

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

(MARK ONE)

/X/ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 [FEE REQUIRED]

FOR THE FISCAL YEAR ENDED DECEMBER 31, 1994

OR

/ / TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 [NO FEE REQUIRED]

FOR THE TRANSITION PERIOD FROM TO

COMMISSION FILE NUMBER 1-7850

SOUTHWEST GAS CORPORATION
(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

CALIFORNIA
(STATE OR OTHER JURISDICTION OF
INCORPORATION OR ORGANIZATION)

88-0085720
(I.R.S. EMPLOYER
IDENTIFICATION NO.)

5241 SPRING MOUNTAIN ROAD
POST OFFICE BOX 98510
LAS VEGAS, NEVADA
(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES)

89193-8510
(ZIP CODE)

REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE: (702) 876-7237

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

TITLE OF EACH CLASS -----	NAME OF SUCH EXCHANGE ON WHICH REGISTERED -----
Common Stock, \$1 par value	New York Stock Exchange, Inc. Pacific Stock Exchange, Inc.

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT:

9% DEBENTURES, SERIES A, DUE 2011	9 3/8% DEBENTURES, SERIES D, DUE 2017
9% DEBENTURES, SERIES B, DUE 2011	10% DEBENTURES, SERIES E, DUE 2013
8 3/4% DEBENTURES, SERIES C, DUE 2011	9 3/4% DEBENTURES, SERIES F, DUE 2002

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. / /

AGGREGATE MARKET VALUE OF THE VOTING STOCK HELD BY NONAFFILIATES OF THE REGISTRANT:
\$321,428,580 at March 3, 1995

THE NUMBER OF SHARES OUTSTANDING OF COMMON STOCK:
Common Stock, \$1 Par Value 21,428,572 shares as of March 3, 1995

DOCUMENTS INCORPORATED BY REFERENCE

DESCRIPTION -----	PART INTO WHICH INCORPORATED -----
Proxy Statement dated March 1995	III

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PART I

ITEM 1. BUSINESS

The registrant, Southwest Gas Corporation (the Company), is incorporated under the laws of the State of California effective March 1931, and is comprised of two segments: natural gas operations and financial services. The natural gas operations segment (gas segment) includes natural gas transmission and distribution operations in Arizona, Nevada and California. The financial services segment consists of PriMerit Bank (the Bank), a wholly owned subsidiary, which operates principally in the thrift industry. See Selected Financial Data for financial information related to each business segment.

The executive offices of the Company are located at 5241 Spring Mountain Road, P.O. Box 98510, Las Vegas, Nevada 89193-8510, telephone number (702) 876-7237.

NATURAL GAS OPERATIONS

GENERAL DESCRIPTION

The Company is subject to regulation by the Arizona Corporation Commission (ACC), the Public Service Commission of Nevada (PSCN) and the California Public Utilities Commission (CPUC). These commissions regulate public utility rates, practices, facilities and service territories in their respective states. The service areas certificated to the Company by the respective regulatory commissions having jurisdiction over it are exclusive. They remain exclusive unless the Company defaults on its obligations to provide adequate service and another utility can be found that is willing and able to supply the service. The CPUC also regulates the issuance of all securities by the Company, with the exception of short-term borrowings. Certain of the Company's accounting practices, transmission facilities and rates are subject to regulation by the Federal Energy Regulatory Commission (FERC).

The Company purchases, transports and distributes natural gas to approximately 980,000 residential, commercial and industrial customers in geographically diverse portions of Arizona, Nevada and California. There were 48,000 customers added to the system during 1994. See Natural Gas Operations Segment - Capital Resources and Liquidity of Management's Discussion and Analysis (MD&A) for discussion of capital requirements to meet the Company's expected future growth.

The table below lists the Company's percentage of operating margin (operating revenues less net cost of gas) by major customer class for the years indicated:

FOR THE YEAR ENDED -----	RESIDENTIAL AND SMALL COMMERCIAL -----	LARGE COMMERCIAL, INDUSTRIAL AND OTHER -----	ELECTRIC GENERATION, RESALE AND TRANSPORTATION -----
December 31, 1994.....	79%	7%	14%
December 31, 1993.....	79%	7%	14%
December 31, 1992.....	80%	8%	12%

The volume of sales and transportation activity for electric utility generating plants varies greatly according to demand for electricity and the availability of alternative energy sources; however, it is not material in relation to the Company's earnings. In addition, the Company is not dependent on any one or a few customers to the extent that the loss of any one or several would have a significant adverse impact on the Company.

Transportation of customer-secured gas to end-users on the Company's system continues to have a significant impact on the Company's throughput, accounting for 51 percent of total system throughput in 1994. Although the volumes were significant, these customers provide a much smaller proportionate share of the Company's operating margin as indicated in the table above. In 1994, customers who utilized this service transported 915 million therms.

The demand for natural gas is seasonal, and it is management's opinion that comparisons of earnings for interim periods do not reliably reflect overall trends and changes in the Company's operations. Also, earnings for interim periods can be significantly affected by the timing of general rate relief.

PROPERTIES

The plant investment of the Company consists primarily of transmission and distribution mains, compressor stations, peak shaving/storage plants, service lines, meters and regulators which comprise the pipeline systems and facilities located in and around the communities served. The Company also includes other properties such as land, buildings, furnishings, work equipment and vehicles in plant investment. The Company's northern Nevada and northern California properties are referred to as the northern system; the Arizona, southern Nevada and southern California properties are referred to as the southern system. Several properties are leased by the Company, including a Liquefied Natural Gas (LNG) storage plant on its northern Nevada system and a portion of the corporate headquarters office complex located in Las Vegas, Nevada. See Note 6 of the Notes to Consolidated Financial Statements for additional discussion regarding these leases. Total gas plant, exclusive of leased property, at December 31, 1994, was \$1.5 billion, including construction work in progress. It is the opinion of management that the properties of the Company are suitable and adequate for its purposes.

Substantially all of the Company's gas mains and service lines are constructed across property owned by others under right-of-way grants obtained from the record owners thereof, on the streets and grounds of municipalities under authority conferred by franchises or otherwise, or on public highways or public lands under authority of various federal and state statutes. None of the Company's numerous county and municipal franchises are exclusive, and some are of limited duration. These franchises are renewed regularly as they expire, and the Company anticipates no serious difficulties in obtaining future renewals.

With respect to the right-of-way grants, the Company has had continuous and uninterrupted possession and use of all such rights-of-way, and the associated gas mains and service lines, commencing with the initial stages of the construction of such facilities. Permits have been obtained from public authorities in certain instances to cross, or to lay facilities along, roads and highways. These permits typically are revocable at the election of the grantor, and the Company occasionally must relocate its facilities when requested to do so by the grantor. Permits have also been obtained from railroad companies to cross over or under railroad lands or rights-of-way, which in some instances require annual or other periodic payments and are revocable at the grantors' elections.

The Company operates two major pipeline transmission systems: (i) a system owned by Paiute Pipeline Company (Paiute), a wholly owned subsidiary of the Company, extending from the Idaho-Nevada border to the Reno, Sparks and Carson City areas and communities in the Lake Tahoe area in both California and Nevada and other communities in northern and western Nevada; and (ii) a system extending from the Colorado River at the southern tip of Nevada to the Las Vegas distribution area.

The Company also owns a 35,000 acre site in northern Arizona which was acquired for the purpose of constructing an underground natural gas storage facility, known as the Pataya Gas Storage Project (Pataya), to serve its southern system. Based upon current studies and the continued restructuring of the utility industry, the Company believes that it will need an underground natural gas storage facility, such as Pataya, in the future to meet the needs of its customers on the southern system. In addition to the gas storage facility, the Company is considering other opportunities for other portions of the site, such as the partial sale of its water rights. Other potential uses for the land include sites for solar generating facilities, cogeneration facilities and various other business ventures. Project costs of \$11.1 million have been capitalized through December 1994 and include land acquisition and related development costs.

The map below shows the locations of the Company's major facilities and major transmission lines, and principal communities to which the Company supplies gas either as a wholesaler or distributor. The map also shows major supplier transmission lines that are interconnected with the Company's systems.

[MAP]

[DESCRIPTION: Map of Arizona, Nevada, and southern California indicating the location of the Company's service areas. Service areas in Arizona include most of the central and southern areas of the state including Phoenix, Tucson, Yuma and surrounding communities. Service areas in northern Nevada include Carson City, Yerington, Fallon, Lovelock, Winnemucca and Elko. Service areas in southern Nevada include the Las Vegas valley (including Henderson and Boulder City), and Laughlin. Service areas in southern California include Barstow, Big Bear, Needles and Victorville. Service areas in northern California include the north shore of Lake Tahoe. Companies providing gas transportation services for the Company are indicated by showing the location of their pipelines. Major transporters include El Paso Natural Gas Company, Northwest Pipeline Corporation and Southern California Gas Company. The location of Paiute Pipeline Company's transmission pipeline (extending from the Idaho/Nevada border to the Reno/Tahoe area) and the Company's pipeline (extending from Laughlin/Bullhead City to the Las Vegas valley) are indicated. The LNG facility is located near Lovelock, Nevada. The liquefied petroleum gas facility is located near Reno, Nevada.]

RATES AND REGULATION

Rates that the Company is authorized to charge its distribution system customers are determined by the ACC, CPUC and PSCN in general rate cases and are derived using rate base, cost of service and cost of capital experienced in a historical test year, as adjusted in Arizona and Nevada, and projected for a future test year in California. The FERC regulates the northern Nevada transmission and LNG storage facilities of Paiute and the rates it charges for transportation of gas directly to certain end-users and to various local distribution companies (LDCs). The LDCs transporting on Paiute's system are: Sierra Pacific Power Company (Reno and Sparks, Nevada), Washington Water Power Company (South Lake Tahoe, California) and Southwest Gas Corporation (North Lake Tahoe, California and various locations throughout northern Nevada).

Rates charged to customers vary according to customer class and are fixed at levels allowing for the recovery of all prudently incurred costs, including a return on rate base sufficient to pay interest on debt, preferred dividends, and a reasonable return on common equity. The Company's rate base consists generally of the original cost of utility plant in service, plus certain other assets such as working capital and inventories, less accumulated depreciation on utility plant in service, net deferred income tax liabilities, and certain other deductions. The Company's rate schedules in all of its service areas contain purchased gas adjustment (PGA) clauses which permit the Company to adjust its rates as the cost of purchased gas changes. Generally, the Company's tariffs provide for annual adjustment dates for changes in purchased gas costs. However, the Company may request to adjust its rates more often than once each year, if conditions warrant. These changes have no significant impact on the Company's profit margin.

The table below lists the docketed rate filings initiated and/or completed within each ratemaking area in 1994 and the first quarter of 1995:

RATEMAKING AREA -----	TYPE OF FILING -----	MONTH FILED ----	MONTH FINAL RATES EFFECTIVE -----
Arizona:			
Southern.....	General rate case	October 1993	July 1994
California:			
Northern & Southern.....	General rate case	January 1994	January 1995
Northern & Southern.....	Attrition	November 1993	January 1994
Nevada:			
Northern & Southern.....	General rate case	March 1993	November 1993(1)
FERC:			
Paiute.....	General rate case	October 1992	April 1993(2)

(1) See Natural Gas Operations Segment - Rates and Regulatory Proceedings of MD&A for a discussion on the final order by the PSCN of certain rate case issues.

(2) Interim rates reflecting the increased revenues became effective in April 1993. The rates were subject to refund until a final order was issued in January 1995.

See Natural Gas Operations Segment -- Rates and Regulatory Proceedings of MD&A for a discussion of the financial impact of recent general rate cases.

COMPETITION

Electric utilities are the Company's principal competitors for the residential and small commercial markets throughout the Company's service areas. Competition for space heating, general household and small commercial energy needs generally occurs at the initial installation phase when the customer typically makes the decision as to which type of equipment to install and operate. The customer will generally continue to use the chosen energy source for the life of the equipment due to its relatively high replacement cost. As a result of

its success in these markets, the Company has experienced consistent growth among the residential and small commercial customer classes.

Unlike residential and small commercial customers, certain large commercial, industrial and electric generation customers have the capability to switch to alternative energy sources. Rates for these customers are set at levels competitive with alternative energy sources such as fuel oils and coal. The Company has been able to maintain the maximum allowable prices for most of its alternate fuel capable customers. As a result, management does not anticipate any material adverse impact on its operating margin. The Company maintains no backlog on its orders for gas service.

The Company continues to compete with interstate transmission pipeline companies, such as El Paso Natural Gas Company (El Paso), Kern River Gas Transmission Company (Kern River), and the proposed Tuscarora pipeline, to provide service to end-users. End-use customers located in close proximity to these interstate pipelines pose a potential bypass threat and, therefore, require the Company to monitor closely each customer's situation and provide competitive service in order to retain the customer. The Company has experienced no significant financial impact to date from the threat of bypass. However, industry restructuring as a result of the capacity release provisions of FERC Order No. 636, whereby shippers can release available pipeline capacity on a temporary or permanent basis, could increase the viability of end-use customer bypass directly to interstate pipeline companies.

DEMAND FOR NATURAL GAS

Deliveries of natural gas by the Company are made under a priority system established by each regulatory commission having jurisdiction over the Company. The priority system is intended to ensure that the gas requirements of higher-priority customers, primarily residential customers and nonresidential customers who use 50,000 cubic feet of gas per day or less, are fully satisfied on a daily basis before lower-priority customers, primarily electric utility and large industrial customers able to use alternative fuels, are provided any quantity of gas or capacity.

Demand for natural gas is greatly affected by temperature. On cold days, use of gas by residential and commercial customers may be as much as eight times greater than on warm days because of increased use of gas for space heating. To fully satisfy this increased high-priority demand, gas is withdrawn from storage, or peaking supplies are purchased from suppliers. If necessary, service to interruptible lower-priority customers may also be curtailed to provide the needed delivery system capacity.

NATURAL GAS SUPPLY

The Company believes that natural gas supplies will remain plentiful and readily available. The Company primarily obtains its gas supplies for its southern system from producing regions in New Mexico (San Juan basin), Texas (Permian basin) and Oklahoma (Anadarko basin). For its northern system, the Company primarily obtains gas from Rocky Mountain producing areas and from Canada. The Company arranges for transportation of gas to its Arizona, Nevada and California service territories through the pipeline systems of El Paso, Kern River, Northwest Pipeline Corporation and Southern California Gas Company (SoCal). The Company continually monitors supply availability on both short-term and long-term bases to ensure the continued reliability of service to its customers.

The Company's primary objective with respect to gas supply is to ensure that adequate, as well as economical, supplies of natural gas are available from reliable sources. The Company acquires its gas from a wide variety of sources, including suppliers on the spot market and those who provide firm supplies over short-term and longer-term durations. Balancing firm supply assurances against the associated costs dictate a continually changing natural gas purchasing mix within the Company's supply portfolio. The Company believes its portfolio provides security as well as the operating flexibility needed to meet changing market conditions. During 1994, the Company acquired gas supplies from nearly 60 suppliers.

The purchase of natural gas at the wellhead is not regulated. During 1991, price ceilings on wells drilled after July 1989 were abolished and the remaining price ceilings on existing wells were abolished in

January 1993. The elimination of price ceilings has had no direct impact on the Company because natural gas is selling well below the previous regulatory ceilings, and supplies are adequate. The last few years have generally demonstrated seasonal volatility in the price of natural gas, with higher prices in the heating season and lower prices during the summer or off-peak consumption period.

Natural Gas Industry Changes. In 1992, FERC Order No. 636 required open-access interstate pipelines to significantly restructure their services prior to the 1993/94 winter heating season. Interstate pipelines discontinued their traditional role of gas supplier and began offering unbundled common carrier services, such as transportation, storage, and capacity release. Additionally, pipelines were required to implement a new method of rate design and to provide the information necessary for natural gas buyers and sellers to arrange transportation service on a more flexible basis. As a result of the new method of rate design, the Company is experiencing higher costs, which are currently being recovered through its PGA provisions.

Because of these and other utility industry changes, the Company continues to evaluate natural gas storage as an option to enable the Company to take advantage of seasonal price differentials and to otherwise protect the Company from the uncertainties associated with spot market purchases and the Company's need to obtain natural gas from a variety of sources to meet the growing demand of its customers.

In order to increase its options concerning gas supplies, the Company signed an agreement with SoCal in November 1992 to use a portion of SoCal's underground storage facilities. The agreement had many significant precedent conditions, all of which needed to be satisfied before the agreement could be implemented. Many of these conditions have not been satisfied and management now believes it is doubtful that all of the issues can be satisfactorily resolved. The Company continues to research and review other options concerning gas supplies, including other gas storage possibilities.

ENVIRONMENTAL MATTERS

Federal, state and local laws and regulations governing the discharge of materials into the environment have had little direct impact upon either the Company or its subsidiaries. Environmental efforts, with respect to matters such as protection of endangered species and archeological finds, have resulted in the Company spending a greater amount of time in obtaining pipeline rights-of-way and sites for other facilities. However, increased environmental legislation and regulation are also perceived to be beneficial to the natural gas industry. Because natural gas is one of the most environmentally safe fuels currently available, its use will allow energy users to comply with stricter environmental standards. For example, management is of the opinion that legislation, such as the Clean Air Act Amendments of 1990 and the Energy Policy Act of 1992, has a positive effect on natural gas demand, including provisions encouraging the use of natural gas vehicles, cogeneration and independent power production.

EMPLOYEES

At December 31, 1994, the natural gas operations segment had 2,359 regular full-time employees. The Company believes it has a good relationship with its employees. No employees are represented by a union.

Reference is hereby made to Item 10 in Part III of this report on Form 10-K for information relative to the executive officers of the Company.

FINANCIAL SERVICES ACTIVITIES

GENERAL DESCRIPTION

The Bank is a federally chartered stock savings bank conducting business through branch offices in Nevada. The Bank was organized in 1955 as Nevada Savings and Loan Association which, in 1988, changed its name to PriMerit Bank and its charter from a state chartered stock savings and loan association to a federally chartered stock savings bank. Deposit accounts are insured to the maximum extent permitted by law by the Federal Deposit Insurance Corporation (FDIC) through the Savings Association Insurance Fund (SAIF). The Bank is regulated by the Office of Thrift Supervision (OTS) and the FDIC, and is a member of the Federal Home Loan Bank (FHLB) system.

The Bank's principal business is to attract deposits from the general public and make loans secured by real estate and other collateral to enable borrowers to purchase, refinance, construct or improve such property. Revenues are derived from interest on real estate loans and debt securities and, to a lesser extent, from interest on nonmortgage loans, gains on sales of loans and debt securities, and fees received in connection with loans and deposits. The Bank's major expense is the interest it pays on savings deposits and borrowings.

Since December 31, 1990, total assets have declined from \$2.7 billion to \$1.8 billion at December 31, 1994 as management restructured the balance sheet to more effectively operate under the guidelines of the Financial Institutions Reform, Recovery and Enforcement Act (FIRREA). The decrease is also part of a long-term Strategic Business Plan "right size-right structure" strategy to optimize the Bank's size and earnings potential under the strict capital requirements of FIRREA.

The rising interest rate environment during 1994 has slowed prepayments within the loan and debt security portfolios, and has put pressure on the cost of funds. Net interest margin increased in 1994 despite this environment, in large part due to the ability to lag increases in rates paid on deposits versus increases in the wholesale market.

The following table sets forth certain ratios for the Bank for each of the periods stated:

FOR THE YEAR ENDED DECEMBER 31,

	1994	1993	1992	1991	1990
Return on average assets (net income divided by average total assets).....	0.4%	0.3%	(0.5)%	(1.2)%	0.4%
Return on average equity (net income divided by average stockholder's equity).....	4.4%	4.0%	(6.0)%	(17.2)%	5.8%
Equity-to-assets ratio (average stockholder's equity divided by average total assets).....	10.1%	8.2%	7.5 %	6.7 %	6.1%

LENDING ACTIVITIES

The Bank's loan portfolio totaled \$938 million at December 31, 1994, representing 52 percent of total assets at that date. The loan portfolio consists principally of intermediate-term and long-term real estate loans and, to a lesser extent, secured and unsecured commercial loans, and consumer loans including: home improvement, recreational vehicle, mobile home, marine and auto loans. The contractual maturity of loans secured by single-family dwellings has historically been 30 years, although in recent years the Bank has made a number of loans with maturities of 23 years or less. In January 1994, the Bank sold its credit card portfolio and entered into an agent bank relationship with the purchaser to issue credit cards to the Bank's customers. The Bank recognized a gain of \$1.7 million (\$1.1 million net of charge-offs).

The following table sets forth the composition of the loan portfolio by type of loan at the dates indicated (thousands of dollars):

	DECEMBER 31,				
	1994	1993	1992	1991	1990
Loans collateralized by real estate:					
Conventional single-family residential...	\$490,157	\$436,853	\$395,976	\$497,448	\$ 624,414
FHA and VA insured single-family residential.....	35,429	25,051	24,670	35,563	25,221
Commercial mortgage.....	178,076	192,046	198,235	212,518	195,118
Construction and land (1).....	90,992	82,638	91,344	120,776	174,068
	794,654	736,588	710,225	866,305	1,018,821
Commercial secured.....	40,349	25,443	30,137	26,736	24,469
Commercial unsecured.....	2,317	354	384	3,966	6,339
Consumer installment.....	119,460	93,431	42,444	53,537	87,475
Consumer unsecured.....	6,570	19,309	18,371	16,568	13,445
Equity and property improvement loans.....	26,054	21,061	16,712	14,287	11,012
Deposit accounts.....	2,659	2,944	4,248	5,122	5,589
	992,063	899,130	822,521	986,521	1,167,150
Undisbursed proceeds.....	(41,702)	(48,251)	(44,937)	(44,544)	(64,465)
Allowance for estimated credit losses.....	(17,659)	(16,251)	(17,228)	(12,061)	(3,646)
Premiums (discounts).....	5,969	3,270	(125)	(1,294)	(1,285)
Deferred fees.....	(4,999)	(4,782)	(4,406)	(6,678)	(6,232)
Accrued interest.....	4,479	4,214	4,586	6,358	8,619
	(53,912)	(61,800)	(62,110)	(58,219)	(67,009)
Loans receivable.....	\$938,151	\$837,330	\$760,411	\$928,302	\$1,100,141

(1) The Bank's portfolio of construction and land loans is generally due in one year or less.

Loan Origination and Credit Risk

One of the Bank's primary businesses is to make and acquire loans secured by real estate and other collateral to enable borrowers to purchase, refinance, construct and improve such property. These activities entail potential credit losses, the size of which depends on a variety of economic factors affecting borrowers and the real estate collateral. While the Bank has adopted underwriting guidelines and credit review procedures to minimize credit losses, some losses will inevitably occur. Therefore, periodic reviews are made of the assets in an attempt to identify and deal appropriately with potential credit losses.

The Bank originates both fixed- and adjustable-rate loans in the single-family residential, commercial mortgage, and consumer home equity portfolios. The Bank's adjustable-rate loans in these portfolios are based on various indices, including the prime rate, the one-year constant maturity Treasury, six-month London Interbank Offering Rate (LIBOR), and to a lesser extent the 11th District cost of funds. Other consumer loans are generally fixed-rate, while construction and non-real estate commercial loans are generally adjustable-rate prime-based loans.

The Bank currently originates single-family residential (SFR) adjustable-rate mortgages (ARM) which generally have an initial interest rate below the current market rate and adjust to the applicable index plus a defined spread, subject to caps, after the first year. The Bank's ARM generally provide that the maximum rate that can be charged cannot exceed the initial rate by more than six percentage points. The annual interest rate adjustment on the Bank's ARM loans is generally limited to two percentage points.

Many of the other adjustable-rate loans contain limitations as to both the amount and the interest rate change at each repricing date (periodic caps) and the maximum rates the loan can be repriced over the life of

the loan (lifetime caps). At December 31, 1994, periodic caps in the adjustable loan portfolio ranged from 25 to 800 basis points. Lifetime caps ranged from 9.75 to 22 percent.

See Financial Services Segment -- Risk Management -- Interest Rate Risk Management of MD&A for the static gap table which includes the maturity and repricing sensitivity of the Bank's loan portfolio.

The Bank's loan policies and underwriting standards are the primary means used to reduce credit risk exposure. The loan approval process is intended to assess both: (i) the borrower's ability to repay the loan by determining whether the borrower meets the established underwriting criteria; and (ii) the adequacy of the proposed collateral by determining whether the appraised value of (and, if applicable, the cash flow from) the collateral property is sufficient for the proposed loan. Under OTS regulations, management is held responsible for developing, implementing and maintaining prudent appraisal policies.

The Bank reviews adherence to approved lending policies and procedures, including proper approvals, timely completion of quarterly asset reviews, early identification of problem loans, reviewing the quality of underwriting and appraisals, tracking trends in asset quality and evaluating the adequacy of the allowance for credit losses. To further control its credit risk, the Bank monitors and manages its credit exposure in portfolio concentrations. Portfolio concentrations, including collateral types, industry groups, geographic locations, and loan types are assessed and the exposure is managed through the establishment of limitations of aggregate exposures.

The Bank maintains a comprehensive risk-rating system used in determining classified assets and allowances for estimated credit losses. The system involves an ongoing review of all assets containing an element of credit risk including loans, real estate and investment securities. The review process assigns a risk rating to each asset reviewed based upon various credit criteria. If the review indicates that it is probable that some portion of an asset will result in a loss, the asset is written down to its expected recovery value. An allocated general valuation allowance is established for each asset reviewed which has been assigned a risk classification. The allowance is determined, subject to certain minimum percentages, based upon probability of default (in the case of loans), estimated ranges of recovery, and probability of each estimate of recovery value. An allowance for estimated credit losses on classified assets not subject to a detailed review is established by multiplying a percentage by the aggregate balances of the assets outstanding in each risk category. The percentages assigned increase based on the degree of risk and reflect management's estimate of potential future losses from assets in a specific risk category. With respect to loans not subject to specific reviews, principally single-family residential and consumer loans, the allowance is established based upon historical loss experience. Additionally, an unallocated allowance is established to reflect economic and other conditions that may negatively affect the portfolio in the aggregate.

As part of the regular asset review process, management reviews factors relating to the possibility and magnitude of prospective loan and real estate losses, including historical loss experience, prevailing market conditions and classified asset levels. The Bank is required to classify assets and establish prudent valuation allowances in accordance with OTS regulations.

Each loan portfolio contains unique credit risks for which the Bank has developed policies and procedures to manage as follows:

Single-Family Residential Lending. SFR mortgage loans comprise 56 percent of the loan portfolio at December 31, 1994 compared to 55 percent at December 31, 1993. This portfolio represents the largest lending component and is the component which contains the least credit risk.

It is the general policy of the Bank not to make SFR loans which have a loan-to-value ratio in excess of 80 percent unless insured by private mortgage insurance, Federal Housing Authority (FHA) insurance, or guaranteed by the Veterans Administration (VA). Single-family loans are generally underwritten to underwriting guidelines established by FHA, VA, Federal Home Loan Mortgage Corporation (FHLMC), Federal National Mortgage Association (FNMA) or preapproved private investors. On its SFR ARM offered with initial below market rates, the Bank qualifies the applicants using the fully indexed rate.

The Bank requires title insurance on all loans secured by liens on real property. The Bank also requires fire and other hazard insurance be maintained in amounts at least equal to the replacement cost of improvements on all properties securing its loans. Earthquake insurance, however, is not required.

Consumer Lending. Consumer loans include installment loans secured by recreational vehicles, boats, autos and mobile homes, home equity loans, and loans secured by deposit accounts. Approximately 96 percent of the consumer loan portfolio is collateralized at December 31, 1994. The credit risk of the consumer loan portfolio is managed through both the origination function and the collection process. All consumer loan origination and collection efforts, except those secured by deposits, are performed at a central location in order to provide greater control in the process and a more uniform application of credit standards.

The Bank originates a majority of its installment loans through automobile, recreational vehicle and marine vehicle dealers. These loans are subject to underwriting by Bank personnel. Additionally, credit reviews of the dealers are performed on a periodic basis. The Bank pays dealers a fee for these loans based upon the excess of the contractual interest rate of the loan over the Bank's stated rate schedule.

The Bank utilizes a credit scoring model to assist in the analysis of loan applications and credit reports. Additionally, as a follow up to the application process, a review of selected originations is performed to monitor adherence to credit standards.

Commercial and Construction. The commercial and construction portfolios consist of amortizing mortgage loans on multi-family residential and nonresidential real estate, construction and development loans secured by real estate, and commercial loans secured by collateral other than real estate. Residential tract construction loans are generally underwritten with a discounted loan-to-value ratio of less than 85 percent, while commercial income property loans are generally underwritten with a ratio less than 75 percent.

Construction loans involve risks different from completed project lending because loan funds are advanced upon the security of the project under construction, and if the loan goes into default, additional funds may have to be advanced to complete the project before it can be sold. Moreover, construction projects are subject to uncertainties inherent in estimating construction costs, potential delays in construction time, market demand and the accuracy of the estimate of value upon completion.

The Bank manages its risk in these portfolios through its credit evaluation, approval and monitoring processes. In addition to obtaining appraisals on real estate collateral-based loans, a review of actual and forecasted financial statements and cash flow analyses is performed. After such loans are funded, they are monitored by obtaining and analyzing current financial and cash flow information on a periodic basis.

To further control its credit risk in this portfolio, the Bank monitors and manages credit exposure on portfolio concentrations. The Bank regularly monitors portfolio concentrations by collateral types, industry groups, loan types, and individual and related borrowers. Such concentrations are assessed and exposures managed through establishment of limitations of aggregate exposures. The Bank no longer originates new construction and commercial loans in California and Arizona. At December 31, 1994, 48 percent or \$19.5 million of the Bank's outstanding commercial secured loan portfolio consisted of loans to borrowers in the gaming industry, with additional unfunded commitments of \$11.5 million. These loans are generally secured by real estate and equipment. The Bank's portfolio of loans, collateralized by real estate, consists principally of real estate located in Nevada, California and Arizona. Collectibility is, therefore, somewhat dependent on the economies and real estate values of these areas and industries. Construction loans and commercial real estate loans (including multi-family) generally have higher default rates than single-family residential loans. See Financial Services Segment -- Risk Management -- Credit Risk Management of MD&A for a table that sets forth the amounts of classified assets by type of loan.

Origination, Purchase and Sale of Loans

The Bank originates the majority of its loans within the state of Nevada; however, under current laws and regulations, the Bank may also originate and purchase loans or purchase participating interests in loans without regard to the location of the secured property. During 1994, the Bank originated \$466 million in new loans, virtually all of which were secured by property located in Nevada. In the first quarter of 1994, the Bank

purchased \$41.9 million of single-family residential whole loans. During 1993, the Bank originated \$500 million in new loans, of which 90 percent were secured by property located in Nevada, 8 percent were secured by property located in Arizona, and 2 percent were secured by property in California. As of December 31, 1994, 82 percent of the loan portfolio was secured by property located in Nevada, 12 percent secured by property located in California and 6 percent secured by property located in Arizona. The Bank originates real estate and commercial loans principally through its in-house personnel.

Secondary Marketing Activity

The Bank has been involved in secondary mortgage market transactions through the sale of whole loans. In accordance with the Bank's Accounting Policy, fixed-rate residential loans with maturities greater than 25 years have been designated as held for sale. At December 31, 1994, \$2.1 million of residential loans are designated as held for sale. See Note 4 of the Notes to Consolidated Financial Statements for additional discussion relating to such loans.

Under its loan participation and whole loan sale agreements, the Bank may continue to service the loans and collect payments on the loans as they become due. The amount of loans serviced for others was \$415 million at December 31, 1994, compared to \$477 million at year-end 1993, including \$68 million and \$93 million, respectively, of loans serviced for mortgage-backed securities (MBS) originated and owned by the Bank. The Bank pays the participating lender, under the terms of the participation agreement, a yield on the participant's portion of the loan, which is usually less than the interest agreed to be paid by the borrower. The difference is retained by the Bank as servicing income.

In connection with mortgage loan sales, the Bank makes representations and warranties customary in the industry relating to, among other things, compliance with laws, regulations and program standards and accuracy of information. In the event of a breach of these representations and warranties, or under certain limited circumstances, regardless of whether there has been such a breach, the Bank may be required to repurchase such mortgage loans. Typically, any documentation defects with respect to these mortgage loans that caused them to be repurchased, are corrected and the mortgage loans are resold. Certain repurchased mortgage loans may remain in the Bank's loan portfolio and, in some cases, repurchased mortgage loans are foreclosed and the acquired real estate sold.

Loan Fees

The Bank receives loan origination fees for originating loans and commitment fees for making commitments to originate construction, income property and multi-family residential loans. It also receives loan fees and charges related to existing loans, including prepayment charges, late charges and assumption fees. The amount of loan origination fees, commitment fees and discounts received varies with loan volumes, loan types, purchase commitments made, and competitive and economic conditions. Loan origination and commitment fees, offset by certain direct loan origination costs, are being deferred and recognized over the contractual life of such loans as yield adjustments.

ASSET QUALITY

Nonperforming Assets. Nonperforming assets may be comprised of nonaccrual assets, restructured loans and real estate acquired through foreclosure. Nonaccrual assets are those on which management believes the timely collection of interest is doubtful. Assets are transferred to nonaccrual status when payments of interest or principal are 90 days past due or if, in management's opinion, the accrual of interest should be ceased sooner. There are no assets on accrual status which are over 90 days delinquent or past maturity.

Nonaccrual assets are restored to accrual status when, in the opinion of management, the financial condition of the borrower and/or debt service capacity of the security property has improved to the extent that collectibility of interest and principal appears assured and interest payments sufficient to bring the asset current are received.

Restructured loans represent loans for which the borrower is complying with the terms of a loan modified as to rate, maturity, or payment amount.

The following table summarizes nonperforming assets as of the dates indicated (thousands of dollars):

	DECEMBER 31,				
	1994	1993	1992	1991	1990
Nonaccrual loans past due 90 days or more:					
Mortgage loans:					
Construction and land.....	\$ 576	\$ 1,233	\$ 8,514	\$ 8,904	\$ 6,599
Permanent single-family residences.....	5,517	6,636	4,667	7,737	4,467
Other mortgage loans.....	5,696	6,728	3,736	10,388	9,405
	11,789	14,597	16,917	27,029	20,471
Nonmortgage loans.....	904	184	2,164	87	331
Restructured loans.....	16,768	2,842	1,190	1,229	1,385
Total nonperforming loans.....	29,461	17,623	20,271	28,345	22,187
Real estate acquired through foreclosure.....	7,631	9,707	24,488	14,875	10,363
Total nonperforming assets.....	\$37,092	\$27,330	\$44,759	\$43,220	\$32,550
Allowance for estimated credit losses....	\$17,659	\$16,251	\$17,228	\$12,061	\$ 3,646
Allowance for estimated credit losses as a percentage of nonperforming loans....	59.94%	92.21%	84.99%	42.55%	16.43%
Allowance for estimated credit losses as a percentage of nonperforming assets...	47.61%	59.46%	38.49%	27.91%	11.20%

The increase in restructured loans in 1994 is a result of the classification of \$13.9 million of single-family residential loan modifications made for borrowers with earthquake-related damage in California. Federal agencies encouraged financial institutions to modify loan terms for certain borrowers who were affected by the earthquake which occurred in January 1994. The terms of these modifications were generally three- to six-month payment extensions with no negative credit reporting regarding the borrower. These loans were on a nonaccrual basis during the extension period. Current interpretation by the OTS concerning the modifications made requires the loans to be classified as "troubled debt restructured" until they mature, are paid off, or are sold. The Bank reviewed the earthquake-related loans and classified \$3.1 million as special mention and \$677,000 as substandard and considered all of the loans in the overall general valuation analysis. The remainder of the earthquake-related loans are not classified and are deemed to have adequate reserves as they carry no more risk than any other SFR loan.

At December 31, 1994, all nonaccrual loans and real estate acquired through foreclosure are classified substandard. Additionally, \$2.3 million of the restructured loans are classified substandard.

The amount of interest income that would have been recorded on the nonaccrual and restructured assets if they had been current under their original terms was \$2.1 million for 1994. Actual interest income recognized on these assets was \$970,000, resulting in \$1.1 million of interest income foregone for the year. See further discussion below in Provision and Allowance for Credit Losses.

Classified Assets. OTS regulations require the Bank to classify certain assets and establish prudent valuation allowances. Classified assets fall in one of three categories -- "substandard," "doubtful," and "loss." In addition, the Bank can designate an asset as "special mention."

Assets classified as "substandard" are inadequately protected by the current net worth or paying capacity of the obligor or the collateral pledged, if any. Assets which are designated as "special mention" possess weaknesses or deficiencies deserving close attention, but do not currently warrant classification as "substandard." See Financial Services Segment -- Risk Management -- Credit Risk Management of MD&A for the amounts of the Bank's classified assets and ratio of classified assets to total assets, net of charge-offs.

Provision and Allowance for Credit Losses. The provision for credit losses is dependent upon management's evaluation as to the amount needed to maintain the allowance for losses at a level considered appropriate to the perceived risk of future losses. A number of factors are weighed by management in determining the adequacy of the allowance, including internal analyses of portfolio quality measures and trends, specific economic and market conditions affecting valuation of the security properties and certain other factors. In addition, the OTS considers the adequacy of the allowance for credit losses and the net carrying value of real estate owned in connection with periodic examinations of the Bank. The OTS has the ability to require the Bank to recognize additions to the allowance or reductions in the net carrying value of real estate owned based on their judgement at the time of such examinations. In connection with the 1993 examination by the OTS, no additional reserves were required to be recorded by the Bank. The OTS commenced their 1994 examination of the Bank in February 1995.

Activity in the allowances for credit losses on loans and real estate is summarized as follows (thousands of dollars):

	MORTGAGE LOANS	CONSTRUCTION & LAND LOANS	NON- MORTGAGE LOANS	TOTAL LOANS	REAL ESTATE ACQUIRED THROUGH FORECLOSURE	REAL ESTATE HELD FOR SALE OR DEVELOPMENT	TOTAL	RATIO*
Balance at 12/31/89.....	\$ 2,235	\$ 900	\$ 1,249	\$ 4,384	\$ 3,175	\$ 2,275	\$ 9,834	
Provisions for estimated losses.....	1,201	399	1,669	3,269	2,500	2,000	7,769	
Charge-offs, net of recoveries.....	(657)	--	(1,166)	(1,823)	(3,233)	(117)	(5,173)	0.43%
Transfers.....	(1,645)	--	(539)	(2,184)	1,645	--	(539)	
Balance at 12/31/90.....	1,134	1,299	1,213	3,646	4,087	4,158	11,891	
Provisions for estimated losses.....	5,835	2,643	3,580	12,058	1,686	49,010	62,754	
Charge-offs, net of recoveries.....	(394)	(1,121)	(1,545)	(3,060)	(6,595)	(49,529)	(59,184)	5.85%
Transfers.....	(583)	--	--	(583)	822	--	239	
Balance at 12/31/91.....	5,992	2,821	3,248	12,061	--	3,639	15,700	
Provisions for estimated losses.....	1,903	6,460	5,766	14,129	--	18,309	32,438	
Charge-offs, net of recoveries.....	(515)	(3,765)	(4,682)	(8,962)	--	(20,485)	(29,447)	3.29%
Balance at 12/31/92.....	7,380	5,516	4,332	17,228	--	1,463	18,691	
Provisions for estimated losses.....	4,634	172	1,406	6,212	--	1,010	7,222	
Charge-offs, net of recoveries.....	(3,191)	(2,248)	(1,750)	(7,189)	--	(1,538)	(8,727)	1.07%
Balance at 12/31/93.....	8,823	3,440	3,988	16,251	--	935	17,186	
Provisions for estimated losses.....	2,954	71	4,205	7,230	--	163	7,393	
Charge-offs, net of recoveries.....	(1,786)	(1,297)	(2,739)	(5,822)	--	(622)	(6,444)	0.72%
Balance at 12/31/94.....	\$ 9,991	\$ 2,214	\$ 5,454	\$17,659	\$ --	\$ 476	\$ 18,135	

* Ratio = Net charge-offs to average loans and real estate outstanding

Included in net charge-offs are \$1.7 million, \$1.4 million, \$1.9 million, \$2.6 million and \$2.6 million of recoveries from 1990 through 1994, respectively.

The real estate write-downs for 1992 were primarily the result of a decrease in the net realizable value and slower sales activity of five California single-family real estate development projects. The largest of these involved write-downs of \$9.3 million as a result of an appraisal reflecting the continuing market decline in the California market and difficulty in obtaining third party construction financing.

Allocation of Allowance for Credit Losses. The following is a breakdown of allocated loan loss allowance amounts by major categories. However, in management's opinion, the allowance must be viewed in its entirety.

	DECEMBER 31,									
	1994		1993		1992		1991		1990	
	PERCENT OF LOANS TO ALLOWANCE AMOUNT	TOTAL LOANS	PERCENT OF LOANS TO ALLOWANCE AMOUNT	TOTAL LOANS	PERCENT OF LOANS TO ALLOWANCE AMOUNT	TOTAL LOANS	PERCENT OF LOANS TO ALLOWANCE AMOUNT	TOTAL LOANS	PERCENT OF LOANS TO ALLOWANCE AMOUNT	TOTAL LOANS
	(THOUSANDS OF DOLLARS)									
LOANS BY TYPE										
Real estate.....	\$ 9,991	73.6	\$ 8,823	76.9	\$ 7,380	81.2	\$ 5,992	82.4	\$1,134	84.4
Construction and land.....	2,214	5.1	3,440	4.0	5,516	4.3	2,821	4.8	1,299	4.9
Nonmortgage.....	5,454	21.3	3,988	19.1	4,332	14.5	3,248	12.8	1,213	10.7
Total.....	\$17,659	100.0	\$16,251	100.0	\$17,228	100.0	\$12,061	100.0	\$3,646	100.0

REAL ESTATE DEVELOPMENT ACTIVITIES

The Bank's investment in real estate held for development, net of allowance for estimated losses, excluding real estate acquired through foreclosure, decreased from \$28.1 million at December 31, 1991 to \$771,000 at December 31, 1994. The Bank's pretax loss from real estate operations was \$612,000 in 1994, \$910,000 in 1993, and \$15.3 million in 1992.

The Bank and its subsidiaries have ceased making investments in new real estate development activities as a result of legislative and regulatory actions which have placed certain restrictions on the Bank's ability to invest in real estate. See Regulation -- General herein for additional discussion. The Bank and its subsidiaries are continuing the sale and wind down of remaining real estate investments.

INVESTMENT ACTIVITIES

Federal regulations require thrifts to maintain certain levels of liquidity and to invest in various types of liquid assets. The Bank invests in a variety of securities, including commercial paper, certificates of deposit, U.S. government and U.S. agency obligations, short-term corporate debt, municipal bonds, repurchase agreements and federal funds. The Bank also invests in longer term investments such as MBS and collateralized mortgage obligations (CMO) to supplement its loan production and to provide liquidity to meet unforeseen cash outlays. Income from cash equivalents and debt securities provides a significant source of revenue for the Bank, constituting 43 percent, 41 percent and 32 percent of total revenues for each of the years ended December 31, 1992, 1993 and 1994, respectively.

The Bank's activities in derivatives are limited to investments in CMO, interest rate swaps, and forward sale commitments. CMO are discussed in the following tables. Interest rate swaps and forward sale commitments are discussed in Note 17 of the Notes to Consolidated Financial Statements, and in Risk Management -- Interest Rate Risk Management of MD&A.

In order to mitigate the interest rate risk (IRR) and credit risk exposure in the debt security portfolio, the Bank has established guidelines within its Investment Portfolio Policy for maximum duration, credit quality, concentration limits per issuer, and counterparty capital requirements. The Investment Portfolio Policy also sets forth the types of permissible investment securities and unsuitable investment activities.

Additionally, the debt security portfolio is subject to the Asset Classification Policy of the Bank based on credit risk as determined by private rating firms, such as Standard and Poor's Corporation and Moody's Investors Services.

On December 31, 1993, the Bank adopted Statement of Financial Accounting Standards (SFAS) No. 115, "Accounting for Certain Investments in Debt and Equity Securities." In conjunction with adoption, the Bank designated the vast majority of its debt security portfolio as available for sale. At December 31, 1993

and 1994, no securities were designated as "trading securities." See Note 2 of the Notes to Consolidated Financial Statements for further discussion.

The following tables present the composition of the debt security portfolios as of the dates indicated. See Financial Services Segment -- Capital Resources and Liquidity of MD&A and Note 3 of the Notes to Consolidated Financial Statements for further discussion of the portfolios:

	DECEMBER 31,		
	1994	1993	1992
	(THOUSANDS OF DOLLARS)		
DEBT SECURITIES HELD TO MATURITY			
GNMA -- MBS.....	\$ --	\$ --	\$ 12,222
FHLMC -- MBS.....	--	--	629,225
FNMA -- MBS.....	--	--	217,391
CMO.....	--	--	37,722
Corporate issue MBS.....	60,922	69,660	229,303
Money market instruments.....	--	--	100
U.S. Treasury securities and obligations of U.S. Government corporations and agencies.....	40,958	--	15,996
Medium-term notes.....	--	--	17,018
Total.....	<u>\$101,880</u>	<u>\$69,660</u>	<u>\$1,158,977</u>

	DECEMBER 31,		
	1994	1993	1992
	(THOUSANDS OF DOLLARS)		
DEBT SECURITIES AVAILABLE FOR SALE			
GNMA -- MBS.....	\$ 6,397	\$ 9,672	\$ 6,780
FHLMC -- MBS.....	300,896	379,786	--
FNMA -- MBS.....	109,108	119,657	--
CMO.....	88,380	47,249	--
Corporate issue MBS.....	19,517	24,106	--
Money market instruments.....	--	10,036	--
U.S. Treasury securities and obligations of U.S. Government corporations and agencies.....	5,102	5,220	--
Total.....	<u>\$529,400</u>	<u>\$595,726</u>	<u>\$ 6,780</u>

The following schedule of the expected maturity of debt securities held to maturity is based upon dealer prepayment expectations and historical prepayment activity (thousands of dollars):

DECEMBER 31, 1994	EXPECTED/CONTRACTUAL MATURITY					TOTAL AMORTIZED COST	YIELD
	WITHIN ONE YEAR	AFTER ONE YEAR BUT WITHIN FIVE YEARS	AFTER FIVE YEARS BUT WITHIN TEN YEARS	AFTER TEN YEARS BUT WITHIN TWENTY YEARS	AFTER TWENTY YEARS		
Corporate issue MBS...	\$15,593	\$31,603	\$8,883	\$4,574	\$269	\$ 60,922	7.25%
U.S. Treasury securities and obligations of U.S. Government corporations and agencies.....	20,822	20,136	--	--	--	40,958	8.01%
Total.....	<u>\$36,415</u>	<u>\$51,739</u>	<u>\$8,883</u>	<u>\$4,574</u>	<u>\$269</u>	<u>\$101,880</u>	<u>7.55%</u>
Yield.....	<u>7.62%</u>	<u>7.58%</u>	<u>7.40%</u>	<u>6.69%</u>	<u>6.46%</u>	<u>7.55%</u>	

The expected maturities of MBS and CMO are based upon dealer prepayment expectations and historical prepayment activity. The following schedule reflects the expected maturities of MBS and CMO and the contractual maturity of all other debt securities available for sale (thousands of dollars):

DECEMBER 31, 1994	EXPECTED/CONTRACTUAL MATURITY					TOTAL ESTIMATED FAIR VALUE	YEAR(1)
	WITHIN ONE YEAR	AFTER ONE YEAR BUT WITHIN FIVE YEARS	AFTER FIVE YEARS BUT WITHIN TEN YEARS	AFTER TEN YEARS BUT WITHIN TWENTY YEARS	AFTER TWENTY YEARS		
GNMA -- MBS.....	\$ 1,595	\$ 4,091	\$ 711	\$ --	\$ --	\$ 6,397	8.29%
FHLMC -- MBS.....	57,237	167,998	37,894	29,991	7,776	300,896	6.64%
FNMA -- MBS.....	15,879	49,915	20,241	20,030	3,043	109,108	7.11%
CMO.....	48,692	38,236	819	606	27	88,380	5.92%
Corporate issue MBS...	3,295	11,283	4,056	778	105	19,517	7.24%
U.S. Treasury securities and obligations of U.S. Government corporations and agencies.....	5,102	--	--	--	--	5,102	5.83%
Total.....	\$131,800	\$271,523	\$ 63,721	\$51,405	\$10,951	\$ 529,400	6.65%
Yield(1).....	6.43%	6.67%	6.84%	6.83%	6.78%	6.65%	

(1) The yields are completed based on amortized cost.

DEPOSIT ACTIVITIES

Deposit accounts are the Bank's primary source of funds constituting 75 percent of the Bank's total liabilities at December 31, 1994. The Bank solicits both short-term and long-term deposits in the form of transaction related and certificate of deposit accounts.

The Bank's average retail deposit base has remained steady during the past three years, despite the effect of the sale of Arizona-based deposit liabilities (Arizona sale) in 1993. See Note 2 of the Notes to Consolidated Financial Statements for further discussion of the Arizona sale. Average retail deposits, as a percentage of average interest-bearing liabilities, were 80 percent in 1994, compared to 79 percent in 1993 and 83 percent in 1992. The Bank has emphasized retail deposits over wholesale funding sources in an effort to reduce the volatility of its cost of funds. Additionally, the Bank has emphasized growth in transaction based accounts versus term accounts in order to reduce its overall cost of funds.

The Bank's deposits increased \$32 million during 1994. Due to the rising interest rate environment, many customers moved their transaction deposits into higher-yielding certificate of deposit accounts. The growth in retail deposits has been achieved through marketing programs, increased emphasis on customer service and strong population growth in southern Nevada.

At December 31, 1994, the Bank maintained over \$291 million in collateral, at market value, which could be borrowed against or sold to offset any run-offs which could occur in retail deposits in a declining or low interest rate environment. The Bank considers this level of excess collateral to be adequate and considers the likelihood of substantial run-offs occurring to be remote.

The average balances in and average rates paid on deposit accounts for the years indicated are summarized as follows (thousands of dollars):

	1994		1993		1992	
	BALANCE	YIELD	BALANCE	YIELD	BALANCE	YIELD
Noninterest-bearing demand deposits.....	\$ 66,339	--	\$ 77,144	--	\$ 74,245	--
Interest-bearing demand deposits.....	325,885	2.68 %	329,785	2.60 %	279,793	3.19 %
Savings deposits.....	84,584	2.52 %	83,935	2.81 %	71,548	2.49 %
Certificates of deposit.....	751,572	4.42 %	952,764	4.90 %	1,263,298	5.96 %
	<u>\$1,228,380</u>	<u>3.59 %</u>	<u>\$1,443,628</u>	<u>3.99 %</u>	<u>\$1,688,884</u>	<u>5.09 %</u>

See Note 7 of the Notes to Consolidated Financial Statements for further discussion.

Certificates of deposit include approximately \$169 million, \$152 million, and \$223 million in time certificates of deposits in amounts of \$100,000 or more at December 31, 1994, 1993, and 1992, respectively. The following table represents time certificates of deposits, none of which are brokered, in amounts of \$100,000 or more by time remaining until maturity as of December 31, 1994 (thousands of dollars):

LESS THAN 3 MONTHS	3 MONTHS - 6 MONTHS	6 MONTHS - 1 YEAR	GREATER THAN 1 YEAR
\$52,452	\$ 27,055	\$ 37,597	\$ 51,854

BORROWINGS

Sources of funds other than deposits have included advances from the FHLB, reverse repurchase agreements and other borrowings.

FHLB Advances. As a member of the FHLB system, the Bank may obtain advances from the FHLB pursuant to various credit programs offered from time to time. The Bank borrows these funds from the FHLB principally on the security of certain of its mortgage loans. See Regulation -- Federal Home Loan Bank System herein for additional discussion. Such advances are made on a limited basis to supplement the Bank's supply of lendable funds, to meet deposit withdrawal requirements and to lengthen the maturities of its borrowings. See Note 11 of the Notes to Consolidated Financial Statements for additional discussion.

Securities Sold Under Repurchase Agreements. The Bank sells securities under agreements to repurchase (reverse repurchase agreements). Reverse repurchase agreements involve the Bank's sale of debt securities to a broker/dealer with a simultaneous agreement to repurchase the same debt securities on a specified date at a specified price. The initial price paid to the Bank under reverse repurchase agreements is less than the fair market value of the debt securities sold, and the Bank may be required to pledge additional collateral if the fair market value of the debt securities sold declines below the price paid to the Bank for these debt securities. See Note 8 of the Notes to Consolidated Financial Statements for additional discussion of the terms and description of the reverse repurchase agreements.

Reverse repurchase agreements are summarized as follows (thousands of dollars):

	1994	1993	1992
Balance at year end.....	\$281,935	\$259,041	\$376,859
Accrued interest payable at year end.....	3,335	3,871	3,717
Daily average amount outstanding during year.....	222,620	305,123	204,222
Maximum amount outstanding at any month end...	281,935	367,859	376,859
Weighted-average interest rate during the year.....	4.95%	4.30%	5.98%
Weighted-average interest rate on year-end balances.....	6.37%	4.31%	4.54%

At December 31, 1994, the balance of reverse repurchase agreements included \$19.7 million in long-term fixed-rate flexible reverse repurchase agreements with a weighted average interest rate of 8.70 percent.

