	Corporation Only
Maximum amount outstanding at any month-end	$1,245,123	98,448	968,247	88,419
Daily average amount outstanding	987,333	82,265	780,339	61,438
Average interest rate	5.58%	5.64	5.23	5.51

At December 31, 1977 the Corporation had lines of credit with various banks totaling $75,000,000. These financing arrangements require maintenance of compensating balances which were not material.

6 Notes and Debentures.

Notes and debentures are unsecured and at December 31 consisted of the following:

(In thousands of dollars)	1977	1976
Corporation only:		
6⅞% Notes due 1978	$ 30,000	30,000
7⅞% Notes due 1986	75,000	75,000
4¾% Debentures due 1990	30,000	30,000
7¾% Sinking Fund Debentures due 2003	75,000	75,000
	210,000	210,000
Consolidated subsidiaries:		
5% to 8-3/10% Notes and Subordinated Debentures payable to Small Business Administration due 1979 through 1986	5,494	5,534
7% to 8-1/10% Notes guaranteed by Small Business Administration due 1982 through 1984	6,300	6,300
7½% to 8½% Debentures due 1979 through 1986	600	600
	12,394	12,434
Total	$222,394	222,434

The 6⅞% notes are not redeemable prior to May 1, 1978, but may be redeemed thereafter, in whole or in part, at the principal amount plus accrued interest. The 7⅞% notes are not redeemable prior to September 15, 1983, but may be redeemed thereafter, in whole or in part, at the principal amount plus accrued interest. The 4¾% debentures are redeemable, in whole or in part, at the principal amount plus a redemption premium ranging from 1.74% in 1978 to 0.20% in 1986, and thereafter without premium. The 7¾% sinking fund debentures are not redeemable prior to March 15, 1983, but may be redeemed thereafter, in whole or in part, at the principal amount plus a redemption premium ranging from 4.65% in 1983 to 0.31% in 1997, and thereafter without premium. The indenture relating to the 7¾% debentures provides for mandatory sinking fund payments sufficient to retire $1,875,000 of debentures each year from 1983 through 2003, which will retire 50% of the debentures prior to maturity. The Corporation has the option to increase the sinking fund payment in any year by an amount not exceeding the mandatory payment.

Terms of the indentures relating to the Corporation's debentures, among other things, (1) place limitations on additional funded debt and other indebtedness incurred or guaranteed by the Corporation and (2) impose restrictions on the payment of dividends, other than dividends payable in stock of the Corporation, and the purchase or redemption of stock. Retained earnings free of indenture restrictions at December 31, 1977 amounted to approximately $273,000,000.

7 Stockholders' Equity.

Common stock outstanding excludes 546,122 shares of treasury stock at December 31, 1977 with a cost basis of $432,000 and 559,290 shares at December 31, 1976, with a cost basis of $464,000.

On January 25, 1977 the Corporation's Board of Directors approved a two-for-one stock split of the common stock, to be effected in the form of a stock dividend. The stock split was made subject to the approval by the stockholders of a proposal to increase the Corporation's authorized common stock to 36,000,000 shares from 18,000,000 shares. The proposed increase in authorized common stock was approved by the stockholders at their annual meeting held on April 25, 1977. The additional shares issued in connection with the stock split were distributed in June 1977 to stockholders of record on May 17, 1977. The number of common shares and related financial information, including earnings and dividends per share data, for the Corporation only and for the Corporation and its subsidiaries has been adjusted to retroactively reflect the stock split.

During 1977, the Corporation issued 386,527 shares of common stock in connection with the acquisition of the First National Bank, Fort Dodge, Iowa. This acquisition has been accounted for by the pooling-of-interests method of accounting, except that the results of operations prior to the year of acquisition have not been restated since the effect is not material.

Under a qualified option plan adopted in 1970, options on a maximum of 1,000,000 shares of common stock may be granted from time to time until 1980 to key employees of the Corporation and its subsidiaries at prices not less than 100% 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. Options have been granted to key employees in each year since adoption of the plan, with the exception of 1977.

Proceeds from stock options exercised are credited to common stock at the par value thereof, and the remainder to capital surplus. The Corporation makes no charge against income with respect to the granting or exercise of options.

Information with respect to stock options granted under the stock option plan is summarized in the following tabulation:

	Number of Shares	Option Price Per Share	Option Price Total	Market Value Per Share*	Market Value Total
Shares under option at December 31:					
1977	399,200	$16.53-29.94	8,959,000	16.53-29.94	8,959,000
1976	492,316	16.53-29.94	11,363,000	16.53-29.94	11,363,000
Options granted during the year ended December 31:					
1977	—	—	—	—	—
1976	57,700	26.22	1,513,000	26.22	1,513,000
Options which became exercisable during the year ended December 31:					
1977	57,700	26.22	1,513,000	24.88	1,435,000
1976	125,000	18.63-21.32	2,657,000	21.88-27.00	3,361,000
Options which were exercised during the year ended December 31:					
1977	22,416	16.53-28.88	456,000	22.25-28.38	588,000
1976	28,252	16.53-28.88	538,000	22.57-27.63	730,000

*Represents market value at dates individual options were granted, became exercisable or were exercised, as appropriate.

The following shares of common stock were reserved under the plan at December 31:

	1977	1976
Shares for options granted under the plan	399,200	492,316
Shares available for granting new options	376,900	306,200
Total	776,100	798,516

At December 31, 1977 and 1976 options for 399,200 shares and 433,616 shares, respectively, were exercisable under the plan.

Options relating to 70,700 shares and 17,900 shares were cancelled in 1977 and 1976, respectively.

8 Retirement Plan. A noncontributory retirement plan covers substantially all employees of the Corporation and its subsidiaries. The value of vested benefits and past service costs, as actuarially computed, is fully funded. In accordance with the policy of funding retirement costs accrued, charges to operating expenses for this plan are as follows:

(In thousands of dollars)	Year Ended December 31 Consolidated	Corporation Only
1976	$4,807	175
1977	5,544	211

9 Income Taxes. Income taxes applicable to consolidated income before income taxes and securities transactions is shown in the following table:

(In thousands of dollars)	Year Ended December 31 1977	1976
Current:		
Federal	$12,000	4,657
State	7,512	6,136
Foreign	2,037	1,544
	21,549	12,337
Deferred:		
Federal	4,326	6,010
State	782	1,219
	5,108	7,229
Total	$26,657	19,566

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

(In thousands of dollars)	Year Ended December 31 1977	1976
Loan loss provision for tax purposes greater than (less than) book provision	**$(2,396)**	785
Income from lease financing for financial reporting purposes greater than that reported for income tax purposes	**4,747**	4,807
Investment tax credits deferred	**1,889**	1,233
Accretion of bond discount, net	**(149)**	391
Depreciation of fixed assets for tax purposes greater than for financial reporting purposes	**243**	–
Other, net	**774**	13
Total	**$ 5,108**	7,229

A reconciliation of the Federal income tax rate of 48.0% to the effective income tax rate is as follows:

	Year Ended December 31 1977	1976
Federal income tax rate	**48.0%**	48.0%
State income taxes, net of Federal income tax benefit	**4.1**	4.4
Tax-exempt income	**(25.4)**	(28.0)
Investment tax credits	**(1.6)**	(1.6)
Other, net	**.1**	(.3)
Total	**25.2%**	22.5%

At December 31, 1977 income taxes currently payable and deferred income taxes, included in accrued expenses and other liabilities, amounted to $9,499,000 and $49,427,000, respectively, and at December 31, 1976 amounted to $2,059,000 and $44,319,000, respectively.

10 Litigation. In November 1976, a complaint in the nature of a class action was filed in the United States District Court of Nebraska against various defendants, including Northwestern National Bank of Omaha, a subsidiary of the Corporation, by a holder of bonds issued by Hospital Authority No. 1 of Sarpy County, Nebraska. The complaint alleges, among other things, violations of Federal and state securities laws in connection with the issuance of $21,700,000 of hospital bonds. The bank is the trustee for the bondholders under a bond resolution of the issuer. The other defendants include the issuer, the managing underwriters, the hospital and the accountants retained by the issuer. The plaintiff seeks damages measured by the difference in the face value of the now defaulted bonds and their market value. By order entered August 23, 1977, the Court struck from the complaint the class action allegations, granted to the defendants summary judgment on the plaintiff's Federal claim, and dismissed the complaint with prejudice. The plaintiff's motion for a new trial was denied by an order entered on October 4, 1977, and on November 3, 1977 the plaintiff filed a notice of appeal. While only limited discovery proceedings had been conducted prior to entry of the Court's orders, based upon the information presently available to the Corporation, including the advice of legal counsel, in the opinion of management of the Corporation the disposition of this matter will not materially affect the consolidated financial position of the Corporation and its subsidiaries.

The Corporation and certain of its subsidiaries are also defendants in various other 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 that 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.

11 Quarterly Financial Data. The selected unaudited quarterly financial data for 1977 and 1976, presented on page 39 of the 1977 annual report, is incorporated herein by reference.

Report of Independent Certified Public Accountants

The Stockholders of Northwest Bancorporation:

We have examined the consolidated statements of financial condition of Northwest Bancorporation and subsidiaries and the statements of financial condition of Northwest Bancorporation (Corporation only) as of December 31, 1977 and 1976, and the related statements of income, stockholders' equity, and changes in financial position for the years then ended. 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, 1977 and 1976 and the results of their operations and the changes in their financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

PEAT, MARWICK, MITCHELL & CO.

Minneapolis, Minnesota
January 23, 1978

Quarterly Financial Information

CONSOLIDATED STATEMENTS OF INCOME

(In millions of dollars)

	1977 Quarters				1976 Quarters			
	Fourth	Third	Second	First	Fourth	Third	Second	First
Total interest income .... $	170.8	154.2	144.8	136.5	139.7	129.9	124.8	121.2
Total interest expense	94.2	87.0	81.2	75.5	75.0	71.1	67.9	65.9
Net interest income	76.6	67.2	63.6	61.0	64.7	58.8	56.9	55.3
Provision for loan losses	4.3	4.8	4.5	4.3	5.3	4.4	4.2	3.9
Non-interest income	17.5	23.2	21.6	20.6	18.0	17.8	17.0	19.6
Non-interest expenses	61.8	57.4	55.5	54.4	55.0	49.8	49.2	49.4
Income before income taxes and securities transactions	28.0	28.2	25.2	22.9	22.4	22.4	20.5	21.6
Applicable income taxes	6.8	7.4	6.8	5.3	4.9	5.4	4.2	5.1
Minority interest	.7	.6	.3	.3	.4	.4	.4	.4
CONSOLIDATED INCOME BEFORE SECURITIES TRANSACTIONS	20.5	20.2	18.1	17.3	17.1	16.6	15.9	16.1
Net income attributable to acquisition of First National Bank, Fort Dodge, Iowa	1.0	—	—	—	—	—	—	—
Net gains (losses) on securities	(.5)	(.1)	(.2)	(.1)	(.2)	.1	(.2)	—
CONSOLIDATED NET INCOME .... $	21.0	20.1	17.9	17.2	16.9	16.7	15.7	16.1
PER SHARE OF COMMON STOCK*								
Consolidated income before securities transactions .... $	.80	.80	.72	.68	.67	.66	.63	.67
Net income	.79	.79	.71	.68	.66	.67	.62	.67
Dividends paid	.26	.24	.24	.24	.22½	.22½	.21¼	.21¼