EMPLOYEES

At December 31, 1994 the Bank had 586 full-time equivalent employees. No employees are represented by any union or collective bargaining group and the Bank considers its relations with its employees to be good.

COMPETITION

The Bank experiences substantial competition in attracting and retaining deposit accounts and in making mortgage and other loans. The primary factors in competing for deposit accounts are interest rates paid on deposits, the range of financial services offered, the quality of service, convenience of office locations and the financial strength of an institution. Direct competition for deposit accounts comes from savings and loan associations, commercial banks, money market mutual funds, credit unions and insurance companies. During 1993, the Bank experienced deposit outflows from certificate of deposit accounts as customers sought higher yielding alternative investments in a low interest rate environment. The Bank has sought to retain relationships with these customers by establishing an agreement with a third party broker to offer uninsured investment alternatives in the Bank's branches. With the rising interest rate environment and the mediocre and poor performance of many stock and bond mutual funds in 1994, many investors have returned to certificates of deposits as a safe investment vehicle.

The primary factors in competing for loans are interest rates, loan origination fees, quality of service and the range of lending services offered. Competition for origination of first mortgage loans normally comes from savings and loan associations, mortgage banking firms, commercial banks, insurance companies, real estate investment trusts and other lending institutions.

PROPERTIES

The Bank occupies facilities at 25 locations in Nevada, of which 12 are owned. The Bank leases the remaining facilities. The Bank may add branches in the future in order to achieve the deposit goals set forth in the Bank's Strategic Plan. The Bank intends to build three new branches in metropolitan Las Vegas and one in Reno. During 1994, specific strategic areas were identified: Northwest Las Vegas, Green Valley, the Lakes and Reno. The Lakes site is currently under construction. See Note 6 of the Notes to Consolidated Financial Statements for a schedule of net future minimum rental payments that have initial or remaining noncancelable lease terms in excess of one year as of December 31, 1994.

REGULATION

General

In August 1989, FIRREA was enacted into law. FIRREA had and will continue to have a significant impact on the thrift industry including, among other things, imposing significantly higher capital requirements and providing funding for the liquidation of insolvent thrifts. In December 1991, the Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA) was enacted into law. This legislation included changes in the qualified thrift lender test, deposit insurance assessments and capital standards.

Regulatory Infrastructure. The Bank's principal supervisory agency is the OTS, an agency reporting to the U.S. Treasury Department. The OTS is responsible for the examination and regulation of all thrifts and for the organization, incorporation, examination and regulation of federally chartered thrifts.

The FDIC is the Bank's secondary regulator and is the administrator of the SAIF which generally insures the deposits of thrifts.

Deposit Insurance Premiums. Deposit accounts are insured to the maximum extent permitted by law by the FDIC through the SAIF. During 1993, the FDIC implemented a risk-based deposit insurance premium assessment. Under the regulation, annual deposit insurance premiums ranging from 23 to 31 basis points (bp) are imposed on institutions based upon the institution's level of capital and a supervisory risk assessment. In February 1995, the FDIC proposed a significant reduction in the premiums banks pay to the Bank Insurance Fund (BIF). The amended rate schedule will be changed from the current range of 23 bp to 31 bp to a

proposed range of 4 bp to 31 bp; thereby substantially reducing the premiums that well-capitalized, low risk-rated institutions will pay. However, the FDIC is proposing to retain the current SAIF premium schedule until the SAIF is recapitalized.

Capital Standards. Effective December 1989, the OTS issued the minimum regulatory capital regulations (capital regulations) required by FIRREA.

The capital regulations require that all thrifts meet three separate capital standards as follows:

1. A tangible capital requirement equal to at least 1.5 percent of adjusted total assets (as defined).
2. A core capital requirement equal to at least three percent of adjusted total assets (as defined).
3. A risk-based capital requirement equal to at least eight percent of risk-weighted assets (as defined).

The OTS may establish, on a case by case basis, individual minimum capital requirements for a thrift institution which may vary from the requirements which would otherwise be applicable under the capital regulations. The OTS has not established such minimum capital requirements for the Bank.

A thrift institution which fails to meet one or more of the applicable capital requirements is subject to various regulatory limitations and sanctions, including a prohibition on growth and the issuance of a capital directive by the OTS requiring the following: an increase in capital, a reduction of rates paid on savings accounts, cessation of or limitations on deposit taking and lending, limitations on operational expenditures, an increase in liquidity, and such other actions as are deemed necessary or appropriate by the OTS. In addition, a conservator or receiver may be appointed under certain circumstances.

FDICIA requires federal banking regulators to take prompt corrective action if an institution fails to satisfy minimum capital requirements. Under FDICIA, capital requirements include a leverage limit, a risk-based capital requirement, and any other measure of capital deemed appropriate by the federal banking regulators for measuring the capital adequacy of an insured depository institution. All institutions, regardless of their capital levels, are restricted from making any capital distribution or paying management fees which are not in capital requirement compliance or if such payment would cause the institution to fail to satisfy minimum levels for any of its capital requirements.

Insured institutions are divided into five capital categories -- (1) well capitalized, (2) adequately capitalized, (3) undercapitalized, (4) significantly undercapitalized, and (5) critically undercapitalized. The categories are defined as follows:

CATEGORY	RISK-BASED CAPITAL RATIO	CORE CAPITAL TO RISK-BASED ASSETS	CORE CAPITAL RATIO
Well capitalized.....	>=10%	>=6%	>=5%
Adequately capitalized.....	>=8%<10%	>=4%<6%	>=4%<5%
Undercapitalized.....	>=6%<8%	>=3%<4%	>=3%<4%
Significantly undercapitalized.....	<6%	<3%	<3%

Critically undercapitalized if tangible equity to total assets ratio 2%

Institutions must meet all three capital ratios in order to qualify for a given category. At December 31, 1994, the Bank was classified as "well capitalized." At December 31, 1994, under fully phased-in capital rules applicable to the Bank at July 1, 1996, the Bank would have exceeded the "adequately capitalized" fully phased-in total risk-based, tier 1 risk-based, and tier 1 leverage ratios by \$46.7 million, \$72.8 million, and \$38.7 million, respectively. See Financial Services Segment -- Financial and Regulatory Capital of MD&A for further discussion.

In January 1993, the OTS issued a Thrift Bulletin limiting the amount of deferred tax assets that can be used to meet capital requirements. Under the bulletin, for purposes of calculating regulatory capital, net deferred tax assets are limited to the amount which could be theoretically realized from carryback potential

plus the lesser of the tax on one year's projected earnings or ten percent of core capital. Transitional provisions apply to deferred tax assets existing at December 31, 1992 which are not subject to the limitation. At December 31, 1994 the Bank's net deferred tax asset is less than this limitation. Management does not anticipate this regulation will impact the Bank's compliance with capital standards in the foreseeable future.

In November 1994, the OTS announced its decision to reverse immediately its 1993 interim policy requiring associations to include unrealized gains and losses, net of income taxes, on available-for-sale (AFS) debt securities in regulatory capital. Under the revised OTS policy, associations exclude any unrealized gains and losses, net of income taxes, on a prospective basis, on AFS debt securities reported as a separate component of equity capital pursuant to SFAS No. 115.

The capital regulations specify that only the following elements may be included in tangible capital: stockholder's equity, noncumulative perpetual preferred stock, retained earnings and minority interests in the equity accounts of fully consolidated subsidiaries. Further, goodwill and investments in and loans to subsidiaries engaged in activities not permitted by national banks must be deducted from assets and capital. See Regulation -- General -- Separate Capitalization of Nonpermissible Activities herein for additional discussion.

In calculating adjusted total assets under the capital regulations, certain adjustments are made to give effect to the exclusion of certain assets from tangible capital and to appropriately account for the investments in and assets of both includable and nonincludable activities.

Core capital under the current regulations may include only tangible capital, plus certain intangible assets up to a limit of 25 percent of core capital, provided such assets are: (i) separable from the thrift's assets; (ii) valued at an established market value through an identifiable stream of cash flows with a high degree of certainty that the asset will hold this market value notwithstanding the prospects of the thrift and (iii) salable in a market that is liquid. In addition, prior to January 1, 1995, certain qualifying "supervisory" goodwill was includable as core capital. At December 31, 1994, \$6.6 million of supervisory goodwill is includable in core capital. Under the regulation, on January 1, 1995, none of the Bank's supervisory goodwill is includable in core capital.

Regarding the risk-based capital requirement, under the capital regulations, assets are assigned to one of four "risk-weighted" categories (zero percent, 20 percent, 50 percent or 100 percent) based upon the degree of perceived risk associated with the asset. The total amount of a thrift's risk-weighted assets is determined by multiplying the amount of each of its assets by the risk weight assigned to it, and totaling the resulting amounts.

The capital regulation also establishes the concept of "total capital" for the risk-based capital requirement. As defined, total capital consists of core capital and supplementary capital. Supplementary capital includes: (i) permanent capital instruments such as cumulative perpetual preferred stock, perpetual subordinated debt and mandatory convertible subordinated debt (capital notes), (ii) maturing capital instruments such as subordinated debt, intermediate-term preferred stock, mandatory convertible subordinated debt (commitment notes) and mandatory redeemable preferred stock, subject to an amortization schedule and (iii) general valuation loan and lease loss allowances up to 1.25 percent of risk-weighted assets.

The OTS issued a regulation which added a component to an institution's risk-based capital calculation in 1994. The regulation requires a reduction of an institution's risk-based capital by 50 percent of the decline in the institution's net portfolio value (NPV) exceeding two percent of assets under a hypothetical 200 basis point increase or decrease in market interest rates. Based on the OTS's measurement of the Bank's September 30, 1994 and December 31, 1994 IRR, the Bank may be required to reduce its risk-based capital by approximately \$1.5 million on June 30, 1995 and \$1.9 million on September 30, 1995, in the absence of corrective action to reduce the Bank's IRR exposure or significant change in market interest rates in the interim. As of December 31, 1994, the Bank has sufficient risk-based capital to allow it to continue to be classified as "well capitalized" under FDICIA capital requirements after such reduction for IRR exposure. Management is currently reviewing possible strategies for reducing the Bank's IRR exposure.

See Note 2 of the Notes to Consolidated Financial Statements for the calculation of the Bank's regulatory capital and related excesses as of December 31, 1994 and 1993.

Separate Capitalization of Nonpermissible Activities. For purposes of determining a thrift's capital under all three capital requirements, its entire investment in and loans to any subsidiary engaged in an activity not permissible for a national bank must be deducted from the capital of the thrift. The capital regulations provide for a transition period with respect to this provision. During the transition period, a thrift is permitted to include in its calculation the applicable percentage (as provided below) of the lesser of the thrift's investments in and loans to such subsidiaries on: (i) April 12, 1989 or (ii) the date on which the thrift's capital is being determined, unless the FDIC determines with respect to any particular thrift that a lesser percentage should be applied in the interest of safety and soundness.

In July 1992, legislation was enacted which delayed the increased transitional deduction from capital for real estate investments, and allowed thrifts to apply to the OTS for use of a delayed schedule. The Bank applied for and received approval for use of the delayed phase-out schedule. The Bank had \$1.6 million in investments in and loans to nonpermissible activities at December 31, 1994. These investments, which fall under this section of FIRREA, will be deductible from capital by 60 percent from July 1, 1995 to June 30, 1996 and thereafter, totally deductible. Included in this amount are investments in real estate, land loans and certain foreclosed real estate.

Lending Activities. FIRREA limits the amount of commercial real estate loans that a federally chartered thrift may make to four times its capital (as defined). Based on core capital of \$117 million at December 31, 1994, the Bank's commercial real estate lending limit was \$468 million. At December 31, 1994, the Bank had \$178 million invested in commercial real estate loans; therefore, this limitation should not unduly restrict the Bank's ability to engage in commercial real estate loans.

FIRREA conformed thrifts' loans-to-one-borrower limitations to those applicable to national banks. After December 31, 1991 thrifts generally are not permitted to make loans to a single borrower in excess of 15 percent to 25 percent of the thrift's unimpaired capital and unimpaired surplus (depending upon whether the loan is collateralized and the type of collateral), except that a thrift may make loans to one borrower in excess of such limits under one of the following circumstances: (i) for any purpose, in any amount not to exceed \$500,000 and (ii) to develop domestic residential housing units, in an amount not to exceed the lesser of \$30 million, or 30 percent, of the thrift's unimpaired capital and unimpaired surplus, provided the thrift meets fully phased-in capital requirements and certain other conditions are satisfied. The Bank was in compliance with the loans-to-one-borrower limitation of \$17.1 million at December 31, 1994. This limitation is not expected to materially affect the operations of the Bank.

In December 1992, the OTS issued a regulation (Real Estate Lending Standards) as mandated by FDICIA, which became effective in March 1993. The regulation requires insured depository institutions to adopt and maintain comprehensive written real estate lending policies which include: prudent underwriting standards; loan administration procedures; portfolio diversification standards; and documentation, approval and reporting requirements. The policies must be reviewed and approved annually to ensure appropriateness for current market conditions. The regulation also provides supervisory loan-to-value limits for various types of real estate based loans. Loans may be originated in excess of these limitations up to a maximum of 100 percent of total regulatory capital. The regulation has not made a material impact on the Bank's lending operations.

In August 1993, the OTS issued revised guidance for the classification of assets and a new policy on the classification of collateral-dependent loans (where proceeds from repayment can be expected to come only from the operation and sale of the collateral). With limited exceptions, effective September 1993, for troubled collateral-dependent loans where it is probable that the lender will be unable to collect all amounts due, an institution must classify as "loss" any excess of the recorded investment in the loan over its "value," and classify the remainder as "substandard." The "value" of a loan is either the present value of the expected future cash flows, the loan's observable market price or the fair value of the collateral. The policy did not materially impact the Bank.

The federal agencies regulating financial institutions issued a joint policy statement in December 1993 providing quantitative guidance and qualitative factors to consider in determining the appropriate level of general valuation allowances that institutions should maintain against various asset portfolios. The policy statement also requires institutions to maintain effective asset review systems and to document the institution's process for evaluating and determining the level of its general valuation allowance. Management believes the Bank's current policies and procedures regarding general valuation allowances and asset review procedures are consistent with the policy statement.

FDICIA amended the Qualified Thrift Lender (QTL) test prescribed by FIRREA by reducing the qualified percentage to 65 percent and adding certain investments as qualifying investments. A savings institution must meet the percentage in at least 9 of every 12 months. At December 31, 1994, the Bank's QTL ratio was approximately 80 percent. A thrift that fails to meet the QTL test must either become a commercial bank or be subject to a series of restrictions.

Safety and Soundness Standards. Pursuant to statutory requirements, the OTS issued a proposed rule in November 1993, that prescribes certain "safety and soundness standards." The standards are intended to enable the OTS to address problems at savings associations before the problems cause significant deterioration in the financial condition of the association. The proposed regulation provides operational and managerial standards for internal controls and information systems, loan documentation, internal audit systems, credit underwriting, interest rate exposure, asset growth, and compensation, fees and benefits. The proposed regulation also requires a savings association to maintain a ratio of classified assets to total capital and ineligible allowances that is no greater than 1.0. A minimum earnings standard is also included in the proposed regulation requiring earnings sufficient to absorb losses without impairing capital. Earnings would be sufficient under the proposed regulation if the institution meets applicable capital requirements and would remain in capital compliance if its net income or loss over the last four quarters of earnings continued over the next four quarters of earnings. An institution that fails to meet any of the standards must submit a compliance plan. Failure to submit an acceptable compliance plan or to implement the plan could result in an OTS order or other enforcement action against the association. The Bank's level of adversely classified assets is less than its total capital plus ineligible allowances at December 31, 1994 as defined under the proposed rule. This proposed rule has not been issued as final as of March 1995.

Federal Home Loan Bank System

The FHLB system consists of 12 regional FHLB banks, which provide a central credit facility primarily for member institutions. The Bank, as a member of the FHLB of San Francisco, is required to own capital stock in that institution in an amount at least equal to: one percent of the aggregate outstanding balance at the beginning of the year of its outstanding residential mortgage loans, home purchase contracts and similar obligations; 0.3 percent of total assets; or five percent of its advances from the FHLB, whichever is greater. The Bank is in compliance with this requirement, with an investment in FHLB stock at December 31, 1994 of \$17.3 million.

Liquidity

The Bank is required to maintain an average daily balance of liquid assets equal to at least five percent of its liquidity base (as defined in the Regulation) during the preceding calendar month. The Bank is also required to maintain an average daily balance of short-term liquid assets equal to at least one percent of its liquidity base. The Bank has complied with these regulatory requirements. For the month of December 1994, the Bank's liquidity ratios were 13.4 percent and 8.3 percent, respectively. See Financial Services Segment -- Capital Resources and Liquidity of MD&A for additional discussion.

Investments

A Federal Financial Institutions Examinations Council Supervisory Policy Statement on Securities Activities (Policy Statement): (1) addresses the selection of securities dealers, (2) requires depository institutions to establish prudent policies and strategies for securities transactions, (3) defines securities trading or sales practices that are viewed by the agencies as being unsuitable when conducted in an investment

portfolio, (4) indicates characteristics of loans held for sale or trading, and (5) establishes a framework for identifying when certain mortgage derivative products are high-risk mortgage securities which must be held either in a trading or held for sale account. Management believes that items (1) through (4) have not unduly restricted the operating strategies of the Bank. Item (5) has not affected the Bank's treatment of its \$1 million investment in CMO residuals since the Policy Statement includes a grandfathering provision whereby any mortgage derivative owned prior to the date of adoption by the OTS is exempt from the tests. However, the Bank will have to apply the specified tests to any mortgage derivative product, including CMO, Real Estate Mortgage Investment Conduits (REMIC), CMO and REMIC residuals and stripped MBS purchases in the future.

Insurance of Deposits

The Bank's deposits are insured by the FDIC through the SAIF up to the maximum amount permitted by law, currently \$100,000 per insured depositor. The SAIF requires quarterly insurance premium payments in 1995 instead of semi-annual payments as in prior years. See Regulation -- General -- Deposit Insurance Premiums herein for additional discussion of insurance premiums to be paid by SAIF members.

Insurance of deposits may be terminated by the FDIC, after notice and hearing, upon a finding by the FDIC that a thrift has engaged in unsafe or unsound practices, or is in an unsafe or unsound condition to continue operations, or has violated any applicable law, regulation, rule, order or condition imposed by the OTS and FDIC. Management of the Bank is not aware of any practice, condition, or violation that might lead to termination of its deposit insurance.

Community Reinvestment Act

The Community Reinvestment Act of 1977 (CRA) and regulations promulgated under the act encourage savings associations to help meet the credit needs of the communities they do business in, particularly the credit needs of low and moderate income neighborhoods. The OTS periodically evaluates the Bank's performance under CRA. This evaluation is taken into account in determining whether to grant approval for new branches, relocations, mergers, acquisitions and dispositions. The Bank received a "satisfactory" evaluation in its most recent examination.

Federal Reserve System

The Board of Governors of the Federal Reserve System (the Federal Reserve) has adopted regulations that require depository institutions to maintain noninterest earning reserves against their transaction accounts (primarily negotiable order of withdrawal (NOW), demand deposit accounts, and Super NOW accounts) and nonpersonal money market deposit accounts. These regulations generally require that reserves of three percent be maintained against aggregate transaction accounts in an institution, up to \$49.8 million, and an initial reserve of ten percent be maintained against that portion of total transaction accounts in excess of such amount. In addition, an initial reserve of three percent must be maintained on nonpersonal money market deposit accounts (which include borrowings with maturities of less than four years). These accounts and percentages are subject to adjustment by the Federal Reserve. The balances maintained to meet the reserve requirements imposed by the Federal Reserve may be used to satisfy liquidity requirements which may be imposed by the OTS. At December 31, 1994, the Bank was required to maintain approximately \$1.6 million in noninterest earning reserves and was in compliance with this requirement.

As a creditor and financial institution, the Bank is subject to various additional regulations promulgated by the Federal Reserve, including, without limitation, Regulation B (Equal Credit Opportunity Act), Regulation E (Electronic Funds Transfer Act), Regulation F (Interbank Liabilities), Regulation Z (Truth-in-Lending Act), Regulation CC (Expedited Funds Availability Act), Regulation O (Insider Lending) and Regulation DD (Truth-in-Savings Act).

HOLDING COMPANY MATTERS

The Bank is a wholly owned subsidiary of the Company. As a unitary savings bank holding company, the Company is subject to certain OTS regulation, examination, supervision and reporting requirements. The Bank is generally prohibited from engaging in certain transactions with the Company and is subject to certain OTS restrictions on the payment of dividends to the Company.

In 1990, the OTS issued a regulation governing limitations of capital distributions, including dividends. Under the regulation, a tiered system keyed to capital is imposed on capital distributions. Insured thrifts fall under one of three tiers.

1. Tier 1 includes those thrifts with net capital exceeding fully phased-in requirements and with Capital, Assets, Management, Earnings and Liquidity (CAMEL) ratings of 1 or 2. (The CAMEL system was established by the FDIC and adopted by the OTS to comprehensively and uniformly grade all thrifts with regard to financial condition, compliance with laws and regulations, and overall operating soundness.)
2. Tier 2 includes those thrifts having net capital above their regulatory capital requirement, but below the fully phased-in requirement.
3. Tier 3 includes those thrifts with net capital below the current regulatory requirement.

Under the regulation, insured thrifts are permitted to make dividend payments as follows:

1. Tier 1 thrifts are permitted to make (without application but with notification) capital distributions of half their surplus capital (as defined) at the beginning of a calendar year plus 100 percent of their earnings to date for the year.
2. Tier 2 thrifts can make (without application but with notification) capital distributions ranging from 25 to 75 percent of their net income over the most recent four quarter period, depending upon their level of capital in relation to the fully phased-in requirements.
3. Tier 3 thrifts are prohibited from making any capital distributions without prior supervisory approval.

Based upon these regulations, the Bank is currently restricted to paying no more than 75 percent of its net income over the last four quarters in dividends to its parent. The Bank did not pay any cash dividends during the past three years.

In December 1994, the OTS proposed an amendment to the capital distributions regulation to conform to the FDICIA prompt corrective action system. Under the proposal, a savings association that is not held by a savings and loan holding company and that has a CAMEL rating of "1" or "2" need not notify the OTS before making a capital distribution. Other institutions that remain adequately capitalized after making a capital distribution would be required to provide notice to the OTS. Troubled and undercapitalized institutions must file and receive approval from the OTS prior to making capital distributions. This proposed regulation will have no material impact on the Bank.

Generally transactions between a savings and loan association and its affiliates are required to be on terms as favorable to the association as comparable transactions with nonaffiliates. In addition, certain of these transactions are restricted to a percentage of the association's capital. Affiliates of the Bank include the Company. In addition, a savings and loan association may not lend to any affiliate engaged in activities not permissible for a bank holding company or acquire the securities of such affiliates. It is not permissible for bank holding companies to operate a gas utility. Therefore, loans by the Bank to the Company and purchases of the Company's securities by the Bank are prohibited.

The Company, at the time that it acquired the Bank, agreed to assist the Bank in maintaining levels of net worth required by the regulations in effect at the time or as they were thereafter in effect so long as it controlled the Bank. The enforceability of a net worth maintenance agreement of this type is uncertain. However, under current regulations, a holding company that has executed a capital maintenance obligation of this type may not divest control of a thrift if the thrift has a capital deficiency, unless the holding company

either provides the OTS with an agreement to infuse sufficient capital into the thrift to remedy the deficiency or the deficiency is satisfied.

The Company is prohibited from issuing any bond, note, lien, guarantee or indebtedness of any kind pledging its utility assets or credit for or on behalf of a subsidiary which is not engaged in or does not support the business of the regulated public utility. As a result, there are limitations on the Company's ability to assist the Bank in maintaining levels of capital required by applicable regulations.

The Company also stipulated in connection with the acquisition of the Bank that dividends paid by the Bank to the Company would not exceed 50 percent of the Bank's cumulative net income after the date of acquisition, without approval of the regulators. In addition, the Company agreed that the Bank would not at any time declare a dividend that would reduce the Bank's regulatory net worth below minimum regulatory requirements in effect at the time of the acquisition or thereafter. Since the acquisition, the Bank's cumulative net income is \$37.1 million, resulting in maximum dividends payable of \$18.6 million as of December 31, 1994. Since the acquisition, the Bank has paid the Company \$1.8 million in capital distributions, net of \$20 million of capital contributions received from the Company.

ITEM 2. PROPERTIES

The information appearing in Part I, Item 1, pages 2 and 18 in this report is incorporated herein by reference.

ITEM 3. LEGAL PROCEEDINGS

None.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

The principal market in which the common stock of the Company is traded is the New York Stock Exchange. At March 3, 1995, there were 20,730 holders of record of common stock. The market price of the common stock was \$15.00 as of March 3, 1995. Prices shown are those as quoted by the Dow Jones News Retrieval Service.

COMMON STOCK PRICE AND DIVIDEND INFORMATION

	1994		1993		DIVIDENDS PAID	
	HIGH	LOW	HIGH	LOW	1994	1993
Fiscal Quarter						
First.....	\$19.38	\$15.75	\$17.88	\$13.38	\$.195	\$.175
Second.....	18.63	15.00	18.50	16.75	.195	.175
Third.....	18.25	17.50	17.38	16.13	.205	.195
Fourth.....	17.63	13.75	18.50	15.50	.205	.195
					-----	-----
					\$.800	\$.740
					=====	=====

See Holding Company Matters and Note 2 of the Notes to Consolidated Financial Statements for a discussion of limitations on the Bank's ability to make capital distributions to the Company.

ITEM 6. SELECTED FINANCIAL DATA

CONSOLIDATED SELECTED FINANCIAL STATISTICS
(THOUSANDS OF DOLLARS, EXCEPT PER SHARE AMOUNTS)

	YEAR ENDED DECEMBER 31,				
	1994	1993	1992	1991	1990
Operating revenues.....	\$ 728,169	\$ 689,841	\$ 718,483	\$ 794,791	\$ 867,671
Operating expenses.....	625,415	602,263	642,635	765,688	761,244
Operating income.....	102,754	87,578	75,848	29,103	106,427
Other income and (expenses).....	(1,396)	(14,252)	(599)	1,824	1,808
Net interest and amortization of debt discount and expenses.....	(57,335)	(49,706)	(43,115)	(44,461)	(45,441)
Income (loss) before income taxes...	44,023	23,620	32,134	(13,534)	62,794
Income taxes.....	17,722	11,259	14,473	641	25,623
Net income (loss) before cumulative effect of accounting change.....	26,301	12,361	17,661	(14,175)	37,171
Cumulative effect of change in method of accounting.....	--	3,045	--	--	--
Net income (loss).....	\$ 26,301	\$ 15,406	\$ 17,661	\$ (14,175)	\$ 37,171
Net income (loss) applicable to common stock.....	\$ 25,791	\$ 14,665	\$ 16,610	\$ (15,500)	\$ 35,576
Contribution to consolidated net income (loss)					
Gas operations.....	\$ 23,524	\$ 13,751	\$ 32,214	\$ 18,291	\$ 30,981
Financial services.....	2,777	1,655	(14,553)	(32,466)	6,190
	\$ 26,301	\$ 15,406	\$ 17,661	\$ (14,175)	\$ 37,171
Total assets at year end.....	\$3,089,993	\$2,943,949	\$3,341,528	\$3,462,974	\$3,764,260
Construction expenditures.....	\$ 144,642	\$ 115,424	\$ 105,595	\$ 81,063	\$ 104,419
Cash flow, net					
From operating activities.....	\$ 112,933	\$ 89,491	\$ 86,441	\$ 112,958	\$ 73,985
From investing activities.....	(245,670)	343,823	36,045	219,715	(33,502)
From financing activities.....	141,393	(444,613)	(102,560)	(290,353)	(29,948)
Net change in cash.....	\$ 8,656	\$ (11,299)	\$ 19,926	\$ 42,320	\$ 10,535
Capitalization at year end					
Common equity.....	\$ 339,089	\$ 343,878	\$ 329,444	\$ 327,149	\$ 353,254
Preferred and preference stocks...	4,000	8,058	15,316	22,574	29,832
Long-term debt.....	790,798	692,865	654,523	674,330	842,572
	\$1,133,887	\$1,044,801	\$ 999,283	\$1,024,053	\$1,225,658
Common stock data					
Return on average common equity...	7.6%	4.4%	5.1%	(4.6)%	10.3%
Earnings (loss) per share.....	\$ 1.22	\$ 0.71	\$ 0.81	\$ (0.76)	\$ 1.81
Dividends paid per share.....	\$ 0.80	\$ 0.74	\$ 0.70	\$ 1.05	\$ 1.40
Payout ratio.....	66%	104%	86%	N/A	77%
Book value per share at year end.....	\$ 15.93	\$ 16.38	\$ 15.99	\$ 15.88	\$ 17.63
Market value per share at year end.....	\$ 14.13	\$ 16.00	\$ 13.75	\$ 10.63	\$ 13.13
Market value per share to book value per share.....	89%	98%	86%	67%	74%
Common shares outstanding at year end (000).....	21,282	20,997	20,598	20,598	20,036
Number of common shareholders at year end.....	20,765	21,851	22,943	24,396	24,510

SEGMENT DATA

NATURAL GAS OPERATIONS
(THOUSANDS OF DOLLARS)

YEAR ENDED DECEMBER 31,

	1994	1993	1992	1991	1990
Sales.....	\$ 560,207	\$ 503,789	\$ 506,937	\$ 493,647	\$ 503,961
Transportation.....	39,061	34,361	27,190	21,201	15,008
Other.....	285	955	263	50,162	69,973
Total revenue.....	599,553	539,105	534,390	565,010	588,942
Net cost of gas purchased....	249,922	212,290	214,293	276,954	294,597
Operating margin.....	349,631	326,815	320,097	288,056	294,345
Expenses					
Operations and maintenance.....	178,310	169,921	159,954	154,370	144,809
Depreciation and amortization.....	57,284	55,088	52,277	47,140	43,979
Other.....	25,347	24,124	22,291	20,289	19,246
Operating income.....	\$ 88,690	\$ 77,682	\$ 85,575	\$ 66,257	\$ 86,311
Contribution to consolidated net income.....	\$ 23,524	\$ 13,751	\$ 32,214	\$ 18,291	\$ 30,981
Total assets at year end....	\$1,277,727	\$1,194,679	\$1,103,794	\$1,106,917	\$1,051,698
Net gas plant at year end....	\$1,035,916	\$ 954,488	\$ 906,420	\$ 854,254	\$ 806,960
Construction expenditures....	\$ 141,390	\$ 113,903	\$ 102,517	\$ 76,871	\$ 99,634
Cash flow, net					
From operating activities.....	\$ 87,364	\$ 50,628	\$ 81,457	\$ 93,925	\$ 55,188
From investing activities.....	(141,547)	(116,246)	(103,065)	(96,588)	(91,527)
From financing activities.....	58,132	67,297	(7,792)	27,351	39,363
Net change in cash.....	\$ 3,949	\$ 1,679	\$ (29,400)	\$ 24,688	\$ 3,024
Total throughput (thousands of therms)					
Sales.....	881,868	850,557	825,521	885,255	908,836
Transportation.....	914,791	725,023	651,141	509,478	459,303
Total throughput.....	1,796,659	1,575,580	1,476,662	1,394,733	1,368,139
Weighted average cost of gas purchased (\$/therm).....	\$ 0.30	\$ 0.29	\$ 0.26	\$ 0.26	\$ 0.26
Customers at year end.....	980,000	932,000	897,000	870,000	828,000
Employees at year end.....	2,359	2,318	2,285	2,243	2,217
Degree days -- actual.....	2,427	2,470	2,261	2,470	2,448
Degree days -- ten year average.....	2,387	2,401	2,375	2,419	2,356

SEGMENT DATA

FINANCIAL SERVICES
(THOUSANDS OF DOLLARS)

YEAR ENDED DECEMBER 31,

	1994	1993	1992	1991	1990
Interest income.....	\$ 118,434	\$ 132,325	\$ 165,678	\$ 213,991	\$ 255,907
Interest expense.....	59,790	75,076	111,917	158,788	208,236
Net interest income.....	58,644	57,249	53,761	55,203	47,671
Provision for credit losses.....	(7,230)	(6,212)	(14,129)	(12,058)	(3,269)
Net interest income after credit loss provision.....	51,414	51,037	39,632	43,145	44,402
Net income (loss) from real estate operations.....	(612)	(910)	(15,286)	(50,477)	5,676
Loan fees.....	1,165	1,025	2,280	3,428	3,164
Other income, net.....	9,466	11,024	13,112	12,143	9,482
General and administrative expenses.....	(43,508)	(48,296)	(45,309)	(41,237)	(38,452)
Amortization of cost in excess of net assets acquired.....	(3,861)	(3,984)	(4,156)	(4,156)	(4,156)
Operating income (loss).....	\$ 14,064	\$ 9,896	\$ (9,727)	\$ (37,154)	\$ 20,116
Contribution to consolidated net income (loss).....	\$ 2,777	\$ 1,655	\$ (14,553)	\$ (32,466)	\$ 6,190
Total assets at year end.....	\$1,816,321	\$1,751,419	\$2,237,734	\$2,356,057	\$2,712,562
Interest-earning assets at year end.....	\$1,675,368	\$1,582,720	\$2,022,121	\$2,152,494	\$2,450,629
Interest-bearing liabilities at year end.....	\$1,629,419	\$1,546,158	\$2,058,663	\$2,164,402	\$2,494,111
Cash flow, net					
From operating activities.....	\$ 25,569	\$ 38,863	\$ 4,984	\$ 19,033	\$ 18,797
From investing activities.....	(104,123)	460,069	139,110	316,303	58,025
From financing activities.....	83,261	(511,910)	(94,768)	(317,704)	(69,311)
Net change in cash.....	\$ 4,707	\$ (12,978)	\$ 49,326	\$ 17,632	\$ 7,511
Average yield on loans.....	8.58%	9.25%	10.14%	10.95%	11.06%
Average yield on debt securities.....	6.20	5.93	7.15	8.74	9.05
Average yield on cash equivalents.....	4.31	3.09	3.54	5.60	4.81
Average earning asset yield.....	7.45	7.28	8.32	9.56	10.02
Average cost of deposits.....	3.59	3.99	5.09	6.77	7.74
Average cost of borrowings...	5.00	4.69	6.95	7.35	8.71
Average cost of funds (net of capitalized and transferred interest and cost of hedging activities).....	3.90	4.14	5.58	7.03	7.89
Interest rate spread.....	3.55	3.14	2.74	2.53	2.13
Net yield on interest-earning assets.....	3.69	3.15	2.70	2.47	1.87

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The Company is comprised of two business segments; natural gas operations and financial services. The gas segment purchases, transports and distributes natural gas to residential, commercial, and industrial customers in geographically diverse portions of Arizona, Nevada, and California. The financial services segment (the Bank) is engaged in retail and commercial banking. The Bank's principal business is to attract deposits from the general public and make consumer and commercial loans secured by real estate and other collateral. During 1994, the gas segment contributed \$23.5 million and the financial services segment contributed \$2.8 million towards consolidated net income of \$26.3 million.

CONSOLIDATED CAPITAL RESOURCES AND LIQUIDITY

The capital requirements and resources of the Company generally are determined independently for the natural gas operations and financial services segments. Each business segment is generally responsible for securing its own financing sources.

Liquidity refers to the ability of an enterprise to generate adequate amounts of cash to meet its cash requirements. General factors that could affect consolidated capital resources and liquidity significantly in future years include inflation, growth in the economy and changes in income tax laws. In addition, other factors specific to the two operating segments of the Company include: the level of natural gas prices, interest rates, and changes in the ratemaking policies of regulatory commissions for the gas segment; and new banking regulations, interest rate sensitivity, credit risk, and competition for the financial services segment.

Inflation, as measured by the Consumer Price Index for all urban consumers averaged 2.7 percent in 1994, 2.7 percent in 1993 and 2.9 percent in 1992. See separate discussions of each business segment for impact of inflation on operations.

In May 1994, the Company's Board of Directors (the Board) declared a quarterly common stock dividend of 20.5 cents per share payable September 1, 1994, a 1 cent, or five percent, increase from the previous level. The increase was established in accordance with the Company's dividend policy which states that the Company will pay common stock dividends at a prudent level that is within the normal dividend payout range for its respective businesses, and that the dividend will be established at a level considered sustainable in order to minimize business risk and maintain a strong capital structure throughout all economic cycles.

The Board continues to review the Company's investment in the Bank with an emphasis on the Bank's capital position relative to its capital requirements. The Company presently does not anticipate having to contribute additional capital to the Bank.

The Bank's capital position has continued to improve. Accordingly, it now has the ability to pay cash dividends to the Company, subject to regulatory limitations. During 1994, the Company did not receive any dividends from the Bank. The Bank's Board of Directors (the BOD) will determine the amount of dividends, if any, the Bank will pay to the Company in 1995.

Consolidated cash and cash equivalents increased \$8.7 million during 1994, the result of increased cash flow from the gas segment of \$4 million and from the financial services segment of \$4.7 million. The increase from the gas segment is mainly attributable to the proceeds from the issuance of notes payable, offset by increased construction expenditures. The increase from the financial services segment is primarily due to deposit inflows.

In November 1994, Moody's Investors Service, Inc. upgraded the Company's unsecured debt rating from Ba1 to Baa3. In February 1995, Standard and Poor's Ratings Group reaffirmed the unsecured long-term debt rating at BBB- (triple B minus). Duff and Phelps Credit Rating Company's unsecured debt rating remained unchanged at BB+ (double B plus).

See Capital Resources and Liquidity for separate discussions of each business segment.

RESULTS OF CONSOLIDATED OPERATIONS

	CONTRIBUTION TO CONSOLIDATED NET INCOME YEAR ENDED DECEMBER 31,		
	(THOUSANDS OF DOLLARS)		
	1994	1993	1992
Natural gas operations segment.....	\$23,524	\$13,751	\$32,214
Financial services segment.....	2,777	(1,390)	(14,553)
Financial services segment cumulative effect of accounting change.....	--	3,045	--
Consolidated net income.....	<u>\$26,301</u>	<u>\$15,406</u>	<u>\$17,661</u>

1994 vs. 1993

Consolidated net income increased \$10.9 million compared to consolidated net income from the same period a year ago. The increase resulted from a \$9.8 million increase in net income contributed by the gas segment, and a \$1.1 million improvement in net income contributed by the financial services segment. See separate discussions of each business segment for an analysis of these changes.

Earnings per share increased 51 cents to \$1.22 per share in 1994. Dividends paid increased 6 cents to 80 cents per share, the result of the Board's two decisions to increase quarterly dividends. Average shares outstanding increased by 349,000 shares.

1993 vs. 1992

Consolidated net income decreased \$2.3 million compared to consolidated net income from the prior year. The decrease resulted from an \$18.5 million decrease in net income contributed by the gas segment, offset by a \$16.2 million improvement in net income contributed by the financial services segment (\$13.2 million before cumulative effect of accounting change). See separate discussions of each business segment for an analysis of these changes.

In January 1993, the Company adopted SFAS No. 109, "Accounting for Income Taxes," and applied the provisions prospectively. The cumulative effect of this change in method of accounting was an increase in net income of \$3 million. See Note 14 of the Notes to Consolidated Financial Statements for additional discussion.

Earnings per share decreased 10 cents to 71 cents per share in 1993. Dividends paid increased 4 cents to 74 cents per share, the result of the Board's decision to increase the quarterly dividend in May 1993. Average shares outstanding increased by 131,000 shares.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In May 1993, the Financial Accounting Standards Board (FASB) issued SFAS No. 114, "Accounting by Creditors for Impairment of a Loan." This statement is applicable to all creditors and to all loans, uncollateralized as well as collateralized, except for large groups of smaller-balance homogeneous loans that are collectively evaluated for impairment, loans that are measured at fair value or at lower of cost or fair value, leases, and debt securities as defined in SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities." SFAS No. 114 requires that an impaired loan be measured at the present value of expected future cash flows by discounting those cash flows at the loan's effective interest rate or, in the case of a collateral dependent loan such as a mortgage loan, at the fair value of the collateral. A loan is considered impaired when, based on current information and events, it is probable that a creditor will be unable to collect all amounts due according to the contractual terms of the loan agreement. The statement amends SFAS No. 15, "Accounting by Debtors and Creditors for Troubled Debt Restructurings," to require a creditor to account for a troubled debt restructuring involving a modification of terms at fair value as of the date of the restructuring. The statement also amends SFAS No. 5, "Accounting for Contingencies," to clarify that a creditor should evaluate the collectibility of both contractual interest and principal of a receivable when

assessing the need for a loss accrual. The provisions of the statement apply to financial statements issued for fiscal years beginning after December 15, 1994, with earlier application permitted. Retroactive restatement of previously issued annual financial statements is not permitted. In October 1994, the FASB issued SFAS No. 118, "Accounting by Creditors for Impairment of a Loan -- Income Recognition and Disclosures." The Statement amends SFAS No. 114 to allow a creditor to use existing methods for recognizing interest income on impaired loans. The statement is effective for financial statements issued for fiscal years beginning after December 15, 1994. The Company will adopt these statements on January 1, 1995 and does not anticipate a material impact on results of operations as a result of implementation.

In October 1994, the FASB also issued SFAS No. 119, "Disclosure about Derivative Financial Instruments and Fair Value of Financial Instruments." The statement was adopted by the Company as of December 31, 1994. See Note 17 of the Notes to Consolidated Financial Statements for additional discussion.

NATURAL GAS OPERATIONS SEGMENT

The Company is engaged in the business of purchasing, transporting, and distributing natural gas in portions of Arizona, Nevada and California. Its service areas are geographically as well as economically diverse. The Company is the largest distributor in Arizona, selling and transporting gas in most of southern, central and northwestern Arizona. The Company is also the largest distributor and transporter of natural gas in Nevada. The Company also distributes and transports gas in portions of California, including the Lake Tahoe area and high desert and mountain areas in San Bernardino County.

As of December 31, 1994, the Company had approximately 980,000 residential, commercial, industrial and other customers, of which 583,000 customers were located in Arizona, 292,000 in Nevada and 105,000 in California. Residential and commercial customers represented over 99 percent of the Company's customer base. During 1994, the Company added 48,000 customers, a five percent increase, of which 20,000 customers were added in Arizona, 26,000 in Nevada, and 2,000 in California. These additions are largely attributable to continued population growth in the Company's service areas. Customer growth over the past three years averaged four percent annually. Based on current commitments from builders, the Company expects to add approximately 60,000 customers by the end of 1995. During 1994, 57 percent of operating margin was earned in Arizona, 32 percent in Nevada, and 11 percent in California. This pattern is consistent with prior years and is expected to continue.

The Company's total gas plant in service increased from \$1.2 billion to \$1.4 billion, or at an annual rate of seven percent, during the three-year period ended December 31, 1994, reflecting continued customer growth within the Company's service territories.

CAPITAL RESOURCES AND LIQUIDITY

The growth of the gas segment during the last several years has required capital resources in excess of the amount of cash flow generated from operating activities (net of dividends paid). During 1994, the gas segment's capital expenditures were \$141 million. Cash flow from operating activities (net of dividends) provided \$70 million, or approximately 50 percent, of the required capital resources pertaining to these construction expenditures. The remainder was provided from net external financing activities. The Company received no dividends from the Bank during 1994 and is not dependent upon such dividends to meet the gas segment's cash requirements.

The Company currently estimates that construction expenditures for its gas segment during 1995 through 1997 will be approximately \$410 million, and debt maturities and repayments, and other cash requirements are expected to approximate \$15 million. In January 1995, term loan facilities totaling \$165 million were refinanced with a new \$200 million term loan facility which does not mature until 1998. See Note 11 of Notes to Consolidated Financial Statements for further discussion. It is currently estimated that cash flow from operating activities (net of dividends) will generate approximately one-half of the gas segment's total financing requirements during 1995 through 1997. A portion of the remaining financing requirements will be provided by \$83 million of funds held in trust from the 1993 Clark County, Nevada, Series A issue and 1993

City of Big Bear Lake, California, Series A issue industrial development revenue bonds (IDRB). The remaining cash requirements are expected to be provided by external financing sources. The timing, types, and amounts of these additional external financings will be dependent on a number of factors, including conditions in the capital markets, timing and amounts of rate relief, and growth factors in the Company's service areas. These external financings may include the issuance of both debt and equity securities, bank and other short-term borrowings, and other forms of financing.

In September 1994, the Company filed a shelf registration statement with the Securities and Exchange Commission. The shelf registration allows the Company to offer from time to time, in one or more series, its unsecured debt securities, shares of preferred stock, \$50 par value, and shares of its common stock, \$1 par value. These securities will have a maximum aggregate offering price of \$300 million and will be offered on terms to be determined at the time of the sale.

The gas segment's costs of natural gas, labor and construction are the categories most significantly impacted by inflation. Changes to the Company's cost of gas are generally recovered through PGA mechanisms and do not significantly impact net earnings. Labor is a component of the cost of service, and construction costs are the primary component of rate base. In order to recover increased costs, and earn a fair return on rate base, general rate cases are filed by the Company, when deemed necessary, for review and approval by its regulatory authorities. Regulatory lag, that is, the time between the date increased costs are incurred and the time such increases are recovered through the ratemaking process, can impact earnings. See Rates and Regulatory Proceedings for discussion of recent rate case proceedings.

RESULTS OF NATURAL GAS OPERATIONS

	1994	1993	1992
	-----	-----	-----
	(THOUSANDS OF DOLLARS)		
Gas operating revenues.....	\$599,553	\$539,105	\$534,390
Net cost of gas.....	249,922	212,290	214,293
	-----	-----	-----
Operating margin.....	349,631	326,815	320,097
Operations and maintenance expense.....	178,310	169,921	159,954
Depreciation and amortization.....	57,284	55,088	52,277
Taxes other than income taxes.....	25,347	24,124	22,291
	-----	-----	-----
Operating income.....	88,690	77,682	85,575
Other income (expense), net.....	(1,396)	(14,252)	(599)
	-----	-----	-----
Income before interest and income taxes.....	87,294	63,430	84,976
Net interest deductions.....	57,335	49,706	43,115
Income tax expense.....	11,331	4,914	14,382
	-----	-----	-----
Net income before allocation to the Bank.....	18,628	8,810	27,479
Carrying costs allocated to the Bank, net of tax.....	4,896	4,941	4,735
	-----	-----	-----
Contribution to consolidated net income.....	\$ 23,524	\$ 13,751	\$ 32,214
	=====	=====	=====

1994 vs. 1993

Contribution to consolidated net income was \$23.5 million, an increase of \$9.8 million from 1993, the result of increased operating margin, partially offset by increased operations and maintenance expenses, depreciation expense and general taxes. The recognition of the Arizona pipe replacement program disallowances during 1993 also contributed to the change.

Operating margin increased \$22.8 million, or seven percent, during 1994 compared to 1993. This increase was primarily due to annualized rate relief totaling \$9.5 million in the Arizona, southern California, and federal rate jurisdictions. The balance of the increase in margin is attributed to customer growth and weather. Increased demand for natural gas, through the addition of 48,000 customers, directly benefitted margin. Differences in heating demand between periods also positively impacted the change in margin, since weather more closely approximated normal in 1994 compared to 1993's warmer than normal conditions.

Operations and maintenance expenses increased \$8.4 million, or five percent, reflecting a general increase in labor costs, increased costs of materials and contractor services related to maintenance and other operating expenses. These increases are attributable to the incremental costs of providing service to the Company's steadily growing customer base.

Depreciation expense and taxes other than income taxes increased \$3.4 million, or four percent, primarily due to an increase in average gas plant in service of \$80 million, or six percent. This is attributable to capital expenditures for the upgrade of existing operating facilities and the expansion of the system to accommodate customer growth.

Other expenses for 1993 include the Arizona pipe replacement program disallowances. See Arizona Pipe Replacement Program Disallowances herein for additional information.

Net interest deductions increased \$7.6 million, or 15 percent, in 1994. Average debt outstanding during 1994 increased 13 percent compared to 1993, and consisted of a \$38 million increase in average long-term debt, net of funds held in trust, and a \$41 million increase in average short-term debt. The increase in debt is attributed primarily to borrowings for construction expenditures and operating activities as well as the drawdown of the IDRB funds previously held in trust. Higher interest rates on the variable-rate term loan facilities and short-term debt accounted for \$2.7 million of the increase in net interest deductions.

Carrying costs allocated to the Bank consist primarily of costs associated with the Company's investment in the Bank (principally interest) net of taxes.

1993 vs. 1992

Contribution to consolidated net income was \$13.7 million, a decrease of \$18.5 million from 1992, the result of increased operations and maintenance expenses, depreciation expense and general taxes partially offset by increased operating margin. An increase in net interest deductions and the recognition of the Arizona pipe replacement program disallowances also contributed to the decrease in net income.

Operating margin during 1993 increased \$6.7 million, or two percent, compared to 1992. This increase was primarily due to increased transportation volumes, and continued customer growth in all of the Company's service areas, combined with annualized rate relief of \$1.4 million effective January 1993 in its southern California jurisdiction, rate relief in its FERC jurisdiction (subject to refund) effective April 1993, and \$6.5 million in its central Arizona jurisdiction effective September 1993. Weather also had a significant impact on margin.

Operating margin from weather-sensitive customers increased \$1.3 million due to the rate relief in Arizona and California, and the addition of 35,000 customers system-wide during the 12-month period. However, differences in heating demand between periods negatively impacted operating margin from these customers largely offsetting the favorable occurrences.

Operating margin from other customers, primarily transportation, increased \$5.4 million. Transportation volumes increased by 11 percent over 1992 as cogeneration and electric generation customers increased throughput.

Operations and maintenance expenses increased \$10 million, or six percent, reflecting a general increase in labor costs, increased costs of materials and contractor services related to maintenance and other operating expenses. These increases are attributable to the incremental costs of providing service to the Company's steadily growing customer base.

Depreciation expense and other operating expenses (primarily property taxes) increased \$4.6 million, or six percent. During 1993, average gas plant in service increased \$105 million, or nine percent. This is attributable to capital expenditures for the continued upgrade of existing operating facilities and the expansion of the system to accommodate substantial customer growth, including the capacity expansion project on Paiute's pipeline system.

Net interest deductions increased \$6.6 million, or 15 percent, in 1993. Higher average outstanding long-term debt balances with associated higher average interest rates are the primary reasons for the increased interest expense. The increase in the average long-term debt balance is attributable to the net impact of the issuances of \$100 million in Series F Debentures and \$130 million in tax-exempt IDRb during the second half of 1992. The Company used \$80 million from the sale of the fixed-rate Series F Debentures to retire existing variable-rate indebtedness, which included \$40 million of short-term borrowings. The remaining \$20 million was used for general corporate purposes, including the planned expansion and replacement of utility plant. The Company used \$80 million from the sale of the fixed-rate IDRb to retire existing variable-rate IDRb. The remaining \$50 million was used to finance qualifying construction expenditures in the Company's Southern Nevada Division. The Company replaced the variable-rate long-term debt instruments with fixed-rate debt instruments in order to take advantage of the low interest rate environment. While interest costs have increased in the short term, the Company believes that it will achieve overall interest costs savings in the long term.

Arizona Pipe Replacement Program Disallowances. In August 1990, the ACC issued its opinion and order (Decision No. 57075) on the Company's 1989 general rate increase requests applicable to the Company's Central and Southern Arizona Divisions. Among other things, the order stated that \$16.7 million of the total capital expenditures incurred as part of the Company's Central Arizona Division pipe replacement program were disallowed for ratemaking purposes and all costs incurred as part of the Company's Southern Arizona Division pipe replacement program were excluded from the rate case and rate consideration was deferred to the Company's next general rate application, which was filed in November 1990.

In October 1990, the Company filed a Complaint in the Superior Court of the State of Arizona, against the ACC, to seek a judgement modifying or setting aside this decision. In February 1991, the Company filed a Motion for Summary Judgement in the Superior Court to seek a judgement summarily determining that Decision No. 57075 of the ACC is unreasonable and unlawful and, in accordance with that determination, modifying or setting aside Decision No. 57075 and allowing the Company to establish and collect reasonable, temporary rates under bond, pending the establishment of reasonable and lawful rates by the Commission. In June 1991, the Court affirmed the ACC's rate order without explanation or opinion. In August 1991, the Company appealed to the Arizona Court of Appeals from the Superior Court's judgement. In April 1993, Division Two of the Arizona Court of Appeals issued a Memorandum Decision affirming the ACC's opinion and order. Based on this decision, the Company filed a Motion for Reconsideration in the Court of Appeals in May 1993. The Motion for Reconsideration was denied and the Company, in July 1993, filed a Petition for Review with the Arizona Supreme Court. In February 1994, immediately following the denial of the Petition for Review by the Arizona Supreme Court, the Court of Appeals issued its Mandate ordering the Company to comply with its April 1993 Memorandum Decision.

As a result of the Arizona Court of Appeals Division Two Mandate, the Company wrote off in December 1993 \$15.9 million in gross plant related to the central and southern Arizona pipe replacement program disallowances. The impact of these disallowances, net of accumulated depreciation, tax benefits and other related items, was a noncash reduction to 1993 net income of \$9.3 million, or \$0.44 per share.

In addition, as part of the southern Arizona settlement (see Rates and Regulatory Proceedings -- Arizona below for further information), the Company agreed to write off \$3.2 million of gross plant in service related to southern Arizona pipe replacement programs in addition to the \$1.3 million disallowance previously written off in December 1993. The settlement also established a disallowance formula to be used in future rate cases for expenditures related to defective materials and/or installation. Cumulatively, the Company has written off \$19.1 million in gross plant related to both central and southern Arizona pipe replacement programs. The impact of these disallowances, net of accumulated depreciation, tax benefits and other related items, was a noncash reduction to net income of \$9.6 million, or \$0.45 per share, \$9.3 million of which was recognized in December 1993. The Company believes this settlement effectively resolves all financial issues associated with currently challenged Arizona pipe replacement programs, that it has adequately provided for future disallowances and does not anticipate further material effects on results of operations as a result of gross plant disallowances related to these pipe replacement programs.

RATES AND REGULATORY PROCEEDINGS

California

Effective January 1994, the Company received approval of an attrition allowance to increase annual margin by \$1.5 million for its southern and northern California rate jurisdictions. Pursuant to the CPUC rate case processing plan, the Company filed a general rate application in January 1994 to increase annual margin by \$1.1 million for its southern and northern California rate jurisdictions effective January 1995. In December 1994, the CPUC approved a settlement agreement effective January 1995 authorizing a \$1.1 million increase in margin. The settlement, which is in effect through 1998, suspends the supply adjustment mechanism (SAM) previously utilized in California. SAM is a mechanism by which actual margin is adjusted to the margin authorized in the Company's current tariff. The Company is now able to retain excess margin generated from additional volumes sold, but is also at risk for reductions in margin resulting from lower than projected sales volumes. In addition, the settlement suspends required annual attrition filings for southern California, but retains attrition adjustments in northern California for certain safety-related improvements.

Nevada

In March 1993, the Company filed general rate cases with the PSCN seeking approval to increase revenues by \$9.4 million, or eight percent, annually for its southern Nevada rate jurisdiction and \$3.3 million, or nine percent, annually for its northern Nevada rate jurisdiction. The Company's last general rate cases were September 1987 for southern Nevada and December 1988 for northern Nevada. Since that time, general rate cases had not been necessary in these jurisdictions primarily because of ongoing customer growth and Company initiated cost containment measures. The Company was seeking recovery of increased operating costs in these ratemaking areas and the restructuring of its tariffs and rates to reflect current changes within the natural gas industry. The PSCN issued its rate order in October 1993 and ordered the Company to reduce general rates by \$648,000 in southern Nevada and authorized a \$799,000 increase in northern Nevada. The primary reasons for the difference between the Company's requested annual revenue increases and the amounts authorized by the PSCN included lower authorized returns on rate base and lower authorized depreciation expenses. The Company filed a motion for reconsideration and rehearing on several issues following the issuance of the rate order. In January 1994, the PSCN granted the rehearing of certain rate case issues. In December 1994, the PSCN modified its previous decision and authorized the Company to increase rates in Nevada by approximately \$250,000.

Arizona

In October 1993, the Company filed a rate application with the ACC seeking approval to increase annual revenues by \$10 million, or 9.3 percent, for its southern Arizona jurisdiction. The Company sought to recover increased operating costs and obtain a return on construction expenditures, and had proposed tariff restructurings which would be consistent with the tariff modifications authorized by the ACC in its August 1993 central Arizona decision. In July 1994, the ACC approved a settlement agreement of the southern Arizona general rate case. The agreement was reached through negotiations between the Company, the ACC staff, and the Residential Utility Consumer Office. The agreement specifies a \$4.3 million, or 3.9 percent, rate increase which became effective July 1994. The Company also agreed not to file another general rate request for its southern Arizona jurisdiction before November 1996.

FERC

In October 1992, Paiute filed a general rate case with the FERC requesting approval to increase revenues by \$6.8 million annually. Paiute sought recovery of increased costs associated with its capacity expansion project that was placed into service in February 1993. Interim rates reflecting the increased revenues became effective in April 1993, which were subject to refund until a final order was issued. In January 1995, the FERC approved a settlement authorizing a \$4.3 million increase in revenue. Refunds of approximately \$5 million, including interest, were made to customers in March 1995. These refunds were fully reserved as of December 31, 1994.

FINANCIAL SERVICES SEGMENT

The Bank recorded net income of \$7.7 million for the year ended December 31, 1994 compared to net income of \$6.6 million and a net loss of \$9.8 million for the years ended December 31, 1993 and 1992, respectively. The Bank's 1994 net income is comprised of \$11.3 million from core banking operations compared to \$7.9 million in 1993. The growth in the 1994 income was attributable to an increased net interest margin along with increased operational efficiency.

FINANCIAL AND REGULATORY CAPITAL

At December 31, 1994, stockholder's equity totaled \$166 million. Stockholder's equity decreased \$10.6 million compared to December 31, 1993, as a result of the decline in unrealized gains, after tax, on debt securities available for sale partially offset by net income of \$7.7 million. The Bank has not paid any cash dividends to the Company since 1989. The Bank may pay cash dividends to the Company of 50 percent of cumulative net income. Cash dividends in excess of this amount require regulatory approval. In addition, under OTS regulations, the Bank is restricted to paying no more than 75 percent of its net income over the preceding four quarters to the Company.

During 1994, the Bank's regulatory capital levels and ratios decreased under each of the three fully phased-in FDICIA capital standards. OTS regulations effective in 1993 included unrealized gains, net of tax, on debt securities in regulatory capital for all three capital measures. In 1994, the OTS and other federal banking regulators issued regulations excluding this component from regulatory capital. Other factors contributing to the change in regulatory capital levels include a decrease in the amount of includable goodwill and real estate investments.

As discussed in Note 2 of the Notes to Consolidated Financial Statements, as of December 31, 1994 and 1993, the Bank exceeded all three fully phased-in minimum capital requirements under the regulatory capital regulations issued under FDICIA.

During 1993, the Bank achieved "well capitalized" status through a combination of increased capital from net income and unrealized gains from debt securities, and the reduction of assets and goodwill through the Arizona sale. It is management's intent to maintain and improve the level of capital through earnings and the stabilization of the asset base. The Bank maintained its "well capitalized" status throughout 1994.

The Bank is subject to an OTS regulation requiring institutions with IRR exposure classified as "above normal" to reduce their risk-based capital by 50 percent of the amount by which the IRR exposure exceeds a specified "normal" threshold. Based on the OTS's measurement of the Bank's September 30, 1994 and December 31, 1994 IRR, the Bank may be required to reduce its risk-based capital by approximately \$1.5 million on June 30, 1995 and \$1.9 million on September 30, 1995, in the absence of corrective action to reduce the Bank's IRR exposure or a significant change in market interest rates in the interim. As of December 31, 1994, the Bank has sufficient risk-based capital to allow it to continue to be classified as "well capitalized" under FDICIA capital requirements after such a reduction for IRR exposure. Management is currently reviewing possible strategies for reducing the Bank's IRR exposure to a "normal" level or below.

Under SFAS No. 115, unrealized gains and losses, net of tax, on securities available for sale are recorded as an adjustment to stockholder's equity. Under OTS regulations in 1993, this component of equity was included as regulatory capital under all three capital measures. In 1994, OTS and other federal banking regulators issued regulations excluding this component from regulatory capital. Approximately \$8.8 million of unrealized gain was includable in capital for 1993, whereas in 1994 no such gain (or loss) was included.

CAPITAL RESOURCES AND LIQUIDITY

Liquidity is defined as the Bank's ability to have sufficient cash reserves on hand and unencumbered assets, which can be sold or utilized as collateral for borrowings at a reasonable cost, or with minimal losses. The Bank's debt security portfolio provides the Bank with adequate levels of liquidity so that the Bank is able to meet any unforeseeable cash outlays and regulatory liquidity requirements.

Potential liquidity demands may include funding loan commitments, deposit withdrawals, and other funding needs. In order to achieve sufficient liquidity for the Bank without taking a large liquid or illiquid position and avoiding funding concentrations, the Bank has taken the following actions: 1) maintaining lines of credit with authorized brokers/dealers; 2) managing the debt security portfolio to ensure that maturities meet liquidity needs; 3) limiting investment or lending activities at certain times and 4) establishing maximum borrowing limits for meeting liquidity needs.

The OTS has issued regulations regarding liquidity requirements which state that the Bank is required to maintain an average daily balance of liquid assets equal to at least five percent of its liquidity base (as defined in the OTS Regulations) during the preceding calendar month. The Bank is also required to maintain an average daily balance of short-term liquid assets equal to at least one percent of its liquidity base as defined in the regulations. Throughout 1994, the Bank exceeded both regulatory liquidity requirements. For the month of December the Bank's liquidity ratios were 13.4 percent and 8.3 percent, respectively. The Bank's liquidity ratio is substantially higher than the regulatory requirement due to the Bank's increasing level of transaction accounts. The regulatory requirement is aimed at a more traditional savings institution which has a higher level of certificate of deposit accounts versus transaction accounts.

Borrowings, in the form of reverse repurchase agreements, increased from \$259 million at December 31, 1993 to \$282 million at December 31, 1994. During 1994, the Bank repaid \$29.4 million in long-term fixed-rate borrowings while increasing short-term borrowings by \$52.3 million.

The Bank has adequate levels of liquidity and unencumbered assets to meet its day-to-day operational needs and to meet the regulatory requirements for liquidity. The daily operational liquidity needs of the Bank in 1994 were primarily met through \$603 million of repayments on loans and debt securities, \$28.4 million of borrowings from the FHLB, \$46.1 million of loan sales, and \$32.1 million in deposit growth.

The Bank's borrowing capacity is a function of the availability of its readily marketable, unencumbered assets and the Bank's financial condition. Secured borrowings may be obtained from the FHLB in the form of advances and from authorized broker/dealers in the form of reverse repurchase agreements. At December 31, 1994, the Bank maintained in excess of \$319 million of unencumbered assets, with a market value of \$311 million, which could be borrowed against, or sold, to increase liquidity levels.

The primary management objective of the investment portfolio is to invest the excess funds of the Bank. This includes ensuring that the Bank maintains adequate levels of liquidity so it is able to meet any unforeseeable cash outlays. This task is accomplished by active investment in securities that provide the greatest return, for a given price and credit risk, in order to maximize the total return to the Bank.

The secondary management objective of the investment portfolio is to serve as the Bank's primary short-term tool to manage the IRR exposure of the institution. The Bank's asset/liability management objective generally requires a trade-off between achieving the highest profitability in terms of net interest income, while maintaining acceptable levels of IRR. To accomplish these objectives, management can change the composition of the investment portfolio allowing management to quickly adjust the IRR exposure of the Bank, and take advantage of interest rate changes in the markets. The tables in Note 3 of the Notes to Consolidated Financial Statements depict the amortized cost, estimated fair values, contractual maturity, and yields of the debt security portfolios.

As of December 31, 1994, the Bank's debt security portfolio was composed of securities with a fair value of \$629 million (amortized cost of \$646 million) with a yield of 6.79 percent compared to a debt security portfolio with a fair value of \$664 million (amortized cost of \$652 million) yielding 6.17 percent at December 31, 1993.

During 1994, the debt security portfolio balance declined by \$34 million. Purchases of debt securities and poolings of loans into debt securities approximated the total of sales, maturities, and prepayments during 1994. The decline in the portfolio is primarily the result of a \$28 million decline in the unrealized gain in debt securities available for sale. Debt securities available for sale included a \$13.5 million unrealized gain at December 31, 1993, which declined to a \$14.5 million unrealized loss at December 31, 1994 as a result of increases in interest rates during the period.

The Bank's assets and liabilities consist primarily of monetary assets (cash, cash equivalents, debt securities and loans receivable) and liabilities (savings deposits and borrowings) which are, or will be converted into a fixed amount of dollars in the ordinary course of business regardless of changes in prices. Monetary assets lose purchasing power due to inflation, but this is offset by gains in the purchasing power of liabilities, as these obligations are repaid with inflated dollars.

The level and movement of interest rates is of much greater significance. Inflation is but one factor that can cause interest rate volatility and changes in interest levels. The results of operations of the Bank are dependent upon its ability to manage such movements. See Risk Management -- Interest Rate Risk Management herein for additional discussion.

RISK MANAGEMENT

The financial services industry has certain risks. In order to be successful and profitable, in an increasingly volatile and competitive marketplace, the Bank must accept some forms of risk and manage these risks in a safe and sound manner. Generally, transactions that the Bank enters into require the Bank to accept some measure of credit risk and IRR, and utilize equity capital. The Bank has established certain guidelines in order to manage the Bank's assets and liabilities. These guidelines will help ensure that the risks taken and consumption of capital are optimized to achieve maximum profitability, while minimizing risks to equity and the federal deposit insurance fund. See Note 17 of Notes to Consolidated Financial Statements for further discussion of Interest Rate Risk Management.

Interest Rate Risk (IRR) Management

The Bank has established certain guidelines to manage the exposure of the Bank's net interest income, net income, and net portfolio value (NPV) to interest rate fluctuations. NPV represents a theoretical estimate of the market value of the Bank's stockholder's equity, calculated as the net present value of expected cash flows from financial assets and liabilities, plus the book values of all nonfinancial assets and liabilities. The guidelines establish acceptable activities and instruments to manage IRR and include limits on overall IRR exposure, methods of accountability and specific reports to be provided by management for periodic review.

The Bank maintains an IRR simulation model which enables management to measure the Bank's IRR exposure using various assumptions and interest rate scenarios, and to incorporate alternative strategies for the reduction of IRR exposure. The Bank measures its IRR using several methods to provide a comprehensive view of its IRR from various perspectives. These methods include projection of current NPV and future periods' net interest income after rapid and sustained interest rate movements, static analysis of repricing and maturity mismatches, or gaps, between assets and liabilities, and analysis of the size and sources of basis risk.

Static gap analysis measures the difference between financial assets and financial liabilities scheduled and expected to mature or reprice within a specified time period. The gap is positive when repricing and maturing assets exceed repricing and maturing liabilities, where as the gap is negative when repricing and maturing liabilities exceed repricing and maturing assets. A positive or negative cumulative gap indicates in a general way how the Bank's net interest income should respond to interest rate fluctuations. A positive cumulative gap for a period generally means that rising interest rates would be reflected sooner in financial assets than in financial liabilities, thereby increasing net interest income over that period. A negative cumulative gap for a period would produce an increase in net interest income over that period if interest rates declined.

At December 31, 1994, the Bank had financial assets of \$1.7 billion with a weighted average yield of 7.26 percent, and financial liabilities of \$1.6 billion with a weighted average rate of 4.10 percent. The Bank's cumulative one-year static gap was a negative \$145 million, or eight percent of financial assets. The Bank's financial assets and financial liabilities are presented according to their frequency of repricing, and scheduled or expected maturities in the following table (thousands of dollars):

STATIC GAP AS OF DECEMBER 31, 1994

	PERCENT OF TOTAL	TOTAL BALANCE	YIELD/ RATE	REPRICING SENSITIVITY AT DECEMBER 31, 1994		
				WITHIN 1 YEAR	1 - 5 YEARS	OVER 5 YEARS
FINANCIAL ASSETS						
Cash and cash equivalents(1)....	7.2%	\$ 123,922	4.29%	\$ 123,922	\$ --	\$ --
Debt securities available for sale(2)	30.7	529,400	6.65	405,276	114,108	10,016
Debt securities held to maturity(2).....	5.9	101,880	7.55	69,273	29,722	2,885
Loans receivable:						
Loans receivable held for sale.....	0.1	2,114	8.20	2,114	--	--
Adjustable-rate real estate(3)						
Construction and land.....	2.8	47,971	10.23	46,492	1,045	434
Other real estate.....	13.9	238,897	6.56	238,131	766	--
Fixed-rate real estate(4).....	26.9	464,028	8.06	55,497	192,847	215,684
Consumer, commercial and all other(4).....	11.5	197,351	9.17	103,699	77,496	16,156
FHLB stock(5).....	1.0	17,277	3.50	17,277	--	--
Total financial assets.....	100.0%	1,722,840	7.26%	1,061,681	415,984	245,175
	=====		=====			
Nonfinancial assets.....		93,481				
Total assets.....		\$1,816,321				
		=====				
FINANCIAL LIABILITIES						
Deposits:						
Interest-bearing demand and money market deposits(6)...	19.3%	\$ 313,949	3.11%	313,949	--	--
Certificates of deposit(1)....	47.7	777,830	4.81	523,438	229,037	25,355
Savings deposits(6).....	4.8	78,876	2.56	78,876	--	--
Noninterest-bearing demand deposits(7).....	4.3	69,294	--	26,671	7,687	34,936
Borrowings:						
Advances from FHLB(1).....	6.1	99,400	4.70	50,000	46,000	3,400
Securities sold under agreements to repurchase(8).....	17.3	281,935	4.31	277,996	3,939	--
Other(10).....	0.5	8,135	8.91	8,135	--	--
Total financial liabilities.....	100.0%	1,629,419	4.10%	1,279,065	286,663	63,691
	=====		=====			
Impact of hedging-fixed(9).....		--		72,450	(45,400)	(27,050)
Nonfinancial liabilities.....		20,514				
Stockholder's equity.....		166,388				
Total liabilities and stockholder's equity.....		\$1,816,321				
		=====				
Maturity gap.....				\$ (144,934)	\$ 83,921	\$154,434
				=====	=====	=====
Cumulative gap.....				\$ (144,934)	\$(61,013)	\$ 93,421
				=====	=====	=====
Cumulative gap as a percent of financial assets.....				(8.4)%	(3.5)%	5.4%
				=====	=====	=====

Note: Loans receivable exclude allowance for credit losses, discount reserves, deferred loan fees, loans in process, and accrued interest on loans.

STATIC GAP ASSUMPTIONS AS OF DECEMBER 31, 1994

- (1) Based on the contractual maturity or term to next repricing of the instrument(s).
- (2) Maturity sensitivity is based upon characteristics of underlying loans. Portions represented by adjustable-rate certificates are included in the "Within 1 Year" category, as underlying loans are subject to interest rate adjustment at least semiannually or annually. Portions represented by fixed-rate loans are based on contractual maturity, and projected repayments and prepayments of principal.
- (3) Adjustable-rate loans are included in each respective category depending on the term to next repricing and projected repayments and prepayments of principal.
- (4) Maturity sensitivity is based upon contractual maturity, and projected repayments and prepayments of principal.
- (5) FHLB stock has no contractual maturity. The Bank receives quarterly dividends on all shares owned and the balance is therefore included in the "Within 1 Year" category. The amount of such dividends is not fixed, and varies quarterly.
- (6) Interest-bearing demand, money market deposits, and savings deposits may be subject to daily interest rate adjustment and withdrawal on demand, and are therefore included in the "Within 1 Year" category.
- (7) Noninterest-bearing demand deposits have no contractual maturity, and are included in each repricing category based on the Bank's historical attrition of such accounts.
- (8) Floating-rate reverse repurchase agreements are included in the "Within 1 Year" category. Principal repayments of flexible reverse repurchase agreements are based on the projected timing of construction or funding of the underlying project.
- (9) Hedging consisted of fixed rate interest rate swaps as of December 31, 1994.
- (10) Based on expected maturity.

While the static gap analysis is a useful asset/liability management tool, it does not fully assess IRR. Static gap analysis does not address the effects of customer options (such as early withdrawal of time deposits, withdrawal of deposits with no stated maturity, and mortgagors' options to prepay loans) and Bank strategies (such as delaying increases in interest rates paid on certain interest-bearing demand and money market deposit accounts) on the Bank's net interest income, net income, and NPV. In addition, the static gap analysis assumes no changes in the spread relationships between market rates on interest-sensitive financial instruments (basis risk), or in yield curve relationships. Therefore, a static gap analysis is only one tool with which to analyze IRR, and must be reviewed in conjunction with other asset/liability management reports.

Credit Risk Management

Management has also established certain guidelines and criteria in order to manage the credit risk of the Bank's debt security portfolios, including concentration limits, credit rating and geographic distribution requirements. The following table presents the credit quality of the debt security portfolios:

RATING:	AT DECEMBER 31, 1994 PERCENTAGE OF PORTFOLIO	AT DECEMBER 31, 1993 PERCENTAGE OF PORTFOLIO
AAA.....	91.2%	87.6%
AA.....	2.7	5.9
A.....	1.0	1.8
BBB.....	1.3	0.2
Other.....	3.8	4.5
Total.....	100.0% =====	100.0% =====

The other category primarily includes the Bank's investment in the privately issued MBS classified as substandard, as further explained in this section.

OTS regulations require the Bank to classify certain assets into one of three categories -- "substandard," "doubtful" and "loss." An asset which does not currently warrant classification as substandard but which

possesses weaknesses or deficiencies deserving close attention is considered a criticized asset and is designated as "special mention." The Bank designated \$32.2 million of its assets as "special mention" at December 31, 1994.

The following table sets forth the amounts of the Bank's classified assets and ratio of classified assets to total assets, net of specific reserves and charge-offs, as of the dates indicated (thousands of dollars):

	DECEMBER 31,				
	1994	1993	1992	1991	1990
Substandard assets:					
Loans.....	\$29,591	\$37,886	\$55,727	\$ 66,839	\$25,965
Foreclosed real estate (net).....	7,631	9,707	24,488	14,875	10,363
Loans to facilitate.....	--	--	80	760	357
Real estate held for investment.....	1,191	2,166	1,616	24,587	3,111
Investment.....	21,972	29,509	--	--	17,857
Doubtful assets.....	--	--	--	--	--
Loss assets.....	--	--	--	--	--
Total.....	\$60,385	\$79,268	\$81,911	\$107,061	\$57,653
Ratio of classified assets to total assets.....	3.32%	4.53%	3.66%	4.54%	2.13%

The Bank's "substandard" assets decreased from \$79 million at December 31, 1993 to \$60 million at December 31, 1994, primarily as a result of upgrade of loans to special mention, payoffs of real estate loans, repayments on the classified investment security, and disposition of foreclosed real estate. Assets classified as "substandard" are inadequately protected by the current net worth or paying capacity of the obligor or the collateral pledged, if any. Foreclosed real estate decreased \$2.1 million during 1994, principally as a result of partial sales on insubstance foreclosures of \$1.8 million and other sales and write-downs. It is the Bank's practice to charge off all assets which it considers to be "loss." As a result, none of the Bank's assets, net of charge-offs, were classified as "loss" at December 31, 1994.

The investment classified as substandard represents a privately issued MBS collateralized by apartments, office buildings, town homes, shopping centers and day care centers located in various states along the southeastern seaboard which is supported by a credit enhancement feature. The single A credit rating of this security was withdrawn by the rating agency in January 1993, due to the delinquency of a large number of the loans underlying the security. Because of the limited number of owners of the security, no quoted market value is available on the MBS. Therefore, the Bank's management performed a credit review of the loans underlying the MBS to determine the appropriate fair value of the security. Based on such reviews, the Bank determined that only a portion of the underlying loans met the criteria for substandard classification. However, the entire investment security is classified as substandard because the OTS does not have a policy for the "split rating" of a security.

The current level of the Bank's classified assets reflects significant improvement from the prior two years. Aggressive management of the resolution of these assets along with some stabilization within the economy contributed to the success in reducing the classified asset portfolio. Although progress has been positive, the Bank is unable to predict at this time what level, if any, of these assets may subsequently be charged off or may result in actual losses. The rising interest rate environment could have an adverse impact on both the level of classified assets and the level of charge-offs on interest rate sensitive assets.

As a result of the Bank's internal review process, the general allowance for estimated credit losses increased to \$17.7 million at December 31, 1994, from \$16.3 million at December 31, 1993. During 1994, the Bank established provisions for estimated credit losses totaling \$7.4 million, of which \$7.2 million related to the Bank's loan, foreclosed real estate, and debt security portfolio and \$200,000 was related to its real estate investment portfolio. In 1993, the Bank established provisions for estimated credit losses totaling \$7.2 million, of which \$1 million related to the Bank's real estate investment portfolio and \$6.2 million related to its loan, foreclosed real estate portfolio, and debt security portfolio.

The Bank's loan portfolio is concentrated primarily in Nevada, California and Arizona. The following table summarizes the geographic concentrations of the Bank's loan portfolios at December 31, 1994 (thousands of dollars):

LOANS BY REGION

	RESIDENTIAL	COMMERCIAL MORTGAGE	CONSUMER	CONSTRUCTION AND LAND	COMMERCIAL	TOTAL
Nevada.....	\$384,757	\$159,955	\$139,370	\$45,974	\$43,329	\$773,385
California.....	105,347	2,107	1,286	172	--	108,912
Arizona.....	35,281	4,592	15,285	--	110	55,268
Other.....	349	--	237	--	--	586
Total.....	\$525,734	\$166,654	\$156,178	\$46,146	\$43,439	\$938,151

At December 31, 1994, 48 percent or \$19.5 million of the Bank's outstanding commercial secured loan portfolio consisted of loans to borrowers in the gaming industry, with additional unfunded commitments of \$11.5 million. These loans are generally secured by real estate and equipment. The Bank's portfolio of loans, collateralized by real estate, consists principally of real estate located in Nevada, California and Arizona. Collectibility is, therefore, somewhat dependent on the economies and real estate values of these areas and industries.

The following table sets forth by geographic location the amount of classified assets at December 31, 1994 (thousands of dollars):

CLASSIFIED ASSETS BY GEOGRAPHIC LOCATION

	MORTGAGE LOANS	CONSTRUCTION AND LAND LOANS	NON- MORTGAGE LOANS	FORECLOSED REAL ESTATE	INVESTMENTS IN REAL ESTATE	TOTAL
Nevada.....	\$22,469	\$ 8	\$1,297	\$2,086	\$ 330	\$26,190
California.....	4,330	607	--	5,248	--	10,185
Arizona.....	880	--	--	297	861	2,038
Other.....	21,972	--	--	--	--	21,972
Total.....	\$49,651	\$615	\$1,297	\$7,631	\$1,191	\$60,385

The mortgage loans of \$22 million in other states represents the classified MBS collateralized by loans in states along the southeastern seaboard. Classified construction and land loans include committed but undisbursed loan amounts.

The following table sets forth by type of collateral, the amount of classified assets at December 31, 1994 (thousands of dollars):

CLASSIFIED ASSETS BY TYPE OF LOAN

	LOANS	FORECLOSED REAL ESTATE	INVESTMENTS IN REAL ESTATE	DEBT SECURITY
Single-family residential.....	\$ 6,882	\$1,549	\$ --	\$ --
Commercial and multi-family mortgage.....	20,797	3,257	861	21,972
Construction/land.....	615	2,722	330	--
Consumer.....	1,297	103	--	--
Other.....	--	--	--	--
Total.....	\$29,591	\$7,631	\$1,191	\$21,972

The largest substandard loan at December 31, 1994 was an \$8.2 million multi-family real estate loan in Nevada. In addition, the Bank had three other substandard loans at December 31, 1994 in excess of \$1 million: two hotel loans and one multi-family loan, all located in Nevada.

The largest parcel of foreclosed real estate owned by the Bank at December 31, 1994, was a \$1.4 million land parcel located in California. The Bank also owns two parcels of foreclosed real estate at December 31, 1994 with book values in excess of \$1 million: one apartment complex located in Nevada and a single-family construction property located in California.

Substandard real estate held for investment includes an \$860,000 Arizona branch facility not included as part of the Arizona sale. This branch facility was formerly included in premises and equipment. See Note 2 of the Notes to Consolidated Financial Statements for further discussion.

The following table presents the Bank's net charge-off experience for loans receivable and real estate acquired through foreclosure by loan type (thousands of dollars):

	NET CHARGE-OFFS		
	1994	1993	1992
Single-family residential.....	\$ 827	\$ 916	\$ 422
Commercial and multi-family mortgage.....	959	2,275	93
Construction/land.....	1,297	2,248	3,765
Nonmortgage.....	2,739	1,750	4,682
Net charge-offs.....	<u>\$5,822</u>	<u>\$7,189</u>	<u>\$8,962</u>

The \$959,000 of commercial mortgage charge-offs for the year ended December 31, 1994 were comprised principally of two apartment complex properties totaling \$765,000, both located in Nevada. Construction and land losses in 1994 consisted primarily of two California loans totaling \$747,000 and one land parcel in Nevada for \$145,000. Nonmortgage loan charge-offs were principally comprised of \$1.4 million of losses in installment loans, \$558,000 of credit card charge-offs, and \$432,000 in charge-offs from the merchant services portfolio in 1994. SFR charge-offs for 1994 and 1993 consist primarily of California-based loans and real estate acquired through foreclosure.

RESULTS OF FINANCIAL SERVICES OPERATIONS

The Bank's net income depends in large part on the difference, or interest rate spread, between the yield it earns from its loan and debt security portfolios and the rates it pays on deposits and borrowings.

The following table reflects, for the periods indicated, the components of net interest income of the Bank, setting forth average assets, liabilities and equity; interest income on interest-earning assets and interest expense on interest-bearing liabilities; average yields on interest-earning assets and interest-bearing liabilities; and net interest income (thousands of dollars):

	YEAR ENDED DECEMBER 31,								
	1994			1993			1992		
	AVERAGE BALANCE	INTEREST	AVERAGE YIELD	AVERAGE BALANCE	INTEREST	AVERAGE YIELD	AVERAGE BALANCE	INTEREST	AVERAGE YIELD
Assets									
Interest-earning assets									
Cash equivalents.....	\$ 56,380	\$ 2,432	4.31%	\$ 42,787	\$ 1,321	3.09%	\$ 38,107	\$ 1,349	3.54%
Debt securities held to maturity.....	73,520	4,919	6.69	425,141	26,909	6.33	1,065,593	75,955	7.13
Debt securities available for sale....	556,781	34,165	6.14	542,264	30,395	5.61	12,029	1,043	8.67
Loans receivable.....	886,702	76,080	8.58	790,082	73,106	9.25	858,360	87,038	10.14
FHLB stock.....	16,916	838	4.95	16,475	594	3.61	17,392	293	1.68
Total interest-earning assets.....	1,590,299	118,434	7.45	1,816,749	132,325	7.28	1,991,481	165,678	8.32
Noninterest-earning assets									
Real estate held for sale or development...	10,785			26,132			36,947		
Premises and equipment, net.....	22,236			28,807			32,846		
Other assets.....	39,502			56,443			57,107		
Excess of cost over net assets acquired.....	67,632			73,972			81,620		
Total assets.....	\$1,730,454			\$2,002,103			\$2,200,001		
Liabilities and Stockholder's Equity									
Interest-bearing liabilities									
Deposits.....	\$1,229,515	44,116	3.59	\$1,443,628	57,643	3.99	\$1,688,884	85,974	5.09
Securities sold under agreements to repurchase.....	222,620	11,024	4.95	305,123	13,132	4.30	204,222	12,213	5.98
Advances from FHLB.....	73,510	3,543	4.82	38,897	2,147	5.52	40,639	3,389	8.34
Bonds payable.....	--	--	--	--	--	--	29,102	3,015	10.36
Notes payable.....	8,203	635	7.74	14,229	1,170	8.22	19,448	1,623	8.35
Unsecured senior notes.....	--	--	--	13,777	1,021	7.41	25,000	1,881	7.52
Total interest-bearing liabilities.....	1,533,848	59,318	3.87	1,815,654	75,113	4.14	2,007,295	108,095	5.39
Cost of hedging activities.....		485	.03		24	--		4,794	.24
Cost of funds.....		59,803	3.90		75,137	4.14		112,889	5.63
Noninterest-bearing liabilities and stockholder's equity									
Other liabilities and accrued expenses.....	21,625			22,914			28,558		
Total liabilities.....	1,555,473			1,838,568			2,035,853		
Total stockholder's equity.....	174,981			163,535			164,148		
Total liabilities and equity.....	\$1,730,454			\$2,002,103			\$2,200,001		
Capitalized and transferred interest....									
		13	--		61	--		972	.05
Net interest income.....		\$ 58,644	3.55%		\$ 57,249	3.14%		\$ 53,761	2.74%
Net yield on interest-earning assets.....			3.69%			3.15%			2.70%

Note: Loans receivable include accrued interest and loans on nonaccrual, and are net of undisbursed funds, valuation allowances, discounts and deferred loan fees.

The following table shows, for the periods indicated, the effects of the two primary determinants of the Bank's net interest income: interest rate spread and the relative amounts of interest-sensitive assets and liabilities. The table also shows the extent to which changes in interest rates and changes in the volumes of interest sensitive assets and liabilities have affected the Bank's interest income and expense for the periods indicated. Changes from period to period are attributed to: (i) changes in rate (change in weighted average interest rate multiplied by prior period average portfolio balance); (ii) changes in volume (change in average portfolio balance multiplied by prior period rate); and (iii) net or combined changes in rate and volume. Any changes attributable to both rate and volume that cannot be segregated have been allocated proportionately between the two factors.

	YEAR ENDED DECEMBER 31,					
	1994 COMPARED TO 1993			1993 COMPARED TO 1992		
	INCREASE (DECREASE)			INCREASE (DECREASE)		
	DUE TO CHANGES IN			DUE TO CHANGES IN		
VOLUME	RATE	NET	VOLUME	RATE	NET	
(THOUSANDS OF DOLLARS)						
INTEREST INCOME ON:						
Cash equivalents.....	\$ 496	\$ 615	\$ 1,111	\$ 623	\$ (651)	\$ (28)
Debt securities held to maturity....	(23,620)	1,630	(21,990)	(41,340)	(7,706)	(49,046)
Debt securities available for sale.....	831	2,939	3,770	29,589	(237)	29,352
Loans receivable.....	7,336	(4,362)	2,974	(6,635)	(7,297)	(13,932)
Dividends on FHLB stock.....	16	228	244	(15)	316	301
Total interest income.....	(14,941)	1,050	(13,891)	(17,778)	(15,575)	(33,353)
INTEREST EXPENSE ON:						
Deposits.....	(8,035)	(5,492)	(13,527)	(11,402)	(16,929)	(28,331)
Securities sold under agreements to repurchase.....	(4,755)	2,647	(2,108)	2,124	(1,205)	919
Advances from FHLB.....	1,628	(232)	1,396	(140)	(1,102)	(1,242)
Bonds payable.....	--	--	--	(1,508)	(1,507)	(3,015)
Notes payable.....	(470)	(65)	(535)	(430)	(23)	(453)
Unsecured senior notes.....	(1,021)	--	(1,021)	(832)	(28)	(860)
Total interest expense.....	(12,653)	(3,142)	(15,795)	(12,188)	(20,794)	(32,982)
Cost (benefit) of hedging activity.....	730	(269)	461	(3,364)	(1,406)	(4,770)
Cost of funds.....	(11,923)	(3,411)	(15,334)	(15,552)	(22,200)	(37,752)
Capitalized and transferred interest.....	(12)	(36)	(48)	(502)	(409)	(911)
Net interest income.....	\$ (3,030)	\$ 4,425	\$ 1,395	\$ (2,728)	\$ 6,216	\$ 3,488

1994 vs. 1993

The Bank recorded net income of \$7.7 million for the year ended December 31, 1994, compared to net income of \$6.6 million for the year ended December 31, 1993. The increase in net income was principally due to an improved net interest margin, along with increased operational efficiency.

The lower interest-earning asset base is the result of the Bank's strategy of reducing its total asset size. The increase in the average yield on interest-earning assets is the result of the repricing of interest sensitive loans and debt securities, repayment of lower yielding loans and debt securities, and the replacement of such loans and debt securities with higher yielding originations and purchases.

The following summarizes the significant effects of these factors:

- (i) Interest on cash equivalents increased due to the higher yield which was a result of the higher interest rates, and increased volume during the year.
- (ii) Debt securities, in total, decreased principally as a result of the sale of \$334 million to fund the transfer of the Arizona-based deposit liabilities in 1993 (Arizona sale) and paydowns within the

portfolio, offset partially by purchases of \$296 million. The decrease in average balance of debt securities also resulted in a decrease of the interest on debt securities. As the Arizona sale did not occur until the last half of 1993, the average balance of the debt securities was higher in 1993. The increase in the yield was due to sales of lower coupon securities in 1993 and to the purchase of higher yielding debt securities in 1994.

- (iii) The average loans receivable portfolio increased principally due to a decrease in loan payoffs from 1994 compared to 1993, partially offset by decreased loan originations. Total loan originations for 1994 were \$466 million compared to originations of \$500 million for 1993. The decline in loan originations for 1994 was due to the rising interest rate environment and the corresponding decline in refinance activity. The rise in interest rates also slowed down the prepayments within the Bank's mortgage loan portfolio. The average yield on loans declined as a result of lower interest rates on newly funded adjustable-rate mortgage loans.
- (iv) Dividends on FHLB stock increased as a result of a higher declared dividend rate in 1994.
- (v) The average balance for deposits decreased as a result of the Arizona sale of \$321 million in 1993. The average balance of deposits was higher in 1993 because the sale occurred in the last half of the year. The decrease in the cost of savings was due to the lower interest rate environment.
- (vi) The decrease in interest on securities sold under agreements to repurchase was due to net repayments of borrowings during the year, partially offset by an increase in the cost.
- (vii) The increase in the average balance for FHLB advances was due to the new borrowings during the year, partially offset by repayment of advances. The decrease in the cost of these advances was due to lower interest rates on the new borrowings versus the higher rates on these advances paid off.
- (viii) Interest on notes payable declined primarily as a result of the repayment of \$10.4 million in the third quarter of 1993.
- (ix) Interest on unsecured senior notes declined as a result of the pay-off of the \$25 million balance in the third quarter of 1993.

The Bank's cost of hedging activities increased principally as a result of the Bank entering into interest rate swaps of \$72.5 million (notional amount) in 1994 compared to \$7.5 million (notional amount) of interest rate swaps in 1993. See Note 17 of the Notes to Consolidated Financial Statements for further discussion.

Provisions for estimated credit losses increased in 1994 versus 1993 as a result of management's evaluation of the adequacy of the allowances for estimated credit losses. See Risk Management -- Credit Risk Management herein and Note 5 of the Notes to Consolidated Financial Statements for further discussion.

The net gain on sale of loans decreased \$1.5 million from \$1.7 million in 1993 to \$247,000 in 1994, due to a decrease in the amount of loans sold from \$78 million in 1993 to \$46 million in 1994. Net gains on the sale of debt securities decreased from a net gain of \$8 million in 1993 to a net gain of \$34,000 in 1994, primarily due to the sale in 1993 of \$361 million in debt securities, of which \$334 million were sold to fund the sale of the Arizona-based deposit liabilities. In January 1994, the Bank sold its credit card portfolio and recognized a gain of \$1.7 million (\$1.1 million net of charge-offs). Other income decreased principally due to a legal settlement of \$1.2 million received in 1993, while legal fees of \$810,000 were incurred in 1994 associated with a Las Vegas apartment complex which the Bank built.

General and administrative expenses decreased \$4.8 million, or 10 percent, in 1994. This decrease was due to the general and administrative expenses associated with the Arizona operations which were incurred in 1993 until the sale in the third quarter of that year, which were not incurred in 1994 along with increases in efficiency and focus on cost reduction.

The Bank's effective tax rate was 45.4 percent in 1994 primarily as a result of goodwill amortization.

1993 vs. 1992

The Bank recorded net income of \$6.6 million for the year ended December 31, 1993 compared to a net loss of \$9.8 million for the year ended December 31, 1992. The increase in net income was principally due to the decrease in provisions for estimated credit losses, the gain recorded on the sale of debt securities in connection with the Arizona sale, the cumulative effect of change in method for accounting for income taxes and an improved net interest margin, offset partially by the write-off of goodwill as the result of the Arizona sale as described in Note 2 of the Notes to Consolidated Financial Statements.

The lower interest-earning asset base is the result of the Bank's strategy of reducing its total asset size. The decline in the average yield on interest-earning assets is the result of the repricing of interest sensitive loans and debt securities, repayment of higher yielding loans and debt securities and the replacement of such loans and debt securities with lower yielding originations and purchases.

The following summarizes the significant effects of these factors:

- (i) Interest on cash equivalents decreased due to the lower yield which was a result of the lower interest rates during the year.
- (ii) Interest on debt securities, in total, decreased principally as a result of \$294 million of payoffs and principal amortization in the portfolio and the third quarter effect of the sale of \$334 million to fund the transfer of the Arizona-based deposit liabilities, offset partially by \$113 million in debt security purchases. The decrease in debt securities held to maturity was the result of the reclassification of the majority of the portfolio to debt securities available for sale category during the second quarter. This resulted in the increase in debt securities available for sale offset partially by the sale of \$334 million to fund the sale of the Arizona-based deposit liabilities. The decrease in yield was due to sales of higher coupon securities in 1992 and 1993 and to repricing of adjustable-rate debt securities, repayments, and purchase of lower yielding debt securities.
- (iii) The average loans receivable portfolio decreased principally due to payoffs exceeding originations of loans held for investment. The average yield on loans declined as a result of lower interest rates on newly funded loans, repricing of adjustable loans, and payoffs of higher yielding loans.
- (iv) Dividends on FHLB stock increased as a result of a higher declared dividend rate in 1993.
- (v) The average balance for deposits decreased as a result of the Arizona sale of \$321 million. The decrease in the cost of savings was due to the Arizona sale, the lower interest rates, and the disintermediation of certificates of deposit accounts to transaction accounts.
- (vi) The increase in interest on securities sold under agreements to repurchase was due to new borrowings during the first part of 1993, partially offset by a decrease in the cost.
- (vii) The decrease in the average balance for FHLB advances was due to the repayment of advances in the early part of 1993 somewhat offset by new borrowings later in the year. The decrease in the cost of these advances was due to lower interest rates on the new borrowings versus the higher rates on these advances which paid off.
- (viii) The decrease in interest on bonds payable was the result of the payoff of mortgage-backed bonds during the second quarter of 1992. The bonds were called on June 30, 1992.
- (ix) Interest on notes payable declined as a result of the repayment of \$10.4 million in the third quarter of 1993.
- (x) Interest on unsecured senior notes declined as a result of the pay-off of the \$25 million balance in the third quarter of 1993.

The Bank's cost of hedging activities decreased principally as a result of the cancellation of \$300 million (notional amount) of interest rate swaps outstanding during the second and third quarters of 1992 and only \$7.5 million (notional amount) of interest rate swaps were entered into in late 1993.

Provisions for estimated credit losses decreased in 1993 versus 1992 as a result of management's evaluation of the adequacy of the allowances for estimated credit losses. See Risk Management -- Credit Risk Management herein and Note 5 of the Notes to Consolidated Financial Statements for further discussion.

The net gain on sale of loans decreased \$2.9 million from \$4.6 million in 1992 to \$1.7 million in 1993 due to a decrease in the amount of loans sold from \$240 million in 1992 to \$78 million in 1993. The gain on sale of mortgage loan servicing decreased \$1.9 million in 1993, as there were no sales of mortgage loan servicing in 1993. Net gains on the sale of debt securities, including the interest rate swap loss, increased from a net loss of \$809,000 in 1992 to a net gain of \$8 million in 1993, primarily due to the sale of \$361 million in debt securities, of which \$334 million were sold to fund the sale of the Arizona-based deposit liabilities. The net loss on the termination of the interest rate swaps in 1992 was \$14.1 million. No similar activity occurred in 1993. The net loss on the termination of the interest rate swaps was related to the cancellation of \$300 million (notional amount) of interest rate swaps which hedged loans and debt securities sold during 1992 as part of the balance sheet restructuring. Loan related fees decreased \$1.3 million due to the decrease in loan servicing volume. Deposit fees increased \$984,000 due to an increase in the fee structure. Other income increased principally due to a legal settlement received of \$1.2 million.

General and administrative expenses increased \$3 million, or seven percent, in 1993. This increase was due to the reinstatement of employee merit increases and incentive awards during 1993, a scheduled rent increase on office space, and increased professional services fees from legal efforts related to California real estate development projects.

The Bank's effective tax rate was 64.1 percent in 1993 primarily as a result of goodwill amortization and goodwill write-offs not deductible for tax purposes.

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

SOUTHWEST GAS CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(THOUSANDS OF DOLLARS)

ASSETS

	DECEMBER 31,	
	1994	1993
Cash and cash equivalents (Note 8).....	\$ 129,998	\$ 121,342
Debt securities available for sale (Notes 3 and 8).....	529,400	595,726
Debt securities held to maturity (fair value of \$99,403 and \$68,738) (Note 3).....	101,880	69,660
Loans receivable, net of allowance for estimated credit losses of \$17,659 and \$16,251 (Notes 4 and 5).....	936,037	817,279
Loans receivable held for sale (fair value of \$2,135 and \$22,019) (Note 4).....	2,114	20,051
Receivables, less reserves for uncollectibles of \$1,553 and \$1,683 (Note 5).....	105,438	98,265
Gas utility property, net of accumulated depreciation of \$433,429 and \$399,155 (Note 6).....	1,035,916	954,488
Other property, net of accumulated depreciation of \$28,175 and \$25,229.....	35,605	36,495
Excess of cost over net assets acquired.....	65,640	69,501
Other assets.....	147,965	161,142
	-----	-----
Total assets.....	\$3,089,993	\$2,943,949
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits (Note 7).....	\$1,239,949	\$1,207,852
Securities sold under agreements to repurchase (Note 8).....	281,935	259,041
Deferred income taxes and tax credits, net (Note 14).....	133,531	151,558
Accounts payable and other accrued liabilities.....	208,691	194,697
Short-term debt (Note 10).....	92,000	86,000
Long-term debt, including current maturities (Note 11).....	790,798	692,865
	-----	-----
Total liabilities.....	2,746,904	2,592,013
	-----	-----
Commitments and contingencies (Note 9)		
Preferred and preference stocks, including current maturities (Note 12).....	4,000	8,058
	-----	-----
Stockholders' equity:		
Common stock --		
Authorized -- 30,000,000 shares		
Issued and outstanding -- 21,281,717 shares and 20,997,319 shares.....	22,912	22,627
Additional paid-in capital.....	278,898	274,410
Capital stock expense.....	(5,681)	(5,685)
Unrealized gain (loss), net of tax, on debt securities available for sale (Note 3).....	(9,467)	8,761
Retained earnings.....	52,427	43,765
	-----	-----
Total stockholders' equity.....	339,089	343,878
	-----	-----
Total liabilities and stockholders' equity.....	\$3,089,993	\$2,943,949
	=====	=====

The accompanying notes are an integral part of these statements.

SOUTHWEST GAS CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME
(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	YEAR ENDED DECEMBER 31,		
	1994	1993	1992
Operating revenues:			
Gas operating revenues.....	\$599,553	\$539,105	\$534,390
Financial services interest income.....	118,434	132,325	165,678
Other.....	10,182	18,411	18,415
Total (Notes 15 and 16).....	728,169	689,841	718,483
Operating expenses:			
Net cost of gas purchased.....	249,922	212,290	214,293
Financial services interest expense, net.....	59,790	75,076	111,917
Operating expense (Note 13).....	169,893	165,150	155,654
Maintenance expense.....	30,198	28,337	26,842
Provision for estimated credit losses (Note 5).....	7,393	7,222	32,438
Depreciation, depletion and amortization (Note 15).....	65,063	63,583	60,668
Taxes other than income taxes.....	25,751	24,760	22,940
Other.....	17,405	25,845	17,883
Total.....	625,415	602,263	642,635
Operating income (Notes 15 and 16).....	102,754	87,578	75,848
Other income and (expenses):			
Other income.....	1,823	1,549	5,336
Interest and amortization of debt discount and expense...	(57,335)	(49,706)	(43,115)
Other expenses.....	(3,219)	(15,801)	(5,935)
Total.....	(58,731)	(63,958)	(43,714)
Income before income taxes.....	44,023	23,620	32,134
Income taxes (Note 14).....	17,722	11,259	14,473
Net income before cumulative effect of accounting change...	26,301	12,361	17,661
Cumulative effect of change in method of accounting (Note 14).....	--	3,045	--
Net income (Note 16).....	26,301	15,406	17,661
Preferred/preference stock dividend requirements (Note 12).....	510	741	1,051
Net income applicable to common stock (Note 16).....	\$ 25,791	\$ 14,665	\$ 16,610
Earnings per share before cumulative effect of accounting change.....	\$ 1.22	\$ 0.56	\$ 0.81
Earnings per share from cumulative effect of change in method of accounting.....	--	0.15	--
Earnings per share of common stock (Note 16).....	\$ 1.22	\$ 0.71	\$ 0.81
Average number of common shares outstanding.....	21,078	20,729	20,598

The accompanying notes are an integral part of these statements.

SOUTHWEST GAS CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
(THOUSANDS OF DOLLARS)

	YEAR ENDED DECEMBER 31,		
	1994	1993	1992
CASH FLOW FROM OPERATING ACTIVITIES:			
Net income.....	\$ 26,301	\$ 15,406	\$ 17,661
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation, depletion and amortization.....	65,063	63,583	60,668
Provision for estimated losses.....	7,393	7,222	32,438
Deferred income taxes.....	(8,212)	27,201	(16,256)
Unrecovered purchased gas costs.....	9,014	(33,571)	24,353
Net gain on sales of loans.....	(1,936)	(1,751)	(6,563)
Net gain on sales of debt securities.....	(34)	(7,973)	(13,278)
Loss on sale of Arizona assets and services.....	--	6,262	--
Cumulative effect of change in method of accounting for income taxes.....	--	(3,045)	--
Other.....	15,344	16,157	(12,582)
Net cash provided by operating activities.....	112,933	89,491	86,441
CASH FLOW FROM INVESTING ACTIVITIES:			
Construction expenditures.....	(144,642)	(115,424)	(105,595)
Loan originations, net of repayments.....	(155,024)	(186,609)	(190,511)
Sales of loans and loan servicing rights.....	46,090	78,353	240,605
Purchases of debt securities.....	(296,349)	(113,078)	(545,706)
Proceeds from sales of debt securities.....	5,074	360,853	274,802
Proceeds from maturities and repayments of debt securities.....	291,747	293,788	348,603
Proceeds from sale of real estate held for sale or development.....	4,294	1,926	11,003
Proceeds from sale of real estate acquired through foreclosure.....	4,048	22,916	18,030
Additions to real estate held for development.....	(1,140)	(3,211)	(4,246)
Termination of interest rate swaps.....	--	--	(14,087)
Proceeds from sale of Arizona assets and services.....	--	6,718	--
Other.....	232	(2,409)	3,147
Net cash provided by (used in) investing activities.....	(245,670)	343,823	36,045
CASH FLOW FROM FINANCING ACTIVITIES:			
Issuance of common stock.....	4,773	6,790	--
Reacquisition of preferred stock.....	(4,058)	(7,258)	(7,258)
Dividends paid.....	(17,411)	(16,139)	(15,497)
Issuance of long-term debt.....	104,900	86,909	211,943
Retirement of long-term debt.....	(6,967)	(48,567)	(231,750)
Issuance (repayment) of short-term debt.....	6,000	66,000	(60,000)
Net change in deposit accounts.....	32,097	(92,815)	(111,446)
Sale and assumption of Arizona deposit liabilities.....	--	(320,902)	--
Proceeds from repos/other borrowings.....	281,333	1,499,893	1,448,546
Repayment of repos/other borrowings.....	(258,439)	(1,617,711)	(1,336,220)
Other.....	(835)	(813)	(878)
Net cash provided by (used in) financing activities.....	141,393	(444,613)	(102,560)
Net change in cash and cash equivalents.....	8,656	(11,299)	19,926
Cash and cash equivalents at beginning of period.....	121,342	132,641	112,715
Cash and cash equivalents at end of period.....	\$ 129,998	\$ 121,342	\$ 132,641
Supplemental disclosures of cash flow information			
Cash paid during the year for:			
Interest, net of amounts capitalized.....	\$ 69,688	\$ 66,885	\$ 73,513
Income taxes, net of refunds.....	2,132	10,982	13,293

The accompanying notes are an integral part of these statements.