TAX EQUIVALENT INTEREST YIELDS AND RATES**

	1977 Fourth	1977 Third	1977 Second	1977 First	1976 Fourth	1976 Third	1976 Second	1976 First
Investment securities	8.12%	7.98	7.85	7.79	7.89	8.04	8.01	8.18
Money market investments	5.22	6.35	6.56	5.81	5.77	5.73	5.61	5.77
Trading account securities, net***	14.19	9.27	8.80	9.69	6.09	5.30	6.24	5.27
Total loans, net	9.18	8.98	8.85	8.74	8.89	8.94	8.79	8.78
Direct lease financing	16.67	14.95	14.52	14.14	16.73	16.36	16.87	16.51
Total earning assets	8.71	8.62	8.51	8.40	8.41	8.54	8.42	8.44
Total time deposits	5.95	5.80	5.73	5.68	5.77	5.82	5.75	5.85
Short-term borrowings	6.04	5.94	5.29	4.81	5.13	5.43	5.18	5.05
Long-term debt	7.33	7.33	7.34	7.34	7.32	7.05	6.99	6.97
Total time deposits, short-term borrowings, and long-term debt ...	6.02	5.88	5.72	5.61	5.73	5.79	5.70	5.78
Yield spread	2.69%	2.74	2.79	2.79	2.68	2.75	2.72	2.66
Interest expense to earning assets	4.58%	4.43	4.31	4.18	4.24	4.25	4.16	4.18
Net interest income to earning assets...	4.13%	4.19	4.20	4.22	4.17	4.29	4.26	4.26

STOCK PRICE AND VOLUME*

	1977 Fourth	1977 Third	1977 Second	1977 First	1976 Fourth	1976 Third	1976 Second	1976 First
Market price range	$25⅛-21¼	25¼-22¾	25⅞-23¼	28¾-24⅞	28⅝-22⅞	27⅝-24½	26¾-24	24½-21⅝
Average monthly volume	230,967	250,867	275,933	231,600	332,933	327,000	270,933	264,600

*Adjusted to reflect the two-for-one stock split on May 17, 1977.
**Yields and rates for the fourth quarter of 1977 exclude the accounts of the First National Bank, Fort Dodge, Iowa.
***Yields exclude income from profits and commissions.

Five Year Consolidated Financial Summary

CONSOLIDATED STATEMENTS OF INCOME

(In millions of dollars)

	1977	1976	1975	1974	1973	5 Yr. Growth Rate	% Change 1977 over 1976
Interest income — tax equivalent basis	**$ 666.9**	562.4	519.3	519.7	411.8	**12.8%**	**18.6%**
Interest expense	**341.2**	279.9	261.2	293.9	216.7	**12.0**	**21.9**
Net interest income	**325.7**	282.5	258.1	225.8	195.1	**13.4**	**15.3**
Provision for loan losses	**17.8**	17.8	15.7	10.8	5.7	**38.7**	—
Net interest income after provision for loan losses	**307.9**	264.7	242.4	215.0	189.4	**12.9**	**16.3**
Non-interest income:							
Trading account securities profits and commissions	**2.4**	5.9	3.9	.4	1.8	**7.5**	**(59.3)**
Trust department income	**19.9**	17.9	15.4	14.9	14.9	**7.5**	**11.2**
Service charges on deposit accounts	**14.8**	13.5	12.9	12.4	11.0	**7.7**	**9.6**
Other fees and service charges	**41.4**	29.4	22.4	18.6	16.7	**25.4**	**40.8**
Other operating income	**4.8**	5.7	6.3	4.2	2.6	**16.6**	**(15.8)**
Total non-interest income	**83.3**	72.4	60.9	50.5	47.0	**15.4**	**15.1**
Non-interest expense:							
Salaries and employee benefits	**126.1**	110.3	99.0	86.3	76.7	**13.2**	**14.3**
Occupancy expenses, net	**18.8**	16.8	15.6	13.2	11.5	**13.1**	**12.6**
Furniture and equipment expenses	**22.7**	19.9	16.5	14.3	13.5	**13.9**	**14.1**
Other operating expenses	**63.0**	56.4	51.8	44.7	36.2	**14.8**	**11.5**
Total non-interest expenses	**230.6**	203.4	182.9	158.5	137.9	**13.7**	**13.4**
Income before income taxes and securities transactions	**160.6**	133.7	120.4	107.0	98.5	**13.0**	**20.1**
Less:							
Applicable income taxes	**26.7**	19.6	20.5	19.7	22.0	**5.0**	**36.2**
Tax equivalent adjustment	**55.0**	46.8	39.9	34.3	28.1	**18.4**	**17.5**
Minority interest	**1.8**	1.6	1.7	1.6	1.4	**6.5**	**12.5**
CONSOLIDATED INCOME BEFORE SECURITIES TRANSACTIONS	**77.1**	65.7	58.3	51.4	47.0	**13.2**	**17.4**
Net securities losses	**(.9)**	(.3)	(.9)	(1.0)	(1.4)	—	—
CONSOLIDATED NET INCOME	**$ 76.2**	65.4	57.4	50.4	45.6	**13.7**	**16.5**

PER SHARE OF COMMON STOCK*

	1977	1976	1975	1974	1973	5 Yr. Growth Rate	% Change 1977 over 1976
Consolidated income before securities transactions**	**$ 3.00**	2.63	2.47	2.18	2.00	**10.4%**	**14.1%**
Consolidated net income**	**2.97**	2.62	2.43	2.13	1.94	**10.2**	**13.4**
Dividends paid	**.98**	.87½	.82½	.80	.77½	**6.2**	**12.0**
Stockholders' equity at year-end	**22.53**	20.56	18.65	17.05	15.72	**9.2**	**9.6**
Market price range during year	**28¾-21¼**	28⅝-21⅝	23⅞-17	32⅞-11⅝	33¾-26⅜		
Weighted average number of shares outstanding (in thousands)	**25,694**	24,986	23,638	23,628	23,551		

*Adjusted to reflect the two-for-one stock split in May 1977.
**Based upon the weighted average number of shares outstanding.