SOUTHWEST GAS CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	COMMON STOCK		ADDITIONAL PAID-IN CAPITAL	CAPITAL STOCK EXPENSE	UNREALIZED GAIN (LOSS)	RETAINED EARNINGS	TOTAL
	SHARES	AMOUNT					
DECEMBER 31, 1991.....	20,598	\$22,228	\$267,917	\$(5,685)	\$ --	\$ 42,689	\$327,149
Common stock issuances.....			64				64
Net income.....						17,661	17,661
Dividends declared							
Preferred: \$9.50 per share.....						(589)	(589)
Second preference: \$3.00 per share.....						(422)	(422)
Common: \$0.70 per share...						(14,419)	(14,419)
DECEMBER 31, 1992.....	20,598	22,228	267,981	(5,685)	--	44,920	329,444
Common stock issuances.....	399	399	6,429				6,828
Net income.....						15,406	15,406
Dividends declared							
Preferred: \$9.50 per share.....						(513)	(513)
Second preference: \$3.00 per share.....						(228)	(228)
Common: \$0.76 per share...						(15,820)	(15,820)
Unrealized gain.....					8,761		8,761
DECEMBER 31, 1993.....	20,997	22,627	274,410	(5,685)	8,761	43,765	343,878
Common stock issuances.....	285	285	4,488				4,773
Net income.....						26,301	26,301
Dividends declared							
Preferred: \$9.50 per share.....						(437)	(437)
Second preference: \$3.00 per share.....						(73)	(73)
Common: \$0.81 per share...						(17,125)	(17,125)
Unrealized loss.....					(18,228)		(18,228)
Redemption of second preference stock.....				4		(4)	--
DECEMBER 31, 1994.....	21,282	\$22,912	\$278,898	\$(5,681)	\$ (9,467)	\$ 52,427	\$339,089

The accompanying notes are an integral part of these statements.

SOUTHWEST GAS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General

Basis of Presentation -- The Company follows generally accepted accounting principles (GAAP) in all of its businesses. Accounting for the Company's gas utility operations conforms with GAAP as applied to regulated companies and as prescribed by federal agencies and the commissions of the various states in which the utility operates.

Consolidation -- The accompanying financial statements are presented on a consolidated basis and include the accounts of the Company, including the Bank. Intercompany balances and transactions have been eliminated.

Cash Flows -- For purposes of reporting consolidated cash flows, cash and cash equivalents include cash on hand, amounts due from banks, federal funds sold and other financial instruments with a maturity of three months or less.

Excess of Cost Over Net Assets Acquired -- The Company amortizes excess of cost over net assets acquired on a straight-line basis over 25 years.

Income Taxes -- Effective January 1993, the Company adopted SFAS No. 109, "Accounting for Income Taxes," which required a change from the deferred method of accounting for income taxes to the asset and liability method of accounting for income taxes. Under the asset and liability method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Under SFAS No. 109, the effect on deferred tax assets and liabilities of a change in tax rates is recognized in the period that includes the enactment date.

For years prior to 1993, deferred income taxes were recognized for income and expense items that were reported in different years for financial reporting purposes and income tax purposes using the tax rate applicable for the year of the calculation. Under the deferred method, deferred taxes were not adjusted for subsequent changes in tax rates.

Investment tax credits (ITC) related to gas utility operations are deferred and amortized over the life of related fixed assets.

Earnings Per Common Share -- Earnings per common share are calculated based on the weighted average number of shares outstanding during the period.

Reclassifications -- Certain reclassifications have been made to prior years' amounts to conform to the current year presentation.

Gas Utility

Gas Utility Property, Net -- Gas utility property, net includes gas plant at original cost, less the accumulated provision for depreciation and amortization, plus the unamortized balance of acquisition adjustments. Original cost includes contracted services, material, payroll and related costs such as taxes and benefits, general and administrative expenses, and an allowance for funds used during construction less contributions in aid of construction.

Depreciation and Amortization -- Depreciation is computed on the straight-line remaining life method at composite rates considered sufficient to amortize costs over estimated service lives. Acquisition adjustments are amortized as ordered by regulatory bodies at the date of acquisition, which periods approximate the

SOUTHWEST GAS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 1 -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -- (CONTINUED)

remaining estimated life of the acquired properties. Costs related to refunding utility debt and debt issuance expenses are deferred and amortized over the weighted average lives of the new issues.

Deferred Gas Costs -- The Company is authorized by the various regulatory authorities having jurisdiction to adjust its billing rates for changes in the cost of gas purchased. The difference between the current cost of gas purchased and the cost of gas recovered in billed rates is deferred. Generally, these deferred amounts are recovered or refunded within one year.

Utility Revenues -- Gas revenues are accrued from the date the customer was last billed to the end of the accounting period. In California, through 1994, the Company was authorized to adjust gas revenues to reflect changes in operating margins from authorized levels related to all customer classes. This mechanism was discontinued effective January 1995.

Capitalization of Interest -- The Company capitalized \$653,000, \$381,000 and \$934,000 of interest expense and a portion of the cost of equity funds related to natural gas utility operations for each of the years ended December 31, 1994, 1993 and 1992. The cost of equity funds used to finance the construction of utility plant is reported net within the consolidated statements of income as a reduction of interest charges. Utility plant construction costs, including cost of equity funds, are recovered in authorized rates through depreciation when completed projects are placed into operation.

Financial Services

Debt Securities -- On December 31, 1993, the Bank adopted SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities." The statement requires classification of investments in debt and equity securities into one of three categories: held to maturity, available for sale, or trading. At the time of purchase, the Bank designates a security into one of these three categories.

Debt securities classified as held to maturity are those which the Bank has the positive intent and ability to hold to maturity. These securities are carried at cost adjusted for the amortization of the related premiums or accretion of the related discounts into interest income using methods approximating the level-yield method or a method based on principal repayments over the actual lives of the underlying loans. The Bank has the ability and it is its policy to hold the debt securities so designated until maturity. The Bank's current accounting policy is that no security with a remaining maturity greater than 25 years may be designated as held to maturity.

Securities classified as available for sale are those which the Bank intends to hold for an indefinite period and which may be sold in response to changes in market interest rates, changes in the security's prepayment risk, the Bank's need for liquidity, changes in the availability and yield of alternative investments, and other asset/liability management needs. Securities classified as available for sale are stated at fair value in the Consolidated Statements of Financial Position. Changes in fair value are reported net of tax as a separate component of stockholders' equity, but are not included in net income. Realized gains or losses are recorded into income when sold.

Trading securities are those which are bought and held principally for the purpose of selling in the near term. Trading securities include MBS held for sale in conjunction with mortgage banking activities. Trading securities are measured at fair value with changes in fair value included in earnings. At December 31, 1994 and 1993, no securities were designated as "trading securities."

Loans Receivable -- Real estate loans are recorded at cost, net of the undisbursed loan funds, loan discounts, unearned interest, deferred loan fees and provisions for estimated losses. Interest on loans receivable is credited to income when earned. Generally, if a loan becomes 90 days contractually delinquent, the accrual

SOUTHWEST GAS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 1 -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -- (CONTINUED)

of interest is ceased and all previously accrued, but uncollected, interest income is reversed. Interest income on loans placed on nonaccrual status is generally recognized on a cash basis.

Fees are charged for originating and in some cases, for committing to originate loans. Loan origination and commitment fees, offset by certain direct origination costs, are deferred, and the net amounts amortized as an adjustment of the related loans' yields over the contractual lives thereof. Unamortized fees are recognized as income upon the sale or payoff of the loan.

Unearned interest, premiums and discounts on consumer installment, equity and property improvement loans are amortized to income over the expected lives of the loans using a method which approximates the level-yield method.

Mortgage Banking Activities -- The Bank's accounting policy is to designate all fixed-rate interest-sensitive assets with maturities greater than or equal to 25 years (which possess normal qualifying characteristics required for sale) as held for sale or available for sale, along with single-family residential loans originated for specific sales commitments. Fixed-rate interest-sensitive assets with maturities less than 25 years, and all adjustable-rate interest-sensitive assets continue to be held for investment unless designated as held for sale at time of origination.

Loans held for sale are carried at the lower of amortized cost or fair value as determined by outstanding investor commitments or, in the absence of such commitments, current investor yield requirements calculated on an aggregate basis. Valuation adjustments are charged against gain (loss) on sale of loans. Gains and losses on loan and MBS sales are determined using the specific identification method. Gains and losses are recognized to the extent that sales proceeds exceed or are less than the carrying value of the loans and MBS. Loans sold with servicing retained include a normal servicing fee to be earned by the Bank as income over the life of the loan. Loans held for sale may be securitized into MBS and designated as trading securities and recorded at fair value.

Real Estate Acquired Through Foreclosure -- Real estate acquired through foreclosure is stated at the lower of cost or fair value less cost to sell. Included in real estate acquired through foreclosure is \$2.9 million and \$5.5 million of loans foreclosed in-substance at December 31, 1994 and 1993, respectively. Write downs to fair value, disposition gains and losses, and operating income and costs are charged to the allowance for estimated credit losses.

Loans foreclosed in-substance consist of loans accounted for as foreclosed property even though actual foreclosure has not occurred. Although the collateral underlying these loans has not been repossessed, the borrower has little or no equity in the collateral at its current estimated fair value. Proceeds for repayment are expected to come only from the operation or sale of the collateral, and it is doubtful the borrower will rebuild equity in the collateral or repay the loan by other means in the foreseeable future. The amounts ultimately recovered from loans foreclosed in-substance could differ from the amounts used in arriving at the net carrying value of the assets because of future market factors beyond management's control or changes in strategy for recovering the investment.

Allowance for Estimated Credit Losses -- On a routine basis, management evaluates the adequacy of the allowances for estimated losses on loans, investments and real estate, and establishes additions to the allowances through provisions to expense. The Bank utilizes a comprehensive internal asset review system and general valuation allowance methodology. General valuation allowances are established for each of the loan, investment and real estate portfolios for unforeseen losses. A number of factors are taken into account in determining the adequacy of the level of allowances including management's review of the extent of existing risks in the portfolios, prevailing and anticipated economic conditions, actual loss experience, delinquencies, regular reviews of the quality of the loan and real estate portfolios and examinations by regulatory authorities.

SOUTHWEST GAS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 1 -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -- (CONTINUED)

Charge-offs are recorded on particular assets when it is determined that the fair or net realizable value of an asset is below the carrying value. When a loan is foreclosed, the asset is written down to fair value based on a current appraisal of the subject property.

While management uses currently available information to evaluate the adequacy of allowances and estimate identified losses for charge off, ultimate losses may vary from current estimates. Adjustments to estimates are charged to earnings in the period in which they become known.

Interest Rate Exchange Agreements -- The Bank uses interest rate swaps and interest rate collars to hedge its exposure to interest rate risk. These instruments are used only to hedge asset and liability portfolios and are not used for speculative purposes. Premiums, discounts and fees associated with these interest rate exchange agreements are amortized to expense on a straight-line basis over the lives of the agreements. The net interest received or paid is included in interest expense as a cost of hedging. Gains or losses resulting from the cancellation of agreements hedging assets and liabilities which remain outstanding are deferred and amortized over the remaining contract lives. Gains or losses are recognized in the current period if the hedged asset or liability is retired.

SOUTHWEST GAS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 2 -- SUMMARIZED FINANCIAL STATEMENT DATA

Summarized consolidated financial statement data for the Bank is as follows. Certain reclassifications have been made to conform presentations for prior years with the current year's presentation:

CONSOLIDATED STATEMENTS OF INCOME
(THOUSANDS OF DOLLARS)

	YEAR ENDED DECEMBER 31,		
	1994	1993	1992
Interest income.....	\$118,434	\$132,325	\$165,678
Interest expense.....	59,790	75,076	111,917
Net interest income.....	58,644	57,249	53,761
Provision for estimated credit losses.....	(7,230)	(6,212)	(14,129)
Net interest income after provision for credit losses.....	51,414	51,037	39,632
Net loss from real estate operations.....	(612)	(910)	(15,286)
Gain on sale of loans.....	598	1,835	5,676
Loss on sale of loans.....	(351)	(84)	(1,043)
Gain on sale of debt securities.....	56	8,317	13,649
Loss on sale of debt securities.....	(22)	(344)	(371)
Gain (loss) on secondary marketing hedging activities.....	389	(968)	--
Gain on sale of mortgage loan servicing.....	--	--	1,930
Loss on cancellation of interest rate swaps.....	--	--	(14,087)
Loss on sale -- Arizona branches.....	--	(6,262)	--
Gain on sale of credit cards.....	1,689	--	--
Loan related fees.....	1,165	1,025	2,280
Deposit related fees.....	6,788	6,397	5,413
Other income.....	319	2,133	1,945
Total noninterest income.....	10,631	12,049	15,392
General and administrative expenses.....	43,508	48,296	45,309
Amortization of cost in excess of net assets acquired.....	3,861	3,984	4,156
Total noninterest expense.....	47,369	52,280	49,465
Income (loss) before income taxes.....	14,064	9,896	(9,727)
Income tax expense.....	6,391	6,345	91
Net income (loss) before cumulative effect of accounting change.....	7,673	3,551	(9,818)
Cumulative effect of change in method of accounting.....	--	3,045	--
Net income (loss).....	\$ 7,673	\$ 6,596	\$ (9,818)
Contribution to consolidated net income(1).....	\$ 2,777	\$ 1,655	\$(14,553)

(1) Includes after-tax allocation of costs from parent.

SOUTHWEST GAS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 2 -- SUMMARIZED FINANCIAL STATEMENT DATA -- (CONTINUED)

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(THOUSANDS OF DOLLARS)

	DECEMBER 31,			
	CARRYING VALUE 1994	FAIR VALUE 1994	CARRYING VALUE 1993	FAIR VALUE 1993
ASSETS				
Cash and due from banks.....	\$ 35,262	\$ 35,262	\$ 55,712	\$ 55,712
Cash equivalents.....	88,660	88,660	63,503	63,503
Debt securities available for sale.....	529,400	529,400	595,726	595,726
Debt securities held to maturity.....	101,880	99,403	69,660	68,738
Loans receivable held for sale.....	2,114	2,135	20,051	22,305
Loans receivable, net of allowance for estimated credit losses of \$17,659 and \$16,251.....	936,037	897,723	817,279	841,127
Real estate acquired through foreclosure.....	7,631	*	9,707	*
Real estate held for sale or development, net of allowance for estimated losses of \$476 and \$935.....	771	*	4,088	*
FHLB stock, at cost.....	17,277	17,277	16,501	16,501
Other assets.....	31,649	*	29,691	*
Excess of cost over net assets acquired.....	65,640	*	69,501	*
	<u>\$1,816,321</u>		<u>\$1,751,419</u>	
LIABILITIES AND STOCKHOLDER'S EQUITY				
Deposits.....	\$1,239,949	\$1,229,893	\$1,207,852	\$1,217,225
Securities sold under agreements to repurchase.....	281,935	282,155	259,041	261,625
Advances from FHLB.....	99,400	97,565	71,000	71,281
Notes payable.....	8,135	8,174	8,265	8,647
Other liabilities.....	20,514	*	28,318	*
	<u>1,649,933</u>		<u>1,574,476</u>	
Stockholder's equity.....	166,388	*	176,943	*
	<u>\$1,816,321</u>		<u>\$1,751,419</u>	

* These items are not comprised of financial instruments subject to fair value disclosure under SFAS No. 107. See SFAS No. 107 discussion herein.

SOUTHWEST GAS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 2 -- SUMMARIZED FINANCIAL STATEMENT DATA -- (CONTINUED)

	DECEMBER 31,			
	1994		1993	
	COMMITMENT	FAIR VALUE	COMMITMENT	FAIR VALUE
	(THOUSANDS OF DOLLARS)			
OFF-BALANCE SHEET ITEMS				
Outstanding commitments to originate loans.....	\$ 46,387	\$ (420)	\$ 47,903	\$ 53
Commercial and other letters of credit.....	707	6	1,169	12
Interest rate swaps.....	72,450	2,986	7,500	169
Loan servicing rights.....	415,097	4,958	476,835	4,451
Outstanding firm commitments to sell loans and MBS.....	2,544	(2)	25,905	21
Outstanding master commitments to sell loans.....	116,097	(14)	217,393	(11)
Outstanding commitments to purchase loans and MBS.....	--	--	51,500	3
Outstanding commitments to builders.....	10,543	(33)	--	--

FAIR VALUE OF FINANCIAL INSTRUMENTS

SFAS No. 107, "Disclosures About Fair Value of Financial Instruments," requires that the Bank disclose estimated fair values for its financial instruments.

The fair value estimates were made at a discrete point in time based on relevant market information and other information about the financial instruments. Because no active market exists for a significant portion of the Bank's financial instruments, fair value estimates were based on judgements regarding current economic conditions, risk characteristics of various financial instruments, prepayment assumptions, future expected loss experience and other factors. These estimates are subjective in nature and involve uncertainties and matters of significant judgement and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

In addition, the fair value estimates were based on existing on-balance sheet and off-balance sheet financial instruments without attempting to estimate the value of existing and anticipated future customer relationships and the value of assets and liabilities that were not considered financial instruments. Significant assets and liabilities that were not considered financial assets or liabilities include the Bank's retail branch network, deferred tax assets and liabilities, furniture, fixtures and equipment, and goodwill.

Additionally, the Bank intends to hold a significant portion of its assets and liabilities to their stated maturities. Therefore, the Bank does not intend to realize any significant differences between carrying value and fair value through sale or other disposition. No attempt should be made to adjust equity to reflect the fair value disclosures.

SOUTHWEST GAS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 2 -- SUMMARIZED FINANCIAL STATEMENT DATA -- (CONTINUED)

Methods and assumptions used to determine estimated fair values are set forth below for the Bank's financial instruments as of December 31, 1994 and 1993.

ASSETS	METHODS AND ASSUMPTIONS USED TO ESTIMATE FAIR VALUE
Cash, due from banks and cash equivalents	Carrying value was used as the estimate of fair value based upon the short-term nature of the instruments.
Debt securities available for sale, debt securities held to maturity and loans receivable held for sale	Fair value was estimated using quoted market prices and dealer quotes, with the exception of privately issued debt securities and CMO residuals. Privately issued debt securities were valued based on the estimated fair value of the underlying loans. CMO residuals were valued using the discounted estimated future cash flows from these investments.
Loans receivable, net	Fair values were estimated for portfolios of loans with similar financial characteristics. Loans were segregated by type, such as commercial, commercial real estate, residential mortgage, credit card and other consumer. Each loan category was further segregated into fixed and adjustable-rate interest terms. Fair value for single-family residential loans was estimated by discounting the estimated future cash flows from these instruments using quoted market rates and dealer prepayment assumptions. Fair value for commercial mortgage, construction, land and other commercial loans was derived by discounting the estimated future cash flows from these instruments using the rates at which loans with similar maturity and underwriting characteristics would be made on December 31, 1994 or 1993, as applicable. Fair value for consumer loans was estimated using dealer quotes for securities backed by similar collateral. The book value for the allowance for estimated credit losses was used as the fair value estimate for credit losses within the entire loan portfolio.
FHLB stock	Carrying value was used as the estimate for fair value since it represents the price at which the FHLB will redeem the stock.

LIABILITIES	
Deposits	The fair value of demand deposits, savings deposits and money market deposits was estimated to be the book value reported in the financial statements since it represents the amount payable on demand. The fair value of fixed maturity deposits was estimated using the rates currently offered by the Bank for deposits with similar remaining maturities. The fair value of deposits does not include an estimate of the long-term relationship value of the Bank's deposit customers or the benefit that results from the low cost funding provided by deposit liabilities compared to the cost of borrowing funds in the market.
Securities sold under agreements to repurchase and notes payable	Fair value was estimated by discounting the future cash flows using market and dealer quoted rates for debt with the same remaining maturities and characteristics.
Advances from FHLB	Fair value was estimated using the quoted cost to prepay the advance.

SOUTHWEST GAS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 2 -- SUMMARIZED FINANCIAL STATEMENT DATA -- (CONTINUED)

OFF-BALANCE SHEET ITEMS	METHODS AND ASSUMPTIONS USED TO ESTIMATE FAIR VALUE
Commitments to originate loans and builder commitments	The fair value of commitments was estimated by calculating a theoretical gain or loss on the sale of a funded loan considering the difference between current levels of interest rates and the committed loan rates.
Letters of credit	The fair value of letters of credit was based on fees currently charged for similar agreements.
Interest rate swaps	The fair value of interest rate swaps was determined by various dealer quotes.
Loan servicing rights	The fair value for loan servicing rights was estimated based upon market and dealer quotes for the incremental price paid for a loan sold servicing released, adjusted for the age of the portfolio.
Outstanding firm and master commitments to purchase and sell loans and MBS	The fair value of these commitments are estimated based on the market and dealer quotes to terminate or fill the commitments.

REGULATORY CAPITAL

The Bank is subject to various capital adequacy requirements under a uniform framework by federal banking agencies. Specific capital guidelines require the Bank to maintain minimum amounts and ratios as set forth below.

The Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA) required the federal banking agencies to adopt regulations implementing a system of progressive constraints as capital levels decline at banks and savings institutions. Federal banking agencies have enacted uniform "prompt corrective action" rules which classify banks and savings institutions into one of five categories based upon capital adequacy, ranging from "well capitalized" to "critically undercapitalized." Banks become subject to prompt corrective action when their ratios fall below "adequately capitalized" status. A reconciliation of stockholder's equity, as shown in the accompanying Consolidated Statements of Financial Position, to the FDICIA capital standards and the Bank's resulting ratios are set forth in the table below (thousands of dollars):

	DECEMBER 31, 1994			DECEMBER 31, 1993		
	TOTAL RISK-BASED	TIER 1 RISK-BASED	TIER 1 LEVERAGE	TOTAL RISK-BASED	TIER 1 RISK-BASED	TIER 1 LEVERAGE
Stockholder's equity.....	\$166,388	\$166,388	\$ 166,388	\$176,943	\$176,943	\$ 176,943
Capital adjustments:						
Nonsupervisory goodwill.....	(40,376)	(40,376)	(40,376)	(42,464)	(42,464)	(42,464)
Supervisory goodwill.....	(18,661)	(18,661)	(18,661)	(14,422)	(14,422)	(14,422)
Real estate investments.....	(1,325)	(194)	(194)	(478)	--	--
Unrealized loss, net of tax, on debt securities available for sale.....	9,467	9,467	9,467	--	--	--
General loan loss reserves.....	11,512	--	--	11,008	--	--
Regulatory capital.....	\$127,005	\$116,624	\$ 116,624	\$130,587	\$120,057	\$ 120,057
Regulatory capital ratio.....	13.88%	12.75%	6.62%	14.92%	13.71%	7.14%
Adequately capitalized required ratio.....	8.00	4.00	4.00	8.00	4.00	4.00
Excess.....	5.88%	8.75%	2.62%	6.92%	9.71%	3.14%
Asset base.....	\$914,812	\$914,812	\$1,760,801	\$875,387	\$875,387	\$1,681,952

As of December 31, 1994 and 1993, PriMerit Bank exceeded the adequately capitalized ratios and was categorized as "well capitalized."

SOUTHWEST GAS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 2 -- SUMMARIZED FINANCIAL STATEMENT DATA -- (CONTINUED)

The regulatory capital standards contain certain phase-in requirements concerning the amount of supervisory goodwill which is includable in tier 1 and risk-based capital as well as the amount of real estate investments which are required to be deducted from capital under all three standards. On January 1, 1995, all supervisory goodwill must be deducted from regulatory capital. Based upon this limitation, the Bank's risk-based and tier 1 capital levels declined by \$6.6 million on January 1, 1995.

The decline in the Bank's capital ratios over prior year-end is principally the result of the change in the allowable supervisory goodwill and the inclusion of \$8.8 million of unrealized gain, net of tax, on debt securities available for sale in regulatory capital for 1993; partially offset by year-to-date net income of \$7.7 million. At December 31, 1994, under fully phased-in capital rules applicable at July 1, 1996, the Bank would have exceeded the "adequately capitalized" fully phased-in, total risk-based, tier 1 risk-based, and tier 1 leverage ratios by \$46.7 million, \$72.8 million and \$38.7 million, respectively.

The Bank is subject to an OTS regulation requiring institutions with IRR exposure classified as "above normal" to reduce their risk-based capital by 50 percent of the amount by which the IRR exposure exceeds a specified "normal" threshold. The normal IRR threshold is defined as a two percent decline of an institution's net portfolio value as a percentage of its market value of assets after a hypothetical 200 basis point immediate and sustained increase or decrease in market interest rates. The reduction of an institution's risk-based capital resulting from its exceeding the IRR threshold becomes effective at the end of the third calendar quarter after the measurement date, unless the institution's IRR exposure returns to a "normal" level or below in the interim.

Based on the OTS's measurement of the Bank's September 30, 1994 and December 31, 1994 IRR, the Bank may be required to reduce its risk-based capital by approximately \$1.5 million on June 30, 1995 and \$1.9 million on September 30, 1995, in the absence of corrective action to reduce the Bank's IRR exposure or a significant change in market interest rates in the interim. As of December 31, 1994, the Bank has sufficient risk-based capital to allow it to continue to be classified as "well capitalized" under FDICIA capital requirements after such a reduction for IRR exposure. Management is currently reviewing possible strategies for reducing the Bank's IRR exposure to a "normal" level or below.

OTHER REGULATORY MATTERS

In conjunction with the acquisition of the Bank in 1986, the Company agreed that as long as it controls the Bank, adequate capital as required by applicable regulations, will be maintained at the Bank and if required, the Company will infuse additional capital into the Bank to assure compliance with such requirements. The Company presently does not anticipate having to contribute additional capital to the Bank.

The Company also stipulated in connection with the acquisition of the Bank that dividends paid by the Bank to the Company would not exceed 50 percent of the Bank's cumulative net income after the date of acquisition without approval of the regulators. Since the acquisition, the Bank's cumulative net income is \$37.1 million, resulting in maximum dividends payable of \$18.6 million as of December 31, 1994. Since the acquisition, the Bank has paid the Company \$1.8 million in capital distributions, net of \$20 million in capital contributions received from the Company in 1991 and 1992.

Capital distributions, including dividends, are also governed by an OTS regulation which limits distributions by applying a tiered system based on capital levels. Under the regulation, the Bank is restricted to paying no more than 75 percent of its net income over the preceding four quarters to the Company. The Bank did not pay any dividends to the Company during the last three years.

SOUTHWEST GAS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 2 -- SUMMARIZED FINANCIAL STATEMENT DATA -- (CONTINUED)

SALE OF ARIZONA BRANCH OPERATIONS

In May 1993, the Bank signed a Definitive Agreement with World Savings and Loan Association (World) of Oakland, California, whereby World agreed to acquire the Bank's Arizona branch operations, including all related deposit liabilities of approximately \$321 million. The transaction was approved by the appropriate regulatory authorities and closed in August 1993. During 1993, the Bank recorded a \$6.3 million loss, which included a write-off of \$5.9 million in goodwill (excess of cost over net assets acquired) and \$367,000 of other related net costs. The Bank sold \$334 million of MBS to effect the sale of the Bank's Arizona-based deposit liabilities to World and to maintain the Bank's interest rate risk position. The sale of the securities resulted in a gain of \$7.4 million (\$4.9 million after tax) included in gain on sale of debt securities in the Consolidated Statements of Income. The final disposition resulted in an after-tax loss of approximately \$1 million.

NOTE 3 -- DEBT SECURITIES

Debt securities held to maturity are stated at amortized cost. The yields on these securities are computed based upon amortized cost. The amortized cost, estimated fair values and yields of debt securities held to maturity are as follows (thousands of dollars):

DECEMBER 31, 1994 -----	AMORTIZED COST -----	TOTAL UNREALIZED GAINS -----	TOTAL UNREALIZED LOSSES -----	ESTIMATED FAIR VALUE -----	YIELD -----
Corporate issue MBS.....	\$ 60,922	\$50	\$2,292	\$58,680	7.25%
U.S. Treasury securities and obligations of U.S. Government corporations and agencies.....	40,958	--	235	40,723	8.01%
Total.....	\$101,880 =====	\$50 ===	\$2,527 =====	\$99,403 =====	7.55% =====
DECEMBER 31, 1993 -----					
Corporate issue MBS.....	\$69,660 =====	\$403 =====	\$1,325 =====	\$68,738 =====	6.85% =====

The following schedule of the expected maturity of debt securities held to maturity is based upon dealer prepayment expectations and historical prepayment activity (thousands of dollars):

DECEMBER 31, 1994 -----	EXPECTED/CONTRACTUAL MATURITY -----					TOTAL AMORTIZED COST -----
	WITHIN ONE YEAR -----	AFTER ONE YEAR BUT WITHIN FIVE YEARS -----	AFTER FIVE YEARS BUT WITHIN TEN YEARS -----	AFTER TEN YEARS BUT WITHIN TWENTY YEARS -----	AFTER TWENTY YEARS -----	
Corporate issue MBS.....	\$15,593	\$31,603	\$8,883	\$4,574	\$269	\$ 60,922
U.S. Treasury securities and obligations of U.S. Government corporations and agencies.....	20,822	20,136	--	--	--	40,958
Total.....	\$36,415 =====	\$51,739 =====	\$8,883 =====	\$4,574 =====	\$269 =====	\$101,880 =====

SOUTHWEST GAS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 3 -- DEBT SECURITIES -- (CONTINUED)

Debt securities available for sale are stated at fair value. The yields on these securities are computed based upon amortized cost. The amortized cost, estimated fair values and yields of debt securities available for sale are as follows (thousands of dollars):

DECEMBER 31, 1994	AMORTIZED COST	TOTAL UNREALIZED GAINS	TOTAL UNREALIZED LOSSES	ESTIMATED FAIR VALUE	YIELD
GNMA - MBS.....	\$ 6,564	\$ 70	\$ 237	\$ 6,397	8.29%
FHLMC - MBS.....	307,082	745	6,931	300,896	6.64%
FNMA - MBS.....	112,892	154	3,938	109,108	7.11%
CMO.....	92,097	928	4,645	88,380	5.92%
Corporate issue MBS.....	20,225	11	719	19,517	7.24%
U.S. Treasury securities and obligations of U.S. Government corporations and agencies.....	5,105	--	3	5,102	5.83%
Total.....	\$543,965	\$ 1,908	\$16,473	\$529,400	6.65%

DECEMBER 31, 1993

GNMA - MBS.....	\$ 9,081	\$ 591	\$ --	\$ 9,672	8.41%
FHLMC - MBS.....	368,436	11,518	168	379,786	6.12%
FNMA - MBS.....	119,208	1,144	695	119,657	6.60%
CMO.....	45,733	1,516	--	47,249	4.82%
Corporate issue MBS.....	24,644	159	697	24,106	5.81%
Money market instruments.....	10,036	--	--	10,036	3.37%
U.S. Treasury securities and obligations of U.S. Government corporations and agencies.....	5,110	110	--	5,220	5.93%
Total.....	\$582,248	\$15,038	\$1,560	\$595,726	6.09%

The following schedule reflects the expected maturity of MBS and CMO and the contractual maturity of all other debt securities available for sale. The expected maturity of MBS and CMO are based upon dealer prepayment expectations and historical prepayment activity (thousands of dollars):

EXPECTED/CONTRACTUAL MATURITY

DECEMBER 31, 1994	EXPECTED/CONTRACTUAL MATURITY					TOTAL AMORTIZED COST
	WITHIN ONE YEAR	AFTER ONE YEAR BUT WITHIN FIVE YEARS	AFTER FIVE YEARS BUT WITHIN TEN YEARS	AFTER TEN YEARS BUT WITHIN TWENTY YEARS	AFTER TWENTY YEARS	
GNMA - MBS.....	\$ 1,595	\$ 4,091	\$ 711	\$ --	\$ --	\$ 6,397
FHLMC - MBS.....	57,237	167,998	37,894	29,991	7,776	300,896
FNMA - MBS.....	15,879	49,915	20,241	20,030	3,043	109,108
CMO.....	48,692	38,236	819	606	27	88,380
Corporate issue MBS.....	3,295	11,283	4,056	778	105	19,517
U.S. Treasury securities and obligations of U.S. Government corporations and agencies.....	5,102	--	--	--	--	5,102
Total.....	\$131,800	\$271,523	\$63,721	\$51,405	\$10,951	\$529,400

SOUTHWEST GAS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 4 -- LOANS RECEIVABLE

Loans receivable held for investment, recorded at amortized cost, are summarized as follows (thousands of dollars):

	DECEMBER 31,	
	1994	1993
Loans collateralized by real estate:		
Conventional single-family residential.....	\$489,649	\$431,854
FHA and VA insured single-family residential.....	33,823	21,491
Commercial mortgage.....	178,076	192,046
Construction and land.....	90,992	82,638
	792,540	728,029
Commercial secured (other than real estate).....	40,349	25,443
Commercial unsecured.....	2,317	354
Consumer installment.....	119,460	93,431
Consumer unsecured.....	6,570	7,817
Equity and property improvement loans.....	26,054	21,061
Deposit accounts.....	2,659	2,944
	989,949	879,079
Undisbursed proceeds.....	(41,702)	(48,251)
Allowance for estimated credit losses.....	(17,659)	(16,251)
Premiums.....	5,969	3,270
Deferred fees.....	(4,999)	(4,782)
Accrued interest.....	4,479	4,214
	(53,912)	(61,800)
Loans receivable held for investment.....	\$936,037	\$817,279

Loans receivable held for sale, recorded at lower of aggregate cost or market, are summarized as follows (thousands of dollars):

	DECEMBER 31,	
	1994	1993
Loans collateralized by single-family residential real estate:		
Conventional.....	\$ 508	\$ 4,999
FHA and VA insured.....	1,606	3,560
	2,114	8,559
Credit cards.....	--	11,492
Loans receivable held for sale.....	\$2,114	\$20,051

SOUTHWEST GAS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 4 -- LOANS RECEIVABLE -- (CONTINUED)

Additional loan information (thousands of dollars):

	DECEMBER 31,	
	1994	1993
Average portfolio yield at end of year.....	8.11%	8.12%
Principal balance of loans serviced for others (including \$67,871 and \$92,658 of loans serviced for MBS owned by the Bank).....	\$415,097	\$476,835
Adjustable-rate real estate loans.....	286,868	233,133
Outstanding commitments to originate loans.....	46,387	47,903
Unused lines of credit.....	57,180	79,472
Standby letters of credit.....	707	1,004
Outstanding commitments to builders.....	10,543	--

Outstanding commitments to originate loans represent agreements to originate real estate secured loans to customers at specified rates of interest. Commitments generally expire in 30 to 60 days and may require payment of a fee. Some of the commitments are expected to expire without being drawn upon, therefore the total commitments do not necessarily represent future cash requirements.

The Bank has designated portions of its portfolio of residential real estate loans and credit card accounts as held for sale. These loans are carried at the lower of aggregate cost, market or sales commitment price. In January 1994, the Bank sold its credit card portfolio held for sale and recognized a gain of approximately \$1.7 million (\$1.1 million net of charge-offs).

At December 31, 1994, 48 percent, or \$19.5 million, of the Bank's outstanding commercial secured loan portfolio consisted of loans to borrowers in the gaming industry, with additional unfunded commitments of \$11.5 million. These loans are generally secured by real estate, machinery and equipment. The Bank's portfolio of loans, collateralized by real estate, consists principally of real estate located in Nevada, California, and Arizona. Collectibility is, therefore, somewhat dependent on the economies and real estate values of these areas and industries.

The Bank's loan approval process is intended to assess both: (i) the borrower's ability to repay the loan by determining whether the borrower meets the Bank's established underwriting criteria, and (ii) the adequacy of the proposed security by determining whether the appraised value of the security property is sufficient for the proposed loan.

It is the general policy of the Bank not to make single-family residential loans when the loan-to-value ratio exceeds 80 percent unless the loans are insured by private mortgage insurance, FHA insurance or VA guarantee. Residential tract construction loans are generally underwritten with the discounted loan-to-value ratio less than 85 percent, while commercial/income property loans are generally underwritten with a ratio of less than 75 percent.

Management considers the above mentioned factors when evaluating the adequacy of the allowance for estimated credit losses.

Many of the Bank's adjustable-rate loans contain limitations as to both the amount the interest rate can change at each repricing date (periodic caps) and the maximum rates the loan can be repriced to over the life of the loan (lifetime caps). At December 31, 1994, periodic caps in the adjustable loan portfolio ranged from 25 to 800 basis points. Lifetime caps ranged from 9.75 to 22 percent.

SOUTHWEST GAS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 5 -- ALLOWANCES AND RESERVES

Activity in the allowances for losses on loans and real estate held for sale or development is summarized as follows (thousands of dollars):

	MORTGAGE LOANS	CONSTRUCTION AND LAND LOANS	NON- MORTGAGE LOANS	TOTAL LOANS	REAL ESTATE HELD FOR SALE OR DEVELOPMENT	TOTAL
Balance at 12/31/91.....	\$ 5,992	\$ 2,821	\$ 3,248	\$12,061	\$ 3,639	\$ 15,700
Provisions for estimated losses.....	1,903	6,460	5,766	14,129	18,309	32,438
Charge-offs, net of recovery.....	(515)	(3,765)	(4,682)	(8,962)	(20,485)	(29,447)
Balance at 12/31/92.....	7,380	5,516	4,332	17,228	1,463	18,691
Provisions for estimated losses.....	4,634	172	1,406	6,212	1,010	7,222
Charge-offs, net of recovery.....	(3,191)	(2,248)	(1,750)	(7,189)	(1,538)	(8,727)
Balance at 12/31/93.....	8,823	3,440	3,988	16,251	935	17,186
Provisions for estimated losses.....	2,954	71	4,205	7,230	163	7,393
Charge-offs, net of recovery.....	(1,786)	(1,297)	(2,739)	(5,822)	(622)	(6,444)
Balance at 12/31/94.....	\$ 9,991	\$ 2,214	\$ 5,454	\$17,659	\$ 476	\$ 18,135

The Bank establishes allowances for estimated credit losses by portfolio through charges to expense. On a regular basis, management reviews the level of loss allowances which have been provided against the portfolios. Adjustments are made thereto in light of the level of problem loans and current economic conditions. Included in net charge-offs are \$1.9 million, \$2.6 million and \$2.6 million of recoveries for 1992, 1993, and 1994, respectively. Write-downs to fair value, disposition gains and losses, and operating income and costs affiliated with real estate acquired through foreclosure are charged to the allowance for estimated credit losses.

The Company's business activity with respect to gas utility operations is conducted with customers located within the three state region of Arizona, Nevada and California. Any credit risk the Company is exposed to related to utility operations is minimized by the taking of security deposits. Provisions for uncollectible accounts are recorded monthly and are recovered from customers through billed rates. Activity in the reserve for uncollectibles is summarized as follows (thousands of dollars):

	RESERVE FOR UNCOLLECTIBLES
Balance, December 31, 1991.....	\$ 1,373
Additions charged to income.....	1,667
Accounts written off, less recoveries.....	(1,533)
Balance, December 31, 1992.....	1,507
Additions charged to income.....	1,460
Accounts written off, less recoveries.....	(1,284)
Balance, December 31, 1993.....	1,683
Additions charged to income.....	1,445
Accounts written off, less recoveries.....	(1,575)
Balance, December 31, 1994.....	\$ 1,553

SOUTHWEST GAS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 6 -- PROPERTY, PLANT AND EQUIPMENT

Gas utility property as of December 31, 1994 and 1993 was as follows (thousands of dollars):

	DECEMBER 31,	
	1994	1993
Plant in Service:		
Production, gathering and storage.....	\$ 14,252	\$ 13,960
Transmission.....	140,281	139,262
Distribution.....	1,077,425	989,021
General.....	164,018	150,482
Other.....	32,756	33,000
	-----	-----
	1,428,732	1,325,725
Less: accumulated depreciation.....	(433,429)	(399,155)
Construction work in progress.....	33,675	20,758
Acquisition adjustment, net.....	6,729	7,160
Gas plant held for future use.....	209	--
	-----	-----
Net gas utility property.....	\$1,035,916	\$ 954,488
	=====	=====

Depreciation expense on gas utility property was \$56.5 million, \$54 million and \$51.3 million during the years ended December 31, 1994, 1993 and 1992, respectively.

Leases and Rentals. The Company leases a portion of its corporate headquarters office complex in Las Vegas and the LNG facilities on its northern Nevada system. The leases provide for initial terms which expire in 1997 and 2003, respectively, with optional renewal terms available at the expiration dates. The rental payments are \$3.1 million annually, and \$7.7 million in the aggregate over the remaining initial term for the Las Vegas facility, and \$6.7 million annually and \$56.6 million in the aggregate for the LNG facilities.

Rentals included in operating expenses with respect to these leases amounted to \$9.8 million in each of the three years in the period ended December 31, 1994. Both of these leases are accounted for as operating leases and are treated as such for regulatory purposes. Other operating leases of the Company are immaterial individually and in the aggregate.

The Bank leases certain of its facilities under noncancelable operating lease agreements. The more significant of these leases expire between 1995 and 2029 and provide for renewals subject to certain escalation clauses. Net rental expense for the Bank was \$2.7 million in 1994, \$3.1 million in 1993 and \$3 million in 1992.

The following is a schedule of net future minimum rental payments for the Bank under various operating lease agreements that have initial or remaining noncancelable lease terms in excess of one year as of December 31, 1994 (thousands of dollars):

	TOTAL MINIMUM LEASE PAYMENTS	TOTAL MINIMUM SUBLEASE RECEIPTS	NET MINIMUM LEASE PAYMENTS
	-----	-----	-----
Year Ending December 31:			
1995.....	\$ 5,026	\$ 2,664	\$ 2,362
1996.....	4,988	2,580	2,408
1997.....	4,950	2,213	2,737
1998.....	4,602	1,926	2,676
1999.....	3,969	1,613	2,356
Thereafter.....	46,608	2,275	44,333
	-----	-----	-----
	\$70,143	\$13,271	\$56,872
	=====	=====	=====

SOUTHWEST GAS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 7 -- DEPOSITS

Deposits are summarized as follows (thousands of dollars):

	DECEMBER 31,	
	1994	1993
Interest-bearing demand and money market deposits...	\$ 313,949	\$ 324,011
Noninterest-bearing demand deposits.....	69,294	64,797
Savings deposits.....	78,876	86,781
Total transaction accounts.....	462,119	475,589
Certificates of deposit:		
<\$100,000.....	608,872	580,018
>=\$100,000.....	168,958	152,245
Total certificates of deposit.....	777,830	732,263
	\$1,239,949	\$1,207,852
	=====	=====
Average annual interest rate at year-end.....	3.97%	3.56%
	=====	=====

The above balance includes \$5.8 million deposited by the State of Nevada that is collateralized by real estate loans and debt securities with a fair value of approximately \$8.5 million at December 31, 1994. There were no brokered deposits at December 31, 1994 or December 31, 1993.

Interest expense on deposits for the years ended December 31, is summarized as follows (thousands of dollars):

	1994	1993	1992
Interest-bearing demand and money market deposits.....	\$ 8,740	\$ 8,578	\$ 8,915
Savings deposits.....	2,135	2,364	1,779
Certificates of deposit.....	33,241	46,701	75,280
Total deposit interest expense.....	\$44,116	\$57,643	\$85,974
	=====	=====	=====

Certificates of deposit maturity schedule (thousands of dollars):

INTEREST RATE CATEGORY	CERTIFICATES MATURING ON OR PRIOR TO DECEMBER 31,					
	1995	1996	1997	1998	1999	THEREAFTER
2.99% and lower.....	\$ 3,793	\$ 88	\$ 14	\$ 13	\$ 8	\$ 9
3.00% to 3.99%.....	298,360	7,253	93	--	--	27
4.00% to 4.99%.....	171,177	23,046	9,141	2,140	5	--
5.00% to 5.99%.....	14,679	22,828	16,086	19,897	10,182	13,498
6.00% to 6.99%.....	909	2,698	39,614	360	19,641	11,484
7.00% to 7.99%.....	2,398	34,484	5,756	14	15,163	203
8.00% to 8.99%.....	32,069	79	--	--	--	136
9.00% and over.....	53	--	33	399	--	--
	\$523,438	\$90,476	\$70,737	\$22,823	\$44,999	\$25,357
	=====	=====	=====	=====	=====	=====

SOUTHWEST GAS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 8 -- CASH EQUIVALENTS AND SECURITIES SOLD UNDER REPURCHASE AGREEMENTS

Cash Equivalents

Cash equivalents are stated at cost, which approximates fair value, and include the following (thousands of dollars):

	DECEMBER 31,	
	1994	1993
Securities purchased under resale agreements.....	\$77,657	\$55,102
Federal funds sold.....	11,003	8,401
	\$88,660	\$63,503
	=====	=====

Securities purchased under resale agreements at December 31, 1994 and at December 31, 1993 matured within 11 days and 24 days, respectively, and called for delivery of the same securities. The collateral for these agreements consisted of debt securities which at December 31, 1994 and 1993 were held on the Bank's behalf by its safekeeping agents and safekeeping agents for various broker/dealers. The securities purchased under resale agreements represented 47 percent of the Bank's stockholder's equity at December 31, 1994 and 31 percent at December 31, 1993.

The average amount of securities purchased under resale agreements outstanding during the years ended December 31, 1994 and 1993 were \$36.2 million and \$26.6 million, respectively. The maximum amount of resale agreements outstanding at any month end was \$77.7 million during 1994 and \$60 million during 1993.

Securities Sold Under Repurchase Agreements

The Bank sells securities under agreements to repurchase (reverse repurchase agreements). Reverse repurchase agreements are treated as borrowings and are reflected as liabilities in the accompanying Consolidated Statements of Financial Position. Reverse repurchase agreements are summarized as follows (thousands of dollars):

	DECEMBER 31,	
	1994	1993
Balance at year end.....	\$281,935	\$259,041
Accrued interest payable at year end.....	3,335	3,871
Daily average amount outstanding during year.....	222,620	305,123
Maximum amount outstanding at any month end.....	281,935	367,859
Weighted average interest rate during the year.....	4.95%	4.30%
Weighted average interest rate on year-end balances....	6.37%	4.31%

All agreements are collateralized by MBS and U.S. Treasury notes and require the Bank to repurchase identical securities as those which were sold. The MBS collateralizing the agreements are reflected as assets with a carrying value of \$17 million in excess of borrowing amount and a weighted average maturity of 1.35 years. Agreements were transacted with the following dealers: Morgan Stanley & Co., Inc.; Lehman Brothers; and Bear Stearns. Reverse repurchase agreements are collateralized as follows (thousands of dollars):

	DECEMBER 31,			
	1994		1993	
	CARRYING VALUE	FAIR VALUE	CARRYING VALUE	FAIR VALUE
MBS.....	\$258,477	\$258,477	\$280,928	\$280,928
U.S. Treasury notes.....	40,428	40,191	--	--
	\$298,905	\$298,668	\$280,928	\$280,928
	=====	=====	=====	=====

SOUTHWEST GAS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 8 -- CASH EQUIVALENTS AND SECURITIES SOLD UNDER REPURCHASE AGREEMENTS -- (CONTINUED)

At December 31, 1994, borrowings of \$144 million were in accordance with a long-term agreement executed with Morgan Stanley & Co., Incorporated (primary dealer). The agreement, which allows for a maximum borrowing of \$300 million with no minimum, matures in July 1997. The interest rate on the borrowings is adjusted monthly based upon a spread over or under the one month London Interbank Offering Rate (LIBOR), dependent upon the underlying collateral.

The Bank is also party to two separate flexible reverse repurchase agreements (flex repos) totaling \$19.7 million at December 31, 1994. A flex repo represents a long-term fixed-rate contract to borrow funds through the primary dealer, collateralized by MBS with a flexible repayment schedule. The principal balance of the Bank's flex repo agreements will decline over the stated maturity period based upon the counterparty's need for the funds.

Principal payments on flex repos at December 31, 1994 are projected as follows (thousands of dollars):

PROJECTED REPAYMENT -----	FLEX REPO-1 -----	FLEX REPO-2 -----
12 months.....	\$ 500	\$ 15,222
24 months.....	3,939	--
	-----	-----
	\$ 4,439	\$ 15,222
	=====	=====
Maturity date.....	July 1996	June 1995
Interest rate.....	8.86%	8.65%
	=====	=====

Actual principal payments may differ from those shown above due to the actual timing of the funding being faster or slower than originally projected.

NOTE 9 -- COMMITMENTS AND CONTINGENCIES

Legal Proceedings. The Company has been named as defendant in various legal proceedings. The ultimate dispositions of these proceedings are not presently determinable; however, it is the opinion of management that no litigation to which the Company is subject will have a material adverse impact on its financial position or results of operations.

NOTE 10 -- SHORT-TERM DEBT

The Company has an agreement with several banks for committed credit lines which aggregate \$150 million at December 31, 1994. The agreement provides for the payment of interest at competitive market rates. The lines of credit also require the payment of a facility fee based on the long-term debt rating of the Company. The committed credit lines have no compensating balance requirements and expire in July 1995. Short-term borrowings at December 31, 1994 and 1993 were \$92 million and \$86 million, respectively. The weighted average interest rates on these borrowings were 6.36 percent and 3.80 percent.

SOUTHWEST GAS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 11 -- LONG-TERM DEBT

	DECEMBER 31,			
	1994 CARRYING AMOUNT	1994 MARKET VALUE	1993 CARRYING AMOUNT	1993 MARKET VALUE
	(THOUSANDS OF DOLLARS)			
Southwest Gas Corporation				
Debentures--				
9% Series A, due 2011.....	\$ 27,557	\$ 26,386	\$ 27,688	\$ 28,795
9% Series B, due 2011.....	31,913	30,557	31,944	33,222
8 3/4% Series C, due 2011.....	19,261	18,587	19,699	20,487
9 3/8% Series D, due 2017.....	120,000	118,650	120,000	126,826
10% Series E, due 2013.....	23,079	23,541	23,127	24,283
9 3/4% Series F, due 2002.....	100,000	102,897	100,000	116,596
Unamortized discount.....	(6,723)	--	(7,220)	--
	315,087	320,618	315,238	350,209
Term loan facilities and other debt.....	200,000		165,000	
Industrial development revenue bonds--				
Variable rate bonds				
Series due 2028.....	50,000	50,000	50,000	50,000
Less funds held in trust.....	(38,510)	--	(44,055)	--
	11,490		5,945	
Fixed-rate bonds				
7.30% 1992 Series A, due 2027.....	30,000	30,338	30,000	33,450
7.50% 1992 Series B, due 2032.....	100,000	102,550	100,000	112,000
6.50% 1993 Series A, due 2033.....	75,000	71,807	75,000	79,500
Unamortized discount.....	(3,865)	--	(3,969)	--
Less funds held in trust.....	(44,449)	--	(73,614)	--
	156,686		127,417	
	683,263		613,600	
PriMerit Bank				
Advances from FHLB.....	99,400	97,565	71,000	71,281
Notes payable.....	8,135	8,174	8,265	8,647
	107,535		79,265	
	\$790,798		\$692,865	
	=====		=====	

The Company had two term loan facilities totaling \$165 million as of December 31, 1994. The first term loan facility was a Restated and Amended Credit Agreement (Credit Agreement) dated April 1990 in the amount of \$125 million. During 1994 and 1993, the average cost of this facility was 4.99 percent and 3.89 percent, respectively. The second term loan was a \$40 million Bridge Term Loan Facility (Bridge Loan) which was used to refinance the \$40 million Amended and Restated Domestic Credit Agreement in August 1994. During 1994, the average interest rate for the Bridge Loan and the Amended and Restated Domestic Credit Agreement was 5.26 percent.

In January 1995, the Company closed a new \$200 million term-loan facility with a group of banks. This new facility was utilized to refinance the existing \$125 million Credit Agreement and the \$40 million Bridge Loan which were to mature in April 1995. In addition to refinancing \$165 million of term loans, \$35 million of

SOUTHWEST GAS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 11 -- LONG-TERM DEBT -- (CONTINUED)

short-term notes payable were refinanced with the proceeds from this new facility, and are classified as long-term debt at December 31, 1994. The \$200 million facility provides for a revolving period through January 1998 at which time any amounts borrowed under the agreement become payable on demand. Direct borrowing options provide for the payment of interest at either the prime rate, LIBOR, or certificate of deposit rate plus a margin based on the Company's credit rating. In addition to direct borrowing options, a letter of credit is available to provide credit support for the issuance of commercial paper.

In December 1993, the Company borrowed \$75 million in Clark County, Nevada, tax-exempt IDR. The IDR have an annual coupon rate of 6.50 percent, are noncallable for 10 years and have a final maturity in December 2033. The proceeds from the sale of the IDR will be used to finance certain additions and improvements to the Company's natural gas distribution and transmission system in Clark County, Nevada.

In December 1993, the City of Big Bear Lake, California sold \$50 million of tax-exempt IDR which are secured as to the payment of principal and interest by the Company. The net proceeds from these sales were placed with a trustee and will be drawn down as required to finance certain additions and improvements to the Company's natural gas distribution and transmission system in San Bernardino County, California. The interest rate on the bonds is established on a weekly basis and averaged 3.85 percent during 1994 and 3.53 percent for December 1993. At the option of the Company, the interest period can be converted from a weekly rate to a daily term or variable term rate.

The fair value of the term loan facilities approximates carrying value. Market values for debentures and fixed-rate bonds of the Company, excluding the Bank, were determined based on dealer quotes using trading records for December 31, 1994 and 1993, as applicable, and other secondary sources which are customarily consulted for data of this kind. The carrying value of the IDR Series due 2028 was used as the estimate of fair value based upon the variable interest rate of the bonds.

Requirements to retire long-term debt, excluding those of the Bank, at December 31, 1994 for the next five years are expected to be \$5 million, \$5 million, \$5 million, \$211 million and \$11 million, respectively.