RATIOS

	1977	1976	1975	1974	1973
Consolidated income before securities transactions to:					
Average stockholders' equity	**14.0%**	13.4	13.8	13.3	13.3
Average assets	**.87**	.86	.84	.78	.80
Net loan losses to average total loans	**.24**	.42	.31	.29	.20
Total capital funds to average assets	**9.0**	8.8	8.4	8.2	8.2
Loans to average earning assets	**64.6**	64.0	67.0	71.0	70.5

LOANS

(In millions of dollars)

	1977	1976	1975	1974	1973
Real estate mortgages:					
Secured by residential properties:					
Insured or guaranteed by the U.S. Government or its agencies	**$ 95**	85	80	93	93
Mortgages held for sale	**63**	36	32	29	15
Conventional mortgages	**975**	937	783	721	663
Secured by farm and other properties	**510**	303	321	306	297
Loans to financial institutions	**206**	160	176	257	142
Loans for purchasing or carrying securities (secured or unsecured)	**101**	102	83	65	68
Commercial and industrial loans	**1,886**	1,437	1,437	1,409	1,367
Agricultural loans	**581**	532	473	421	416
Loans to individuals for household, family and other consumer expenditures	**1,140**	987	855	814	783
All other loans (including overdrafts)	**97**	77	27	59	57
Less unearned discount on loans	**(104)**	(108)	(108)	(97)	(85)
Total loans	**$5,550**	4,548	4,159	4,077	3,816

VALUATION RESERVE FOR LOAN LOSSES

(In millions of dollars)

	1977	1976	1975	1974	1973
Balance at the beginning of the year	**$45.9**	46.2	43.0	43.8	45.0
Reserves of acquired banks	**.9**	—	—	—	.3
Provisions charged to operating expense	**17.8**	17.8	15.7	10.8	5.7
Deduct loan losses	**(15.9)**	(22.1)	(15.9)	(13.4)	(8.8)
Recoveries	**4.0**	4.0	3.3	1.8	1.6
Net loan losses	**(11.9)**	(18.1)	(12.6)	(11.6)	(7.2)
Balance at the end of the year	**$52.7**	45.9	46.1	43.0	43.8
Valuation reserve for loan losses:					
As a percent of total loans at the end of the year	**.95%**	1.01	1.11	1.05	1.15
As a multiple of net loan losses	**4.41x**	2.54	3.67	3.99	6.06

LOAN CHARGE-OFFS

(In millions of dollars)

	1977	1976	1975	1974	1973
Gross loan charge-offs:					
Commercial, industrial, agricultural and other	**$ 9.5**	17.3	10.5	9.0	5.9
Real estate	**1.3**	.8	.8	.5	.1
Consumer	**3.4**	2.6	3.2	2.8	2.0
Credit card	**1.7**	1.4	1.4	1.1	.8
Net loan charge-offs:					
Commercial, industrial, agricultural and other	**$ 7.3**	14.5	8.5	8.1	5.1
Real estate	**1.0**	.7	.8	.5	.1
Consumer	**2.3**	1.7	2.2	2.1	1.4
Credit card	**1.3**	1.2	1.1	.9	.6
Net loan charge-off ratio:					
Commercial, industrial, agricultural and other	**.27%**	.59	.39	.37	.26
Real estate	**.08**	.06	.07	.04	—
Consumer	**.28**	.26	.31	.31	.24
Credit card	**1.09**	1.15	1.36	1.27	1.15

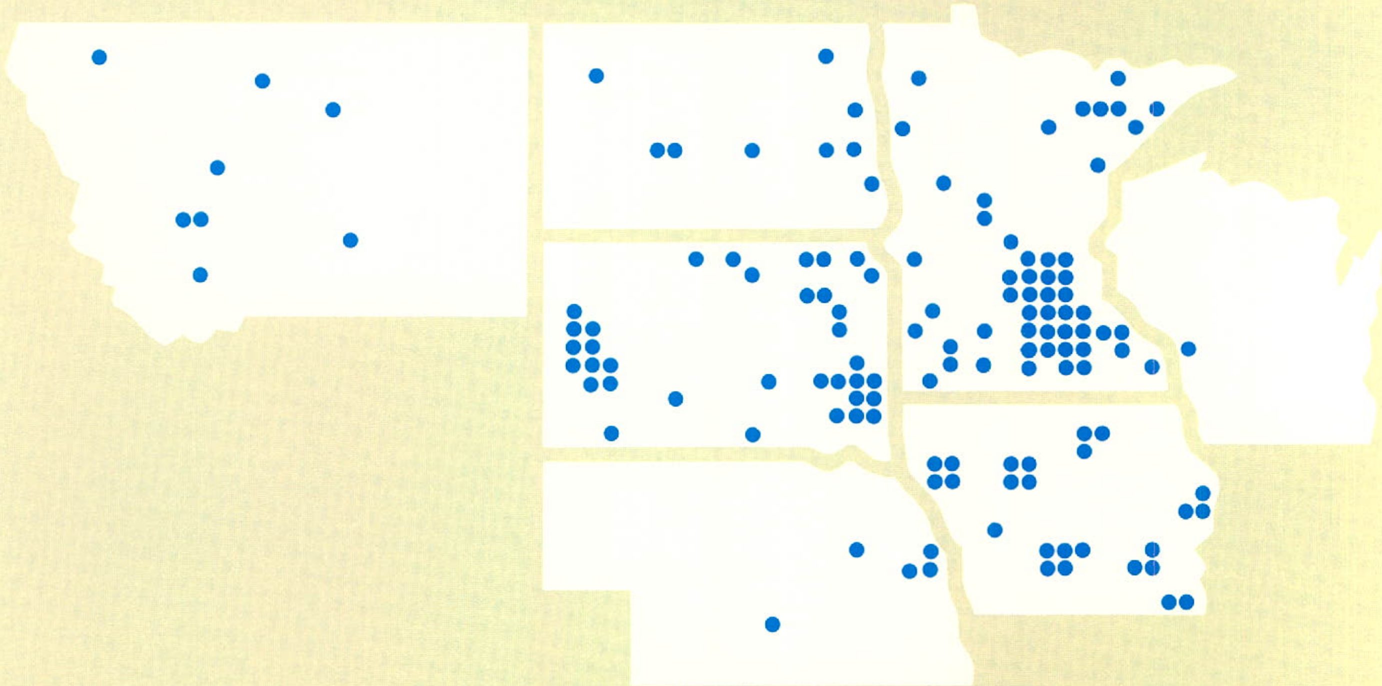
Five Year Consolidated Financial Summary

(In millions of dollars)	1977 Average Balance	1977 Interest Income or Expense	1977 Average Yields or Rates	1976 Average Balance	1976 Interest Income or Expense	1976 Average Yields or Rates
ASSETS						
Investment securities:						
U.S. Treasury	$ 878	$ 56.7	6.46%	$ 675	$ 45.0	6.68%
State, municipal and housing	1,076	102.9	9.56	1,008	93.4	9.27
Federal agencies and other	307	19.9	6.47	299	20.5	6.85
Total investment securities	2,261	179.5	7.94	1,982	158.9	8.02
Money market investments	353	20.6	5.86	299	17.1	5.73
Trading account securities, net*	96	9.6	10.01	88	5.1	5.78
Loans (net of unearned discount):						
Commercial, industrial, agricultural and other	2,735	232.1	8.49	2,295	194.1	8.46
Real estate mortgages	1,364	116.2	8.52	1,202	97.8	8.14
Consumer (installment) loans	926	101.2	10.93	764	85.3	11.15
Total loans	5,025	449.5	8.95	4,261	377.2	8.85
Valuation reserve for loans	51			49		
Total loans, net of the valuation reserve	4,974			4,212		
Direct lease financing	47	7.7	16.33	25	4.1	16.72
Total earning assets (before the valuation reserve for loans)/interest income	7,782	666.9	8.57	6,655	562.4	8.45
Cash and due from banks	770			706		
Other assets	372			315		
Total assets	$8,873			$7,627		
LIABILITIES AND STOCKHOLDERS' EQUITY						
Demand deposits	$2,222			$2,063		
Time deposits:						
Regular savings	1,791	89.2	4.98	1,502	74.7	4.97
Savings certificates	1,841	122.4	6.65	1,622	106.3	6.55
Certificates of deposit	755	43.6	5.78	665	39.6	5.95
Other time deposits	252	13.8	5.44	130	6.6	5.12
Total time deposits	4,639	269.0	5.80	3,919	227.2	5.80
Short-term borrowings	988	55.1	5.58	780	40.8	5.23
Long-term debt	233	17.1	7.33	168	11.9	7.08
Total time deposits, short-term borrowings and long-term debt/interest expense	5,860	341.2	5.82	4,867	279.9	5.75
Other liabilities	226			193		
Minority interest	14			12		
Stockholders' equity	551			492		
Total liabilities and stockholders' equity	$8,873			$7,627		
Net interest income		$325.7			$282.5	
Yield spread			2.75%			2.70%
Interest expense to earning assets			4.39%			4.21%
Net interest income to earning assets			4.18%			4.24%

*Yields exclude income from profits and commissions.

1975			1974			1973			Average Balance	
Average Balance	Interest Income or Expense	Average Yields or Rates	Average Balance	Interest Income or Expense	Average Yields or Rates	Average Balance	Interest Income or Expense	Average Yields or Rates	**5 Year Growth Rate**	**% Change 1977 Over 1976**
$ 364	$ 26.3	7.21%	$ 329	$ 21.5	6.55%	$ 471	$ 27.8	5.91%	**10.5%**	**30.1%**
884	79.4	8.98	784	68.6	8.75	681	56.4	8.28	**12.3**	**6.7**
277	20.0	7.25	227	16.6	7.33	149	9.8	6.58	**25.2**	**2.7**
1,525	125.7	8.25	1,340	106.7	7.97	1,301	94.0	7.22	**12.9**	**14.1**
350	22.3	6.38	235	24.6	10.47	136	12.6	9.26	**24.3**	**18.1**
81	6.1	7.45	48	3.3	6.83	45	3.2	7.09	**22.4**	**9.1**
2,171	194.4	8.95	2,237	225.5	10.08	1,991	164.5	8.26	**12.7**	**19.2**
1,139	92.3	8.11	1,095	88.5	8.08	987	77.0	7.79	**10.3**	**13.5**
691	75.4	10.92	664	69.2	10.43	582	59.5	10.22	**12.8**	**21.2**
4,001	362.1	9.05	3,996	383.2	9.59	3,560	301.0	8.46	**12.0**	**17.9**
45			43			44			**2.5**	**4.1**
3,956			3,953			3,516			**12.2**	**18.1**
18	3.1	16.77	12	1.9	15.91	7	1.0	14.36	**88.0**	**88.0**
5,975	519.3	8.69	5,631	519.7	9.23	5,049	411.8	8.16	**12.9**	**16.9**
668			688			643			**3.1**	**9.1**
317			286			203			**17.5**	**18.1**
$6,915			$6,562			$5,851			**12.1**	**16.3**
$1,965			$1,946			$1,878			**4.2**	**7.7**
1,115	55.6	4.99	894	44.6	4.99	793	37.0	4.67	**20.3**	**19.2**
1,476	94.8	6.42	1,396	86.4	6.19	1,312	76.1	5.80	**8.4**	**13.5**
817	55.9	6.85	788	74.1	9.41	559	40.8	7.30	**17.9**	**13.5**
131	7.5	5.75	131	9.6	7.29	116	5.9	5.07	**16.0**	**93.8**
3,539	213.8	6.04	3,209	214.7	6.69	2,780	159.8	5.75	**14.2**	**18.4**
626	37.1	5.93	696	69.2	9.94	595	48.7	8.18	**24.8**	**26.7**
147	10.3	6.97	144	10.0	6.94	119	8.2	6.87	**31.2**	**38.7**
4,312	261.2	6.06	4,049	293.9	7.26	3,494	216.7	6.20	**16.1**	**20.4**
204			171			117			**15.9**	**17.1**
11			10			9			**9.2**	**16.7**
423			386			353			**11.3**	**12.0**
$6,915			$6,562			$5,851			**12.1**	**16.3**
	$258.1			$225.8			$195.1			
		2.63%			1.97%			1.96%		
		4.37%			5.22%			4.29%		
		4.32%			4.01%			3.87%		