Principal payments on Bank borrowings at December 31, 1994 are due as follows (thousands of dollars):

MATURITY -----	INTEREST RATE -----	ADVANCES FROM FHLB -----	NOTES PAYABLE -----
12 months.....	4.30% - 8.20%	\$50,000	\$ 140
24 months.....	4.40% - 8.50%	10,000	7,995
36 months.....	8.23%	6,000	--
48 months.....	5.01%	5,000	--
60 months.....	8.23%	25,000	--
84 months.....	7.52%	3,400	--
		-----	-----
		\$99,400	\$8,135
		=====	=====

Coupon interest rates on Bank borrowings are as follows:

	DECEMBER 31,	
	1994	1993
	-----	-----
Advances from FHLB.....	4.30% - 8.23%	4.30% - 8.23%
Notes payable.....	8.20% - 8.50%	8.00% - 8.50%

The effective rate of the advances from the FHLB at December 31, 1994 was 5.68 percent.

SOUTHWEST GAS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 11 -- LONG-TERM DEBT -- (CONTINUED)

In 1994, the FHLB established a Financing Availability for the Bank which is currently 25 percent of the Bank's assets with terms up to 360 months. All borrowings from the FHLB must be collateralized by mortgages or securities. The Bank also has the capability of borrowing up to \$5 million in federal funds from Bank of America. At December 31, 1994 and 1993, there were no outstanding draws from this line of credit which expires in August 1995.

Bank borrowings are collateralized as follows (thousands of dollars):

	DECEMBER 31,			
	1994		1993	
	CARRYING VALUE	FAIR VALUE	CARRYING VALUE	FAIR VALUE
MBS.....	\$ 13,971	\$ 13,971	\$ 14,797	\$14,797
Real estate loans.....	140,000	99,400	98,860	71,000
	\$153,971	\$113,371	\$113,657	\$85,797
	=====	=====	=====	=====

NOTE 12 -- PREFERRED AND PREFERENCE STOCKS

	CUMULATIVE PREFERRED STOCK 9.5% SERIES	SECOND PREFERENCE STOCK		
		FIRST SERIES	SECOND SERIES	THIRD SERIES
NUMBER OF SHARES (In thousands):				
Balance, December 31, 1991.....	64	20	44	98
Redemptions.....	(8)	(10)	(22)	(33)
Balance, December 31, 1992.....	56	10	22	65
Redemptions.....	(8)	(10)	(22)	(33)
Balance, December 31, 1993.....	48	--	--	32
Redemptions.....	(8)	--	--	(32)
Balance, December 31, 1994.....	40	--	--	--
	=====	=====	=====	=====
AMOUNT (In thousands):				
Balance, December 31, 1991.....	\$6,400	\$ 2,000	\$ 4,400	\$ 9,774
Redemptions.....	(800)	(1,000)	(2,200)	(3,258)
Balance, December 31, 1992.....	5,600	1,000	2,200	6,516
Redemptions.....	(800)	(1,000)	(2,200)	(3,258)
Balance, December 31, 1993.....	4,800	--	--	3,258
Redemptions.....	(800)	--	--	(3,258)
Balance, December 31, 1994.....	\$4,000	\$ --	\$ --	\$ --
	=====	=====	=====	=====

The Company is authorized to issue up to 500,000 shares each of its Cumulative Preferred and Second Preference Stock, respectively. The Company is required to redeem 8,000 shares, or \$800,000 annually, through 1999, of the \$100 Cumulative Preferred Stock, 9.5 Percent Series. All outstanding Cumulative Preferred shares are redeemable at the option of the Company at any time upon 30 days notice at par plus accrued dividends and a percentage premium equal to the dividend rate in the first year commencing December 1979, and declining ratably each year thereafter to par value in 1999.

The estimated fair value of the Company's Cumulative Preferred Stock at December 31, 1994 and 1993 was \$4 million and \$5 million, respectively. These figures were based on a yield-to-maturity of 9.05 percent

SOUTHWEST GAS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 12 -- PREFERRED AND PREFERENCE STOCKS -- (CONTINUED)

and 8.14 percent, respectively, and a required redemption of 8,000 shares per year. Since this issue is not traded, yield-to-maturity was estimated based on the weighted average yield-to-maturity of the Company's outstanding debentures, adjusted for historical spreads between Moody's Baa rated utility debt and Baa utility preferred stock issues.

During 1994, the Company redeemed, as required, the remaining shares of its Second Preference Stock, Third Series. The dividend rate on Second Preference Stock was cumulative and varied from 3 to 16 percent, based on a formula tied to operating results with respect to the gas distribution system purchased from Arizona Public Service Company. During each of the last three years, the dividend rate was three percent.

The Articles of Incorporation provide that in the event of involuntary liquidation, before distributions may be made to holders of any other class of stock, holders of the Cumulative Preferred Stock are entitled to payment at par value, together with any accumulated and unpaid dividends.

NOTE 13 -- EMPLOYEE POSTRETIREMENT BENEFITS

The Company has a qualified retirement plan covering the employees of its natural gas operations segment. The plan is noncontributory with defined benefits, and covers substantially all employees. It is the Company's policy to fund the plan at not less than the minimum required contribution nor more than the tax deductible limit. Plan assets are held in a master trust whose investments consist of common stock, corporate bonds, government obligations, real estate, an insurance company contract and cash or cash equivalents.

The plan covering the natural gas operations provides that an employee may earn benefits for a period of up to 30 years and will be vested after 5 years of service. Retirement plan costs were \$7.8 million, \$6.6 million, and \$6.1 million for each of the three years ended December 31, 1994, 1993 and 1992, respectively.

The following table sets forth, for the gas segment, the plan's funded status and amounts recognized on the Company's consolidated statements of financial position and statements of income. The Bank has a separate retirement plan whose cost and liability are not significant.

	DECEMBER 31,	
	1994	1993
	(THOUSANDS OF DOLLARS)	
Actuarial present value of benefit obligations:		
Accumulated benefit obligation, including vested benefits of \$(86,800) and \$(90,267), respectively.....	\$ (93,225)	\$ (98,926)
Projected benefit obligation for service rendered to date.....	\$(136,157)	\$(141,694)
Market value of plan assets.....	130,497	126,433
Projected benefit obligation in excess of assets.....	(5,660)	(15,261)
Unrecognized net transition obligation being amortized through 2004.....	7,489	8,326
Unrecognized net loss (gain).....	(2,010)	6,389
Unrecognized prior service cost.....	523	903
Prepaid retirement plan asset included in the Consolidated Statements of Financial Position.....	\$ 342	\$ 357
Assumptions used to develop pension obligations were:		
Discount rate.....	8.25%	7.25%
Long-term rate of return on assets.....	8.75%	8.75%
Rate of increase in compensation levels.....	5.50%	4.75%

SOUTHWEST GAS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 13 -- EMPLOYEE POSTRETIREMENT BENEFITS -- (CONTINUED)

	YEAR ENDED DECEMBER 31,		
	1994	1993	1992
	(THOUSANDS OF DOLLARS)		
Net retirement plan costs include the following components:			
Service cost.....	\$ 7,805	\$ 6,339	\$ 5,111
Interest cost.....	10,164	9,213	8,585
Actual return on plan assets.....	254	(8,853)	(6,406)
Net amortization and deferrals.....	(10,440)	(67)	(1,174)
Net periodic retirement plan cost.....	\$ 7,783	\$ 6,632	\$ 6,116
	=====	=====	=====

In addition to the basic retirement plans, the Company has separate unfunded supplemental retirement plans for its natural gas operations and financial services segments, which are limited to certain officers. The gas segment's plan is noncontributory with defined benefits. Senior officers who retire with ten years or more of service with the Company are eligible to receive benefits. Other officers who retire with 20 years or more of service with the Company are eligible to receive benefits. Plan costs were \$2 million, \$1.5 million and \$1.5 million for each of the three years ended December 31, 1994, 1993 and 1992, respectively. The accumulated benefit obligation of the plan was \$13.3 million, including vested benefits of \$12.4 million, at December 31, 1994. The cost and liability of the financial services supplemental retirement plan are not significant. The Company also has an unfunded retirement plan for directors not covered by the employee retirement plan. The cost and liability for this plan are not significant.

The Company has a deferred compensation plan for all officers and members of the Board. The plan provides the opportunity to defer from a minimum of \$2,000 up to 50 percent of annual compensation. The Company matches one-half of amounts deferred up to six percent of an officer's annual salary. Payments of compensation deferred, plus interest, commence upon the participant's retirement in equal monthly installments over 10, 15 or 20 years, as determined by the Company. Deferred compensation earns interest at a rate determined each January. The interest rate represents 150 percent of Moody's Seasoned Corporate Bond Index.

The Employees' Investment Plan (401k) provides for purchases of the Company's common stock or certain other investments by eligible gas segment employees through deductions of up to 16 percent of base compensation, subject to IRS limitations. The Company matches one-half of amounts deferred up to six percent of an employee's annual compensation. The cost of the plan was \$2.6 million, \$1.9 million and \$1.7 million for each of the three years ended December 31, 1994, 1993 and 1992, respectively. The Bank has a separate 401k plan which provides for purchases of certain securities by eligible employees through deductions of up to 15 percent of base compensation, subject to IRS limitations. The Bank matches 100 percent of amounts deferred up to six percent of employee base compensation. The cost of this plan is not significant.

At December 31, 1994, 464,050 common shares were reserved for issuance under provisions of the Employee Investment Plan and the Company's Dividend Reinvestment and Stock Purchase Plan.

The Company provides postretirement benefits other than pensions (PBOP) to its qualified gas segment retirees for health care, dental and life insurance. The Bank does not provide PBOP to its retirees. In December 1990, the FASB issued SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions." The statement requires the Company to account for PBOP on an accrual basis rather than reporting these benefits on a pay-as-you-go basis. The Company adopted SFAS No. 106 in January 1993. The PSCN, CPUC and FERC have approved the use of SFAS No. 106 for ratemaking purposes, subject to certain

SOUTHWEST GAS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 13 -- EMPLOYEE POSTRETIREMENT BENEFITS -- (CONTINUED)

conditions, including funding. The Company did not receive approval to recover PBOP costs on an accrual basis in its Arizona rate jurisdictions, but was authorized to continue to recover the pay-as-you-go costs for ratemaking purposes. The Company began funding the non-Arizona portion of the PBOP liability in 1994. Plan assets are combined with the pension plan assets in the master trust.

The following table sets forth, for the gas segment, the PBOP funded status and amounts recognized on the Company's consolidated statements of financial position and statements of income.

	YEAR ENDED DECEMBER 31,	
	1994	1993
	----- (THOUSANDS OF DOLLARS) -----	
Accumulated postretirement benefit obligation (APBO)		
Retirees.....	\$(13,348)	\$(14,035)
Fully eligible actives.....	(1,639)	(1,649)
Other active participants.....	(4,524)	(5,164)
	-----	-----
Total.....	(19,511)	(20,848)
Market value of plan assets.....	697	--
	-----	-----
APBO in excess of plan assets.....	(18,814)	(20,848)
Unrecognized transition obligation....	15,605	16,472
Unrecognized prior service cost.....	--	--
Unrecognized loss.....	175	2,659
	-----	-----
Accrued postretirement benefit liability.....	\$ (3,034)	\$ (1,717)
	=====	=====
Assumptions used to develop postretirement benefit obligations were:		
Discount rate.....	8.25%	7.25%
Medical inflation.....	10% graded to 5%	11% graded to 5%
Salary increases.....	5.50%	4.75%
Net periodic postretirement benefit costs include the following components:		
Service cost.....	\$ 473	\$ 346
Interest cost.....	1,472	1,394
Actual return on plan assets.....	--	--
Net amortization and deferrals.....	911	867
	-----	-----
Net periodic postretirement benefit cost.....	\$ 2,856	\$ 2,607
	=====	=====

The Company makes fixed contributions, based on age and years of service, to retiree spending accounts for the medical and dental costs of employees who retire after 1988. The Company pays up to 100 percent of the medical coverage costs for employees who retired prior to 1989. The medical inflation assumption in the table above applies to the benefit obligations for pre-1989 retirees only. This inflation assumption was estimated at ten percent in 1995 and decreases one percent per year until 1997 and one-half of one percent per year until 2003, at which time the annual increase is projected to be five percent. A one percent increase in these assumptions would change the accumulated postretirement benefit obligation by approximately \$1 million and \$1.1 million for the years ended December 31, 1994 and 1993, respectively. The 1995 and 1994 annual benefit cost would increase \$90,000 and \$160,000, respectively.

SOUTHWEST GAS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 14 -- INCOME TAXES

The Company adopted SFAS No. 109, "Accounting for Income Taxes," in January 1993. That statement requires the use of the asset and liability approach for financial reporting of income taxes. As permitted under SFAS No. 109, the prior year's (1992) financial statements were not restated. The cumulative effect of this change in accounting method was an increase in net income of \$3 million, which was reported in the year of adoption.

Income tax expense (benefit) consists of the following (thousands of dollars):

	YEAR ENDED DECEMBER 31,		
	1994	1993	1992
Current:			
Federal.....	\$19,100	\$ (402)	\$13,879
State.....	2,110	700	1,982
	21,210	298	15,861
Deferred:			
Federal.....	(3,444)	10,128	(1,350)
State.....	(44)	833	(38)
	(3,488)	10,961	(1,388)
Total income tax expense.....	\$17,722	\$11,259	\$14,473

Deferred income tax expense (benefit) consists of the following significant components (thousands of dollars):

	YEAR ENDED DECEMBER 31,		
	1994	1993	1992
Deferred federal and state:			
Real estate/loan loss provisions.....	\$ 345	\$11,912	\$(5,667)
Property-related items.....	2,021	552	393
Energy cost adjustments.....	(5,531)	3,804	(132)
Loan fees and discounted interest.....	976	425	(1,030)
Unearned revenues.....	--	(865)	--
Self insurance.....	1,161	(691)	444
CMO.....	473	827	(544)
Customer refunds.....	--	--	5,275
All other deferred.....	(2,057)	(4,154)	706
Total deferred federal and state.....	(2,612)	11,810	(555)
Deferred investment tax credit, net.....	(876)	(849)	(833)
Total deferred income tax expense (benefit).....	\$(3,488)	\$10,961	\$(1,388)

SOUTHWEST GAS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 14 -- INCOME TAXES -- (CONTINUED)

The consolidated effective income tax rate for the period ended December 31, 1994 and the two prior periods differs from the federal statutory income tax rate. The sources of these differences and the effect of each are summarized as follows:

	YEAR ENDED DECEMBER 31,		
	1994	1993	1992
Federal statutory income tax rate.....	35.0%	35.0%	34.0%
Net state tax liability.....	2.7	3.9	5.8
Property-related items.....	1.8	4.8	4.0
Bad debt deduction.....	--	--	(7.7)
Purchase accounting adjustments.....	--	--	(0.3)
Goodwill amortization.....	3.1	14.6	4.4
Provision for estimated loan loss.....	--	--	14.9
Tax credits.....	(2.0)	(3.6)	(2.7)
Tax exempt interest.....	--	(0.7)	(0.3)
Effect of Internal Revenue Service examination.....	--	(4.8)	--
All other differences.....	(0.3)	(1.5)	(7.1)
Consolidated effective income tax rate.....	40.3%	47.7%	45.0%

Deferred tax assets and liabilities consist of the following (thousands of dollars):

	DECEMBER 31,	
	1994	1993
Deferred tax assets:		
Deferred income taxes for future amortization of		
ITC.....	\$ 13,784	\$ 14,312
Allowance for estimated loan losses.....	6,198	5,785
Real estate held for sale.....	5,267	4,865
Employee benefits.....	2,813	3,699
Securities available for sale.....	5,098	--
Other.....	8,561	5,974
Valuation allowance.....	--	--
	41,721	34,635
Deferred tax liabilities:		
Property-related items, including accelerated		
depreciation.....	96,089	90,652
Property-related items previously flowed-through....	28,775	31,083
Unamortized ITC.....	20,741	22,992
Regulatory balancing accounts.....	9,048	20,218
Securities available for sale.....	--	4,717
Loan fees.....	5,188	2,933
Debt-related costs.....	4,941	4,396
Other.....	10,470	9,202
	175,252	186,193
Net deferred tax liabilities.....	\$133,531	\$151,558

SOUTHWEST GAS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 14 -- INCOME TAXES -- (CONTINUED)

Prior to 1981, federal income tax expense for the gas segment was reduced to reflect additional depreciation and other deductions claimed for income tax purposes (flow-through method). Subsequently, deferred taxes have been provided for all differences between book and taxable income (normalization method) in all jurisdictions. The various utility regulatory authorities have consistently allowed the recovery of previously flowed-through income tax benefits on property related items by means of increased federal income tax expense in determining cost of service for ratemaking purposes. Pursuant to SFAS No. 109, a deferred tax liability and corresponding regulatory asset of approximately \$28.8 million are included in the financial statements at December 31, 1994 to reflect the expected recovery of income tax benefits previously flowed-through.

For regulatory and financial reporting purposes, the Company has deferred recognition of investment tax credits (ITC) by amortizing the benefit over the depreciable lives of the related properties. Pursuant to SFAS No. 109, a deferred tax asset and corresponding regulatory liability of approximately \$13.8 million are included in the financial statements at December 31, 1994 to reflect the Company's expected reduction to future income tax expense that will result from the amortization of ITC through utility rates.

Under the Internal Revenue Code, the Bank is allowed a special bad debt deduction (unrelated to the amount of losses charged to earnings) based on a percentage of taxable income (currently eight percent). Under SFAS No. 109, no deferred taxes are provided on bad debt reserves arising prior to December 31, 1987, unless it becomes apparent that these differences will reverse in the foreseeable future. At December 31, 1994, the portion of tax bad debt reserves not expected to reverse is \$14.3 million, which results in a retained earnings benefit of \$5 million, recognized in years prior to 1988.

SOUTHWEST GAS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 15 -- SEGMENT INFORMATION

The financial information pertaining to the Company's gas and financial services segments for each of the three years in the period ended December 31, 1994, is as follows (thousands of dollars):

	1994		
	GAS OPERATIONS	FINANCIAL SERVICES	TOTAL
Revenues.....	\$ 599,553	\$ 128,616	\$ 728,169
Operating expenses excluding income taxes.....	510,863	114,552	625,415
Operating income.....	\$ 88,690	\$ 14,064	\$ 102,754
Depreciation, depletion and amortization.....	\$ 57,284	\$ 7,779	\$ 65,063
Construction expenditures.....	\$ 141,390	\$ 3,252	\$ 144,642
Identifiable assets.....	\$1,277,727	\$1,816,321	\$3,094,048*

	1993		
	GAS OPERATIONS	FINANCIAL SERVICES	TOTAL
Revenues.....	\$ 539,105	\$ 150,736	\$ 689,841
Operating expenses excluding income taxes.....	461,423	140,840	602,263
Operating income.....	\$ 77,682	\$ 9,896	\$ 87,578
Depreciation, depletion and amortization.....	\$ 55,088	\$ 8,495	\$ 63,583
Construction expenditures.....	\$ 113,903	\$ 1,521	\$ 115,424
Identifiable assets.....	\$1,194,679	\$1,751,419	\$2,946,098*

	1992		
	GAS OPERATIONS	FINANCIAL SERVICES	TOTAL
Revenues.....	\$ 534,390	\$ 184,093	\$ 718,483
Operating expenses excluding income taxes.....	448,815	193,820	642,635
Operating income (loss).....	\$ 85,575	\$ (9,727)	\$ 75,848
Depreciation, depletion and amortization.....	\$ 52,277	\$ 8,391	\$ 60,668
Construction expenditures.....	\$ 102,517	\$ 3,078	\$ 105,595
Identifiable assets.....	\$1,103,794	\$2,237,734	\$3,341,528

* Combined assets of the business segments do not equal consolidated assets as certain reclassifications were made during consolidation.

SOUTHWEST GAS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 16 -- QUARTERLY FINANCIAL DATA (UNAUDITED)

CONSOLIDATED QUARTERLY FINANCIAL DATA

	QUARTER ENDED:			
	MARCH 31	JUNE 30	SEPTEMBER 30	DECEMBER 31
(THOUSANDS OF DOLLARS, EXCEPT PER SHARE AMOUNTS)				
1994				
Operating revenues.....	\$239,155	\$140,177	\$124,295	\$224,542
Operating income (loss).....	51,454	(327)	(4,699)	56,326
Net income (loss).....	22,710	(9,781)	(11,165)	24,537
Net income (loss) applicable to common stock.....	22,571	(9,919)	(11,303)	24,442
Earnings (loss) per common share*.....	1.07	(.47)	(.54)	1.15
1993				
Operating revenues.....	\$220,561	\$137,971	\$126,244	\$205,065
Operating income (loss).....	35,937	(5,401)	(257)	57,299
Net income (loss) before cumulative effect of accounting change.....	14,081	(13,072)	(7,344)	18,696
Net income (loss).....	17,126	(13,072)	(7,344)	18,696
Net income (loss) applicable to common stock.....	16,920	(13,275)	(7,538)	18,558
Earnings (loss) per share before cumulative effect of accounting change.....	.67	(.64)	(.37)	.90
Earnings (loss) per common share*.....	.82	(.64)	(.37)	.90
1992				
Operating revenues.....	\$240,646	\$144,291	\$125,229	\$208,317
Operating income (loss).....	36,868	(5,107)	(5,628)	49,715
Net income (loss).....	14,808	(10,447)	(11,395)	24,695
Net income (loss) applicable to common stock.....	14,535	(10,718)	(11,656)	24,449
Earnings (loss) per common share*.....	.71	(.52)	(.57)	1.19

* The sum of quarterly earnings (loss) per average common share may not equal the annual earnings (loss) per share due to the ongoing change in the weighted average number of common shares outstanding.

The demand for natural gas is seasonal, and it is management's opinion that comparisons of earnings for the interim periods do not reliably reflect overall trends and changes in the Company's operations. Also, the timing of general rate relief can have a significant impact on earnings for interim periods. See MD&A for additional discussion of the Company's operating results.

SOUTHWEST GAS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 16 -- QUARTERLY FINANCIAL DATA (UNAUDITED)

BANK QUARTERLY FINANCIAL DATA

	QUARTER ENDED:			
	MARCH 31	JUNE 30	SEPTEMBER 30	DECEMBER 31
	(THOUSANDS OF DOLLARS)			
1994				
Interest income.....	\$28,045	\$29,124	\$29,894	\$31,371
Interest expense.....	14,049	14,200	14,867	16,674
Provision for estimated losses.....	1,848	1,908	1,498	2,139
Net income.....	2,189	2,176	1,977	1,331
1993				
Interest income.....	\$35,997	\$34,976	\$31,881	\$29,471
Interest expense.....	22,240	20,906	17,267	14,663
Provision for estimated losses.....	1,361	1,397	2,782	1,682
Net income (loss) before cumulative effect of accounting change.....	609	(4,717)	5,341	2,318
Net income (loss).....	3,654	(4,717)	5,341	2,318
1992				
Interest income.....	\$47,552	\$44,910	\$37,818	\$35,398
Interest expense.....	33,041	30,933	25,315	22,628
Provision for estimated losses.....	14,277	8,625	5,240	4,296
Net income (loss).....	(4,897)	(3,890)	(1,557)	526

NOTE 17 -- INTEREST RATE RISK MANAGEMENT

The Bank is exposed to interest rate risk (IRR) resulting from (a) timing differences in the maturity and/or repricing of the Bank's assets, liabilities, and off-balance sheet contracts; (b) the exercise of options embedded in the Bank's financial instruments and accounts, such as prepayments of loans before scheduled maturity, caps on the amounts of interest rate movement permitted for adjustable-rate loans, and withdrawals of funds on deposit with and without stated terms to maturity; and (c) differences in the behavior of lending and funding rates, referred to as basis risk. The role of the Bank's asset/liability management function is to prevent the erosion of the Bank's earnings and equity capital due to interest rate fluctuations. Changes in the Bank's IRR exposure affect the current market values of the Bank's loan, debt securities, deposit and borrowing portfolios, as well as the Bank's future earnings. The level of IRR exposure can also adversely affect the Bank's regulatory capital.

The Bank's Board of Directors (BOD) has established certain guidelines to manage the exposure of the Bank's net interest income, net income, and net portfolio value (NPV) to interest rate fluctuations. NPV represents a theoretical estimate of the market value of the Bank's stockholder's equity, calculated as the net present value of expected cash flows from financial assets and liabilities, plus the book values of all non-financial assets and liabilities. The guidelines include limits on overall IRR exposure, methods of accountability and specific reports to be provided to the BOD by management for periodic review, and established acceptable activities and instruments to manage IRR.

The Bank maintains an IRR simulation model which enables the Bank to measure IRR exposure using various assumptions and interest rate scenarios, and to incorporate alternative strategies for the reduction of IRR exposure. The Bank measures its IRR using several methods to provide a comprehensive view of its IRR from various perspectives. These methods include projection of current NPV and future periods' net interest

SOUTHWEST GAS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 17 -- INTEREST RATE RISK MANAGEMENT -- (CONTINUED)

income after rapid and sustained interest rate movements, static analysis of repricing and maturity mismatches, or gaps, between assets and liabilities, and analysis of the size and sources of basis risk.

Using the Bank's IRR simulation model, the following table presents management's estimate of the Bank's NPV after a hypothetical, instantaneous 200 basis points (bp) change in the market interest rates at December 31, 1994 and 1993 (thousands of dollars):

CHANGE IN INTEREST RATES	ESTIMATED NPV DECEMBER 31, 1994	ESTIMATED NPV DECEMBER 31, 1993
+200 bp	\$ 102,192	\$ 113,128
0	\$ 143,020	\$ 132,827
-200 bp	\$ 155,585	\$ 123,742

As shown above, the Bank's estimated NPV increased from December 31, 1993 to December 31, 1994 by \$10.2 million and \$31.8 million under assumed changes in market interest rates of zero bp and -200 bp, respectively. Over the same period, however, the Bank's estimated NPV declined by \$10.9 million under an assumed change in market rates of +200 bp.

During 1994, market interest rates generally increased. Although the Bank's estimated NPV had been expected to decline in a rising rate environment in IRR simulations run as of December 31, 1993, the opposite actually occurred as a result of actions taken by management. During 1994, the intangible value of the Bank's core deposits increased as the Bank was able to lag increases in the interest rates it pays on such deposits relative to increases in market interest rates. During 1994, management also acted to acquire long-term deposits and borrowings at historically low interest rates, and implemented several off-balance sheet hedges to effectively convert certain fixed-rate loans to adjustable-rate loans. These actions had a net effect of outweighing other declines in the estimated market values of the Bank's assets, resulting in a net increase in the Bank's estimated NPV as of December 31, 1994. These actions also benefited the Bank's net interest margin and resulted in an increase in the net yield of the Bank's interest-earning assets from 3.15 percent in 1993 to 3.69 percent in 1994.

Management also measures the Bank's IRR using static gap analysis to further identify sources of IRR and its potential impact on net interest income. Static gap analysis measures the difference between financial assets and financial liabilities scheduled and expected to mature or reprice within a specified time period. The gap for that period is positive when repricing and maturing assets exceed repricing and maturing liabilities. The gap for that period is negative when repricing and maturing liabilities exceed repricing and maturing assets. A positive or negative cumulative gap indicates in a general way how the Bank's net interest income should respond to interest rate fluctuations. A positive cumulative gap for a period generally means that rising interest rates would be reflected sooner in financial assets than in financial costing liabilities, thereby increasing net interest income over that period. A negative cumulative gap for a period would produce an increase in net interest income over that period if interest rates declined.

At December 31, 1994 and 1993, the Bank's cumulative one-year static gap was \$(145) million and \$(39.4) million, respectively, or negative eight percent and negative two percent of financial assets.

The financial instruments approved by the BOD to manage the Bank's IRR exposure in its balance sheet include the Bank's debt security portfolio, interest rate swaps, interest rate caps, interest rate collars, interest rate futures, and put and call options. These financial instruments provide effective methods of reducing the impact of changes in interest rates on the market values of and earnings provided by the Bank's assets and liabilities. The Bank also actively manages its retail and wholesale funding sources to minimize its cost of funds and provide stable funding sources for its loan and investment portfolios. Management's use of particular financial instruments is based on a complete analysis of current IRR exposure and the projected effect of any

SOUTHWEST GAS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 17 -- INTEREST RATE RISK MANAGEMENT -- (CONTINUED)

proposed strategy. In addition, to manage the IRR exposure associated with the Bank's held for sale loan portfolio, the Bank utilizes forward sale commitments.

At December 31, 1994 and 1993, the Bank utilized interest rate swap agreements as a hedge to convert permanent fixed-rate loans into adjustable-rate loans. The agreements require the Bank to make fixed-rate payments and in turn, the Bank receives floating interest payments based on the six month LIBOR.

The following table presents the notional amount of interest rate swaps outstanding, unrealized gains and losses of the swaps, the weighted average interest rates payable and receivable, and the remaining term (thousands of dollars).

DECEMBER 31, 1994

MATURITY -----	FIXED RATE PAID -----	VARIABLE RATE RECEIVED -----	NOTIONAL AMOUNT -----	UNREALIZED GAIN -----	UNREALIZED LOSS -----
1 - 3 Years.....	6.70%	5.56%	\$21,400	\$ 652	\$
3 - 5 Years.....	7.22	5.66	26,150	833	--
5 - 10 Years.....	6.88	5.76	24,900	1,506	(5)
	6.95%	5.66%	\$72,450	\$2,991	\$ (5)
	====	====	=====	=====	=====

DECEMBER 31, 1993

MATURITY -----	FIXED RATE PAID -----	VARIABLE RATE RECEIVED -----	NOTIONAL AMOUNT -----	UNREALIZED GAIN -----	UNREALIZED LOSS -----
5 - 10 Years.....	5.45%	3.55%	\$7,500	\$ 169	\$ --
	====	====	=====	=====	=====

The notional amount of interest rate swaps do not represent amounts exchanged by the parties and, thus, are not a measure of the Bank's exposure through its use of derivatives. The amounts exchanged are determined by reference to the notional amounts and the interest rates.

The Bank is exposed to credit-related losses in the event of nonperformance by counterparties to financial instruments but does not expect any counterparties to fail to meet their obligations. The Bank deals only with highly rated broker/dealers. The current credit exposure of derivatives is represented by the fair value of contracts with a positive fair value (unrealized gain) at the reporting date.

During 1992, in conjunction with the restructuring of the Bank's balance sheet and the sale of long-term fixed-rate assets, \$300 million (notional amount) of interest rate swaps hedging such assets were canceled at a cost of \$14.1 million, which is included as an expense in the accompanying Consolidated Statements of Income. In addition, \$35 million (notional amount) of interest rate swaps matured during 1992. No interest rate swaps matured or were terminated during 1993 and 1994. The interest rate swap agreements at December 31, 1994 are collateralized with MBS with a fair value of \$2.7 million. The net expense on interest rate swaps of \$485,000, \$24,000 and \$4.8 million in 1994, 1993 and 1992, respectively, are included in interest expense as a cost of hedging activities in the accompanying Consolidated Statements of Income.

The Bank is also exposed to IRR through the issuance of fixed-rate loan commitments and builder loan commitments. Fixed-rate loan commitments represent firm commitments to originate loans secured by real estate to specific borrowers at a specified rate of interest. Builder commitments represent agreements to home builders for the Bank to provide loans secured by real estate to unspecified qualified customers of the builder at interest rates not to exceed specified levels. Fixed-rate loan commitments generally expire in 30 to 60 days and builder commitments generally expire within 6 to 12 months. The Bank generally receives a fee for both of these types of commitments. Many of the commitments are expected to expire without fully being drawn upon and therefore, the total commitments do not necessarily represent future cash requirements.

SOUTHWEST GAS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 17 -- INTEREST RATE RISK MANAGEMENT -- (CONTINUED)

The Bank hedges IRR on fixed-rate loan commitments expected to be sold in the secondary market and the inventory of loans held for sale through a combination of commitments from permanent investors, optional delivery commitments, and mandatory forward contracts. Outstanding firm commitments to sell loans represent agreements to sell loans to a third party at a specified price on a specified date. These commitments are used to hedge loans for sale and to hedge outstanding commitments to originate loans. Outstanding master commitments to sell loans represent agreements to sell a stated volume of loans to a third party within a specified period of time without regard to price. Master commitments are entered in order to ensure availability of a buyer for loans meeting specified underwriting criteria and to maximize the sales price at the time a firm commitment is executed. Related hedging gains and losses are recognized at the time gains and losses are recognized on the related loans. See Note 2 for commitments outstanding and their estimated fair value.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Shareholders,
Southwest Gas Corporation:

We have audited the accompanying consolidated statements of financial position of Southwest Gas Corporation (a California corporation, hereinafter referred to as the Company) and subsidiaries as of December 31, 1994 and 1993, and the related consolidated statements of income, stockholders' equity and cash flows for each of the three years in the period ended December 31, 1994. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company and its subsidiaries as of December 31, 1994 and 1993, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1994 in conformity with generally accepted accounting principles.

As discussed in notes 1, 13 and 14 of the notes to consolidated financial statements, and as required by generally accepted accounting principles, the Company changed its methods of accounting for investments in certain debt and equity securities, postretirement benefits other than pensions and income taxes in 1993.

ARTHUR ANDERSEN LLP

Las Vegas, Nevada
February 8, 1995

ITEM 9. DISAGREEMENTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

- (a) Identification of Directors. Information with respect to Directors is set forth under the heading "Election of Directors" in the Company's definitive Proxy Statement dated March 1995, which by this reference is incorporated herein.
- (b) Identification of Executive Officers. The name, age, position and period position held during the last five years for each of the Executive Officers of the Company are as follows:

NAME ----	AGE ---	POSITION -----	PERIOD POSITION HELD -----
Michael O. Maffie	47	President and Chief Executive Officer	1993-Present
		President and Chief Operating Officer	1990-1993
Dan J. Cheever	39	President and Chief Executive Officer/PriMerit Bank	1992-Present
		President and Chief Operating Officer/PriMerit Bank	1991-1992
		Executive Vice President and Chief Financial Officer/PriMerit Bank	1990-1991
George C. Biehl	47	Senior Vice President and Chief Financial Officer	1990-Present
James F. Lowman	48	Senior Vice President/Central Arizona Division	1990-Present
Dudley J. Sondeno	42	Senior Vice President/Staff Operations	1993-Present
		Vice President/Engineering and Operations Support	1990-1993
L. Keith Stewart	54	Senior Vice President/Operations	1993-Present
		Senior Vice President/Southern Arizona Division	1992-1993
		Senior Vice President/Nevada-California Region	1990-1992
Thomas J. Trimble	63	Senior Vice President, General Counsel and Corporate Secretary	1990-Present

- (c) Identification of Certain Significant Employees.
- None.
- (d) Family Relationships. None of the Company's Directors or Executive Officers are related to any other either by blood, marriage or adoption.
- (e) Business Experience. Information with respect to Directors is set forth under the heading "Election of Directors" in the Company's definitive Proxy Statement dated March 1995, which by this reference is incorporated herein. All Executive Officers have held responsible positions with the Company for at least five years as described in (b) above.
- (f) Involvement in Certain Legal Proceedings.
- None.
- (g) Item 405 Review. Section 16(a) of the Securities Exchange Act of 1934 requires the Company's officers and directors, and persons who own more than ten percent of a registered class of the Company's equity securities, to file reports of ownership and changes in ownership with the Securities and Exchange Commission (SEC) and the New York Stock Exchange. Officers, directors and beneficial owners of more than ten percent of any class of equity securities are required by SEC regulation to furnish the Company with copies of all Section 16(a) forms they file.

The Company has adopted procedures to assist its directors and executive officers in complying with Section 16(a) of the Securities and Exchange Act of 1934, which includes assisting in the preparation of forms for filing. For 1994, all the required reports were filed timely. In addition, amended Form 5s for 1992 and 1993 were filed for Lloyd T. Dyer to reflect dividend reinvestment plan holdings that, through an oversight, were omitted from the original Form 5 filings.

ITEM 11. EXECUTIVE COMPENSATION

Information with respect to executive compensation is set forth under the heading "Executive Compensation and Benefits" in the Company's definitive Proxy Statement dated March 1995, which by this reference is incorporated herein.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

- (a) Not applicable.
- (b) Information with respect to security ownership of management is set forth under the heading "Securities Ownership by Nominees and Executive Officers" in the Company's definitive Proxy Statement dated March 1995, which by this reference is incorporated herein.
- (c) Not applicable.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Information with respect to certain relationships and related transactions is set forth under the heading "Certain Relationships and Related Transactions" in the Company's definitive Proxy Statement dated March 1995, which by this reference is incorporated herein.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

- (a) The following documents are filed as part of this report on Form 10-K:
- (1) The following are included in Part II, Item 8 of this form:

	PAGES

Consolidated statements of financial position.....	50
Consolidated statements of income.....	51
Consolidated statements of cash flows.....	52
Consolidated statements of stockholders' equity.....	53
Notes to consolidated financial statements.....	54
Report of independent public accountants.....	88

(2) None

(3) See list of exhibits.

(b) Reports on Form 8-K

The Company filed a Form 8-K, dated February 9, 1995, reporting summary financial information for the year ended December 31, 1994.

(c) See Exhibits.

LIST OF EXHIBITS

EXHIBIT NUMBER -----	DESCRIPTION OF DOCUMENT -----
2.01	Not applicable.
3.01(3)	Restated Articles of Incorporation, as amended.
3.02(12)	Amended Bylaws of Southwest Gas Corporation.
4.01(1)	Certificate of Determination establishing Cumulative Preferred Stock, 9.5% Dividend Series, effective December 11, 1979.
4.02(4)	Indenture between the Company and Bank of America National Trust and Savings Association, as successor by merger to Security Pacific National Bank as Trustee, dated August 1, 1986, with respect to the Company's 9% Series A and Series B and 8 3/4% Series C Debentures.
4.03(5)	First Supplemental Indenture of the Company to Bank of America National Trust and Savings Association, as successor by merger to Security Pacific National Bank as Trustee, dated as of October 1, 1986, supplementing and amending the Indenture dated as of August 1, 1986, with respect to the Company's 9% Debentures, Series A, due 2011.
4.04(5)	Second Supplemental Indenture of the Company to Bank of America National Trust and Savings Association, as successor by merger to Security Pacific National Bank as Trustee, dated as of November 1, 1986, supplementing and amending the Indenture dated as of August 1, 1986, with respect to the Company's 9% Debentures, Series B, due 2011.
4.05(6)	Third Supplemental Indenture of the Company to Bank of America National Trust and Savings Association, as successor by merger to Security Pacific National Bank as Trustee, dated as of December 1, 1986, supplementing and amending the Indenture dated as of August 1, 1986, with respect to the Company's 8 3/4% Debentures, Series C, due 2011.
4.06(6)	Fourth Supplemental Indenture of the Company to Bank of America National Trust and Savings Association, as successor by merger to Security Pacific National Bank as Trustee, dated as of February 1, 1987, supplementing and amending the Indenture dated as of August 1, 1986, with respect to the Company's 10% Debentures, Series D, due 2017.
4.07(7)	Fifth Supplemental Indenture of the Company to Bank of America National Trust and Savings Association, as successor by merger to Security Pacific National Bank as Trustee, dated as of August 1, 1988, supplementing and amending the Indenture dated as of August 1, 1986, with respect to the Company's 9 3/8% Debentures, Series E, due 2013.
4.08(8)	Sixth Supplemental Indenture of the Company to Bank of America National Trust and Savings Association, as successor by merger to Security Pacific National Bank as Trustee, dated as of June 16, 1992, supplementing and amending the Indenture dated as of August 1, 1986, with respect to the Company's 9 3/4% Debentures, Series F, due 2002.
4.09(9)	Indenture between Clark County, Nevada, and Bank of America Nevada as Trustee, dated September 1, 1992, with respect to the issuance of \$130,000,000 Industrial Development Revenue Bonds (Southwest Gas Corporation), \$30,000,000 1992 Series A and \$100,000,000 1992 Series B.
4.10(11)	Indenture between Clark County, Nevada, and Harris Trust and Savings Bank as Trustee, dated December 1, 1993, with respect to the issuance of \$75,000,000 Industrial Development Revenue Bonds (Southwest Gas Corporation), 1993 Series A, due 2033.
4.11(11)	Indenture between City of Big Bear Lake, California, and Harris Trust and Savings Bank as Trustee, dated December 1, 1993, with respect to the issuance of \$50,000,000 Industrial Development Revenue Bonds (Southwest Gas Corporation Project), 1993 Series A, due 2028.
4.12(13)	Form of Deposit Agreement.
4.13(13)	Form of Depositary Receipt (attached as Exhibit A to Deposit Agreement included as Exhibit 4.12 hereto).
4.14(13)	Form of Indenture relating to the Debt Securities.

EXHIBIT NUMBER -----	DESCRIPTION OF DOCUMENT -----
4.15	The Company hereby agrees to furnish to the SEC, upon request, a copy of any instruments defining the rights of holders of long-term debt issued by Southwest Gas Corporation or its subsidiaries.
9.01	Not applicable.
10.01(2)	Participation Agreement among the Company and General Electric Credit Corporation, Prudential Insurance Company of America, Aetna Life Insurance Company, Merrill Lynch Interfunding, Bank of America through purchase of Valley Bank of Nevada, Bankers Trust Company and First Interstate Bank of Nevada, dated as of July 1, 1982.
10.02(2)	Lease and Agreement between the Company and Spring Mountain Road Associates, dated as of June 15, 1982 and amended as of July 1, 1982.
10.03(11)	Financing Agreement between the Company and Clark County, Nevada, dated September 1, 1992.
10.04(11)	Financing Agreement between the Company and Clark County, Nevada, dated as of December 1, 1993.
10.05(11)	Project Agreement between the Company and City of Big Bear Lake, California, dated as of December 1, 1993.
10.06(12)	Southwest Gas Corporation Executive Deferral Plan, amended and restated May 10, 1994.
10.07(10)	Southwest Gas Corporation Directors Deferral Plan, as amended October 29, 1992.
10.08(11)	Southwest Gas Corporation Board of Directors Retirement Plan, amended and restated effective October 1, 1993.
10.09(12)	Southwest Gas Corporation Management Incentive Plan, amended and restated May 10, 1994.
10.10(12)	Southwest Gas Corporation Supplemental Retirement Plan, amended and restated as of May 10, 1994.
10.11(11)	Agreements between PriMerit Bank and World Savings and Loan Association regarding sale of Arizona assets and assumption of related liabilities.
10.12	Management Contract with PriMerit Bank officer.
10.13	\$200 million Credit Agreement between the Company, Union Bank of Switzerland, et al., dated as of January 27, 1995.
11.01	Not applicable.
12.01	Not applicable.
13.01	Not applicable.
16.01	Not applicable.
18.01	Not applicable.
21.01	List of subsidiaries of Southwest Gas Corporation.
22.01	Not applicable.
23.01	Consent of Arthur Andersen LLP, Independent Public Accountants.
24.01	Not applicable.
27.01	Financial Data Schedule (filed electronically only).
28.01	Not applicable.
99.01	PriMerit Bank 1994 Financial Statement Package.

-
- (1) Incorporated herein by reference to the Company's Registration Statement on Form S-16, No. 2-68833.
 - (2) Incorporated herein by reference to the Company's report on Form 10-K for the year ended December 31, 1982.
 - (3) Incorporated herein by reference to the Company's Registration Statement on Form S-2, No. 2-92938.
 - (4) Incorporated herein by reference to the Company's Registration Statement on Form S-3, No. 33-7931.

- (5) Incorporated herein by reference to the Company's report on Form 10-K for the year ended December 31, 1986.
- (6) Incorporated herein by reference to the Company's report on Form 10-Q for the quarter ended March 31, 1987.
- (7) Incorporated herein by reference to the Company's report on Form 8-K dated August 23, 1988.
- (8) Incorporated herein by reference to the Company's report on Form 10-Q for the quarter ended June 30, 1992.
- (9) Incorporated herein by reference to the Company's report on Form 10-Q for the quarter ended September 30, 1992.
- (10) Incorporated herein by reference to the Company's report on Form 10-K for the year ended December 31, 1992.
- (11) Incorporated herein by reference to the Company's report on Form 10-K for the year ended December 31, 1993.
- (12) Incorporated herein by reference to the Company's report on Form 10-Q for the quarter ended June 30, 1994.
- (13) Incorporated herein by reference to the Company's Registration Statement on Form S-3, No. 33-55621.

SIGNATURES

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

SOUTHWEST GAS CORPORATION

By MICHAEL O. MAFFIE

 Michael O. Maffie, President
 (Chief Executive Officer)

Date: March 6, 1995

SIGNATURES

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

SIGNATURE -----	TITLE -----	DATE ----
GEORGE C. BIEHL ----- (George C. Biehl)	Senior Vice President (Chief Financial Officer)	March 6, 1995
EDWARD A. JANOV ----- (Edward A. Janov)	Controller (Chief Accounting Officer)	March 6, 1995

SIGNATURES

Pursuant to the requirements of Section 15(d) of the Securities Exchange Act of 1934, the Company has duly caused this report to be signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

SIGNATURE -----	TITLE -----	DATE ----
RALPH C. BATASTINI ----- (Ralph C. Batastini)	Director	March 6, 1995
MANUEL J. CORTEZ ----- (Manuel J. Cortez)	Director	March 6, 1995
LLOYD T. DYER ----- (Lloyd T. Dyer)	Director	March 6, 1995
KENNY C. GUINN ----- (Kenny C. Guinn)	Chairman of the Board of Directors	March 6, 1995
THOMAS Y. HARTLEY ----- (Thomas Y. Hartley)	Director	March 6, 1995
MICHAEL B. JAGER ----- (Michael B. Jager)	Director	March 6, 1995
----- (Leonard R. Judd)	Director	
JAMES R. LINCICOME ----- (James R. Lincicome)	Director	March 6, 1995
MICHAEL O. MAFFIE ----- (Michael O. Maffie)	President and Director (Chief Executive Officer)	March 6, 1995
CAROLYN M. SPARKS ----- (Carolyn M. Sparks)	Director	March 6, 1995
ROBERT S. SUNDT ----- (Robert S. Sundt)	Director	March 6, 1995

GLOSSARY OF TERMS

401k	-- The Employees' Investment Plan
ACC	-- Arizona Corporation Commission
AFS	-- Available-For-Sale
ARM	-- Adjustable-Rate Mortgages
the Bank	-- PriMerit Bank
the Board	-- Southwest Gas Corporation Board of Directors
BOD	-- The Bank's Board of Directors
CAMEL	-- Capital, Assets, Management, Earnings and Liquidity
CMO	-- Collateralized Mortgage Obligations
the Company	-- Southwest Gas Corporation
CPUC	-- California Public Utilities Commission
CRA	-- Community Reinvestment Act of 1977
Credit Agreement	-- Restated and Amended Credit Agreement
El Paso	-- El Paso Natural Gas Company
FASB	-- Financial Accounting Standards Board
FDIC	-- Federal Deposit Insurance Corporation
FDICIA	-- Federal Deposit Insurance Corporation Improvement Act of 1991
FERC	-- Federal Energy Regulatory Commission
FHA	-- Federal Housing Authority
FHLB	-- Federal Home Loan Bank
FHLMC	-- Federal Home Loan Mortgage Corporation
FIRREA	-- Financial Institutions Reform, Recovery and Enforcement Act
flex repos	-- Flexible Reverse Repurchase Agreements
FNMA	-- Federal National Mortgage Association
GAAP	-- Generally Accepted Accounting Principles
gas segment	-- Natural Gas Operations Segment
GNMA	-- Government National Mortgage Association
IDRB	-- Industrial Development Revenue Bonds
IRR	-- Interest Rate Risk
ITC	-- Investment Tax Credit
Kern River	-- Kern River Gas Transmission Company
LDC	-- Local Distribution Company
LIBOR	-- London Interbank Offering Rate
LNG	-- Liquefied Natural Gas
MBS	-- Mortgage-Backed Securities
MD&A	-- Management's Discussion and Analysis
NOW	-- Negotiable Order of Withdrawal
NPV	-- Net Portfolio Value
OTS	-- Office of Thrift Supervision
Paiute	-- Paiute Pipeline Company
Pataya	-- Pataya Gas Storage Project
PBOP	-- Postretirement Benefits Other Than Pensions
PGA	-- Purchased Gas Adjustment
PSCN	-- Public Service Commission of Nevada
REMIC	-- Real Estate Mortgage Investment Conduits
SAIF	-- Savings Association Insurance Fund
SAM	-- Supply Adjustment Mechanism
SEC	-- Securities and Exchange Commission
SFAS	-- Statement of Financial Accounting Standards
SFR	-- Single-Family Residential
SoCal	-- Southern California Gas Company
VA	-- Veterans Administration

AGREEMENT

THIS AGREEMENT, made the 31st day of May, 1994, is between PRIMERIT BANK, F.S.B. (the "Bank") whose address is 3300 West Sahara, Las Vegas, Nevada 89102, and Dan J. Cheever, President/Chief Executive Officer (the "Employee"), whose address is 1515 Red Rock Street, Las Vegas, Nevada 89102.

W I T N E S S E T H:

WHEREAS, the Bank considers the establishment and maintenance of a sound and vital management to be essential to protecting and enhancing the best interests of the Bank and its shareholder, and

WHEREAS, the Bank recognizes that, as is the case with many corporations, the possibility of a change in control exists and that such possibility, and the uncertainty and questions which it may raise among management, may result in the departure or distraction of key management personnel to the detriment of the Bank and its shareholder. Accordingly, the Bank's Board of Directors has determined that appropriate steps should be taken to inspire the loyalty and reinforce and encourage the continued attention and dedication of certain members of the Bank's management to their assigned duties without distraction in the face of the personal career risks and other unsettling circumstances which would accompany a change in control of the Bank.

NOW, THEREFORE, this agreement (the "Agreement") sets forth the "success" and "deferred compensation" benefits which the Bank agrees will be provided to Employee, as set forth herein, in the event Employee continues his employment with the Bank until a successful change in control of the Bank has been completed (success benefit) and Employee's employment with the Bank is substantially changed or terminated after a change in control of the Bank under the circumstances described herein (deferred compensation benefit).

ARTICLE I
DEFINITIONS

The following terms used in this Agreement shall have the meanings set forth herein unless the context clearly indicates a different meaning is required:

"ADMINISTRATOR" ("PLAN ADMINISTRATOR") shall mean the Board.

"AGREEMENT" shall mean this document which shall be known as the Special Compensation Plan for Key Executive Mr. Dan J. Cheever.

"ANNUAL BASE SALARY" shall mean Base Salary paid to Employee by the Bank in a calendar year.

"BANK" shall mean PriMerit Bank, F.S.B.

"BASE SALARY" shall mean compensation paid by the Bank to Employee, including salary deferrals, but excluding bonuses, incentives, commissions, overtime, monetary or nonmonetary awards for employment service to the Bank, or payments or Bank contributions to or from any Bank retirement or deferred compensation or similar plans.

"BOARD" shall mean the Board of Directors of the Bank.

"CHANGE IN CONTROL" shall mean a change whereby Southwest Gas Corporation is replaced by any "person" (as such term is used in Sections 13(d) and 14(d)(2) of the Securities Exchange Act of 1934) as the beneficial owner of securities of the Bank representing fifty-one percent or more of the combined voting power of the Bank's then outstanding securities ordinarily (and apart from rights accruing under special circumstances) having the right to vote at elections of directors.

"DATE OF TERMINATION" shall mean:

(i) if Employee gives Notice of Termination of Employee's employment for Good Reason, the date on which a Notice of Termination is given; and

(ii) if Employee's employment is terminated for any other reason, the date on which a Notice of Termination is given.

"DISABILITY" shall mean a physical and/or mental incapacity of such a nature that it causes Employee to be absent from his duties with the Bank on a full-time basis for six calendar months.

"ERISA" shall mean the Employee Retirement Income Security Act of 1974, as amended.

"FOR CAUSE" shall mean the Bank's decision to terminate Employee's employment with the Bank due to any of the following:

(i) Employee's incompetence or willful misconduct and continued failure to substantially perform his duties with the Bank (other than any such failure resulting from Employee's incapacity due to physical or mental illness), after the Bank's Board causes to be delivered to Employee a demand for substantial performance which specifically identifies the manner in which the Board believes that Employee has not substantially performed his duties; or

(ii) Employee's willfully engaging in misconduct materially and demonstrably injurious to the Bank; provided, however, that no act or failure to act on Employee's part shall be considered "willful" unless Employee's action or failure to take action was in bad faith and in circumstances under which Employee knew or reasonably should have known that Employee's action or failure to take action was contrary to the best interest of the Bank; or

(iii) Employee's personal dishonesty, incompetence, breach of fiduciary duty involving personal profit, intentional failure to perform stated duties, willful violation of any law, rule or regulation (other than traffic violations or similar offenses) or final cease-and-desist order; or

(iv) Employee's breach of any provision of this Agreement.