Deposits and Income by Geographic Area



Consolidated banks, before intercompany eliminations
(In thousands of dollars)

	Number of Banking Offices	Average Deposits 1977	Average Deposits % of Total	Income Before Securities Transactions 1977	Income Before Securities Transactions % of Total
Minneapolis and St. Paul Metropolitan Area	20	$2,488,012	35.8%	$28,493	36.9%
Other Minnesota and Wisconsin	33	1,396,534	20.1	15,385	19.9
Iowa	25	855,225	12.3	7,996	10.3
South Dakota	35	746,626	10.8	9,132	11.8
Nebraska	5	544,274	7.8	5,446	7.0
North Dakota	9	474,508	6.8	5,764	7.5
Montana	8	444,314	6.4	5,068	6.6
Total	135	$6,949,493	100.0%	$77,284	100.0%

Affiliated Banks

		Name of Bank	Managing Officer February 1, 1978	Deposits December 31, 1977 (In thousands of dollars)
MINNESOTA	**Twin Cities Metropolitan Area**			
	Minneapolis	Northwestern National Bank	John W. Morrison, Chairman	$1,767,587
		Midland National Bank	Harry C. Benson, President	161,543
		Camden Northwestern State Bank	Harold D. Jensen, President	59,718
		Central Northwestern National Bank	Ralph A. Emerson President	98,510
		Second Northwestern National Bank	Don W. Zollars, President	35,631
		Third Northwestern National Bank	Charles A. Russell, President	48,439
		Fourth Northwestern National Bank	W. Merton Dresser, President	42,271
		Fifth Northwestern National Bank	John R. Cochran, President	65,901
	Bloomington	Northwestern National Bank Southwest	Eugene G. Precht, President	133,770
	Hastings	Northwestern National Bank	Richard P. Pike, President	42,440
	Hopkins	Northwestern National Bank	William D. Wilkening, President	74,147
	Jordan	Northwestern State Bank	Ronald L. Schmeits, President	11,312
	Maple Grove	Northwestern State Bank Northwest	E. James Heig, President	31,994
	St. Paul	Northwestern National Bank	G. Richard Slade, President	235,693
		Northwestern State Bank	Marvin L. Ellison, President	52,473
	South St. Paul	Northwestern National Bank	Robert S. Branham, President	67,083
	Stillwater	Northwestern State Bank	James C. Graham, President	12,227
			TOTAL — TWIN CITIES METROPOLITAN AREA	2,940,739
	Other Minnesota Banks			
	Albert Lea	First Northwestern National Bank	Carroll C. Bergerson, President	39,735
	Austin	Northwestern State Bank	John S. Lasher, President	34,733
	Dawson	Northwestern State Bank	Charles L. Kretchman, President	19,610
	Dodge Center	Northwestern State Bank	Lowell O. Grasdalen, President	14,471
	Duluth	First National Bank	Dennis W. Dunne, President	179,014
	Ely	First Northwestern National Bank	Joseph R. Pellikka, President	26,416
	Eveleth	First Northwestern National Bank	Robert P. Hatten, President	17,694
	Faribault	First Northwestern National Bank	Richard W. Peavey, President	56,234
	Fergus Falls	Northwestern National Bank	Robert D. Phillips, President	52,404
	Grand Rapids	First Northwestern National Bank	Douglas J. Gallop, President	46,686
	Hoyt Lakes	First Northwestern National Bank	Roger L. Pagel, President	9,853
	Litchfield	Northwestern National Bank	Roger O. DeBoer, President	28,159
	Luverne	Northwestern State Bank	Gerald V. Wethor, President	22,295
	Mankato	Northwestern National Bank	George W. Sugden, President	72,704
	Marshall	First Northwestern National Bank	John T. Suedbeck, President	63,841
	Montevideo	Northwestern State Bank	Lyle F. McCormick, President	28,640
	Moorhead	First National Bank	Douglas M. Johnson, President	77,947
	Northfield	Northwestern State Bank	Wilmer C. Brosz, President	22,389
	Ortonville	Northwestern State Bank	Elwood A. Throndrud, President	17,333
	Owatonna	Northwestern National Bank	Kenneth E. Wilcox, President	55,760
	Red Wing	First Northwestern National Bank	Norman J. Sampson, President	30,753
	Redwood Falls	First Northwestern National Bank	Charles A. Thorkelson, President	37,056

Affiliated Banks

	Name of Bank	Managing Officer February 1, 1978	Deposits December 31, 1977 (In thousands of dollars)
MINNESOTA			
Rochester	Northwestern National Bank	Frederick T. Hubbard, President	$ 118,785
St. Cloud	Northwestern Bank and Trust Co.	Jerry J. Kigin President	42,031
Sauk Rapids	Northwestern State Bank	Ronald J. Havlik, President	27,690
Silver Bay	First Northwestern State Bank	J. A. Dorman, President	10,160
Slayton	Northwestern State Bank	Palmer A. Hoffland, Jr., President	18,777
Thief River Falls	First Northwestern State Bank	George W. Schwartz, President	39,728
Tracy	Northwestern State Bank	Wendell H. Anderson, President	27,730
Two Harbors	First Northwestern National Bank	Arnold P. LeClair, President	18,319
Virginia	Northwestern State Bank	John R. Oltmanns, President	65,732
Winona	First Northwestern National Bank	Curtis H. Holmquist, President	68,502
	TOTAL — OTHER MINNESOTA BANKS		1,391,181
	TOTAL — MINNESOTA		4,331,920
IOWA			
Bettendorf	Bettendorf Bank and Trust Company	Ralph U. Heninger, Chairman	46,466
Denison	First Northwestern National Bank	Joseph G. Vaage, President	20,287
Des Moines	Iowa-Des Moines National Bank	John R. Fitzgibbon, Chairman	545,180
Fort Dodge	First National Bank	Earl J. Underbrink, President	72,562
Keokuk	Security State Bank	Richard A. Bishop, President	22,179
Mason City	First National Bank	Jack W. Nielsen, President	97,918
Ottumwa	First National Bank	John S. Zdychnec, President	45,495
Sioux City	Northwestern National Bank	Stanley W. Evans, President	115,343
	TOTAL — IOWA		965,430
SOUTH DAKOTA			
Aberdeen	First National Bank	Allan M. Severson, President	210,507
Rapid City	First National Bank of the Black Hills	Charles T. Undlin, President	229,909
Sioux Falls	Northwestern National Bank	Charles P. Moore, President	287,476
Watertown	First National Bank	Robert H. Walrath, President	53,118
	TOTAL — SOUTH DAKOTA		781,010
NEBRASKA			
Hastings	First National Bank	Norman G. Nackerud, President	101,743
Norfolk	Northwestern National Bank	Tim V. Stern, President	28,920
Omaha	United States National Bank	Donald J. Murphy, Chairman	300,843
	Northwestern National Bank	Edward A. Kohout, President	98,412
	Center Bank	Harold M. Walton, President	61,926
	TOTAL — NEBRASKA		591,844
NORTH DAKOTA			
Bismarck	Dakota Northwestern Bank N.A.	A. Ned Mayer, President	95,463
Fargo	First National Bank	Robert D. Harkison, President	98,148
Grafton	First National Bank	Raymond A. Charlton, President	35,243
Hillsboro	Northwestern State Bank	Harry Eisenbeis, President	20,298
Jamestown	First National Bank	Daniel P. Schorsch, President	45,470
Mandan	First Northwestern National Bank	James E. Noonan, President	52,400
Minot	First National Bank	George M. Johnson, President	92,348
Valley City	Northwestern National Bank	Kent B. Cummings, President	31,760
Wahpeton	First National Bank	Norman K. Christensen, President	32,201
	TOTAL — NORTH DAKOTA		503,331

Affiliated Banks

	Name of Bank	Managing Officer February 1, 1978	Deposits December 31, 1977 (In thousands of dollars)
MONTANA			
Anaconda/Butte	First National Bank	William R. Tait, President	$ 59,097
Billings	First Northwestern National Bank	Albert F. Winegardner, Jr., President	111,224
Dillon	First Northwestern National Bank	Robert G. Mountain, President	19,619
Great Falls	Northwestern National Bank	Dale W. Anderson, President	104,001
Helena	Northwestern Bank	William B. Andrews, President	78,415
Kalispell	First Northwestern National Bank	Victor H. Lohn, President	53,610
Lewistown	Northwestern Bank	Warren H. Will, President	35,852
		TOTAL — MONTANA	461,818
WISCONSIN			
La Crosse	First National Bank	Duane W. Ring, President	94,205
		TOTAL — ALL SEVEN STATES	$7,729,558*

*Before elimination of intercompany deposits.

Other Affiliated Companies

	Managing Officer	Principal Office	Primary Function
Financial Services Companies			
Banco Financial Corporation	Clarence A. Adams, President	Minneapolis, Minnesota	Secured financing
Banco Mortgage Company	David W. Beal, President	Minneapolis, Minnesota	Mortgage banking
Northwest Agricultural Credit Company	Gary A. Hermann, President	Sioux Falls, South Dakota	Agricultural financing
Trust Companies			
First Northwestern Trust Co. of Nebraska	H. David Neely, President	Omaha, Nebraska	
First Northwestern Trust Co. of North Dakota	Merton A. Bobo, President	Fargo, North Dakota	
First Northwestern Trust Co. of South Dakota	Orley Rath, President	Sioux Falls, South Dakota	
Northwestern Union Trust Co.	James H. Dion, Chairman	Helena, Montana	
Small Business Investment Companies			
Northwest Growth Fund, Inc. (56% Owned)	Robert F. Zicarelli, President	Minneapolis, Minnesota	
Subsidiary: Cascade Capital Corporation	Robert F. Zicarelli, President	Portland, Oregon	
Bank Service Companies			
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
Subsidiaries, Northwestern National Bank of Minneapolis			
Canadian American Bank, S.A.	Jackson L. Schutte, Managing Director	Luxembourg Rep. Office: London, England	International banking
Lease Northwest	Daniel A. Leclerc, President	Minneapolis, Minnesota	Lease financing
Northwest International Bank	James W. Johnson, President	Minneapolis, Minnesota	International financing
Northwestern Trust Company	Richard J. Schneebeli, President	New York, New York	Security clearance, safekeeping and stock transfer
Joint Venture of Northwestern National Bank of Minneapolis, Iowa-Des Moines National Bank, United States National Bank of Omaha			
BancNorthwest	Robert C. Brown, President	Minneapolis, Minnesota	Municipal bond underwriting

Directors

H. Brewster Atwater, Jr.
(1973) President, General Mills, Inc. (Foods, Specialty Chemicals, Fashions, Crafts, Games and Toys), Minneapolis, Minnesota

Judson Bemis
(1967) Chairman of the Executive Committee, Bemis Company, Inc. (Packaging, Graphic Arts, Textiles and Specialty Papers), 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

Fredric H. Corrigan
(1966) Chairman of the Executive Committee, Peavey Company (Food-Specialty Retailing), Minneapolis, Minnesota

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

Thomas Hancock
(1972) Chairman and Chief Executive Officer, The Trane Company (Manufacturer of Air Conditioning and Heat Transfer Equipment), La Crosse, Wisconsin