"GOOD REASON" shall mean Employee's substantial change in, or termination of, employment with the Bank within twelve (12) calendar months after the date of a Change in Control due to:

(i) the assignment to Employee, without Employee's express written consent, of any duties not substantially equivalent with Employee's position, duties, responsibilities, and status with the Bank immediately prior to a Change in Control;

(ii) a change, without Employee's express written consent, in Employee's title or office which is not substantially equivalent to those held by Employee immediately prior to a Change in Control;

(iii) any removal of Employee from, or any failure to reelect Employee to, any of the titles or offices specified in the foregoing clause (ii), except in connection with the termination of Employee's employment For Cause, Disability, or Retirement, or as a result of Employee's death, or by Employee due to reasons other than those listed in clauses (i), (ii), (iv), (v) and (vi) hereof;

(iv) any relocation of the office at which Employee is expected to regularly perform Employee's duties if such relocation is more than 30 miles from the present principal executive offices of the Bank in Las Vegas, Nevada, unless the principal executive offices of the Bank are themselves moved to a different city located within the State of Nevada;

(v) a reduction by the Bank of Employee's Base Salary as in effect on the date this Agreement is signed or as the same may be increased from time to time; or

(vi) the termination of Employee's employment which is not effected pursuant to a Notice of Termination.

"NOTICE OF TERMINATION" shall mean a notice which shall identify the specific termination provision of this Agreement relied upon and shall set forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of Employee's employment under the provision so identified. Any termination by the Bank For Cause or by Employee for Good Reason shall be communicated by written Notice of Termination to the other party hereto.

"RETIREMENT" shall mean any termination of Employee's employment with the Bank that is due to Employee's retirement from employment with the Bank on or after the date Employee could retire from employment from the Bank and receive early, normal, or late retirement benefits under the PriMerit Bank, Federal Savings Bank Retirement Income Plan.

ARTICLE II
TERM

The term of this Agreement shall be for a period which shall terminate upon the earlier of (i) the expiration of one year commencing on the date specified on the first page hereof or (ii) termination of employment for other than Good Reason; provided however that on each anniversary date of this Agreement, commencing with the anniversary date in 1995, the period specified in clause (i) shall be extended with Board approval and justification for an additional year on a continuing basis unless either party shall give the other written notice of its intention not to so extend at least three months prior to the next following anniversary date.

ARTICLE III
EMPLOYEE NOTICE

Employee confirms that it is Employee's present intention to remain in the employ of the Bank. Employee agrees that until such time, if ever, that a Change in Control occurs, Employee shall give the Bank at least three months' prior written notice should Employee elect to terminate his employment with the Bank.

ARTICLE IV
SUCCESS BENEFIT

If a Change in Control shall occur, and Employee still is employed by the Bank on the day the Change in Control is totally and legally completed, the Bank shall pay to Employee in a lump sum (less all tax and other withholdings) a success benefit of Five Hundred Thousand Dollars (\$500,000). Payment of such amount shall occur not later than the fifth business day following the date of such completed Change in Control.

ARTICLE V
TERMINATION OF EMPLOYMENT FOLLOWING CHANGE IN CONTROL

If Employee's employment with the Bank terminates within twelve (12) calendar months after a Change in Control occurs, Employee shall be entitled to the deferred compensation benefit provided in Article VI of this Agreement unless (i) such termination results from Employee's death, Disability, or Retirement, (ii) the Bank terminates Employee's employment For Cause, or (iii) Employee terminates his employment with the Bank for other than Good Reason.

ARTICLE VI
DEFERRED COMPENSATION BENEFIT

If the requirements of Article V have been satisfied, Bank shall pay to Employee in a lump sum (less all tax and other withholdings) a deferred compensation benefit that shall equal the sum of the following amounts:

(i) Employee's Base Salary through the Date of Termination at the rate in effect at the time Notice of Termination was given; plus

(ii) an amount equal to the product of the sum of Employee's Annual Base Salary at the rate in effect at the Date of Termination multiplied by two hundred percent (200%).

Payment of such deferred compensation benefit shall occur not later than the fifth business day following Employee's Date of Termination. Employee shall not be required to mitigate the amount of any payment provided for in this Article VI by seeking other employment, or otherwise, nor shall the amount of any payment provided for in this Article VI be reduced by any compensation earned by Employee as a result of employment by another employer or otherwise after the Date of Termination.

ARTICLE VII
GROSS-UP PAYMENT

If any payments under Articles IV and VI (the "Agreement Payments") will be subject to the tax (the "Excise Tax") imposed by Section 4999 of the Internal Revenue Code of 1986, as amended (the "Code"), the Bank shall pay Employee the following amounts at the time specified in the last paragraph of this Article VII:

(i) a payment (the "Excise Tax Payment") equaling the Excise Tax on Agreement Payments, plus

(ii) a payment (the "Reimbursement Payment") equaling the Excise Tax, federal income tax, and state income tax attributable to the Excise Tax Payment and this Reimbursement Payment -- calculation of taxes generated by the Reimbursement Payment shall cease once the incremental increase in the amount of such tax is below one hundred dollars (\$100).

For purposes of determining whether any of the Agreement Payments will be subject to the Excise Tax and the amount of such Excise Tax, (i) all Agreement Payments shall be treated as "parachute payments" within the meaning of Code Section 280G(b), and all "excess parachute payments" within the meaning of Code Section 280G(b)(1) shall be treated as subject to the Excise Tax, unless in the opinion of tax counsel selected by the Bank's independent auditors and acceptable to Employee, such Agreement Payments (in whole or in part) do not constitute parachute payments, or such excess parachute payments (in whole or in part) represent reasonable compensation for services actually rendered within the meaning of Code Section 280G(b)(4) in excess of the base amount within the meaning of Code Section 280G(b)(3), or are otherwise not subject to the Excise Tax, (ii) the amount of the Agreement Payments which shall be treated as subject to the Excise Tax shall be equal to the lesser of (a) the total amount of the Agreement Payments or (b) the amount of excess parachute payments within the meaning of Code Section 280G(b)(1) after applying clause (i) above, and (iii) the value of any deferred payment shall be determined by the Bank's independent auditors in accordance with the principles of Code Section 280G(d)(4). For purposes of determining the amount of the Excise Tax Payment and Reimbursement Payment, Employee shall be deemed to pay federal income taxes at Employee's highest marginal rate of federal income taxation in the calendar year in which the Excise Tax Payment and Reimbursement Payment are to be made and state income taxes at Employee's highest marginal rate of taxation in the state of Employee's residence on the Date of Termination, net of the maximum reduction in federal income taxes that could be obtained from the deduction of such state taxes.

In the event that the Excise Tax is subsequently determined to be less than the amount taken into account hereunder at the time of termination of Employee's employment with the Bank, Employee shall repay to the Bank, at the time that the amount of such reduction in Excise Tax is finally determined, the reduction in the amount of the Excise Tax Payment and Reimbursement Payment that is attributable to such reduction plus interest on the amount of such repayment at the rate provided in Code Section 1274(b)(2)(B) (the "Applicable Rate").

In the event that the Excise Tax is determined to exceed the amount taken into account hereunder at the time of the termination of Employee's employment (including by reason of any payment the existence or amount of which cannot be determined at the time of the Excise Tax Payment and Reimbursement Payment), the Bank shall make an additional payment in respect of such excess (plus any interest payable with respect to such excess at the Applicable Rate) at the time that the amount of such excess is finally determined.

The Excise Tax Payment and Reimbursement Payment provided for in the first paragraph of this Article VII shall be made not later than the thirtieth day following the Date of Termination; provided, however, that if the amount of such payment cannot be finally determined on or before such day, the Bank shall pay to Employee on such day an estimate, as determined in good faith by the Bank, of the minimum amount of such payment and shall pay the remainder of such payment as soon as the amount thereof can be determined. In the event that the amount of the estimated payment exceeds the amount subsequently determined to have been due, such excess shall constitute a loan by the Bank to Employee, payable on the thirtieth day after demand by the Bank (together with interest at the Applicable Rate).

ARTICLE VIII
ENFORCEMENT BY PERSONAL REPRESENTATIVE

This Agreement shall inure to the benefit of and be enforceable by Employee's personal or legal representatives, executors, administrators, successors, heirs, distributees, devisees and legatees. If Employee should die while any amounts would still be payable to Employee hereunder if Employee had continued to live, all such amounts, unless otherwise provided herein, shall be paid in accordance with the terms of this Agreement to Employee's devisee, legatee, or other designee or, if there be no such designee, to Employee's estate.

ARTICLE IX
NOTICE

For the purposes of this Agreement, notices and all other communications provided for in this Agreement shall be in writing and shall be deemed to have been duly given when delivered or mailed by United States registered mail, return receipt requested, postage prepaid, addressed to the respective addresses set forth on the first page of this Agreement. All notices to the Bank shall be directed to the attention of the Plan Administrator in care of the Chairman of the Board. Either party may inform the other of any change in address in writing in accordance herewith, but notices of changes in address shall be effective only upon receipt.

ARTICLE X
MISCELLANEOUS

No provisions of this Agreement may be amended, modified, waived, or discharged unless such amendment, waiver, modification, or discharge is agreed to in writing signed by Employee and the Chairman of the Board or such officer as may be specifically designated by the Board. No waiver by either party hereto at any time of any breach or failure to comply with any condition or provision of this Agreement by the other party hereto shall be deemed a waiver of similar or dissimilar provisions or conditions at the same or at any prior or subsequent time. No agreements or representations with respect to the subject matter hereof, oral or otherwise, express or implied, have been made by either party which are not set forth expressly in this Agreement.

ARTICLE XI
SEPARABILITY OF PROVISIONS

The invalidity or unenforceability of any provision of this Agreement shall not affect the validity or enforceability of any other provision or provisions of this Agreement, all of which shall remain in full force and effect.

ARTICLE XII
COUNTERPARTS

This Agreement may be executed in one or more counterparts, each of which shall be deemed to be an original but all of which together will constitute one and the same instrument.

ARTICLE XIII
THIS AGREEMENT UNFUNDED

This Agreement shall not be funded. Neither the Bank nor the Board shall be required to segregate any assets that may at any time be represented by benefits subject to this Agreement. Neither the Bank nor the Board shall be deemed to be a trustee of any amounts to be paid pursuant to this Agreement. Any liability of the Bank to Employee with respect to any benefit shall be based solely upon contractual obligations created by this Agreement, and no such obligation shall be deemed to be secured by any pledge or any encumbrance on any property of the Bank.

ARTICLE XIV
ARBITRATION

Any dispute or controversy arising under or in connection with this Agreement that is not resolved through the Article XVI Benefit Claims Procedure shall be settled exclusively by arbitration in Las Vegas, Nevada, in accordance with the rules of the American Arbitration Association then in effect. Judgment may be entered on the arbitrator's award in any court having jurisdiction. In the event of arbitration or litigation the prevailing party shall be entitled to attorney's fees and costs as determined by the arbitrator or judge.

ARTICLE XV
THE PLAN ADMINISTRATOR

As a named fiduciary, the Administrator may engage agents to assist in carrying out the Administrator's functions hereunder.

The primary responsibility of the Administrator is to administer the Agreement subject to the specific terms of the Agreement. The Administrator shall administer the Agreement and shall construe the Agreement and determine all questions of interpretation or policy in a manner not inconsistent with this Agreement and the Administrator's construction or determination in good faith shall be final and conclusive. The Administrator may correct any defect, supply any omission, or reconcile any inconsistency in such manner and to such extent as shall be deemed necessary or advisable to carry out the purpose of this Agreement. The Administrator shall have all powers necessary or appropriate to accomplish the Administrator's duties under this Agreement.

The Administrator's duties shall include, but not be limited to, the following:

(a) to determine all factual and non-factual questions relating to the eligibility of Employee to receive benefits provided by this Agreement;

(b) to compute, certify, and direct the amount and kind of benefits to which Employee shall be entitled hereunder;

(c) to maintain all the necessary records for the administration of the Agreement; (d) to interpret the provisions of the Agreement and to make and publish such rules and regulations as are not inconsistent with the terms hereof;

(e) to establish and administer a claims procedure; and

(f) to prepare and file such annual disclosure reports and tax forms as may be required from time to time by the Secretary of Labor or the Secretary of the Treasury.

The Bank shall be the designated agent for service of legal process under this Agreement.

ARTICLE XVI
BENEFIT CLAIMS PROCEDURE

Any claim for benefits under the Agreement shall be made in writing to the Administrator in care of the Chairman of the Board. If such claim for benefits is wholly or partially denied, the Administrator shall, within thirty (30) days after receipt of the claim, notify the Employee or beneficiary of the denial of the claim. Such notice of denial (i) shall be in writing, (ii) shall be written in a manner calculated to be understood by the Employee or beneficiary, and (iii) shall contain (A) the specific reason or reasons for denial of the claim, (B) a specific reference to the pertinent Agreement provisions upon which the denial is based, (C) a description of any additional material or information necessary to perfect the claim, along with an explanation of why such material or information is necessary, and (D) an explanation of the claim review procedure. The thirty-day period may, under special circumstances, be extended up to an additional thirty days upon written notice of such extension to the claimant which notice shall specify the extraordinary circumstances and the extended date of the decision. Notice of extension must be given prior to expiration of the initial thirty-day period. If no notice of decision is given within the periods specified above, the claim shall be deemed to have been denied and the Employee may file a request for review as provided in the next paragraph.

Within sixty (60) days after the receipt by the Employee or beneficiary, the Employee or beneficiary may file a written request with the Administrator that it conduct a full and fair review of the denial of the claim for benefits. The claimant or his duly authorized representative may review pertinent documents and submit issues and comments in writing to the Administrator in connection with the review.

The Administrator shall deliver to the Employee or beneficiary a written decision on the review of the denial within thirty (30) days after the receipt of the aforesaid request for review, except that if there are special circumstances (such as the need to hold a hearing if necessary) which require an extension of time for processing, the Employee or beneficiary shall be extended an additional thirty (30) days. Such decision shall (i) be written in a manner calculated to be understood by the Employee or beneficiary, (ii) include the specific reason or reasons for the decision, and (iii) contain a specific reference to the pertinent Agreement provisions upon which the decision is based. If the decision on review is not delivered to the Employee or beneficiary within the period specified, the claim shall be considered denied on review.

Upon Employee or a beneficiary filing a claim, the Administrator shall notify the party filing of the claim and review procedure including the time periods involved.

ARTICLE XVII
APPLICABLE LAW

This Agreement shall be construed, regulated, interpreted, and administered under and in accordance with the laws of the State of Nevada, except to the extent such laws are preempted by ERISA.

ARTICLE XVIII
STATUS OF EMPLOYMENT RELATIONS

Nothing in this Agreement shall be deemed (i) to give to Employee the right to be retained in the employ of Bank; (ii) to affect the right of Bank to discipline or discharge Employee; (iii) to give Bank the right to require Employee to remain in its employ; or (iv) to affect Employee's right to terminate his employment at any time.

ARTICLE XIX
REQUIRED PROVISIONS

(1) The Bank's Board of Directors may terminate Employee's employment at any time, but any termination by the Bank's Board of Directors other than termination for cause, shall not prejudice Employee's right to compensation or other benefits under this Agreement. Employee shall have no right to receive compensation or other benefits for any period after termination for cause. Termination for cause shall include

termination because of Employee's personal dishonesty, incompetence, willful misconduct, breach of fiduciary duty involving personal profit, intentional failure to perform stated duties, willful violation of any law, rule, or regulation (other than traffic violations or similar offenses) or final cease-and-desist order, or material breach of any provision of this Agreement.

(2) If Employee is suspended and/or temporarily prohibited from participating in the conduct of the Bank's affairs by a notice served under section 8(e)(3) or (g)(1) of the Federal Deposit Insurance Act (12, U.S.C. 1818(e)(3) and (g)(1)) the Bank's obligations under this Agreement shall be suspended as of the date of service unless stayed by appropriate proceedings. If the charges in the notice are dismissed, the Bank may in its discretion (i) pay Employee all or part of the compensation withheld while its contract obligations were suspended and (ii) reinstate (in whole or in part) any of its obligations which were suspended.

(3) If Employee is removed and/or permanently prohibited from participating in the conduct of the Bank's affairs by an order issued under section 8(e)(4) or (g)(1) of the Federal Deposit Insurance Act (12 U.S.C. 1818(e)(4) or (g)(1)), all obligations of the Bank under this Agreement shall terminate as of the effective date of the order, but vested rights of the contracting parties shall not be affected.

(4) If the Bank is in default (as defined in section 3(x)(1) of the Federal Deposit Insurance Act), all obligations under this Agreement shall terminate as of the date of default, but this paragraph (4) shall not affect any vested rights of the contracting parties.

(5) All obligations under this Agreement shall be terminated, except to the extent determined that continuation of the contract is necessary for the continued operation of the Bank:

(i) by the Director or his or her designee, at the time the Federal Deposit Insurance Corporation or the Resolution Trust Corporation enters into an agreement to provide assistance to or on behalf of the Bank under the authority contained in section 13(c) of the Federal Deposit Insurance Act; or

(ii) by the Director or his or her designee, at the time the Director or his or her designee approves a supervisory merger to resolve problems related to operation of the Bank or when the Bank is determined by the Director to be in an unsafe or unsound condition.

Any rights of the parties that have already vested, however, shall not be affected by such action. (6) Any payments made to the Employee pursuant to this Agreement, or otherwise, are subject to and conditioned upon their compliance with 12 USC Section 1828(k) and any regulations promulgated thereunder.

(7) This Paragraph XIX is intended to comply with Federal Regulations and in the event of any conflict between this paragraph and any other provisions of this Agreement this Paragraph XIX shall govern.

IN WITNESS WHEREOF, this Agreement is executed as of the date set forth above.

PRIMERIT BANK, F.S.B.

By /s/ KENNY C. GUINN

Its Chairman of the Board

EMPLOYEE:

/s/ DAN J. CHEEVER

Dan J. Cheever

S&C Draft of January 31, 1995

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CREDIT AGREEMENT

Dated as of January 27, 1995

Among

SOUTHWEST GAS CORPORATION,

THE LENDERS NAMED HEREIN

and

UNION BANK OF SWITZERLAND
as Agent Bank and as Issuing Bank,

and

SOCIETE GENERALE
as Co-Agent

=====

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CREDIT AGREEMENT, dated as of January 27, 1995, among Southwest Gas Corporation, a California corporation (the "Borrower"), the lenders named on the signature pages hereof (individually, a "Lender" and collectively, the "Lenders") and Union Bank of Switzerland, by its Los Angeles Branch, as agent (the "Agent Bank") and as the issuing bank (the "Issuing Bank") and Societe Generale, as Co-Agent (the "Co-Agent").

RECITALS:

- A. The Borrower proposes to issue in the commercial paper market its promissory notes in the form attached as Exhibit A hereto (the "Commercial Paper Notes") to finance the working capital needs of the Borrower.
- B. Subject to the terms and conditions of this Credit Agreement, the Issuing Bank is willing to issue to the Depository an irrevocable letter of credit for the benefit of the holders of the Commercial Paper Notes (the "Letter of Credit") and each Lender is willing, to the extent of its Commitment, to purchase participations in payments made by the Issuing Bank under said letter of credit and/or to make revolving credit loans (the "Loans") from time to time to the Borrower.
- C. As provided herein, at no time shall the aggregate Face Value (as defined herein) of outstanding Commercial Paper Notes issued in accordance with this Credit Agreement plus the Loans outstanding hereunder plus unreimbursed disbursements under the Letter of Credit exceed the Total Commitment, which initially shall be \$200 million.
- D. The Borrower acknowledges that concurrently with the execution hereof, all commitments under the Restated and Amended Credit Agreement, dated as of April 11, 1990, among the Borrower, the lenders named therein and Union Bank of Switzerland, by its Los Angeles Branch, as agent and as issuing bank, were terminated and the letter of credit issued thereunder has been cancelled.

Accordingly, the parties hereto agree as follows:

I. DEFINITIONS

SECTION 1.1. Definitions. As used herein, the following terms have the following respective meanings:

"Affiliate" means, when used with reference to any Person, a Person (other than a Subsidiary) which directly or indirectly controls, is controlled by, or is under common control with, such other Person. For purposes of this definition, "control" (including with correlative meanings, the terms "controlling," "controlled by" and "under common control with"), as applied to any Person, means the possession, directly or indirectly of the power to direct or cause the direction of the management and policies of that Person, whether through the ownership of voting securities or by contract or otherwise.

"Assessment Rate" for any calendar year means in respect of any Lender the net annual assessment rate (rounded upwards, if necessary, to the next higher 1/100 of 1%) actually paid by such Lender to the Federal Deposit Insurance Corporation (or any successor) for insurance by such Corporation (or such successor) of time deposits made in dollars at such Lender's United States offices during the immediately preceding calendar year. The Assessment Rate for any year shall take effect on February 1 of such year and remain in effect through January 31 of the immediately following year.

"Base Rate" means, for any day, a rate per annum equal to the higher of (a) the rate of interest as is publicly announced by the Agent Bank by its principal United States office as its prime rate in effect on such day and (b) the sum of the Federal Funds Rate in effect on such day plus 1/2%.

"Base Rate Loan" means any Loan based on the Base Rate in accordance with the provisions of Article III hereof.

"Business Day" means a day of the year on which banks are not required or authorized by law to close in New York City and, if the applicable Business Day relates to any LIBOR Loan or LIBOR Interest Period, on which dealings in dollar deposits are carried on in the London Interbank Market.

"Calendar Quarter" means a calendar quarter ending on the last day of any March, June, September or December.

"Capital Lease" means, as to the Borrower and its Subsidiaries (except PriMerit Bank), a lease of (or other agreement conveying the right to use) real and/or personal Property, the obligations with respect to which are required to be classified and accounted for as a capital lease on a balance sheet of the Borrower or any of its Subsidiaries (except PriMerit Bank) under GAAP (including Statement of

Financial Accounting Standards No. 13 of the Financial Accounting Standards Board).

"Capital Lease Obligations" means, as to the Borrower and its Subsidiaries (except PriMerit Bank), the obligations of the Borrower or any of its Subsidiaries (except PriMerit Bank) to pay rent or other amounts under a Capital Lease and, for purposes of this Credit Agreement, the amount of such obligations shall be the capitalized amount thereof, determined in accordance with GAAP (including Statement of Financial Accounting Standards No. 13 of the Financial Accounting Standards Board).

"CD Base Rate" for any CD Interest Period with respect to a CD Loan means the average (rounded upward to the nearest 1/100 of 1%), as determined by the Agent Bank, of the bid rates quoted at 10:00 A.M., New York City time (or as soon thereafter as is practicable), on the first day of such CD Interest Period by two or more New York certificate of deposit dealers of recognized standing, selected by the Agent Bank, for the purchase at face value from each of the Reference Banks of its certificates of deposit, with a maturity equal to the maturity of the relevant CD Interest Period, in an amount approximately equal to the CD Loan of such Reference Bank.

"CD Interest Period" in relation to each CD Loan means a period of 30, 60, 90 or 180 days' duration as specified in the Loan Notice relating to such CD Loan commencing: (A) on and including the date such CD Loan was made or (B) forthwith upon the expiration of the preceding CD Interest Period relating to such CD Loan or (C) for any portion of a CD Loan resulting from the conversion of a LIBOR loan to a CD Loan, forthwith upon the expiration of the preceding Interest Period relating to such converted Loan.

Each CD Interest Period shall be of a duration selected by the Borrower in accordance with this definition; provided, however, that

(A) no CD Interest Period shall extend beyond the Expiration Date;

(B) if the Borrower fails to select the duration of a CD Interest Period, such CD Interest Period shall be for a period of 30 days or in the circumstances described in (A) above, shall end on the Expiration Date;

(C) the Borrower and all the Lenders may, from time to time, agree to use CD Interest Periods of different duration; and

(D) if the last day of a CD Interest Period falls on a non-Business Day, then the CD Interest Period shall be deemed to terminate on the next succeeding Business Day or, if such date is beyond the Expiration Date, on the next preceding Business Day.

"CD Loan" means any Loan based on the CD Rate in accordance with the provisions of Article III hereof.

"CD Margin", in the case of a CD Loan, means the percentage set forth below opposite the highest Rating category in effect on the last day of the Calendar Quarter preceding the date the relevant CD Interest Period commences:

Rating -----	Margin -----
BBB/Baa2 or higher	0.550%
BBB-/Baa3	0.675%
BB+/Ba1	0.925%
BB/Ba2 or lower	1.275%

"CD Rate" means with respect to any CD Interest Period for a CD Loan the rate per annum determined pursuant to the following formula, which rate shall change during such Interest Period as and when the Assessment Rate or the Reserve Percentage shall change:

$$\text{CD Rate} = \left[\frac{\text{CDBR}}{1 - \text{RP}} \right] + \text{AR}.$$

CDBR = CD Base Rate for such Interest Period
 AR = Assessment Rate
 RP = Reserve Percentage

"CERCLA" has the meaning specified in the definition of "Environmental Laws."

"Change in Control" means the occurrence of either of the following conditions: (a) any Person or group of associated Persons acting in concert shall have acquired an aggregate of more than 50% of the outstanding shares of voting stock of the Borrower, or (b) individuals who constitute the board of directors of the Borrower on the date hereof (the "Incumbent Board") cease for any reason to constitute at least a majority thereof, provided that any person becoming a director subsequent to the date hereof whose election, or nomination for election by the Borrower's shareholders, was approved by a vote of at least three

quarters of the directors comprising the Incumbent Board (either by a specific vote or by approval of the proxy statement of the Borrower in which such person is named as a nominee for director, without objection to such nomination) shall be, for purposes of this clause (b), considered as though such person were a member of the Incumbent Board.

"Code" means the Internal Revenue Code of 1986, as amended.

"Commercial Paper Account" means a special purpose restricted deposit account established pursuant to the provisions of Section 4.6 by the Borrower with the Depository at its banking office in The City of New York and identified as Account No. 4808237.

"Commercial Paper Notes" means promissory notes of the Borrower substantially in the form of Exhibit A hereto which are issued in accordance with this Credit Agreement and the Depository Agreement.

"Commitment Fee" has the meaning set forth in Section 3.4(e)(ii) hereof.

"Commitment Letter" means the letter from the Agent Bank and Issuing Bank to the Borrower dated November 18, 1994, relating to the payment of specified fees by Borrower, among other things.

"Commitment Percentage" means a Lender's Commitment expressed as a percentage of the Total Commitment; provided, however, that in the event that the Commitment of any Lender is terminated pursuant to the provisions of Section 4.1 or Section 4.2 hereof, the Commitment Percentage of each other Lender shall be automatically adjusted to reflect such Lender's Commitment as a percentage of the resulting reduced aggregate amount of all Commitments.

"Commitments" means the Lenders' agreement to extend the Credits specified in Section 3.1(a) and set forth on the signature pages hereof, as such Commitments may be reduced upon a reduction of the Total Commitment pursuant to Section 3.8 or otherwise.

"Contingent Obligation" means, for the Borrower and its Subsidiaries (except PriMerit Bank), any direct or indirect Contractual Obligation with respect to any Debt, lease, dividend, letter of credit or other obligation (the "primary obligations") of another Person (the "primary obligor"), including, without limitation, any obligation of the Borrower or any Subsidiary (except PriMerit Bank),

whether or not contingent, (a) to purchase, repurchase or otherwise acquire such primary obligations or any Property constituting direct or indirect security therefor, or (b) to advance or provide funds (i) for the payment or discharge of any such primary obligation, or (ii) to maintain working capital or equity capital of the primary obligor or otherwise to maintain the net worth or solvency or any balance sheet item, level of income or financial condition of the primary obligor, other than PriMerit Bank, prior to such obligation being a stated or determinable amount, or (c) to purchase Property, securities or services primarily for the purpose of assuring the owner of any such primary obligation of the ability of the primary obligor to make payment of such primary obligation, or (d) otherwise to assure or hold harmless the holder of any such primary obligation against loss in respect thereof. The amount of any Contingent Obligation shall be deemed to be an amount equal to the stated or determinable amount of the primary obligation in respect of which such Contingent Obligation is made or, if not stated or if indeterminable, the maximum reasonably anticipated liability in respect thereof, except as specified in clause (b)(ii) above.

"Contractual Obligation" means, as to any Person, any provision of any security issued by such Person or of any agreement, undertaking, contract, indenture, mortgage, deed of trust or other instrument, document or agreement to which such Person is a party or by which it or any of its Property is bound.

"Controlled Group" means the Borrower and all Persons (whether or not incorporated) under common control or treated as a single employer with the Borrower or any of its Subsidiaries pursuant to Section 414(b), (c), (m) or (o) of the Code.

"Credit Agreement" means this Credit Agreement as originally executed or as it may from time to time be supplemented, amended or restated by one or more agreements supplemental hereto entered into pursuant to the applicable provisions hereof.

"Credit Event" means each borrowing hereunder, including, without limitation, each borrowing in connection with a Letter of Credit Disbursement, the issuance of the Letter of Credit, each issuance of a Commercial Paper Note and each continuation or conversion of an existing Loan.

"Credits" (in the singular, "Credit") means the credits to be extended by the Lenders to the Borrower pursuant

to this Credit Agreement, consisting of the Loans and the Letter of Credit.

"Debt" means, with respect to the Borrower and its Subsidiaries (except PriMerit Bank), (a) all obligations for borrowed money, including interest or fees of any nature related to the borrowing of money accrued but unpaid, (b) all obligations under letters of credit, bills of exchange or bankers acceptances, (c) all obligations representing the deferred purchase price of Property or services which in accordance with GAAP would be shown on the balance sheet as a liability, (d) all obligations, whether or not assumed by or with recourse to such Person, secured by Liens upon, or payable out of the proceeds or production from, assets owned by such Person, (e) all Capital Lease Obligations, and (f) all Contingent Obligations.

"Default" means any event, act or condition which with notice, or lapse of time, or both, would constitute an Event of Default.

"Depository" means the Bank of Montreal Trust Company.

"Depository Agreement" means the Depository Agreement, dated as of January 27, 1995, among the Borrower, the Depository and the Agent Bank and the Issuing Bank for the benefit of the Lenders, substantially in the form of Exhibit I hereto, as the same may at any time be further amended or modified and in effect.

"Deposited Funds" has the meaning set forth in Section 4.6(b) hereof.

"Dollars", "dollars" and "\$" means the lawful currency from time to time of the United States of America.

"Effective Date" means the date determined in accordance with Section 9.14 hereof.

"Environmental Claim" means all claims, however asserted, by any Governmental Authority or other Person alleging potential liability or responsibility for violation of any Environmental Law or for release or injury to the environment or threat to public health, personal injury (including sickness, disease or death), property damage, natural resources damage, or otherwise alleging liability or responsibility for damages (punitive or otherwise), cleanup, removal, remedial or response costs, restitution, civil or criminal penalties, injunctive relief, or other type of relief, resulting from or based upon (a) the presence,

placement, discharge, emission or release (including intentional and unintentional, negligent and non-negligent, sudden or non-sudden, accidental or non-accidental placement, spills, leaks, discharges, emissions or releases) of any Hazardous Material at, in or from Property, whether or not owned by the Borrower, or (b) any other circumstances forming the basis of any violation, or alleged violation, of any Environmental Law.

"Environmental Laws" means all federal, state or local laws, statutes, common law duties, rules, regulations, ordinances and codes, together with all administrative orders, directed duties, requests, licenses, authorizations and permits of, and agreements with, any Governmental Authorities, in each case relating to environmental, health, safety and land use matters; including the Comprehensive Environmental Response, Compensation and Liability Act of 1980 ("CERCLA"), the Clean Air Act, the Federal Water Pollution Control Act of 1972, the Solid Waste Disposal Act, the Federal Resource Conservation and Recovery Act and the Toxic Substances Control Act.

"ERISA" means the Employee Retirement Income Security Act of 1974, as amended from time to time, and any applicable regulation promulgated thereunder.

"ERISA Event" means (a) a Reportable Event with respect to a Qualified Plan or a Multi-employer Plan; (b) a withdrawal by any member of the Controlled Group from a Qualified Plan subject to Section 4063 of ERISA during a plan year in which it was a substantial employer (as defined in Section 4001(a)(2) of ERISA); (c) a complete or partial withdrawal by any member of the Controlled Group from a Multi-employer Plan; (d) the filing of a notice of intent to terminate, the treatment of a plan amendment as a termination under Section 4041 or 4041A of ERISA or the commencement of proceedings by the PBGC to terminate a Qualified Plan or Multi-employer Plan subject to Title IV of ERISA; (e) a failure to make required contributions to a Qualified Plan or Multi-employer Plan; (f) an event or condition which might reasonably be expected to constitute grounds under Section 4042 of ERISA for the termination of, or the appointment of a trustee to administer, any Qualified Plan or Multi-employer Plan; (g) the imposition of any liability under Title IV of ERISA, other than PBGC premiums due but not delinquent under Section 4007 of ERISA, upon any member of the Controlled Group; (h) an application for a funding waiver or an extension of any amortization period pursuant to Section 412 of the Code with respect to any Qualified Plan; (i) any member of the Controlled Group engages in or otherwise becomes liable for a non-exempt prohibited

transaction; or (j) a violation of the applicable requirements of Section 404 or 405 of ERISA or the exclusive benefit rule under Section 401(a) of the Code by any fiduciary with respect to any Qualified Plan for which the Borrower or any of its Subsidiaries may be directly or indirectly liable.

"Event of Default" means any one or more of the events set forth in Section 7.1 hereof.

"Expiration Date" means January 27, 1998 as it may be extended from time to time in accordance with Section 9.2 hereof.

"Face Value" means, at the time any determination thereof is to be made, the sum of the aggregate face amount at maturity (if issued on a discount basis) and the aggregate principal amount (if issued on an interest-bearing basis), together with the aggregate amount of interest to the stated maturity date of interest-bearing Commercial Paper Notes, of all Commercial Paper Notes outstanding (or of such Commercial Paper Note or Commercial Paper Notes with reference to which the term Face Value is employed herein or in the Depositary Agreement), excluding matured Commercial Paper Notes no longer entitled to the benefit of the Letter of Credit.

"Federal Funds Rate" means the weighted average of the rates on overnight Federal funds transactions, with members of the Federal Reserve System only, arranged by Federal funds brokers. The Federal Funds Rate shall be determined by the Agent Bank on the basis of reports by Federal funds brokers to, and published daily by, the Federal Reserve Bank of New York in the Composite Closing Quotations for U.S. Government Securities. If such publication is unavailable or the Federal Funds Rate is not set forth therein, the Federal Funds Rate shall be determined on the basis of any other source reasonably selected by the Agent Bank. The Federal Funds Rate applicable each day shall be the Federal Funds Rate reported as applicable to Federal funds transactions on that date. In the case of Saturday, Sunday or legal holiday, the Federal Funds Rate shall be the rate applicable to Federal funds transactions on the immediately preceding day for which the Federal Funds Rate is reported.

"Funded Debt" means, for the Borrower and its Subsidiaries (except PriMerit Bank), (a) all obligations for borrowed money, (b) the deferred purchase price of Property or services in accordance with GAAP which would be shown on a balance sheet of such Person as a liability, (c) all obligations, whether or not assumed by or with recourse to

such Person, secured by Liens upon, or payable out of the proceeds or production from, assets owned by such Person, (d) all rental obligations under Capital Leases, (e) all Contingent Obligations, (f) mandatory redeemable preferred stock issued prior to November 30, 1994, and (g) preferred stock issued subsequent to November 30, 1994 with a weighted average life of less than five years from the date of issuance or with call or put features within five years from the date of issuance.

"GAAP" means generally accepted accounting principles as in effect from time to time, which shall include the official interpretations thereof by the Financial Accounting Standards Board.

"Governmental Authority" means any nation or government, any state or other political subdivision thereof, any central bank (or similar monetary or regulatory authority) thereof, any entity exercising executive, legislative, judicial, regulatory or administrative functions of or pertaining to government, and any corporation or other entity owned or controlled, through stock or capital ownership or otherwise, by any of the foregoing.

"Hazardous Materials" means all those substances which are regulated by, or which may form the basis of liability under, any Environmental Law, including all substances identified under any Environmental Law as a pollutant, contaminant, waste, solid waste, hazardous waste, hazardous constituent, special waste, hazardous substance, hazardous material, or toxic substance, or petroleum or petroleum derived substance or waste.

"Indenture" means the Indenture dated August 1, 1986 between the Borrower and Harris Trust and Savings Bank, as successor trustee.

"Interest Coverage Ratio" means, for the Borrower and its Subsidiaries (but excluding PriMerit Bank), for each 12- month period preceding the applicable date of calculation, the ratio as defined and calculated as set forth in Schedule I hereto.

"Interest Payment Date" means the last day of each Interest Period and, in the case of an 180-day CD Interest Period or a 6-month LIBOR Interest Period, the date 90 days or 3 months, as the case may be, after the first day of such Interest Period.

"Interest Period" means any CD Interest Period and any LIBOR Interest Period.

"Investments" means any direct or indirect purchase or acquisition, or any commitment therefor, of any capital stock, equity interest, assets, obligations or other securities of or any interest in, any Person, or any advance, loan, extension of credit or capital contribution to, or any other investment in, any Person including, without limitation, any Affiliates of such Person.

"IRS" means the Internal Revenue Service, or any successor thereto.

"Issuing Bank Fee" has the meaning specified in Section 3.5(i) hereof.

"Lenders" means the Lenders hereunder and any assignees or transferees thereof, if any, collectively and, as applicable, the Issuing Bank.

"Letter of Credit" has the meaning set forth in Recital B hereof.

"Letter of Credit Account" means a special purpose account established pursuant to the provisions of Section 4.9 by the Issuing Bank with the Depository at its Corporate Trust Office in The City of New York and identified as Account No. 4808210.

"Letter of Credit Disbursement" means each transfer to, or deposit by the Issuing Bank of funds in, the Letter of Credit Account as contemplated by Section 4.9 or Section 7.2(v).

"Letter of Credit Fee" has the meaning set forth in Section 3.5(e) hereof.

"LIBOR" means, with respect to any LIBOR Loan, for each LIBOR Interest Period the rate per annum equal to the arithmetic average of the interest rates at which Eurodollar deposits equal or comparable to the principal amount of each Reference Bank's share of such LIBOR Loan are offered to the Reference Banks by prime banks for a period equal to the duration of such LIBOR Interest Period in the London Interbank Market, at 11:00 a.m. (London time) two Business Days prior to the commencement of such Interest Period, rounded up to the nearest one-sixteenth of one percent (1/16%). If any of the Reference Banks shall fail to notify the Agent Bank of such rates by 10:00 a.m. (New York time) two Business Days prior to the commencement of the relevant LIBOR Interest Period, "LIBOR" shall be determined on the basis of the rate or rates notified by the remaining Reference Banks or Bank.

"LIBOR Interest Period" in relation to each LIBOR Loan means each period specified in the Loan Notice relating to such LIBOR Loan commencing: (A) on and including the date such LIBOR Loan was made or (B) forthwith upon the expiration of the preceding LIBOR Interest Period relating to such LIBOR Loan or (C) for any portion of a LIBOR Loan resulting from the conversion of a CD Loan to a LIBOR Loan, forthwith upon the expiration of the preceding Interest Period relating to such converted Loan.

LIBOR Interest Periods shall be 1, 2, 3 or 6 months' duration.

Each LIBOR Interest Period shall be of a duration selected by the Borrower in accordance with this definition; provided, however, that

(A) no LIBOR Interest Period shall extend beyond the Expiration Date;

(B) if the Borrower fails to select the duration of a LIBOR Interest Period, such LIBOR Interest Period shall be for a period of one month or in the circumstances described in (A) above, shall end on the Expiration Date;

(C) if any LIBOR Interest Period would end on a day which is not a Business Day, such LIBOR Interest Period shall be extended to the next succeeding Business Day unless such next succeeding Business Day falls in the next calendar month or is beyond the Expiration Date, in which event such LIBOR Interest Period shall end on the next preceding Business Day unless otherwise determined by the Agent Bank in accordance with customary practice from time to time in effect in the London Interbank Market; and

(D) the Borrower and all the Lenders may, from time to time, agree to use LIBOR Interest Periods of different duration.

"LIBOR Loan" means any Loan based on LIBOR in accordance with the provisions of Article III hereof.

"LIBOR Margin", in the case of any LIBOR Loan, means the percentage set forth below opposite the highest Rating category in effect on the last day of the Calendar

Quarter preceding the date the relevant LIBOR Interest Period commences:

Rating -----	Margin -----
BBB/Baa2 or higher	0.425%
BBB-/Baa3	0.550%
BB+/Ba1	0.800%
BB/Ba2 or lower	1.150%.

"LIBOR Rate" means with respect to any LIBOR Interest Period for a LIBOR Loan the rate per annum determined pursuant to the following formula, which rate shall change during such Interest Period as and when the LIBOR Reserve Percentage shall change:

$$\text{LIBOR Rate} = \frac{\text{LIBOR}}{1 - \text{LRP}}$$

LRP: LIBOR Reserve Percentage

"LIBOR Reserve Percentage" means for any day that percentage (expressed as a decimal) which is in effect on such day, as prescribed by the Board of Governors of the Federal Reserve System (or any successor) for determining the maximum reserve requirement for a member bank of the Federal Reserve System in New York City with deposits exceeding five billion dollars in respect of "Eurocurrency liabilities" (or in respect of any other category of liabilities which includes deposits by reference to which the interest rate on LIBOR Loans is determined or any category of extensions of credit or other assets which includes loans by a non- United States office of any Lender to United States residents). The LIBOR Rate shall be adjusted automatically on and as of the effective date of any change in the LIBOR Reserve Percentage.

"Lien" means any voluntary or involuntary mortgage, assignment, pledge, security interest, encumbrance, lien, claim or charge of any kind on or with respect to, or any preferential arrangement with respect to the payment of any obligations with the proceeds or from the production of, any asset of any kind, including, without limitation, any agreement to give any of the foregoing, any conditional sale or other title retention agreement or any lease in the nature thereof.

"Loan" means any CD Loan, Base Rate Loan or LIBOR Loan hereunder.

"Loan Notice" means a notice received by the Agent Bank from the Borrower at least three Business Days prior to the date of the requested Loan, or, in the case of a Base

Rate Loan, on the Business Day before the date of the requested Loan, prior to 11:00 A.M. (New York time) specifying:

- (i) whether the Loan then being requested is to be (or the extent to which it is to be) a CD Loan, Base Rate Loan or a LIBOR Loan;
- (ii) the date of such Loan (which shall be a Business Day);
- (iii) the aggregate principal amount of such Loan (which shall be \$5,000,000 or an integral multiple thereof);
- (iv) in the case of a CD Loan or a LIBOR Loan, the Interest Period with respect to such Loan;
- (v) if applicable, that such Loan results from the continuation or conversion of an existing Loan; and
- (vi) if applicable, that the proceeds of such Loan are to be used to reimburse a Letter of Credit Disbursement.

Each Loan Notice shall be substantially in the form of Exhibit C. Subject to the provisions of Article III, the Borrower in its Loan Notice may continue or convert any CD Loan or any LIBOR Loan as of the end of the current Interest Period applicable to the CD Loan or LIBOR Loan, as the case may be, and each such continuance or conversion shall be deemed a drawdown of a Loan hereunder. In the event that the Borrower shall fail to give a timely Loan Notice with respect to its election to convert or continue any CD Loan or LIBOR Loan as provided in the immediately preceding sentence, such CD Loan or LIBOR Loan, as the case may be, shall be automatically continued at the end of the current Interest Period with respect to such Loan, unless such continuation shall be prohibited by the terms of this Credit Agreement, into a new Interest Period.

"Majority Lenders" means Lenders having in the aggregate more than 66 2/3% of the Commitments.

"Margin" means any CD Margin or LIBOR Margin.

"Margin Stock" means "margin stock" as such term is defined in Regulation G, T, U or X of the Federal Reserve Board.

"Material Adverse Effect" means a change, or announcement of a change, which could reasonably be expected, immediately or with the passage of time, to result in a material adverse change in, or a material adverse effect upon, any of (a) the operations, business, Properties, condition (financial or otherwise) or prospects of the Borrower or the Borrower and its Subsidiaries taken as a whole or the rights of the Lenders under this Credit Agreement, the Depositary Agreement, the Notes or the Commercial Paper Notes; (b) the ability of the Borrower to perform under this Credit Agreement, the Depositary Agreement, the Notes or the Commercial Paper Notes; or (c) the legality, validity, binding effect or enforceability of this Credit Agreement, the Depositary Agreement, the Notes or the Commercial Paper Notes.

"Multi-employer Plan" means a "multiemployer plan" (within the meaning of Section 4001(a)(3) of ERISA) and to which any member of the Controlled Group makes, is making, or is obligated to make contributions or has made, or been obligated to make, contributions.

"Net Worth" means the amount of the Borrower's common shareholders' equity determined in accordance with GAAP, plus preferred and preference stock, excluding (a) mandatory redeemable preferred or preference stock issued prior to November 30, 1994, and (b) preferred or preference stock issued subsequent to November 30, 1994 with a weighted average life of less than five years from the date of issuance or with call or put features within five years from the date of issuance.

"Note" means, with respect to any Lender hereunder a note issued by the Borrower payable to the order of such Lender in the amount equal to such Lender's Commitment pursuant to this Credit Agreement and substantially in the form of Exhibit B; collectively the "Notes".

"Notice of Lien" means any "notice of lien" or similar document filed or recorded with any court, registry, recorder's office, central filing office or Governmental Authority for the purpose of evidencing, creating, perfecting or preserving the priority of a Lien securing obligations owing to a Governmental Authority.

"Obligations" shall have the meaning assigned to that term in Section 4.6(c).

"PBGC" means the Pension Benefit Guaranty Corporation established under ERISA, or any successor thereto.

"Permitted Investments" means Investments made by the Borrower and its Subsidiaries in the ordinary course of business as presently conducted (which shall include the acquisition of gas utility assets and the acquisition of other assets incidental thereto); provided that the Borrower may only make cash Investments in (a) marketable direct obligations of the United States of America or any agency thereof, marketable obligations directly and fully guaranteed by the United States of America, commercial paper rated either A1 by Standard & Poor's Corporation or P1 by Moody's Investors Service, Inc. and certificates of deposit issued by, and overnight repurchase agreements which are secured or backed by securities issued by the United States of America from, any bank organized under the laws of the United States of America or any State thereof with deposits rated either A1 by Standard & Poor's Corporation or P1 by Moody's Investors Service, Inc.; provided, however, that such obligations, commercial paper and certificates of deposit have a maturity of two years or less from the date of purchase by such Person; (b) Investments directed by the Borrower in conjunction with industrial development revenue bonds, and (c) Subsidiaries.

"Permitted Liens" means

(a) Any Lien existing on the Property of the Borrower or its Subsidiaries on the date hereof;

(b) Any Lien securing, prior to or concurrently with the creation of such Lien, the Obligations equally and ratably with (or prior to) such Lien pursuant to documentation satisfactory in form and substance to the Majority Banks;

(c) Liens for taxes, fees, assessments or other governmental charges which are not delinquent or remain payable without penalty, or to the extent that non-payment thereof is permitted by Section 6.6, provided that no Notice of Lien has been filed or recorded;

(d) Carriers', warehousemen's, mechanics', landlords', materialmen's, repairmen's or other similar Liens arising in the ordinary course of business which are not delinquent or remain payable without penalty and which are being contested in good faith and by appropriate proceedings;

(e) Liens (other than any Lien imposed by ERISA) on the Property of the Borrower or any of its Subsidiaries incurred, or pledges or deposits required, in connection with

workers compensation, unemployment insurance and other social security legislation;

(f) Liens on the Property of the Borrower or any of its Subsidiaries securing (i) the performance of bids, trade contracts (other than for borrowed money), leases, statutory obligations, and (ii) obligations on surety and appeal bonds, and (iii) other obligations of a like nature incurred in the ordinary course of business;

(g) Easements, rights-of-way, restrictions and other similar encumbrances incurred in the ordinary course of business which, in the aggregate, are not substantial in amount, and which do not in any case materially detract from the value of the Property subject thereto or interfere with the ordinary conduct of the businesses of the Borrower and its Subsidiaries;

(h) Liens on assets of corporations which become Subsidiaries after the date of this Credit Agreement; provided, however, that such Liens existed at the time the respective corporations became Subsidiaries and were not created in anticipation thereof;

(i) Liens on the Property of a Subsidiary other than a Significant Subsidiary which could not have a Material Adverse Effect;

(j) Liens on property or the creation of a security interest in the proceeds resulting from the issuance of industrial development revenue bonds;

(k) Any attachment or judgement Lien not constituting an Event of Default under Section 7.1(e);

(l) Leases or subleases granted to others not interfering in any material respect with the ordinary conduct of the business of the Borrower and the UCC financing statements relating solely thereto;

(m) Liens arising from, or in connection with, the net worth maintenance covenant by the Borrower with respect to PriMerit Bank not otherwise causing a Material Adverse Effect;

(n) Liens on any property acquired, constructed or improved by the Borrower after the date of this Credit Agreement which are created or assumed contemporaneously with, or within 120 days after, such acquisition or completion of the construction or improvement, or within six months thereafter pursuant to a firm commitment for financing

arranged with a lender or investor within such 120 day period, to secure or provide for the payment of the purchase price of such property or the cost of such construction or improvement incurred after the date of this Credit Agreement or Liens on any property existing at the time of acquisition thereof, provided that any such Lien must secure indebtedness in an amount that does not exceed 80% of the cost of such acquisition, construction or improvement, and provided further that the Liens shall not apply to any property theretofore owned by the Borrower or any Subsidiary other than, in the case of any such construction or improvement, any theretofore unimproved property on which the property so constructed or the improvement is located;

(o) existing Liens on any property or indebtedness of a corporation which is merged with or into or consolidated with the Borrower or any Subsidiary provided that the Liens shall not apply to any property theretofore owned by the Borrower or any Subsidiary;

(p) Liens on moneys of U.S. Government Obligations deposited with the Trustee under the Indenture pursuant to the provisions of Section 405 of the Indenture; and

(q) Liens for the sole purposes of extending, renewing or replacing, in whole or in part, Liens securing Debt of the type referred to in the foregoing clauses (a) through (p), inclusive, or this clause (q); provided, however, that the principal amount of Debt so secured at the time of such extension, renewal or replacement shall not be increased, and that such extension, renewal or replacement shall be limited to all or part of the property or indebtedness which secured the Lien so extended, renewed or replaced (plus improvements on such property).

"Person" means any corporation, partnership, trust, estate, individual, unincorporated business entity or government or agency or political subdivision thereof.

"Plan" means an employee benefit plan (as defined in Section 3(3) of ERISA) which the Borrower or any member of the Controlled Group sponsors or maintains or to which the Borrower or member of the Controlled group makes or is obligated to make contributions, and includes any Multi-employer Plan or Qualified Plan.

"PriMerit Bank" means PriMerit Bank, a federal savings bank, a wholly-owned Subsidiary of the Borrower, and the Subsidiaries of PriMerit Bank.

"Property" means all types of real, personal, tangible, intangible or mixed property.

"Qualified Plan" means a pension plan (as defined in Section 3(2) of ERISA) intended to be tax-qualified under Section 401(a) of the Code and which any member of the Controlled Group sponsors, maintains, or to which it makes or is obligated to make contributions, or in the case of a multiple employer plan (as described in Section 4064(a) of ERISA) has made contributions at any time during the immediately preceding period covering at least five (5) plan years, but excluding any Multi-employer Plan.

"Rating" means the higher of the senior unsecured long-term debt rating of the Borrower issued by Moody's Investors Service, Inc. ("Moody's") and Standard & Poor's Corporation ("S&P"). If there is a split rating as between Moody's and S&P, the higher rating will apply except where the difference between the ratings is greater than one rating level, in which case the average of the two ratings will apply.

"Reference Banks" means Union Bank of Switzerland, Bank of Montreal and Bank of America, N.T. & S.A.

"Reportable Event" means any event set forth in Section 4043(b) of ERISA or the regulations thereunder, a withdrawal from a Plan described in Section 4063 of ERISA, or a cessation of operations described in Section 4062(e) of ERISA.

"Requirement of Law" means, as to any Person, any law (statutory or common), treaty, rule or regulation or determination of an arbitrator or of a Governmental Authority, in each case applicable to or binding upon the Person or any of its Property or to which the Person or any of its Property is subject.

"Reserve Percentage" for any day means that percentage, expressed as a decimal, which is in effect on such day, as prescribed by the Board of Governors of the Federal Reserve System (or any successor) for determining the maximum reserve requirement (including, without limitation, any marginal, supplemental or emergency reserve requirements) for a member bank of the Federal Reserve System in New York City with deposits exceeding one billion dollars in respect of new non-personal time deposits in dollars in New York City having a maturity comparable to the related Interest Period and in an amount of \$100,000 or more.

"SEC" means the Securities and Exchange Commission or any successor agency thereto.

"Secured Parties" means the Lenders hereunder.

"Significant Subsidiary" means any Subsidiary of the Borrower having 10% or more of the total assets of the Borrower and its Subsidiaries on a consolidated basis or generating 10% or more of the income of the Borrower and its Subsidiaries on a consolidated basis.

"Subsidiary" means any corporation, association, partnership, joint venture or other business entity of which the Borrower and/or any subsidiary of the Borrower either (a) in respect of a corporation, owns more than 50% of the outstanding stock having ordinary voting power to elect a majority of the board of directors or similar managing body, irrespective of whether or not at the time the stock of any class or classes shall or might have voting power by reason of the happening of any contingency, or (b) in respect of an association, partnership, joint venture or other business entity, is the sole general partner or is entitled to share in more than 50% of the profits, however determined.

"Total Capitalization" means Funded Debt plus Net Worth.

"Total Commitment" means the sum of the Commitments.

"Unfunded Pension Liabilities" means the excess of a Plan's accrued benefits, as defined in Section 3(23) of ERISA, over the current value of that Plan's assets, as defined in Section 3(26) of ERISA.

"Unsecured Debt" means all Debt which has not been secured by a pledge of any Property.

II. REPRESENTATIONS AND WARRANTIES

SECTION 2.1. Representations and Warranties. The Borrower represents and warrants to the Lenders and to the Agent Bank that:

(a) Corporate Existence.

(i) The Borrower and each of its Significant Subsidiaries has been duly incorporated and is validly existing and in good standing under the laws of its jurisdiction of incorporation.

(ii) The Borrower and each of its Significant Subsidiaries has the corporate power and authority and all necessary governmental licenses, authorizations, consents and approvals material to the ownership of its assets and the carrying on of its business;

(iii) The Borrower has the power and authority and all governmental licenses, authorizations, consents and approvals to execute, deliver and perform its obligations under this Credit Agreement, the Depositary Agreement, the Notes and the Commercial Paper Notes; and

(iv) The Borrower is duly qualified as a foreign corporation, licensed and in good standing under the laws of each jurisdiction where its ownership, lease or operation of Property or the conduct of its business requires such qualification.

(b) Corporate Authorization; No Contravention. The execution, delivery and performance by the Borrower of this Credit Agreement, the Depositary Agreement, the Notes and the Commercial Paper Notes, have been duly authorized by all necessary corporate action and do not and will not:

(i) contravene the terms of the Borrower's articles of incorporation, bylaws or other organizational document, if any;

(ii) conflict with or result in any breach or contravention of, or the creation of any Lien under, any indenture, agreement, lease, instrument, Contractual Obligation, injunction, order, decree or undertaking to which the Borrower is a party; or

(iii) violate any Requirement of Law.

(c) Governmental Authorization. The California Public Utilities Commission ("CPUC") has duly issued an order which sets forth any and all CPUC approvals and authorizations required for the Borrower to enter into this Credit Agreement, the Depositary Agreement, the Notes and the Commercial Paper Notes and to take all actions contemplated hereby or in connection herewith, such order remains in full force and effect in the form issued, and all such CPUC approvals and authorizations have been obtained, and no other consent, approval, authorization or order of any court or governmental agency or body is required for due execution, delivery and performance by the Borrower of this Credit Agreement, the Depositary Agreement, the Notes and the Commercial Paper Notes.

(d) Binding Effect. This Credit Agreement and the Depositary Agreement are, and the Notes and the Commercial Paper Notes when delivered hereunder will be, the legal, valid and binding obligations of the Borrower enforceable against the Borrower in accordance with their respective terms subject to bankruptcy, insolvency, fraudulent transfer, reorganization, moratorium or similar laws of general applicability relating to or affecting creditors' rights or to general equity principles.

(e) Litigation. There are no actions, suits, proceedings, claims or disputes pending, or to the best knowledge of the Borrower, threatened at law, in equity, in arbitration or before any Governmental Authority, against the Borrower, or its Subsidiaries or any of their respective Properties which:

(i) purport to affect or pertain to this Credit Agreement, the Depositary Agreement, the Notes or the Commercial Paper Notes, or any of the transactions contemplated hereby or thereby; or

(ii) if determined adversely to the Borrower, or its Subsidiaries, might have a Material Adverse Effect.

No injunction, writ, temporary restraining order or any order of any nature has been issued by any court or other Governmental Authority purporting to enjoin or restrain the execution, delivery and performance of this Credit Agreement, the Depositary Agreement, the Notes and the Commercial Paper Notes, or directing that the transactions provided for herein or therein not be consummated as herein or therein provided.

(f) No Default. No Default or Event of Default exists or would result from the incurring of obligations by the Borrower under this Credit Agreement, the Depositary Agreement, the Notes or the Commercial Paper Notes. Neither the Borrower, nor any of its Significant Subsidiaries, is in default under or with respect to any Contractual Obligation which, individually or together with all such defaults, could have a Material Adverse Effect.

(g) ERISA Compliance.

(i) Each Qualified Plan is in compliance in all material respects with the applicable provisions of ERISA, the Code and other Federal or state law, including all requirements under the Code or ERISA for filing reports (which are true and correct in all material respects as of the date filed), and benefits

have been paid in accordance with the provisions of the Plan.

(ii) Each Qualified Plan has been determined by the IRS to qualify under Section 401 of the Code, the IRS has not determined that any amendment to any Qualified Plan does not qualify under Section 401 of the Code, and the trusts created thereunder have been determined to be exempt from tax under the provisions of Section 501 of the Code, and to the best knowledge of the Borrower nothing has occurred which would cause the loss of such qualification or tax-exempt status.

(iii) There is no outstanding liability of the Borrower or a member of its Controlled Group under Title IV of ERISA with respect to any Plan.

(iv) None of the Qualified Plans subject to Title VI of ERISA has any Unfunded Pension Liability as to which the Borrower is or may be liable.

(v) No ERISA Event has occurred or is reasonably expected to occur with respect to any Plan maintained or sponsored by the Borrower or to which the Borrower is obligated to contribute.

(vi) There are no pending or, to the best knowledge of the Borrower, threatened claims, actions or lawsuits, other than routine claims for benefits in the usual and ordinary course, asserted or instituted against (a) any Plan maintained or sponsored by the Borrower or its assets, (b) any member of the Controlled Group with respect to any Qualified Plan of the Borrower, or (c) any fiduciary with respect to any Plan for which the Borrower may be directly or indirectly liable, through indemnification obligations or otherwise.

(vii) The Borrower has not incurred nor reasonably expects to incur (a) any liability (and no event has occurred which, with the giving of notice under Section 4219 of ERISA, would result in such liability) under Section 4201 or 4243 of ERISA with respect to a Multi-employer Plan or (b) any liability under Title IV of ERISA (other than premiums due and not delinquent under Section 4007 of ERISA) with respect to a Plan.

(viii) The Borrower has not transferred any Unfunded Pension Liability outside of the Controlled Group or otherwise engaged in a transaction that could be subject to Section 4069 or 4212(c) of ERISA.

(ix) The Borrower has not engaged, directly or indirectly, in a non-exempt prohibited transaction (as defined in Section 4975 of the Code or Section 406 of ERISA) in connection with any Plan which could have a Material Adverse Effect.

(h) Margin Regulations. The Borrower is not engaged in the business of extending credit for the purpose of purchasing or carrying Margin Stock and no proceeds of any Loan or the Commercial Paper Notes will be used, directly or indirectly, (i) to purchase or carry Margin Stock or (ii) to repay or otherwise refinance indebtedness of the Borrower or others incurred to purchase or carry Margin Stock, or (iii) to extend credit for the purpose of purchasing or carrying any Margin Stock. No proceeds of any Loan will be used to acquire any security in any transaction which is subject to Section 13 or 14 of the Securities Exchange Act of 1934.

(i) Title to Properties. Each of the Borrower and each of its Significant Subsidiaries has good, record and marketable title to all of its Property and interests therein except for such defects in title as could not, individually or in the aggregate, have a Material Adverse Effect. The Property of the Borrower and each of its Significant Subsidiaries is free and clear of all Liens or rights of others, except Permitted Liens.

(j) Taxes. The Borrower and its Subsidiaries have filed all Federal and other material tax returns and reports required to be filed and have paid all Federal and other material taxes, assessments, fees and other governmental charges levied or imposed upon them or their Properties, income or assets otherwise due and payable except (i) those which are being contested in good faith by appropriate proceedings and for which adequate reserves have been provided in accordance with GAAP and no Notice of Lien has been filed or recorded, and (ii) those levied or imposed on Subsidiaries other than Significant Subsidiaries the nonpayment of which could not, in the aggregate, have a Material Adverse Effect. To the best knowledge of the Borrower, there is no proposed tax assessment against the Borrower or any of its Subsidiaries which would, if the assessment were made, have a Material Adverse Effect.

(k) Financial Condition.

(i) The audited consolidated balance sheet of the Borrower as of December 31, 1993, and the unaudited consolidated balance sheets of the Borrower as of September 30, 1994, and the related consolidated

statements of income, changes in shareholders' equity and cash flows for, each of the respective periods then ended, copies of which have been furnished to the Issuing Bank and the Lenders, fairly present the Borrower's financial condition as of, and the results of its operations and cash flows for, each of the respective periods then ended, applied on a consistent basis. Such financial statements were prepared in accordance with GAAP consistently applied throughout the period covered thereby, are complete and accurate, and show all material indebtedness and other liabilities, direct or contingent, of the Borrower and its consolidated Subsidiaries as of the date thereof (including liabilities for taxes and material commitments).

(ii) The unaudited unconsolidated balance sheets of the Borrower as of December 31, 1993, and as of September 30, 1994 and the related unconsolidated statements of income, changes in shareholders' equity and cash flows for the period then ended, copies of which have been furnished to the Issuing Bank and the Lenders, fairly present the financial position of the Borrower as of, and the results of its operations and cash flows for, each of the respective periods then ended, applied on a consistent basis.

(iii) Since September 30, 1994, there has been no Material Adverse Effect.

(1) Environmental Matters.

(i) The operations of the Borrower and each of its Subsidiaries comply with all Environmental Laws except where such noncompliance could not have a Material Adverse Effect.

(ii) The Borrower and each of its Subsidiaries has obtained all licenses, permits, authorizations and registrations required under any Environmental Law ("Environmental Permits") necessary for its operations, and all such Environmental Permits are in good standing, and the Borrower and each of its Subsidiaries is in compliance with all terms and conditions of such Environmental Permits, except where the failure to so obtain, be in good standing or be in compliance could not have a Material Adverse Effect.

(iii) None of the Borrower, any of its Subsidiaries or any of their present Property or operations is subject to any outstanding written order from or

agreement with any Governmental Authority or other Person, nor subject to any judicial or docketed administrative proceeding, respecting any Environmental Law, Environmental Claim or Hazardous Material which could have a Material Adverse Effect.

(iv) There are no conditions or circumstances which may give rise to any Environmental Claim arising from the operations of the Borrower or its Subsidiaries which could have a Material Adverse Effect. Without limiting the generality of the foregoing (A) neither the Borrower nor any of its Subsidiaries has any underground storage tanks (1) that are not properly registered or permitted under applicable Environmental Laws or (2) that are leaking or disposing of Hazardous Materials and (B) the Borrower and its Subsidiaries have notified all of their employees of the existence, if any, of any health hazard arising from the conditions of their employment and have met all notification requirements under Title III of CERCLA or any other Environmental Law, except where the failure to so notify could not, in the aggregate, have a Material Adverse Effect.

(m) Regulated Entities. Neither the Borrower nor any Person controlling the Borrower is (i) an "Investment Company" within the meaning of the Investment Company Act of 1940; or (ii) subject to regulation under the Public Utility Holding Company Act of 1935, the Federal Power Act, the Interstate Commerce Act or any regulation thereunder limiting its ability to incur Debt.

(n) Labor Relations. There are no strikes, lockouts or other labor disputes against the Borrower or any of its Subsidiaries or, to the best of the Borrower's knowledge, threatened against or affecting the Borrower or any of its Subsidiaries which could have a Material Adverse Effect, and no significant unfair labor practice complaint is pending against the Borrower or any of its Subsidiaries or, to the best knowledge of the Borrower, threatened against any of them before any Governmental Authority which could have a Material Adverse Effect.

(o) Subsidiaries. As of the date hereof, the Borrower has no Subsidiaries other than those listed on Schedule II hereto. All Significant Subsidiaries, as of the date hereof, are identified as such on such Schedule.

(p) Insurance. The Properties of the Borrower and its Significant Subsidiaries are insured with financially sound and reputable insurance companies, in such amounts, with such deductibles and covering such risks as is

customarily carried by companies engaged in similar businesses and owning similar Properties in localities where the Borrower or such Subsidiary operates.

(q) Full Disclosure. None of the representations or warranties made by the Borrower in this Credit Agreement as of the date of such representations and warranties, and none of the statements contained in any certificate furnished by or on behalf of the Borrower in connection with this Credit Agreement, contains any untrue statement of a material fact or omits any material fact required to be stated therein or necessary to make the statements made therein, in light of the circumstances under which they are made, not misleading.

(r) Compliance with Applicable Laws. Neither the Borrower nor any Subsidiary is in default with respect to any judgment, order, writ, injunction, decree or decision of any Governmental Authority which default would have a Material Adverse Effect. The Borrower and each Subsidiary is complying in all material respects with all applicable statutes and regulations, including ERISA and applicable occupational, safety and health and other labor laws, of all Governmental Authorities, a violation of which could have a Material Adverse Effect.

(s) Ranking. Obligations of the Borrower hereunder and under the Notes and the Commercial Paper Notes will rank senior to or pari passu with all other Unsecured Debt of the Borrower.

III. THE CREDITS

SECTION 3.1. The Commitments.

(a) Loan Commitments and Commitment Percentages. The respective amounts of each Lender's Commitment and Commitment Percentage with respect to Loans made hereunder and the Letter of Credit issued hereunder shall be as set forth next to such Lender's name on the signature pages hereof.

(b) Amounts of Loans. Subject to all the terms and provisions hereof, each Lender will lend to the Borrower its Commitment Percentage of the aggregate amount of the Loans requested in any Loan Notice.

(c) Compliance with Agreement. Neither the Agent Bank nor any Lender shall be responsible for the obligations or Commitments of any other Lender hereunder, nor will the failure of any Lender to comply with the terms of this Credit

Agreement relieve any other Lender or the Borrower of their respective obligations under this Credit Agreement.

SECTION 3.2. Loans.

(a) Loans.

(i) Making of Loans. Each Lender severally agrees, upon the terms and subject to the conditions contained in this Credit Agreement, to make revolving credit loans to the Borrower (the "Loans" and individually a "Loan") from time to time from the date hereof to and including the Expiration Date in accordance with the terms hereof, in each case in an amount which, when added to (A) the aggregate principal amount of such Lender's Loans then outstanding, plus (B) the product obtained by multiplying such Lender's Commitment Percentage by the sum of the aggregate Face Value of all outstanding Commercial Paper Notes and the amount of unreimbursed Letter of Credit Disbursements (other than Letter of Credit Disbursements which will be reimbursed from the proceeds of such Loan and other Loans made in connection therewith), will not exceed the Commitment of such Lender as described in Section 3.1(a) after giving effect to any reduction thereof pursuant to Section 3.8.

(ii) Revolving Credit. During the period from the Effective Date to and including the Expiration Date, the Borrower may borrow, prepay and reborrow in accordance with Section 3.2(a)(i) and Section 3.4, subject to all the terms and provisions hereof.

(iii) Loan Notice. The Borrower shall give the Agent Bank a Loan Notice of any requested Loan. The giving of such Loan Notice by the Borrower shall irrevocably commit the Borrower to make the Loan borrowing in accordance with the terms hereof and of such Loan Notice. The Agent Bank shall communicate the information contained in each Loan Notice to the other Lenders on the date of its receipt.

(iv) Notes. On or before the date of the initial Loans, the Borrower shall issue and deliver to the Agent Bank for delivery to each Lender a Note (the "Note" and collectively the "Notes"), duly executed and delivered by the Borrower, substantially in the form attached hereto as Exhibit B, payable to the order of such Lender, dated such date, and in a principal amount equal to such Lender's Commitment. Each Lender is hereby authorized and directed by the Borrower to endorse on the grid on the reverse side of such Note an appropriate notation evidencing the date and amount of each Loan, the date and amount of each payment or prepayment of principal thereon, and the other information

provided thereon; provided that neither the failure of any Lender to so endorse such grid nor any error in endorsement shall limit or affect the obligations of the Borrower hereunder or under such Note; provided further that, in the case of any such failure of any Lender to endorse such grid or any error in endorsement with respect to any Loan the terms of this Agreement shall govern the terms of any such Loan. Each Lender may, by notice to the Borrower and the Agent Bank, request that its Loans of a particular type be evidenced by a separate Note in an amount equal to the aggregate unpaid principal amount of such Loans. Each such Note shall be in substantially the form of Exhibit B hereto with appropriate modifications to reflect the fact that it evidences solely Loans of the relevant type. Each reference in this Agreement to a "Note" or the "Notes" of such Lender shall be deemed to refer to and include any or all of such Notes, as the context may require.

(v) Maturity of the Loans. All Loans outstanding shall become due and payable in full on the Expiration Date.

SECTION 3.3. Interest on Loans.

(a) Loans. The Loans may consist of one or more of Base Rate Loans, CD Loans and LIBOR Loans as specified in the Loan Notices given by the Borrower pursuant to the provisions of Section 3.2(a)(iii) of this Credit Agreement.

(b) Interest on Base Rate Loans.

(i) The Borrower shall pay interest on the unpaid principal amount from time to time outstanding on each Base Rate Loan at a rate per annum equal to the Base Rate in effect from time to time, which rate shall change as and when said Base Rate shall change. Each change in the Base Rate shall be effective as of the opening of business on the date of any change in the Base Rate.

(ii) Interest on each Base Rate Loan shall be payable in arrears on the last day of each Calendar Quarter commencing with the first such date after the date hereof.

(c) Interest on CD Loans.

(i) The Borrower shall pay interest on the unpaid principal amount from time to time outstanding on each CD Loan, in each case for each CD Interest Period, at a rate per annum equal to the CD Rate plus the CD Margin.

(ii) Interest on each CD Loan shall be payable in arrears on each Interest Payment Date applicable to such CD Loan.

(iii) Promptly after the Agent Bank's determination of the interest rate to be applicable during each CD Interest Period, the Agent Bank shall notify the Borrower and each Lender of such rate.

(iv) If on the first day of any CD Interest Period, the Agent Bank shall reasonably have determined (which determination shall be conclusive and binding upon the Borrower) that, by reason of circumstances affecting the CD Market, adequate and reasonable means do not exist for ascertaining the rate of interest applicable during such CD Interest Period pursuant to this Section 3.3(c), the Agent Bank shall as soon as practicable give notice thereof to the Borrower and to the Lenders, whereupon the Base Rate shall apply during such CD Interest Period, unless within such CD Interest Period the Borrower and all of the Lenders shall agree in writing upon an alternative mutually satisfactory basis for determining the interest rate applicable to such CD Interest Period. During any CD Interest Period while a rate of interest ascertained under this Section 3.3(c)(iv) applies to the Loans, the Borrower may, on giving not less than three Business Days' prior notice to the Agent Bank, prepay the affected Loans in whole or in part without penalty or premium, together with accrued interest on the amount thereof through the date of such prepayment at the rate of interest ascertained under this Section 3.3(c)(iv).

(d) Interest on LIBOR Loans.

(i) The Borrower shall pay interest on the unpaid principal amount from time to time outstanding on each LIBOR Loan, in each case for each LIBOR Interest Period, at a rate per annum equal to the LIBOR Rate plus the LIBOR Margin.

(ii) Interest on each LIBOR Loan shall be payable in arrears on each Interest Payment Date applicable to such LIBOR Loan.

(iii) Promptly after the Agent Bank's determination of the interest rate to be applicable during each LIBOR Interest Period, the Agent Bank shall notify the Borrower and each Lender of such rate.

(iv) In the event, and on each occasion, that on the day two Business Days before the beginning of any LIBOR Interest Period, the Agent Bank shall reasonably have determined (which determination shall be conclusive and binding

upon the Borrower) that, by reason of circumstances affecting the Eurodollar market, adequate and reasonable means do not exist for ascertaining the rate of interest applicable during such LIBOR Interest Period pursuant to this Section 3.3(d), the Agent Bank shall as soon as practicable give notice of such determination to the Borrower and to the Lenders whereupon the Base Rate shall apply during such LIBOR Interest Period, unless within such LIBOR Interest Period the Borrower and all of the Lenders shall agree in writing upon an alternative mutually satisfactory basis for determining the interest rate applicable to such LIBOR Interest Period. During any LIBOR Interest Period while a rate of interest ascertained under this Section 3.3(d)(iv) applies to the Loans, the Borrower may, on giving not less than three Business Days' prior notice to the Agent Bank, prepay the affected Loans in whole or in part without penalty or premium, together with accrued interest on the amount thereof through the date of such prepayment at the rate of interest ascertained under this Section 3.3(d)(iv).

SECTION 3.4. Provisions Applicable to Loans.

(a) Prepayments. The Borrower may, upon not less than three Business Days' irrevocable notice to the Agent Bank, in minimum amounts of \$5,000,000 and in integral multiples of \$1,000,000 in excess thereof, prepay any Loans in full or from time to time in part at any time, upon payment of accrued interest to the date of prepayment on such Loan or Loans or portions thereof prepaid. The prepayment of CD Loans and LIBOR Loans on a date other than the last day of the applicable Interest Period shall also be subject to any required payments pursuant to Section 3.4(d).

(b) Payments. Each Loan made by each Lender hereunder shall be made by transferring immediately available funds prior to 1:00 p.m. (New York time) on the date of such Loan in the amount of such Loan to the account of the Agent Bank at Union Bank of Switzerland, New York Branch, ABA No. 026008439, attention: Loan Servicing, ref: Southwest Gas for retransfer (in immediately available funds) to the account of the Borrower at Bank of America N.T. & S.A., North American Division, Corporate Services, 1850 Gateway Boulevard, Concord, California 94520 (account name: Southwest Gas Corporation, account number: 12359- 04038). Subject to Sections 4.1, 4.2 and 4.3, all payments and prepayments of principal of, and all payments of interest on, each Loan shall be made by the Borrower in immediately available funds prior to 1:00 p.m. (New York time) on the date of payment to the account of the Agent Bank as specified in the immediately preceding sentence for the accounts of the holders of the relevant Notes, pro rata in accordance with the respective

principal amounts thereof held by them (in the case of any payment or prepayment of principal) and pro rata in accordance with the respective amounts of accrued but unpaid interest on the Notes held by them (in the case of any payment of interest). Payments received by the Agent Bank for the account of the Lenders shall be applied in accordance with the priorities set forth in Section 3.10 hereof. The Agent Bank will make each payment made to it for the account of any Lender available promptly to such Lender in immediately available funds in accordance with such Lender's standing credit instructions to the Agent Bank.

(c) Computation of Interest. Interest hereunder shall be computed on the basis of a year of 360 days for CD Loans and LIBOR Loans and 365 or 366 days, as the case may be (based on the actual number of days in the applicable year), for Base Rate Loans and interest shall be paid for the actual number of days for which due. Except as otherwise provided herein, any payment due hereunder or under the Notes which is due on a date which is not a Business Day shall be paid on the next day which is a Business Day, with interest from such due date to such date of payment.

(d) Reemployment of Funds. If the Borrower shall elect to prepay a Loan or portion thereof pursuant to Sections 3.4(a), 4.1 or 4.2, or if any Lender requires prepayment of a Loan or portion thereof pursuant to Section 4.3, on a day other than the last day of an Interest Period, the Borrower shall reimburse the Lenders for any costs incurred by them in respect of the reemployment of funds and the Borrower shall indemnify each Lender against any loss or expense which such Lender may sustain or incur as a consequence of liquidating or employing deposits from third parties acquired to effect or maintain any Loan or part thereof. If the Borrower shall fail to borrow in accordance with any notice pursuant to Section 3.2(a)(iii), the Borrower shall reimburse the Lenders for any costs, including expenses, incurred by them as a result of such failure. All costs referred to in the two preceding sentences, which each Lender shall exercise its reasonable efforts to minimize, shall be certified to the Borrower by notice of such Lender, and such notice shall, subject to correction for manifest error on the part of such Lender, be binding and conclusive on the Borrower.

(e) Fees.

(i) General. All payments of fees hereunder shall be made in immediately available funds to the account of the Agent Bank specified in the first sentence of Section 3.4(b) hereof for the accounts of the Lenders, pro rata in

accordance with their respective Commitment Percentages. The Agent Bank will make fees paid to it for the account of any Lender available promptly to such Lender in accordance with Section 3.4(b).

(ii) Commitment Fee. The Borrower agrees to pay to each Lender its pro rata share of a commitment fee (the "Commitment Fee") payable for each Calendar Quarter for the period beginning on the date hereof and ending on the Expiration Date payable quarterly (computed on the basis of the actual number of days in such Calendar Quarter or shorter period, as appropriate, over a year of 360 days), in arrears on the daily average unused amount of the Commitments after deducting the sum of (I) all outstanding Loans plus (II) the aggregate Face Value of all outstanding Commercial Paper Notes plus (III) all unreimbursed Letter of Credit Disbursements plus (IV) the amount of any reduction in the Total Commitment allocated in accordance with Section 3.8 to the Commitments effective during such Calendar Quarter or shorter period on the basis of the number of days such Commitments were actually effective during such Calendar Quarter or shorter period. The Commitment Fee shall be equal to the percentage per annum set forth below opposite the highest Rating category in effect on the date of the payment of such Commitment Fee:

Rating -----	Percentage -----
BBB/Baa2 or higher	.1875%
BBB-/Baa3	.2500%
BB+/Ba1	.3750%
BB/Ba2 or lower	.6000%.

Payment of the Commitment Fee shall be made in the manner set forth in Section 3.4(b) for the accounts of the Lenders, payable in arrears on the last day of each Calendar Quarter and on the Expiration Date. All payments of the Commitment Fee hereunder shall be payable pro rata to the Lenders in accordance with their respective Commitment Percentage and shall be made available to such Lenders as set forth in Section 3.4(b).

SECTION 3.5. The Letter of Credit and Commercial Paper Operations.

(a) Issuing the Letter of Credit.

(i) The Issuing Bank agrees, upon the terms and subject to the conditions contained in this Credit Agreement, to deliver to the Depository pursuant to the Depository Agreement the Letter of Credit substantially in the form included in Exhibit D hereto.

(ii) No Commercial Paper Note shall be issued by the Borrower except through the Depositary and in accordance with the terms of this Credit Agreement and the Depositary Agreement. The Borrower shall not at any time issue Commercial Paper Notes if (i) the Face Value of all Commercial Paper Notes outstanding plus the Face Value of all Commercial Paper Notes to be issued will exceed (x) the Total Commitment minus, (y) the sum of (A) the aggregate principal amount of all Loans outstanding on such date plus (B) the aggregate amount on such date of all unreimbursed Letter of Credit Disbursements, plus (z) the proceeds of such Commercial Paper Notes to be deposited, on the same day as the day of such issuance, in the Commercial Paper Account for the purpose of contemporaneously repaying or prepaying outstanding Loans and/or reimbursing Letter of Credit Disbursements relating to matured and concurrently maturing Commercial Paper Notes (whether or not presented for payment) plus the amount deposited by the Borrower in the Commercial Paper Account to pay the discount or interest on such matured and concurrently maturing Commercial Paper Notes, or (ii) there shall fail to be credited to the Letter of Credit Account, by way of a credit advice, the funds required by the Depositary to pay holders of all Commercial Paper Notes maturing on such day all principal and interest due and owing with respect to such Commercial Paper Notes.

(b) Issuance of Commercial Paper Notes.

(i) The Borrower, by entering into the Depositary Agreement, authorized and directed the Depositary to act as its agent for the issuance and delivery of Commercial Paper Notes. Commercial Paper Notes may be issued by the Borrower from time to time in accordance with this Section 3.5 and the Depositary Agreement.

(ii) The Borrower shall not have the right to issue and sell Commercial Paper Notes in accordance with this Credit Agreement and the Depositary Agreement if one of the following events shall have occurred: (A) an Event of Default or a Default has occurred and is continuing, (B) the conditions precedent specified in Article V with respect to the issuance of Commercial Paper Notes have not been satisfied, (C) the Commitments or the obligation of the Issuing Bank to issue the Letter of Credit pursuant hereto have terminated or have ceased for any reason whatsoever including, without limitation, by reason of the operation of Section 3.5(j) or Section 4.2, (D) the issuance of Commercial Paper Notes is prohibited by the provisions of Section 4.7, (E) the initial Issuing Bank shall have been removed in accordance with Section 8.2 hereof and a successor Issuing Bank shall not yet have been appointed, or (F) the issuance

or the maintenance of the Letter of Credit shall be or become illegal and any applicable period of grace or other "grandfather rights" shall have expired; provided, however, that, so long as the Depositary is not in receipt of instructions then in effect from the Agent Bank given in accordance with this Section 3.5(b) and the Depositary Agreement not to issue or deliver Commercial Paper Notes, any Commercial Paper Notes issued pursuant to the terms hereof and of the Depositary Agreement shall be valid notwithstanding the occurrence of any event specified in clauses (A) through (F) above. The Agent Bank may, in its own discretion and shall, if directed by the Majority Lenders, direct the Borrower and the Depositary not to issue or deliver Commercial Paper Notes upon the occurrence of any event specified in clause (A) through (F) above. Any instructions from the Agent Bank to the Borrower and the Depositary in accordance with this Section 3.5(b) shall specify one or more of the events described in clauses (A) through (F) as the reason(s) to cease issuing and delivering Commercial Paper Notes. If the Agent Bank in its own discretion or on behalf of the Lenders shall, as permitted by this Section 3.5(b) and the Depositary Agreement, instruct the Borrower and the Depositary not to issue or deliver Commercial Paper Notes, the Borrower shall not instruct the Depositary to authenticate, issue or deliver any Commercial Paper Notes in respect of agreements concluded by any dealer after the time such instructions are first received by the Depositary, except to the extent that such issuance and delivery occurs within one Business Day of the receipt of such notice by the Depositary and is required in respect of agreements concluded by such dealer prior to the time such dealer has received notice from the Agent Bank, the Depositary or the Borrower of the giving by the Agent Bank of instructions not to issue or deliver Commercial Paper Notes. The Borrower shall not under any circumstances sell or offer, agree or commit to sell or offer any Commercial Paper Notes to or through any dealer after having received instructions hereunder not to issue or deliver Commercial Paper Notes. For purposes of this Section 3.5(b), an agreement with respect to Commercial Paper Notes shall be deemed concluded when it has become a final agreement in accordance with the customary practice of commercial paper dealers in The City of New York. Concurrently with the giving of any such instructions to the Borrower and the Depositary, the Agent Bank shall on behalf of the Lenders give notice thereof to each dealer and each agency which provides an investment rating with respect to the Commercial Paper Notes, but failure to do so shall not impair the effect of such instructions, except to the extent set forth in the third preceding sentence. Any instruction given pursuant to this Section 3.5(b) to the Borrower and the Depositary not to

issue or deliver Commercial Paper Notes may be revised or revoked by the Agent Bank.

(iii) Each Commercial Paper Note shall (A) be in the form included in Exhibit A hereto and completed in accordance with this Credit Agreement and the Depositary Agreement, (B) be dated the date of issuance thereof (which shall be a Business Day), (C) be made payable to the order of bearer or a specified payee, (D) have a stated maturity date (which shall be a day on which Banks are open in The City of New York), which shall not be later than the earlier to occur of (x) the 270th day next succeeding the date of its issuance and (y) the first Business Day prior to the Expiration Date, and (E) have a Face Value of not less than \$100,000, which, when added to the Face Value of all other Commercial Paper Notes issued or to be issued on the same day, will not exceed the aggregate amount available for issuance of Commercial Paper Notes pursuant to Section 3.5(a)(ii). No Commercial Paper Note shall be subject to automatic renewal, extension or roll-over. Subject to the provisions of the Depositary Agreement, all Commercial Paper Notes shall be delivered and issued against payment therefor in collected funds which are immediately available in The City of New York on the date of issuance, and otherwise in accordance with the terms of this Credit Agreement and the Depositary Agreement.

(c) Participations; Unconditional Obligations.

(i) By the issuance of the Letter of Credit and without any further action on the part of the Issuing Bank or any of the Lenders in respect thereof, the Issuing Bank hereby grants to each other Lender and each other Lender hereby agrees to acquire from the Issuing Bank a participation in the Letter of Credit, effective upon the issuance thereof, equal to such other Lender's Commitment Percentage of the Letter of Credit. In consideration and in furtherance of the foregoing, each other Lender hereby absolutely and unconditionally agrees to pay to the Issuing Bank, in accordance with Section 3.5(g), such Lender's Commitment Percentage of each Letter of Credit Disbursement.

(ii) Each Lender acknowledges and agrees that its obligation to acquire participations pursuant to Section 3.5(c)(i) and Section 3.5(g) in respect of each Letter of Credit Disbursement is absolute and unconditional and shall not be affected by any circumstance whatsoever, including, without limitation, the occurrence and continuance of an Event of Default or a Default, and that each such payment shall be made without any offset, abatement, withholding or reduction whatsoever. The Borrower agrees that, subject to Section 4.10, each Lender so purchasing a participation

from the Issuing Bank pursuant to this Section 3.5(c) and Section 3.5(g) may exercise all its rights to payment against the Borrower, including the right of setoff, with respect to such participation as fully as if such Lender were the direct creditor of the Borrower in the amount of such participation.

(iii) The Issuing Bank agrees with each Lender that it shall transfer to such Lender its proportionate share of any repayment including, subject to the proviso below, interest paid to the Issuing Bank pursuant to Section 3.5(d) based upon the proportion that the payments made by such Lender pursuant to Section 3.5(g) bears to the total of payments made by the Issuing Bank under the Letter of Credit; provided that each Lender shall receive interest on its participation in a Letter of Credit Disbursement from the date on which the amount of its participation is received by or on behalf of the Issuing Bank and not from the date on which the Issuing Bank makes such Letter of Credit Disbursement, unless such dates are the same.

(d) Agreement to Reimburse Letter of Credit Disbursements.

(i) To induce the Issuing Bank to issue the Letter of Credit and the Lenders to acquire participations therein, the Borrower unconditionally and irrevocably agrees to pay to the Agent Bank for the account of the Issuing Bank, which subject to Section 3.5(c)(iii) in turn shall transfer to the Lenders in accordance with their respective interests, an amount equal to any Letter of Credit Disbursement, on the date such Letter of Credit Disbursement is made (but such reimbursement shall not be made prior to 1:00 p.m., New York City time, on such date). The Agent Bank, at the request of the Borrower, shall notify the Borrower of any amounts owed hereunder by the Borrower in respect of any Letter of Credit Disbursement on the date of such Letter of Credit Disbursement. The Borrower also agrees to pay the Agent Bank, on behalf of the Issuing Bank which in turn shall transfer to the Lenders in accordance with their respective interests, interest on each outstanding Letter of Credit Disbursement at a rate per annum equal to the Base Rate plus 2.0% (computed on the basis of the actual number of days elapsed and a 360-day year); provided, however, that if such Letter of Credit Disbursement shall be reimbursed to the Agent Bank on behalf of the Issuing Bank or converted into Loans in accordance with Section 3.2(a)(i) on the date such Letter of Credit Disbursement is made, such Letter of Credit Disbursement shall not bear interest. Promptly upon reimbursement in full being made to the Agent Bank for the account of the Issuing Bank in respect of a Letter of

Credit Disbursement (plus accrued interest if any) or the conversion of such Letter of Credit Disbursement into a Loan in accordance with Section 3.2(a)(i), the Agent Bank shall transmit the Commercial Paper Note to which such Letter of Credit Disbursement relates to the Borrower. Nothing in this paragraph shall impair or otherwise affect the Agent Bank's right to effect reimbursements of Letter of Credit Disbursements, and interest thereon, on behalf of the Issuing Bank, pursuant to the provisions of Section 4.6(a).

(ii) The Borrower's obligation to reimburse the Issuing Bank under this Section 3.5(d) for the amount of all Letter of Credit Disbursements (plus accrued interest if any) to the extent such unreimbursed Letter of Credit Disbursements have not been converted into a Loan in accordance with Section 3.2 shall be absolute and unconditional under any and all circumstances and irrespective of any setoff, counterclaim or defense to payment which the Borrower may have or have had against the Agent Bank, the Issuing Bank or any Lender, including, without limitation, any defense based on the failure of any drawing to conform to the terms of the Letter of Credit, any failure of the Borrower to receive all or any part of the proceeds of the sale of Commercial Paper Notes with respect to which such Letter of Credit Disbursement was made or any nonapplication or misapplication of the proceeds of such sale or the legality, validity, regularity or enforceability of the Letter of Credit.

(e) Letter of Credit Fee. The Borrower agrees to pay a Letter of Credit fee (the "Letter of Credit Fee") payable for each Calendar Quarter for the period beginning on the date hereof and ending on the Expiration Date payable quarterly (computed in each case on the basis of the actual number of days in such Calendar Quarter or shorter period, as appropriate, over a year of 360 days), on the average daily balance of Commercial Paper Notes outstanding under the Letter of Credit in the percentage set forth below opposite the highest Rating category in effect on the last day of the Calendar Quarter preceding the date the relevant Letter of Credit Fee is payable:

Rating	Percentage
-----	-----
BBB/Baa2 or higher	0.425%
BBB-/Baa3	0.550%
BB+/Ba1	0.800%
BB/Ba2 or lower	1.150%.

The Letter of Credit Fee shall accrue from and include the date of issuance of the Letter of Credit, and shall cease to accrue on the date on which no Letter of Credit is outstanding.

The Letter of Credit Fee shall be payable in arrears on the last day of each Calendar Quarter and on the last day of the last period during which a Letter of Credit Fee accrues. All payments of Letter of Credit Fees shall be made in the manner set forth in Section 3.4(b) for the accounts of the Lenders, pro rata in accordance with their respective Commitment Percentage and shall be made available to such Lenders as set forth in Section 3.4(b).

(f) Letter of Credit Indemnity. The Borrower agrees to indemnify, defend and hold harmless the Issuing Bank and each Lender from and against any and all claims, damages, losses, liabilities, costs or expenses whatsoever which the Issuing Bank and each Lender may incur (or which may be claimed against the Issuing Bank and each Lender) by reason of or in connection with the execution and delivery or assignment of, or payment under, the Letter of Credit, or purchase of any participation by any Lender in any Letter of Credit, unless, and with the sole exception that any such claim, damage, loss, liability, cost or expense shall be caused by the wilful misconduct or gross negligence of the Issuing Bank or any Lender, as the case may be, in performing its obligations under this Credit Agreement or in making payment under the Letter of Credit, whether or not any document presented pursuant to the Letter of Credit proves to be insufficient in any respect and whether or not any other statement or any other document presented pursuant to the Letter of Credit proves to be forged, fraudulent or invalid in any respect or any statement therein proves to be inaccurate or untrue in any respect whatsoever.

(g) The Lenders' Commitment to the Issuing Bank. The Agent Bank shall give the Lenders prompt notice of any Letter of Credit Disbursement that is not reimbursed in full on the date when made and may give the Lenders notice on or before 2:00 p.m., New York City time, on any day, of any Letter of Credit Disbursement made that day which has not been reimbursed in full by 1:30 p.m., New York City time, if the Agent Bank, for any reason, believes in good faith that such Letter of Credit Disbursement will not be reimbursed on such day. Any such notice shall specify the date of such Letter of Credit Disbursement and the amount thereof. As promptly as possible, but no later than 4:00 p.m., New York City time, on the date of receipt of such notice, provided such notice is received prior to 2:00 p.m., New York City time, and no later than 12:00 noon, New York City time, on the Business Day following the date of receipt of such notice if such notice is received after 2:00 p.m., New York City time, each Lender shall pay to the Issuing Bank such Lender's Commitment Percentage of the unreimbursed Letter of Credit Disbursement.

(h) Letter of Credit Operations. The Depositary shall, as soon as practicable after the opening of business on the Business Day next preceding the maturity date of any Commercial Paper Note, in accordance with the procedures set forth in the Depositary Agreement, make a demand of the Issuing Bank for payment under the Letter of Credit in an amount equal to the aggregate amount required to pay the Commercial Paper Notes maturing on such date.

Upon receipt by the Depositary of a written notice from the Agent Bank to the effect that an Event of Default has occurred hereunder, the Depositary shall, in accordance with the Depositary Agreement, make a demand for payment under the Letter of Credit in an amount equal to the aggregate amount required to pay all of the Commercial Paper Notes then outstanding upon their maturity.

(i) Issuing Bank Fee. As further consideration to the Issuing Bank for issuing the Letter of Credit, the Borrower agrees to pay the Issuing Bank for its own account for each Calendar Quarter a fee (the "Issuing Bank Fee") equal to 0.150% per annum (computed in each case on the basis of the actual number of days in such Calendar Quarter or shorter period, as appropriate, over a year of 360 days) on the Total Commitment. The Issuing Bank Fee shall be payable on the same terms and at the same times as the Letter of Credit Fee.

(j) Termination of Letter of Credit and Commercial Paper Operations. The Borrower may, upon not less than five Business Days' irrevocable notice to the Agent Bank and the Depositary, terminate as of a specific date (the "CP/Letter of Credit Termination Date") both its right under this Section 3.5 and under the Depositary Agreement to issue Commercial Paper Notes and the obligation of the Issuing Bank under this Section 3.5 and the Depositary Agreement to provide the Letter of Credit to the Depositary, provided that such termination shall be effective only if on such CP/Letter of Credit Termination Date (i) the Depositary returns the Letter of Credit to the Issuing Bank for cancellation and (ii) no Commercial Paper Notes are outstanding. The Depositary may not return the Letter of Credit to the Issuing Bank unless at such time no Commercial Paper Notes are outstanding and the Depositary has received the notice referred to above. The Agent Bank shall promptly notify the Lenders upon the receipt of any such notice and upon the return of the Letter of Credit to the Issuing Bank. The termination contemplated by this Section 3.5(j) shall in no way affect the obligation of the Borrower to repay any unreimbursed Letter of Credit Disbursements or other fees or

expenses owing as of such CP/Letter of Credit Termination Date.

SECTION 3.6. Taxes, Duties, Fees and Charges.

(a) The Borrower may, to the extent required by applicable United States laws (including tax treaties), withhold all or any portion of any interest payments or other fees and payments subject to withholding pursuant to the tax laws of the United States. Each Lender which is not a bank organized under the laws of the United States of America or any state thereof shall deliver to the Agent Bank for delivery to the Borrower copies, completed and executed as required, of Form 1001 or Form 4224, as the case may be, promulgated under the Code. If, due to any change after the date hereof in applicable law, regulation or interpretation thereof by any authority charged with interpretation thereof, including, without limitation, the unavailability of Form 4224 to any Lender which is not a bank organized under the laws of the United States of America or any state thereof or the loss by any Lender of exemption from U.S. withholding taxes, the Borrower is required to withhold all or any portion of any payment specified above, then the amount of interest or other fees and payments subject to such withholding payable to such affected Lender under this Agreement will be increased to the amount which, after deduction from such increased amount of all taxes required to be withheld or deducted therefrom, will yield to such Lender the amount stated to be payable under this Agreement. If any of the taxes specified in this subsection are paid by any Lender, the Borrower will, upon notification by such Lender pursuant to Section 4.1, reimburse such Lender for such payments, together with any interest and penalties which may be imposed by the governmental agency or taxing authority.

(b) If the Borrower shall pay any tax or charge as provided herein or shall make any deduction or withholding from amounts payable hereunder, within 10 days of the date of such payment, deduction or withholding the Borrower shall forward to the Agent Bank for delivery to the affected Lender or Lenders official receipts or other evidence acceptable to the Agent Bank establishing payment, deduction or withholding of such amounts.

(c) The Borrower shall promptly pay all taxes, assessments and other governmental charges and governmental fees levied in connection with this Credit Agreement or the Notes.

SECTION 3.7. Interest on Late Payments. If the Borrower defaults in the payment of the principal of any

Loan, interest thereon or any other sums payable pursuant to this Credit Agreement or the Notes, whether of fees, expenses or otherwise, the Borrower shall pay interest on such defaulted amounts (to the extent permitted by law) up to the date of actual payment (after as well as before judgment) on the last day of each Calendar Quarter in arrears (computed in each case on the basis of the actual number of days in such Calendar Quarter, over a year of 360 days) at a rate equal to 2.0% in excess of the Base Rate.

SECTION 3.8. Reduction of the Total Commitment. The Borrower may on the last day of any Interest Period, upon not less than 5 Business Days' prior notice to the Agent Bank (or such shorter period as the Agent Bank, in its sole discretion, may determine), permanently terminate in whole or permanently reduce in part the unused portion of the Total Commitment, provided that each partial reduction shall be in the amount of \$5,000,000 or an integral multiple thereof, and provided further that upon or prior to such reduction of the Total Commitment, the Letter of Credit shall be amended to an amount equal to the Total Commitment as so reduced. Without limiting the generality of the foregoing, the sum of (i) the Face Value of any Commercial Paper Notes outstanding, (ii) any Loans outstanding and (iii) any unreimbursed Letter of Credit Disbursements may not exceed the Total Commitment, and the Stated Amount (as defined in the Letter of Credit) of the Letter of Credit shall be equal to the Total Commitment.

SECTION 3.9. No Setoff Against Amounts Payable Hereunder. All sums payable by the Borrower hereunder or under the Notes, whether of principal, interest, fees, expenses or otherwise, shall be paid in full without any right of setoff on the part of the Borrower.

SECTION 3.10. Application of Payments. All payments to the Lenders under this Credit Agreement or the Notes (other than payments pursuant to Section 4.1, Section 4.2 or Section 4.3) will be applied pro rata among the Lenders in proportion to their respective Commitment Percentages in the following order of priority: (a) to any Commitment Fee then due and payable, (b) to any Letter of Credit Fee then due and payable, (c) to the reimbursement of any unreimbursed Letter of Credit Disbursement, (d) to any other amounts not otherwise listed in this paragraph then due and payable under this Credit Agreement, (e) to the accrued interest then due and payable on the principal amount of the Notes, (f) to the principal amount of the Notes then due and payable and (g) to the prepayment of the Notes in accordance with the terms of this Credit Agreement.

IV. OTHER CREDIT TERMS

SECTION 4.1. Change in Circumstances. In the event that the introduction of, or any change in, applicable law, regulation, condition or directive, or interpretation or administration thereof (including any request, guideline or policy whether or not having the force of law) by any authority charged with the administration or interpretation thereof:

(a) subjects any Lender (which shall for the purpose of this Section 4.1 include any assignee of such Lender permitted by Section 9.9 hereof) to any tax with respect to any Loan, its obligation in respect of the Letter of Credit or its Commitment (other than any tax on or measured by the overall net income of such Lender); or

(b) changes the basis of taxation of payments to any Lender of principal of, or interest on, any Loan made by such Lender (including withholding taxes imposed on interest payments on any such Loan due to any such change after the date hereof), with respect to its Commitment or its obligation in respect of the Letter of Credit or of other amounts payable hereunder, or any combination of the foregoing (other than any tax on or measured by the overall net income of such Lender); or

(c) imposes, modifies or deems applicable any reserve, deposit or similar requirement against any assets held by, deposits with or for the account of, or loans or commitments by, an office of any Lender in connection with any Loan or its obligations in respect of the Letter of Credit (including, without limitation, the Assessment Rate); or

(d) imposes upon any Lender any other condition with respect to any Loan, its participation in, or in the case of the Issuing Bank its obligation under, the Letter of Credit or this Credit Agreement; and the result of any of the foregoing is to increase the cost to such Lender of making, funding or maintaining any Loan, its obligation in respect of the Letter of Credit or its Commitment hereunder, as the case may be, or to reduce the amount of any payment (whether of principal, interest or otherwise) received or receivable by such Lender or to require such Lender to make any payment on or calculated by reference to any sum received by it, in each case by an amount which such Lender in its sole judgment deems material after conducting the review required by Section 4.4 hereof, then and in any such case:

(i) such Lender shall within 60 Business Days of becoming aware of the happening of any such event give notice thereof to the Borrower and the Agent Bank;

(ii) such Lender shall contemporaneously therewith or promptly thereafter deliver to the Borrower and the Agent Bank a certificate stating the change which has occurred or the reserve requirements or other conditions which have been imposed or the request, direction or requirement with which the affected Lender has complied or will comply, together with the date thereof, the amount of such increased costs, reduction or payment, the way in which such amount has been calculated and the location and identifying number of a bank account specified by such Lender to which the Borrower should direct any payments made to such Lender pursuant to this Section 4.1; and

(iii) the Borrower shall pay to such affected Lender (and provide notice of such payment to the Agent Bank), as soon as possible and in any event no later than 15 days after delivery of the certificate referred to in clause (ii) above and to the account specified therein, such an amount or amounts as will compensate such Lender for such additional cost, reduction or payment.

The certificate of the affected Lender as to the additional amounts payable pursuant to this Section 4.1 delivered to the Borrower shall, in the absence of manifest error, be conclusive evidence of the amount thereof. The protection of this Section 4.1 shall be available to the affected Lender regardless of any possible contention of invalidity or inapplicability of the law, regulation or condition which has been imposed. No failure on the part of any Lender to demand compensation under this Section 4.1 shall constitute a waiver of its right to demand such compensation on any other occasion.

SECTION 4.2. Capital Adequacy. If any Lender (which for purposes of this Section 4.2 shall include any holding company parent of such Lender) shall have determined that the adoption of any applicable law, rule or regulation regarding capital adequacy, or any change therein, or any change in the interpretation or administration thereof by any governmental authority, central bank or comparable agency charged with the interpretation or administration thereof, (including any such adoption or change made prior to the date hereof but not effective until after the date hereof) or compliance by any Lender with any request or directive regarding capital adequacy (whether or not having the force of law) of any such authority, central bank or comparable

agency, has or would have the effect of reducing the rate of return on such Lender's capital as a consequence of its obligations under this Credit Agreement to a level below that which such Lender could have achieved but for such adoption, change or compliance (taking into consideration such Bank's policies with respect to capital adequacy), then from time to time, upon written demand by such Lender (with a copy to the Agent Bank), the Borrower shall pay to such Lender such additional amount or amounts as will compensate such Lender for such reduction. Each Lender, upon determining in good faith that any additional amounts will be payable pursuant to this Section 4.2, will, within 60 Business Days of such determination, give prompt written notice thereof to the Borrower and the Agent Bank, which notice shall show the identifying number of a bank account specified by such Lender to which the Borrower should direct any payments made to such Lender hereunder and the basis for calculation of such additional amounts, although the failure to give any such notice shall not release or diminish any of the Borrower's obligations to pay additional amounts pursuant to this Section 4.2. The Borrower shall pay to such affected Lender (and provide notice of such payment to the Agent Bank), as soon as possible and in any event no later than 15 days after receipt of the notice referred to above, to the account specified in such notice.

If the Borrower shall be required to make any payment or reimbursement under Section 3.6, Section 4.1 or under this Section 4.2 or otherwise to compensate any Lender hereunder, the Borrower shall be free at any time after notification of a withholding obligation under Section 3.6 or the receipt of the certificate or demand of the affected Lender, (A) to terminate such Lender's Commitment and proportionately reduce the Commitment Fee, or (B) to prepay the affected portion of any Loan in whole (plus all amounts payable pursuant to Section 4.1(d)(iii) and this Section 4.2 to compensate such affected Lender for additional costs, reductions or payments with respect to the period prior to prepayment) without penalty or premium (but subject to Section 3.4(d)), together with accrued interest on the amount thereof through the date of such prepayment, and otherwise as provided in Sections 4.1 and 4.2; provided, however, that the Borrower may not terminate the Commitment of any Lender unless the Borrower has, with the assistance of the Agent Bank, selected a satisfactory substitute bank or banks (which may be one or more of the Lenders) to purchase the Note of such Lender and assume the Commitment and Letter of Credit participation of such Lender.

SECTION 4.3. Change in Legality. Notwithstanding anything to the contrary herein contained, if the introduction

of, or any change in, law or regulation or in the interpretation thereof by any governmental authority charged with the administration thereof shall make it unlawful for any Lender (which shall for the purpose of this Section 4.3 include any assignee of such Lender permitted by Section 9.9 hereof) to make, fund or maintain any CD Loan or LIBOR Loan hereunder, then by notice to the Borrower upon the request of such Lender (which request shall specify the location and identifying number of a bank account specified by such Lender to which the Borrower should make payments to such Lender pursuant to this Section 4.3), the Agent Bank shall (a) require prepayment without penalty or premium (but subject to Section 3.4(d)) on the last day of the then effective Interest Period or on such earlier date as required by such law or regulation of all amounts due hereunder with respect to such Lender's CD Loans or LIBOR Loans, as the case may be, whereupon all such amounts shall be due and payable on such date by the Borrower to such Lender at the account specified in such Lender's request described above, or (b) convert such CD Loans or LIBOR Loans, as the case may be, to Base Rate Loans.