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

M. Joseph Lapensky
(1978) President, Northwest Airlines, Inc. (Air Transportation), St. Paul, Minnesota

Sylvester Laskin
(1971) Chairman of the Board and Chief Executive Officer, Minnesota Power & Light Company (Electric Utility), Duluth, Minnesota

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

John A. McHugh
(1976) President and Chief Operating Officer, Northwestern National Bank, Minneapolis, Minnesota

Donald G. McNeely
(1956) President, Space Center, Inc. (Logistics), St. Paul, Minnesota

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

John W. Morrison
(1976) Chairman of the Board and Chief Executive Officer, Northwestern National Bank, Minneapolis, Minnesota

Thomas S. Nurnberger
(1970) Executive Vice President, American Telephone and Telegraph Co. (Communications), New York, New York

John S. Pillsbury, Jr.
(1963) Chairman of the Board, Northwestern National Life Insurance Company, Minneapolis, Minnesota

Gerald Rauenhorst
(1971) President, Rauenhorst Corporation (Industrial Development and Contractor), Minneapolis, Minnesota

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

Harriet W. Sheridan
(1977) Dean of the College, Carleton College, Northfield, Minnesota

Edson W. Spencer
(1974) President and Chief Executive Officer, Honeywell Inc. (Control Equipment Manufacturer), Minneapolis, Minnesota

William H. Spoor
(1975) Chairman and Chief Executive Officer, The Pillsbury Co. (Diversified Food Company), Minneapolis, Minnesota

Richard H. Vaughan
(1971) President, Northwest Bancorporation, Minneapolis, Minnesota

**Year first elected shown in parentheses*

Committees of the Board

Audit and Examination Committee
Sylvester Laskin, *Chairman*
D. Michael Curran, *Vice Chairman*
H. Brewster Atwater, Jr.
David A. Christensen
Thomas Hancock
Thomas S. Nurnberger
Gerald Rauenhorst
Harriet W. Sheridan

Finance and Investment Committee
Thomas Hancock, *Chairman*
H. Brewster Atwater, Jr., *Vice Chairman*
D. Michael Curran
Sylvester Laskin
John W. Morrison
Thomas S. Nurnberger
John S. Pillsbury, Jr.
Gerald Rauenhorst
Henry T. Rutledge
Richard H. Vaughan, *member ex officio*

Personnel and Salary Committee
John S. Pillsbury, Jr., *Chairman*
Fredric H. Corrigan, *Vice Chairman*
Judson Bemis
Jack A. MacAllister
Donald G. McNeely
Wilbur C. Miller
Edson W. Spencer
William H. Spoor
John W. Morrison, *Advisor*
Richard H. Vaughan, *Advisor*

Planning and Strategy Committee
Judson Bemis, *Chairman*
George C. Howe, Jr., *Vice Chairman*
David A. Christensen
William A. Hodder
John A. McHugh
Wilbur C. Miller
Harriet W. Sheridan
Edson W. Spencer
William H. Spoor
Richard H. Vaughan, *member ex officio*

Real Estate Committee
Donald G. McNeely, *Chairman*
William A. Hodder, *Vice Chairman*
Fredric H. Corrigan
George C. Howe, Jr.
Jack A. MacAllister
John A. McHugh
Henry T. Rutledge
Richard H. Vaughan, *member ex officio*

Officers

Richard H. Vaughan, *President*
Chester C. Lind, *Executive Vice President*
Walter C. Johnson, *Executive Vice President*

Banking

Daniel G. Beck, *Senior Vice President*
Gerald M. Kanne, *Senior Vice President*
Merle D. Borchers, *Vice President*
W. Warren DeKrey, *Vice President*
James A. Loehr, *Vice President*
William S. Solberg, *Vice President*

Control and Operations

Ronald D. McLellan, *Senior Vice President and Controller*
Roger D. Bryan, *Vice President*
Donald N. Smith, *Vice President*
John S. Strom, *Vice President*
William J. Brechtel, *Assistant Controller*
Bernie Renander, *Assistant Vice President*
Gary A. Bourg, *Systems Officer*
Robert A. Kramer, *Accounting Officer*
Robert F. Ostrowski, *Purchasing Officer*
Richard Swanberg, *Systems Officer*

Audit

Roger N. Carolus, *Chief Auditor*

Corporate Analysis and Development

Thomas V. Markle, *Senior Vice President*

Human Resources

Glen M. Smyth, *Senior Vice President*
John W. Kent, *Vice President*
Rian J. Tellor, *Vice President*
Dean H. Hoppe, *Assistant Vice President*
James H. Treanor, *Assistant Vice President*
Howard H. Amborn, *Personnel Officer*
Ann E. Carr, *Personnel Officer*
Kenneth J. Vegors, *Personnel Officer*

Investments

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

Law and Government Relations

Jack W. Greene, *Vice President, Law*
John M. Dickerson, *Secretary*
Donn L Waage, *Assistant Vice President*

Loan Administration

Charles T. McGarraugh, *Senior Vice President*
John H. Olson, *Senior Vice President*
Allan L. Grefe, *Vice President and Chief Examiner*
Darryl D. Hansen, *Assistant Vice President*
John C. Roise, *Assistant Vice President*
Daniel R. Gasper, *Credit Officer and Documentation Specialist*

Marketing

Carl W. Olson, *Senior Vice President*
Thomas E. Dolan, *Vice President*
Roger J. Forbord, *Assistant Vice President*
Berardino R. Lanzi, *Assistant Vice President*
Charles S. Neerland, *Assistant Vice President*
Diane Leverenz, *Marketing Officer*
Thomas J. Scanlon, *Director, Advertising Services*

Planning

Peter R. Spokes, *Vice President*
John P. Sampson, *Assistant Vice President*

Treasurer

John M. Eggemeyer, *Vice President & Treasurer*
Alfred L. Koelzer, *Assistant Treasurer*

Trust

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

Northwest Bancorporation
MINNEAPOLIS, MINNESOTA 55480