SECTION 4.4. Responsibility of Affected Lender. Upon the occurrence of any change in tax laws pursuant to Section 3.6 hereof, any change in circumstances pursuant to Section 4.1 hereof, any change in regulation regarding capital adequacy pursuant to Section 4.2 hereof or any change in legality pursuant to Section 4.3 hereof, and subject to the provisions of Section 3.6, Section 4.1, Section 4.2 and Section 4.3 hereof, the Lender affected by such change shall use its reasonable efforts to conduct a review of alternative courses of action which may mitigate or eliminate the increased cost to the Lender of making, funding or maintaining any Loan made by it, its obligations in respect of the Letter of Credit or its Commitment hereunder, and shall use its reasonable efforts to engage in any such alternative course of action which is reasonable under the circumstances as they shall exist at such time, provided such alternative course of action will not result in any reduction of the amount of any principal or interest or other payment receivable by such Lender under other provisions of this Credit Agreement.

SECTION 4.5. Indemnification. The Borrower shall indemnify each Lender against any loss or expense which such Lender may sustain or incur as a consequence of any default in the payment of the principal amount of any Loan or any part thereof or interest accrued thereon as and when due and payable (at the due date thereof or otherwise), or in respect of any payment to be made pursuant to Section 3.5(c)(iii), as and when due and payable (at the due

date thereof or otherwise), or the occurrence of any Event of Default, including but not limited to any loss or reasonable expense sustained or incurred in liquidating or employing deposits from third parties acquired to effect or maintain such Loan or any part thereof. Each Lender shall provide to the Borrower a statement, supported where applicable by documentary evidence, explaining the amount of any such loss or expense, which statements shall, subject to correction for manifest error on the part of such Lender, be conclusive with respect to the parties hereto.

SECTION 4.6. Commercial Paper Account. (a)

Contemporaneously with the execution and delivery by the Borrower of the Depositary Agreement, the Borrower shall establish with the Depositary at the Depositary's Corporate Trust Office at 77 Water Street, New York, New York 10005, a special purpose restricted deposit account, identified as Account No. 4808237 (the "Commercial Paper Account"), over which the Agent Bank shall have exclusive control and sole right of withdrawal. All proceeds from the sale of Commercial Paper Notes will initially be deposited by the Depositary in the Commercial Paper Account. The Depositary shall, if authorized in writing by the Agent Bank, transfer to such account of the Borrower specified in writing by the Borrower funds in the Commercial Paper Account representing proceeds from the sale of Commercial Paper Notes on any day in excess of the amount of such proceeds which, when added to other collected funds then on deposit in the Commercial Paper Account (other than any funds subject to any writ, order, judgment, warrant of attachment, execution or similar process), are equal to the aggregate amount payable (including interest, to the extent provided for herein) or that would be payable on such day by the Borrower to the Agent Bank for the account of the Issuing Bank in respect of Letter of Credit Disbursements relating to matured Commercial Paper Notes and Commercial Paper Notes maturing on such day (calculated on the assumption that drawings are made on such day under the Letter of Credit relating to all such Commercial Paper Notes as to which drawings have not then been made and that the Agent Bank makes demand for reimbursement hereunder on such day in respect of all such drawings). In addition, there shall be deposited in the Commercial Paper Account such amounts as the Borrower shall from time to time be required hereunder or otherwise elect to deposit therein for the purpose of providing for the reimbursement of Letter of Credit Disbursements and interest thereon. The Borrower hereby irrevocably agrees that the Agent Bank may, in accordance with the terms of the Depositary Agreement, without demand or notice of any kind, at any time and from time to time, but not prior to the later of 1:00 p.m., New York City time or the time that the Letter

of Credit Account is debited in accordance with the provisions hereof and of the Depositary Agreement, on the date of any Letter of Credit Disbursement, cause the Depositary to debit the Commercial Paper Account for the amount of such Letter of Credit Disbursement and interest thereon due and owing to the Agent Bank for the account of the Issuing Bank at such account specified in writing by the Agent Bank to the Depositary. So long as the Agent Bank has not given the Borrower and the Depositary notice that an Event of Default or a Default has occurred and is continuing and that the Borrower is to cease issuing Commercial Paper Notes, any funds remaining on deposit in the Commercial Paper Account on the date of any Letter of Credit Disbursement, after the Commercial Paper Account is debited for the amount of such Letter of Credit Disbursement and interest thereon as aforesaid, shall be transferred by the Depositary to such account of the Borrower as the Borrower shall have specified by notice to the Agent Bank and the Depositary.

(b) In order to secure and to provide for the repayment of the Obligations (as hereinafter defined), the Borrower hereby assigns, pledges, transfers and sets over unto the Agent Bank, as collateral agent, for the ratable benefit of the Secured Parties, and hereby grants the Agent Bank, as collateral agent, for the ratable benefit of the Secured Parties, a security interest in, the net proceeds from the sale of Commercial Paper Notes, the Commercial Paper Account and all funds at any time and from time to time on deposit in, or otherwise to the credit of, the Commercial Paper Account (all such proceeds and funds being herein called the "Deposited Funds") and all claims of the Borrower in and to the Deposited Funds. Throughout the term of this Credit Agreement and as long as any amounts payable to any of the Lenders hereunder remain unpaid, the Agent Bank, as collateral agent, shall be a pledgee in possession of the Deposited Funds and shall have the sole and exclusive right to withdraw or order a transfer of Deposited Funds from the Commercial Paper Account and the Borrower hereby appoints the Agent Bank the true and lawful attorney of the Borrower, with full power of substitution, for the purpose of directing the Depositary to make any such withdrawal or order any such transfer of Deposited Funds from the Commercial Paper Account, which appointment is coupled with an interest and is irrevocable. Upon the occurrence and during the continuance of any Event of Default or Default, all rights of the Borrower to request the Agent Bank to cause the Depositary to withdraw, or order the transfer of, Deposited Funds from the Commercial Paper Account shall cease, and the Agent Bank shall have the right at any time and from time to time, to appropriate and apply the funds then, or at any time thereafter, on deposit in the Commercial Paper Account to the

payment or prepayment in full of all outstanding Obligations, whether or not then due, in the order of priority specified in paragraph (c) of this Section 4.6. The Agent Bank shall, in addition to the rights and powers provided for herein, be entitled to exercise from time to time any rights and remedies available to it under applicable law as a secured party in respect of the Deposited Funds. The Agent Bank shall not be liable to any Person for any incorrect or improper payment made pursuant to this Section 4.6 in the absence of its gross negligence or wilful misconduct or that of its officers, directors, employees, agents or representatives.

(c) Upon the occurrence of an Event of Default, the Agent Bank may direct the Depositary to withdraw amounts from the Commercial Paper Account for application as provided below. Such amounts shall be applied to provide for the repayment of the following indebtedness and liabilities of the Borrower (such indebtedness and liabilities being herein called the "Obligations") in the order of priority indicated:

(i) First, to the payment of all costs and expenses at any time and from time to time incurred by the Agent Bank or any of the Lenders in connection with the administration and/or enforcement of this Credit Agreement or any related document (including, without limitation, the fees and expenses of counsel employed by the Agent Bank or any of the Lenders in connection therewith) and the payment of all indemnities at any time and from time to time payable to the Agent Bank or any of the Lenders, under or in connection with this Credit Agreement or any related document; and

(ii) Second, to the payment of the following Obligations (except for such Obligations which shall have been paid pursuant to item First of this paragraph (c)), ratably according to the then unpaid amounts thereof, without preference or priority of any kind among such various Obligations: all indebtedness and liabilities, whether absolute, fixed or contingent, at any time and from time to time owing by the Borrower to the Agent Bank or any of the Lenders under or in connection with this Credit Agreement, the Letter of Credit, the Loans, the Notes or any document relating to any of the foregoing, including, without limitation, all amounts at any time and from time to time owing by the Borrower to the Issuing Bank in respect of Letter of Credit Disbursements, with interest thereon, and all other amounts at any time and from time to time owing by the Borrower to the Issuing Bank or the Agent Bank or any of the Lenders under or in connection with this Credit Agreement or any related document on account of fees, costs, expenses and taxes, but in any event not including at any time any amounts in respect of the

Letter of Credit as to which disbursement or payment has not theretofore been made by or on behalf of the Issuing Bank.

(iii) The balance, if any, of the Deposited Funds remaining after payment in full of the foregoing items shall be paid to the Borrower or as a court of competent jurisdiction may otherwise direct.

(d) In accordance with the provisions of the Depositary Agreement, the Depositary shall keep accurate records of the date and time of each deposit in the Commercial Paper Account and of each disbursement therefrom.

SECTION 4.7. Attachments. Anything herein to the contrary notwithstanding, the Borrower shall not be permitted to issue or sell Commercial Paper Notes at any time after it or the Depositary has received notice that the Commercial Paper Account or any funds on deposit in, or otherwise to the credit of, the Commercial Paper Account are then subject to any writ, order, judgment, warrant of attachment, execution or similar process, except to the extent that such issuance and sale is required in respect of agreements concluded by a dealer prior to the time such dealer has received notice from the Agent Bank, the Depositary or the Borrower of the termination or suspension pursuant hereto of the Borrower's right to issue Commercial Paper Notes. The Borrower shall not under any circumstances sell or offer, agree or commit to sell Commercial Paper Notes to or through any dealer after having received notice under this Section 4.7.

SECTION 4.8. Authorized Signature. In case any authorized officer of the Borrower whose signature shall appear on any Commercial Paper Note shall cease to have such authority before the issuance of such Commercial Paper Note, the obligations of the Borrower hereunder and under such Commercial Paper Note shall nevertheless be valid for all purposes as if such authority had remained in force until such issuance.

SECTION 4.9. Letter of Credit Account. Contemporaneously with the execution and delivery by the Agent Bank of the Depositary Agreement, the Issuing Bank shall establish at the Corporate Trust Office in The City of New York of the Depositary a special purpose account, identified as Account No. 4808210 (the "Letter of Credit Account"). Prior to 11:00 a.m., New York City time, on the Business Day immediately succeeding the Business Day of receipt of a drawing request under the Letter of Credit (and subject to such drawing request having been properly made in accordance with the Letter of Credit), in order to make payment of the

amount of such drawing, the Issuing Bank will cause to be credited, by way of wire transfer, which shall not be revoked, to the Depository's Account at Chemical Bank New York, ABA No. 021000128, Bank of Montreal Trust Company, No. 400-046075 for immediate deposit in the Letter of Credit Account an amount equal to the amount of such drawing, in accordance with the terms of the Letter of Credit. The amounts on deposit in the Letter of Credit Account shall be subject to withdrawal by the Depository solely for the purpose of effecting payment of Commercial Paper Notes until the Commercial Paper Notes have been paid in full. The Borrower shall have no legal, equitable or beneficial interest in the Letter of Credit Account or the moneys on deposit therein. In accordance with the provisions of the Depository Agreement, the Depository will record the date of each wire transfer by or on behalf of the Issuing Bank to the Letter of Credit Account and keep accurate records of each disbursement therefrom for at least three years.

SECTION 4.10. Right of Setoff, Additional Security. (a) In addition to any other right or remedy that any Lender may have by operation of law or otherwise, each Lender shall be entitled to exercise its banker's lien or right of setoff (including without limitation the right of setoff in connection with such Lender's participation in the Letter of Credit); provided, however, that each Lender hereby irrevocably waives any such right, or any other right that it may have at law or otherwise to exercise such banker's lien or right of setoff, in order to appropriate and apply to the payment of unpaid Letter of Credit Disbursements (or participations therein) and Loans resulting from the conversion of a Letter of Credit Disbursement into a Loan in accordance with Section 3.2 hereof, and interest thereon, any balances, credits, deposits, accounts or moneys of the Borrower, at any time with such Lender when and if there shall be a drawing under the Letter of Credit during the pendency of any proceeding by or against the Borrower, seeking relief in respect of the Borrower under Title 11 of the United States Code, as now constituted or hereafter amended.

(b) Notwithstanding the foregoing, the waiver by each Lender specified in paragraph (a) above shall cease to be operative and be of no force and effect and all rights waived by the Lenders in such paragraph shall be reinstated, if it is determined by a court of competent jurisdiction that such reinstatement would not lead to such Lender's being released, prevented or restrained from or delayed in fulfilling its obligations under the Letter of Credit.

SECTION 4.11. Payment of Drawings under Letter of Credit.

The Issuing Bank agrees that all Letter of Credit Disbursements (and participations therein) shall be paid out of its general funds and that payments under the Letter of Credit shall not in any manner be contingent upon or drawn from amounts on deposit in the Commercial Paper Account or amounts on deposit in any other account maintained by the Borrower with the Depository, the Issuing Bank, the Agent Bank or any Lender.

V . CONDITIONS OF LENDING

SECTION 5.1. Conditions Precedent to the Initial Credit

Event. The obligations of the Lenders and of the Issuing Bank with respect to the initial Credit Event shall be subject to the conditions precedent that, on the date of such Credit Event, the Restated and Amended Credit Agreement referred to in Recital D hereof shall have been terminated and the Agent Bank shall have received the following, in form and substance satisfactory to the Agent Bank with sufficient copies for each Lender:

(a) certified copies, dated the date of such Credit Event, of

(i) the resolutions of the Board of Directors of the Borrower approving the execution, delivery and performance of this Credit Agreement, the Depository Agreement, the Notes and the Commercial Paper Notes by the Borrower, and (ii) all documents evidencing other necessary corporate action and governmental approvals, if any, with respect to this Credit Agreement, the Depository Agreement, the Notes and the Commercial Paper Notes;

(b) a certificate, dated the date of such Credit Event, of

the Secretary or an Assistant Secretary of the Borrower certifying the names and true signatures of the officers of the Borrower authorized to sign this Credit Agreement, the Depository Agreement, the Notes and the Commercial Paper Notes and the other documents to be delivered hereunder;

(c) The articles of incorporation of the Borrower as in

effect on the date of such Credit Event, certified by the Secretary of State of California as of a recent date and by the Secretary or Assistant Secretary of the Borrower as of the date of such Credit Event and the bylaws of the Borrower as in effect on the date of such Credit Event, certified by the Secretary or Assistant Secretary of the Borrower as of the date of such Credit Event;

(d) Certificates of good standing for the Borrower from each of the Secretary of State of California and the Secretaries of State of the States where the Borrower conducts its principal operations, certifying that the Borrower is in good standing in such States, such certificates to be dated reasonably near the date of such Credit Event;

(e) Originals (or copies certified to be true copies by an appropriate officer of the Borrower) of all governmental and regulatory approvals (including, without limitation, approvals or orders of the California Public Utilities Commission) necessary for the Borrower with respect to this Credit Agreement, the Depositary Agreement, the Notes and the Commercial Paper Notes and the transactions contemplated hereby and thereby;

(f) a favorable opinion of Robert M. Johnson, Associate General Counsel for the Borrower, dated the date of such Credit Event, in substantially the form attached hereto as Exhibit E;

(g) a favorable opinion of (i) Sullivan & Cromwell, special counsel for the Lenders, in substantially the form attached hereto as Exhibit F-1 and (ii) the general counsel of UBS, in substantially the form attached hereto as Exhibit F-2;

(h) a favorable opinion of O'Melveny & Myers, special counsel for the Borrower, in substantially the form attached hereto as Exhibit G;

(i) a certified copy of the Depositary Agreement duly executed on behalf of the Borrower and the Depositary; and

(j) The Issuing Bank shall have received the financial statements referred to in Sections 6.2(a) and 6.2(b) and a certificate signed by the Chief Executive Officer, President, Chief Financial Officer, Chief Accounting Officer or Treasurer showing compliance with the covenants set forth in Sections 6.12, 6.13 and 6.14, as of the date of such Credit Event and the calculations supporting such certification.

SECTION 5.2. Conditions Precedent to All Credit Events.

(a) The obligations of the Lenders to make each Loan and of the Issuing Bank to issue the Letter of Credit and not to object to the issuance of Commercial Paper Notes

and the obligation of the Depository to authenticate and issue Commercial Paper Notes upon the direction of the Borrower shall be subject to the further conditions precedent that on the date of such Loan or Letter of Credit or Commercial Paper Note issuance, as the case may be:

(i) the representations and warranties contained in Section 2.1 are correct on and as of the date of such Loan or Letter of Credit or Commercial Paper Note issuance, as the case may be, as though made on and as of such date;

(ii) no event has occurred and is continuing, or would result from such Loan or Letter of Credit or Commercial Paper Note issuance, as the case may be, which constitutes an Event of Default or a Default;

(iii) since September 30, 1994, neither the Borrower nor its Subsidiaries have entered into or consummated any transaction or transactions, and there has occurred no change, affecting the business, credit, operations, financial condition or prospects of the Borrower and its Subsidiaries, taken as a whole, which could have a Material Adverse Effect;

(iv) no litigation, proceeding or inquiry before or by any arbitrator or Governmental Authority is continuing or, to the best of the Borrower's knowledge, threatened which could have a Material Adverse Effect;

(v) the Agent Bank shall have received copies of such other approvals, opinions, certificates or documents as the Agent Bank, Issuing Bank or any of the Lenders may reasonably request; and

(vi) the Borrower shall have paid to the Issuing Bank, for the account of the Lenders, if applicable, and the Agent Bank such fees as are required to be paid on or prior to such date including, without limitation, the closing and participation fees due the Issuing Bank and the Lenders and the Agent Bank pursuant to the Commitment Letter.

(b) The obligations of the Lenders to make Loans shall be subject to the further condition precedent that the Agent Bank shall have received on behalf of the Lenders on or before the day thereof, the Notes, each in accordance with the provisions hereof.

(c) The delivery by the Agent Bank of an executed counterpart of this Agreement to any rating agency shall be

conclusive evidence that each of the conditions precedent to the initial Credit Event has either been satisfied or waived.

SECTION 5.3. Notice to Lenders. Promptly after the Agent Bank receives all the documents the receipt of which is required under Sections 5.1 and 5.2 hereof as a condition precedent to the obligation of the Lenders to make any Loan or the obligation of the Issuing Bank to issue the Letter of Credit or to not object to the issuance of Commercial Paper Notes, the Agent Bank shall give notice to the Lenders that it has received all such documents and, as promptly as practicable thereafter, shall send copies of such documents to the Lenders hereunder.

SECTION 5.4. Representations and Warranties with Respect to Credit Events. Each Credit Event shall be deemed a representation and warranty by the Borrower that the conditions precedent to such Credit Event (including without limitation the condition that no Event of Default or Default shall have occurred), unless otherwise waived in accordance herewith, shall have been satisfied.

VI. COVENANTS OF THE BORROWER

SECTION 6.1. General. As long as any Note shall remain unpaid or the Letter of Credit shall remain outstanding or any Letter of Credit Disbursement shall remain unreimbursed or the Lenders shall have any Commitments hereunder, the Borrower shall, unless the Majority Lenders shall otherwise consent in writing, comply with the provisions of Sections 6.2 through 6.22.

SECTION 6.2. Information Covenants.

(a) Annual Financial Statements. The Borrower will furnish to each Lender, as soon as available, but not later than 120 days after the end of each fiscal year of the Borrower, (i) the audited, consolidated balance sheet of the Borrower as of the end of such fiscal year and the related consolidated statements of income, changes in shareholders' equity and cash flows for such fiscal year, certified by Arthur Andersen & Co. or other independent certified public accountants of recognized national standing, and (ii) the unaudited unconsolidated balance sheet of the Borrower as of the end of such fiscal year and the related unaudited unconsolidated statements of income, changes in shareholders' equity and cash flows for such fiscal year, in each case setting forth comparative figures for the preceding fiscal year, all in reasonable detail, certified by the Chief Financial Officer of the Borrower or such other executive

officer of the Borrower who was involved in the preparation of the financial statements referred to herein; and

(b) Quarterly Financial Statements. The Borrower will furnish to each Lender, as soon as available, but not later than 60 days after the end of each of the first three quarterly accounting periods in each fiscal year of the Borrower, (i) the unaudited unconsolidated balance sheet of the Borrower as of the end of such quarterly period and the related unaudited unconsolidated statements of income, changes in shareholders' equity and cash flows, and (ii) the unaudited consolidated balance sheet of the Borrower as of the end of such quarterly period and the related unaudited consolidated statements of income, changes in shareholders' equity and cash flows for the elapsed portion of the fiscal year ended with the last day of such quarterly period. Such statements shall be in reasonable detail and certified by the Chief Financial Officer of the Borrower or such other executive officer of the Borrower who was involved in the preparation of the financial statements referred to herein.

(c) Officer's Certificates. The Borrower will furnish to each Lender, concurrently with the delivery of the financial statements referred to in Section 6.2(a) and (b) above, a certificate of the Chief Financial Officer, the Controller, the Chief Accounting Officer or the Treasurer of the Borrower (A) stating that, to the best of such officer's knowledge after reasonable investigation, the Borrower, during such period, has observed or performed all of its covenants and other agreements in all material respects, and satisfied every condition contained in this Credit Agreement to be observed, performed or satisfied by it, and that such officer has obtained no knowledge of any Default or Event of Default except as specified in such certificate, and (B) showing in detail the calculations supporting such statement in respect of Sections 6.12, 6.13 and 6.14.

(d) Budgets. The Borrower will furnish to each Lender, as soon as available but not later than February 1 of each fiscal year, a comprehensive budget that has been reviewed by the Board of Directors of the Borrower for such fiscal year (including pro forma unconsolidated projected balance sheets, income statements, cash flow statements, capital financing plans, and other statements, in each case for the current budget year), together with an explanation of key assumptions, all in the form such budget has previously been delivered to the Issuing Bank.

(e) Notices. The Borrower shall promptly notify the Issuing Bank (who shall notify each Lender):

(i) of the occurrence of any Default or Event of Default and of the occurrence or existence of any event or circumstance that foreseeably will become a Default or Event of Default;

(ii) of any (A) breach or non-performance of, or any default under any Contractual Obligation of the Borrower or any of its Subsidiaries which could result in a Material Adverse Effect; or (B) dispute, litigation, investigation, proceeding or suspension which may exist at any time between the Borrower or any of its Subsidiaries and any Governmental Authority which could result in a Material Adverse Effect;

(iii) of the commencement of, or any material development in, any litigation or proceeding affecting the Borrower or any Subsidiary which, if adversely determined, could have a Material Adverse Effect;

(iv) of any other litigation or proceeding affecting the Borrower or any of its Subsidiaries which the Borrower would be required to report to the SEC pursuant to the Securities Exchange Act of 1934, within four days after reporting the same to the SEC;

(v) of any ERISA Event affecting the Borrower or any member of its Controlled Group (but in no event more than ten days after such ERISA Event) together with (i) a copy of any notice with respect to such ERISA Event that may be required to be filed with the PBGC and (ii) any notice delivered by the PBGC to the Borrower or any member of its Controlled Group with respect to such ERISA Event;

(vi) upon becoming aware thereof, of any Material Adverse Effect;

(vii) upon becoming aware thereof, of any change in the ratings of the Borrower's Debt by Moody's Investors Service, Inc. or Standard & Poor's Corporation;

(viii) following any change in accounting policies or financial reporting practices; and

(ix) upon becoming aware thereof, of any labor controversy resulting in or threatening to result in any strike, work stoppage, boycott, shutdown or other labor disruption against or involving the Borrower or any Subsidiary and which could have a Material Adverse Effect.

Each notice pursuant to this subsection (e) shall be accompanied by a written statement by a duly authorized officer of the Borrower setting forth details of the occurrence referred to therein.

(f) SEC Filings. The Borrower will furnish to each Lender, promptly, copies of all reports, if any, on Form 10-K, Form 10-Q or Form 8-K (or any form substituted therefor) which the Borrower or any of its Subsidiaries shall file with the SEC or any governmental agencies substituted therefor.

(g) Other Information. The Borrower will furnish to each Lender, from time to time, and promptly upon each request, such other information or documents as any Lender may reasonably request, including without limitation any reports filed by the Borrower or any of its Subsidiaries with the SEC or any other governmental agency.

SECTION 6.3. Inspection of Property and Books and Records. The Borrower shall maintain, and shall cause each of its Subsidiaries to maintain, books of record and account, in which full, true and correct entries in conformity with GAAP consistently applied shall be made of all financial transactions and matters involving the assets and business of the Borrower and such Subsidiaries. To the extent permitted by applicable law, and subject to Section 9.10 of this Credit Agreement, the Borrower will permit, and will cause each of its Subsidiaries to permit, representatives of the Agent Bank to visit and inspect any of their respective Properties, to examine their respective corporate, financial and operating records and make copies thereof or abstracts therefrom, and to discuss their respective affairs, finances and accounts with their respective directors, officers, employees and independent public accountants, all at the expense of the Borrower and at such reasonable times during normal business hours and as often as may be reasonably desired, upon reasonable advance notice to the Borrower.

SECTION 6.4. Maintenance of Property. The Borrower shall maintain, and shall cause each of its Significant Subsidiaries to maintain, and preserve all its Property which is used or useful in its business in good working order and condition, ordinary wear and tear excepted.

SECTION 6.5. Insurance. The Borrower shall maintain, and shall cause each Significant Subsidiary to maintain, with financially sound and reputable insurers, insurance with respect to its Properties and business against loss or damage of the kinds customarily insured against by Persons engaged in the same or similar business, of such

types and in such amounts as are customarily carried under similar circumstances by such other Persons, including workers' compensation insurance, public liability and property and casualty insurance.

SECTION 6.6. Payment of Obligations. The Borrower shall, and shall cause its Subsidiaries to, pay and discharge as the same shall become due and payable, all material obligations and liabilities, including:

(i) all tax liabilities, assessments and governmental charges or levies upon it or its Properties or assets, unless (x) the same are being contested in good faith by appropriate proceedings and adequate reserves in accordance with GAAP are being maintained by the Borrower or such Subsidiary or (y) the same are levied or imposed on Subsidiaries other than Significant Subsidiaries and the nonpayment of which could not, in the aggregate, have a Material Adverse Effect; and

(ii) all lawful claims which, if unpaid, might by law become a Lien other than a Permitted Lien upon its Property.

SECTION 6.7. Compliance with Laws. The Borrower shall comply, and shall cause each of its Subsidiaries to comply, in all material respects with all Requirements of Law of any Governmental Authority having jurisdiction over it or its business, except such as may be contested in good faith or as to which a bona fide dispute may exist or where such noncompliance could not have a Material Adverse Effect.

SECTION 6.8. Preservation of Corporate Existence, etc. The Company shall and shall cause each of its Significant Subsidiaries to:

(i) preserve and maintain in full force and effect its corporate existence and good standing under the laws of its state or jurisdiction of incorporation;

(ii) preserve and maintain in full force and effect all rights, privileges, qualifications, permits, licenses and franchises material in the normal conduct of its business;

(iii) use its reasonable efforts, in the ordinary course and consistent with past practice, to preserve its business organization and preserve the goodwill and business of the customers, suppliers and others having business relations with it; and

(iv) preserve or renew all of its registered trademarks, trade names and service marks, the non-preservation of which could have a Material Adverse Effect.

SECTION 6.9. Environmental Laws. The Borrower shall, and shall cause each of its Subsidiaries to, conduct its operations and keep and maintain its Property in compliance with all Environmental Laws, the failure to so comply with which could reasonably be expected to have a Material Adverse Effect.

SECTION 6.10. Further Assurances. The Borrower shall ensure that all written information, exhibits and reports furnished to the Issuing Bank and the Lenders do not and will not contain any untrue statement of a material fact and do not and will not omit to state any material fact or any fact necessary to make the statements contained therein not misleading in light of the circumstances in which made, and will promptly disclose to the Issuing Bank and the Lenders and correct any defect or error that may be discovered therein or in the Depositary Agreement, the Notes or the Commercial Paper Notes or in the execution, acknowledgement or recordation thereof.

SECTION 6.11. Liens. The Borrower shall not create or suffer to exist, or permit any of its Subsidiaries to create or suffer to exist, any Lien upon or with respect to any of its Property except Permitted Liens.

SECTION 6.12. Net Worth. The Borrower shall not permit its Net Worth at any time to be less than an amount equal to the sum of (i) \$305,000,000 plus (ii) 50% of the sum of all amounts realized (after the costs of sale) from the sale by the Borrower of any shares of capital stock or any other equity securities of the Borrower (except redeemable preferred stock) issued after November 30, 1994 (or with respect to such equity securities sold during any period of time when the Borrower's senior unsecured debt is rated Baa3 or higher by Moody's Investors Services, Inc. and BBB- or higher by Standard & Poor's Ratings Group 25% of such amounts realized) plus (iii) investments in excess of \$25,000,000 in the aggregate made in PriMerit Bank after October 31, 1991 minus (iv) after-tax losses related to the sale of PriMerit Bank up to \$40,000,000.

SECTION 6.13. Leverage Ratio. The Borrower shall not permit the ratio of Funded Debt to Total Capitalization at any time during the quarterly periods ending September 30, 1994, December 31, 1994, September 30, 1995 and December 31, 1995 to exceed 72 percent, nor shall the Borrower permit such

ratio to exceed 70 percent at any time during any quarter of any fiscal year other than those quarters specifically enumerated in the preceding clause of this Section 6.13. Notwithstanding the foregoing, in the event that the Borrower issues new equity securities (excluding proceeds from the Borrower's Employee Investment Plan and the Borrower's Dividend Reinvestment Program) the net proceeds of which (after the costs of sale) equal or exceed \$30 million, then subsequent to the date of such issuance, the Borrower shall not permit the ratio of Funded Debt to its Capitalization to exceed 70 percent. Furthermore, in the event that the Borrower sells, conveys, transfers or otherwise disposes of all or substantially all of the equity securities or the business of PriMerit Bank, the Borrower shall not permit the ratio of Funded Debt to Total Capitalization to exceed 70 percent on or after the date ninety days after the receipt of the proceeds from such sale.

SECTION 6.14. Interest Coverage Ratio. The Borrower shall not permit the Interest Coverage Ratio on the last day of any quarter of any fiscal year to be less than 1.5 to 1.0.

SECTION 6.15. Consolidations and Mergers. The Borrower shall not merge, consolidate with or into, or convey, transfer, lease or otherwise dispose of, or permit any of its Significant Subsidiaries (excluding in any case PriMerit Bank) to merge, consolidate with or into, or convey, transfer, lease or otherwise dispose of (whether in one transaction or in a series of transactions), all or substantially all of its assets other than PriMerit Bank (whether now owned or hereafter acquired) or enter into, or permit any of its Significant Subsidiaries to enter into, any joint venture or partnership with, any Person except:

(i) any Significant Subsidiary of the Borrower may merge, consolidate or combine with or into, or transfer assets to the Borrower (provided that the Borrower shall be the continuing or surviving corporation) or with, into or to any one or more Significant Subsidiaries of the Borrower provided that if any transaction shall be between a Significant Subsidiary and a wholly-owned Significant Subsidiary, the wholly-owned Significant Subsidiary shall be the continuing or surviving corporation);

(ii) any Significant Subsidiary of the Borrower may sell, lease, transfer or otherwise dispose of any or all of its assets (upon voluntary liquidation or otherwise), to the Borrower or

another wholly-owned Significant Subsidiary of the Borrower, if immediately after giving effect thereto, no Default or Event of Default would exist;

(iii) the Borrower may merge, consolidate or combine with another entity if (a) the Borrower is the corporation surviving the merger, and (b) immediately after giving effect thereto, no Default or Event of Default would exist; and

(iv) the Borrower and any Subsidiary may enter into joint ventures and partnerships in the ordinary course of business as presently conducted.

SECTION 6.16. Investments. The Borrower shall not make, or permit any of its Significant Subsidiaries to make, any Investments except for Permitted Investments and as required by any Governmental Authority.

SECTION 6.17. Transactions with Affiliates. The Borrower shall not enter into, or permit any of its Subsidiaries to enter into, any transaction with any Affiliate of the Borrower or of any such Subsidiary except as contemplated by this Credit Agreement or in the ordinary course of business and pursuant to the reasonable requirements of the business of the Borrower or such Subsidiary and upon fair and reasonable terms no less favorable to the Borrower or such Subsidiary than would be obtained in a comparable arm's-length transaction with a Person not an Affiliate of the Borrower or such Subsidiary.

SECTION 6.18. Compliance with ERISA. The Borrower shall not directly or indirectly, or permit any member of its Controlled Group to directly or indirectly (i) terminate any Qualified Plan subject to Title IV of ERISA so as to result in any material (in the opinion of the Majority Banks) liability to the Borrower or any member of its Controlled Group, (ii) permit to exist any ERISA Event or any other event or condition, which presents the risk of a material (in the opinion of the Majority Banks) liability of the Borrower or any member of its Controlled Group, or (iii) make a complete or partial withdrawal (within the meaning of ERISA Section 4201) from any Multi-employer Plan so as to result in any material (in the opinion of the Majority Banks) liability to the Borrower or any member of its Controlled Group, (iv) enter into any new Plan or modify any existing Plan so as to increase its obligations thereunder except in the ordinary course of business consistent with past practice which could result in any material (in the opinion of the Majority Banks) liability to the Borrower or any member of

its Controlled Group, or (v) permit the present value of all nonforfeitable accrued benefits under each Plan (using the actuarial assumptions utilized by the PBGC upon termination of a Plan) materially (in the opinion of the Majority Banks) to exceed the fair market value of Plan assets allocable to such benefits, all determined as of the most recent valuation date for each such Plan.

SECTION 6.19. Lease Obligations. The Borrower shall not create or suffer to exist, or permit any Significant Subsidiary to create or suffer to exist, any obligations for the payment of rent for any Property under lease or agreement to lease, except for

(a) leases of the Borrower or any of its Significant Subsidiaries in existence on the date hereof and any arms' length renewal, extension or refinancing thereof; and

(b) after the date hereof, any leases entered into by the Borrower or any of its Significant Subsidiaries in the ordinary course of business in a manner and to an extent consistent with past practice.

SECTION 6.20. Restricted Payments. The Borrower shall not declare or make any dividend payment or other distribution of assets, Properties, cash, rights obligations or securities on account of any shares of any class of its capital stock or purchase, redeem or otherwise acquire for value (or permit any of its Subsidiaries to do so) any shares of its capital stock or any warrants, rights or options to acquire such shares, now or hereafter outstanding if a Default or Event of Default has occurred and is continuing or would result therefrom.

SECTION 6.21. Change in Business. The Borrower shall not engage, or permit any of its Subsidiaries to engage, in any material line of business substantially different from those lines of business carried on by the Borrower and its Subsidiaries on a consolidated basis on the date hereof.

SECTION 6.22. Independence of Covenants. All covenants hereunder shall be given independent effect so that if a particular action or condition is not permitted by any such covenant, the fact that it would be permitted by an exception to, or be otherwise within the limitations of, another covenant shall not avoid the occurrence of a Default if such action is taken or condition exists.

VII. EVENTS OF DEFAULT

SECTION 7.1. Events of Default. Any of the following events which shall occur and be continuing are events of default ("Events of Default"):

(a) the Borrower shall fail to pay (i) any installment of principal of, or interest on, any Note when due or (ii) any principal amount of a Letter of Credit Disbursement plus accrued interest thereon if any, when due or (iii) any other amounts payable under this Credit Agreement or any Note when due; or

(b) any representation or warranty made by the Borrower in this Credit Agreement, the Depositary Agreement, any amendment to this Credit Agreement or to the Depositary Agreement, any Note or any Commercial Paper Note or any statement or representation made in any certificate, report or opinion delivered in connection therewith shall prove to have been incorrect or misleading in any material respect when made or when deemed to have been made pursuant to Section 5.5; or

(c) the Borrower shall default in the due observance or performance by the Borrower of any other term, covenant, or agreement contained in this Credit Agreement or any Note; or

(d) the Borrower or any Subsidiary shall fail to pay any of its obligations (excluding (i) any obligation in a principal amount of less than \$10,000,000 and (ii) any obligation under any natural gas purchase or transportation contract of less than \$10,000,000) or any interest or premium thereon, when due (whether by scheduled maturity, required prepayment, acceleration, demand or otherwise), or any other default or event under any agreement or instrument relating to any such obligation shall occur and shall continue after the applicable grace period, if any, specified in such agreement or instrument, or if the maturity of such obligation is accelerated, or any such obligation shall be declared to be due and payable, or required to be prepaid prior to the stated maturity thereof; or

(e) one or more judgments against the Borrower or attachments against its Property, which in the aggregate exceed \$10,000,000 not covered by insurance, or the operation or result of which would interfere materially and adversely with the conduct of the business of the Borrower, remain unpaid, unstayed on appeal, undischarged, unbonded and undismitted for a period of 30 days or more; or any Person

shall have filed any suit, action or proceeding based in whole, or in part, on such allegation which in either event results in the granting of any form of injunction or restraining order, temporary or otherwise, the compliance with which would have a Material Adverse Effect, and which injunction or restraining order is not dissolved (or otherwise terminated) or modified within 30 days so as to eliminate that portion of such injunction or restraining order which would have such Material Adverse Effect; or

(f) any order, writ, warrant, garnishment or other process of any court attaching, garnishing, distraining or otherwise freezing assets of the Borrower in an amount equal to \$10,000,000 or more in value in the aggregate for all such orders, writs, warrants, garnishments and such order, writ, warrant, garnishment, or other process remains unstayed on appeal, undischarged or undismissed for a period of 30 days or more; or

(g) any action which could have a Material Adverse Effect; or

(h) any of the Depositary Agreement, the Notes or the Commercial Paper Notes cease to be in full force and effect; or

(i) (i) the Borrower shall commence any case, proceeding or other action (A) under any existing or future law of any jurisdiction, domestic or foreign, relating to bankruptcy, insolvency, reorganization or relief of debts, seeking to have an order for relief entered with respect to it, or seeking to adjudicate it a bankrupt or insolvent, or seeking reorganization, arrangement, adjustment, winding-up, liquidation, dissolution, composition or other relief with respect to it or its debts, or (B) seeking appointment of a receiver, trustee, custodian or other similar official for it or for all or any substantial part of its assets, or the Borrower shall make a general assignment for the benefit of its creditors; or (ii) there shall be commenced against the Borrower any case, proceeding or other action of a nature referred to in clause (i) above and such case, proceeding or action shall not have been vacated, discharged or stayed within 60 days from the entry thereof; or (iii) there shall be commenced against the Borrower any case, proceeding or other action seeking issuance of a warrant of attachment, execution, distraint or similar process against all or any substantial part of its assets, which results in the entry of any order for any such relief which shall not have been vacated, discharged, or stayed or bonded pending appeal within 60 days from the entry thereof; or (iv) the Borrower shall consent to the institution of, or fail to controvert in

a timely and appropriate manner, any case, proceeding or other action of a nature referred to above; or (v) the Borrower shall file an answer admitting the material allegations of a petition filed against it in any case, proceeding or other of a nature referred to above; or (vi) the Borrower shall generally not, or shall be unable to, or shall admit in writing its inability to, pay its debts as they become due; or (vii) the Borrower shall take corporate action for the purpose of effecting any of the foregoing; or

(j) (i) the Borrower or a member of its Controlled Group shall fail to pay when due, after the expiration of any applicable grace period, any installment payment with respect to its withdrawal liability under a Multi-employer Plan; (ii) the Borrower or a member of its Controlled Group shall fail to satisfy its contribution requirements under Section 412(c)(11) of the Code, whether or not it has sought a waiver under Section 412(d) of the Code; (iii) the Unfunded Pension Liabilities of the relevant Plan or Plans exceed \$50,000,000; (iv) a Plan that is intended to be qualified under Section 401(a) of the Code shall lose its qualification, and the loss can reasonably be expected to impose on the Borrower or a member of its Controlled Group liability (for additional taxes, to Plan participants, or otherwise) in the aggregate amount of \$50,000,000 or more; (v) the commencement or increase of contributions to, the adoption of, or the amendment of a Plan by, the Borrower or a member of its Controlled Group shall result in a net increase in unfunded liabilities to the Borrower or a member of its Controlled Group in excess of \$50,000,000; or (vi) the occurrence of any combination of events listed in clauses (iii) through (v) that involves a net increase in aggregate Unfunded Pension Liabilities and unfunded liabilities in excess of \$50,000,000; or

(k) all, or such as in the opinion of the Issuing Bank constitutes substantially all, of the Property of the Borrower or its Subsidiaries is condemned, seized or appropriated, excluding Property of a Subsidiary other than a Significant Subsidiary the condemnation, seizure or appropriation of which could not have a Material Adverse Effect; or

(l) any Governmental Authority shall revoke or fail to renew any license, permit or franchise of the Borrower or any of its Subsidiaries, or the Borrower or any of its Subsidiaries shall for any reason lose any license, permit or franchise, if such revocation, non-renewal or loss could have a Material Adverse Effect; or

(m) a Change in Control.

SECTION 7.2. Remedies. In the case of any such event specified in Section 7.1(i) above, the Commitments and the right of the Borrower to issue Commercial Paper Notes shall forthwith terminate and the Notes then outstanding, all principal thereof and interest thereon and all other amounts payable under this Credit Agreement shall become and be forthwith due and payable, without presentment, demand, protest or notice of any kind, all of which are hereby expressly waived by the Borrower, and, in the case of any other such event specified in Section 7.1 above, at any time thereafter during the continuance of any such event, the Agent Bank may in its sole discretion, and upon the written request of the Majority Lenders shall, by notice to the Borrower and to the Depositary, take any one or more of the following actions, at the same or different times: (i) instruct the Borrower and the Depositary to cease issuing Commercial Paper Notes (if such instructions have not theretofore been given and are not then in effect), or (ii) declare the Lenders' obligation to make Loans to be terminated, whereupon the same shall forthwith terminate, or (iii) declare any Note then outstanding, all principal thereof and interest thereon and all other amounts payable under this Credit Agreement and the Notes to be forthwith due and payable, whereupon such Note, all such principal and interest and all such amounts due and owing hereunder or thereunder shall become and be forthwith due and payable without presentment, demand, protest or further notice of any kind, all of which are hereby expressly waived by the Borrower or (iv) direct the Depositary to make a drawing under the Letter of Credit in an amount required to pay in full all outstanding Commercial Paper Notes upon maturity and require from the Borrower immediate reimbursement for the Letter of Credit Disbursements pursuant to such drawing or (v) in the event that in the sole discretion of the Lenders, the Issuing Bank with the consent of the Majority Lenders deposits in the Letter of Credit Account an amount equal to the aggregate amount necessary to pay in full all outstanding Commercial Paper Notes upon maturity, demand that the Borrower provide to the Agent Bank, for the accounts of the Issuing Bank and the Lenders, and the Borrower upon such demand hereby agrees so to provide, cash collateral in an amount equal to such outstanding Commercial Paper Notes, such cash collateral to be deposited in a special cash collateral account to be held by the Agent Bank for the equal and ratable benefit of the Lenders for payment of the Obligations. Promptly following the making of any such declaration specified above, the Agent Bank shall give notice thereof to the Borrower, the Depositary and each dealer in Commercial Paper Notes, but failure to do so shall not impair the effect of such declaration. Anything herein to the contrary notwithstanding, no termination or declaration of

termination of the Total Commitment or the obligation of the Issuing Bank to issue the Letter of Credit pursuant to the foregoing provisions of this Article VII shall affect the obligation of the Issuing Bank under the Letter of Credit with respect to Commercial Paper Notes issued, authenticated and delivered by the Depository under the Depository Agreement prior to receipt by the Depository of instructions from the Agent Bank or the Issuing Bank to cease issuing, authenticating and delivering Commercial Paper Notes.

VIII. THE AGENT BANK AND THE ISSUING BANK

SECTION 8.1. The Agent Bank. Each of the Lenders, and each subsequent holder of any Note by its acceptance thereof, irrevocably authorizes the Agent Bank to take such action, including without limitation executing the Depository Agreement for the benefit of the Lenders, on its behalf and to exercise such powers hereunder as are specifically delegated to the Agent Bank by the terms hereof together with such powers as are reasonably incidental thereto. Neither the Agent Bank nor any of its directors, officers or employees shall be liable for any action taken or omitted to be taken by it or them hereunder or in connection herewith at the request or with the approval of the requisite Lenders, the holders of the requisite percentage of the aggregate unpaid principal amount of the Notes or Lenders having in the aggregate the requisite percentage of the Total Commitment pursuant to the terms hereof, in the absence of its gross negligence or wilful misconduct or that of its directors, officers or employees. Each Lender acknowledges that it has decided to enter into this Credit Agreement and to extend the Credits hereunder based on its own analysis of the creditworthiness of the Borrower and agrees that the Agent Bank shall bear no responsibility for such creditworthiness.

The Agent Bank shall not be responsible in any manner to any of the Lenders for the effectiveness, enforceability, genuineness, validity or due execution of this Credit Agreement, the Depository Agreement, the Notes or the Commercial Paper Notes or any other agreements or any certificates, requests, financial statements, notices or opinions of counsel or for any recitals, statements, warranties or representations contained herein or in any such instrument or be under any obligation to ascertain or inquire as to the performance or observance of any of the terms, provisions, covenants, conditions, agreements or obligations of this Credit Agreement or any other agreements on the part of the Borrower and, without limiting the generality of the foregoing, the Agent Bank shall, in the absence of knowledge to the contrary, be entitled to accept any certificate

furnished pursuant to this Credit Agreement as conclusive evidence of the facts stated therein and shall be entitled to rely on any note, notice, consent, certificate, affidavit, letter, telegram, teletype message, statement, order or other document which it reasonably believes to be genuine and correct and to have been signed or sent by the proper person or persons. It is understood and agreed that the Agent Bank may exercise its rights and powers under other agreements and instructions to which it is or may be a party, and engage in other transactions with the Borrower and each Subsidiary of the Borrower, as though it were not the Agent Bank of the Lenders hereunder.

The Agent Bank shall promptly give notice to the other Lenders of the receipt of any notice pursuant to this Credit Agreement.

The Agent Bank may consult with legal counsel selected by it and any action taken or suffered in good faith by it in accordance with the opinion of such counsel shall be full justification and protection to it.

The Agent Bank and the Borrower may treat the payee of any Note as the holder thereof until written notice of transfer shall have been delivered to the Agent Bank. The Agent Bank shall promptly notify the Borrower of any such notice received by it.

The Lenders shall, pro rata in accordance with their respective Commitment Percentages, indemnify the Agent Bank in its capacity as such (to the extent not reimbursed by the Borrower pursuant to the terms hereof, and without limiting the obligations of the Borrower to do so) against any cost, expense (including counsel fees and disbursements), claim, demand, action, loss or liability (except such as results from the Agent Bank's gross negligence or wilful misconduct or the gross negligence or wilful misconduct of the Agent Bank's officers, directors, employees, agents or representatives) that the Agent Bank may suffer or incur in connection with this Credit Agreement or any action taken or omitted by the Agent Bank hereunder.

Subject to the appointment and acceptance of a successor Agent Bank as provided below, the Agent Bank may resign at any time by notifying the Lenders and the Borrower, and the Lenders (other than the Agent Bank) having in the aggregate more than 66-2/3% of the remaining Commitments after deducting the Commitment of the Agent Bank may remove the Agent Bank at any time with or without cause by notifying the Agent Bank. Upon any such resignation or removal, the Lenders referred to in the preceding sentence shall have the

right to appoint a successor Agent Bank, subject to the approval of the Borrower, which approval shall not be unreasonably withheld. If no successor Agent Bank shall have been so appointed by such Lenders and shall have accepted such appointment within 30 days after the retiring Agent Bank's giving of notice of resignation or the removal of the retiring Agent Bank, then the retiring Agent Bank may, on behalf of the Lenders, appoint a successor Agent Bank which shall be a bank with an office (or an affiliate with an office) in New York, New York, and in London, England, having a combined capital and surplus of at least \$500,000,000. Upon the acceptance of any appointment as Agent Bank hereunder by a successor Agent Bank, such successor Agent Bank shall thereupon succeed to and become vested with all the rights, powers, privileges and duties of the retiring Agent Bank, and the retiring Agent Bank shall be discharged from its duties and obligations as Agent Bank hereunder. After any retiring Agent Bank's resignation or removal hereunder as Agent Bank, the provisions of this Section 8.1 shall continue in effect for its benefit in respect of any actions taken or omitted to be taken by it while it was acting as Agent Bank.

The Co-Agent shall not be deemed to be an agent and, except in its capacity as one of the Lenders, shall have no duties or obligations under this Agreement.

SECTION 8.2. The Issuing Bank. The Issuing Bank hereby agrees promptly to notify the Borrower if it is informed by either Standard & Poor's Corporation or Moody's Investors Services, Inc. that such agency plans to reduce the rating of the Commercial Paper Notes below such agency's highest level. In the event that the rating of the Commercial Paper Notes is revised by Standard & Poor's Corporation to a rating below A-1+ or is revised by Moody's Investors Service, Inc., to a rating below P-1, the Issuing Bank may be immediately removed by the Borrower and the Borrower may with the approval of the Majority Lenders, which approval shall not be unreasonably withheld, appoint a successor Issuing Bank hereunder upon the condition precedent that if the successor Issuing Bank is not a Lender hereunder, such successor Issuing Bank shall become a party to this Credit Agreement and shall expressly agree to be bound by the terms and conditions contained in this Credit Agreement relating to the issuance of the Letter of Credit hereunder. In the event that the initial Issuing Bank is removed by the Borrower pursuant to the preceding sentence, the Agent Bank shall notify the Depository, as soon as practicable, that it is to cease authenticating and delivering Commercial Paper Notes and the Depository shall not authenticate and deliver Commercial Paper Notes until it has been notified to do so by

the Agent Bank. Upon the appointment of a successor Issuing Bank, the initial Issuing Bank shall continue to carry out its obligations hereunder with respect to all Commercial Paper Notes outstanding at such date under the existing Letter of Credit.

IX. MISCELLANEOUS

SECTION 9.1. Notices. All notices and other communications hereunder shall be given to the parties hereto at the following addresses:

(i) if to the Borrower, at 5241 Spring Mountain Road, Post Office Box 98510, Las Vegas, Nevada 89193-8510, attention: Treasurer; telecopy no. (702) 876-7037;

(ii) if to any Lender, at its address as set forth on the signature pages hereof;

(iii) if to the Agent Bank and Issuing Bank, c/o Union Bank of Switzerland, New York Branch, 299 Park Avenue, New York, New York 10171, attention: Clemencia Stewart; telecopy no. (212) 821-3259

(iv) if to Lehman Commercial Paper, Inc., at 3 World Financial Center, New York, New York 10285, attention: Commercial Paper Product Management; telecopy no. (212) 528-6925; and

(v) if to Bank of Montreal Trust Company, at the addresses specified in accordance with Section 14 of the Depositary Agreement;

or in any of the foregoing cases at such other address and/or to such other person as the Borrower, any Lender, the Agent Bank or the Issuing Bank may hereafter specify for the purpose by written notice to the Borrower and the Agent Bank. Such notices and other communications will be effective only if and when given in accordance with the procedures set forth in the Depositary Agreement or in writing, signed by an authorized officer and delivered at the address specified above, or sent by telex or telecopy (if promptly confirmed in writing).

SECTION 9.2. Term of Agreement; Extension. (a) Subject to the foregoing and to clause (b) of this Section 9.2, the term of this Credit Agreement shall be until the later of (i) the termination of the Total Commitment or (ii) the Expiration Date, in either case, together with the payment in full of all amounts due hereunder to the Lenders

or the payment in full of the Notes and all other amounts due hereunder to the Lenders.

(b) At least 90 but no more than 120 days before each December 31, commencing December 31, 1995, the Borrower may request the Lenders and the Issuing Bank in writing to extend for one year the Expiration Date, specifying the terms and conditions, including fees, to be applicable to such extension, provided, however, that the Lenders and the Issuing Bank shall not be obligated to consider any request to extend such Expiration Date unless the Borrower shall have obtained all requisite governmental consents (if any are required) for such extension, including without limitation, approval from the California Public Utilities Commission. The Lenders and the Issuing Bank agree to consider each such request in good faith in accordance with their respective applicable credit standards and policies with respect to such matters, as applied by each of the Lenders and the Issuing Bank in its sole judgment. No later than 30 days before such December 31 as to which a request has been received, each of the Lenders and the Issuing Bank shall notify the Borrower in writing, with a copy to the Agent Bank, of its consent to or refusal of such extension request, and if any of the Lenders or the Issuing Bank shall give no such notice, such party shall be deemed to have refused such extension request. The consent of each of the Lenders and the Issuing Bank shall be required in order for such extension request to be granted. Each consent shall be conditional upon the preparation, execution and delivery of legal documentation in form and substance satisfactory to the Lenders and the Issuing Bank and their special counsel incorporating substantially the terms and conditions contained in the extension request.

SECTION 9.3. Copies of Certificates, etc. Whenever the Borrower is required to deliver notices, certificates, opinions, statements or other information hereunder to the Agent Bank or to the Agent Bank for delivery to any Lender, it shall do so in such number of copies as the Agent Bank shall reasonably specify.

SECTION 9.4. No Waivers; Rights Cumulative. No failure or delay by the Agent Bank, any Lender or the holder of any Note in exercising any right, power or privilege hereunder shall operate as a waiver thereof; nor shall any single or partial exercise thereof preclude any other or further exercise thereof or the exercise of any right, power or privilege. The rights and remedies in this Credit Agreement are cumulative and not exclusive of any rights or remedies provided by law.

SECTION 9.5. Expenses. The Borrower shall pay (a) the fees and disbursements of special counsel to the Lenders in connection with the preparation, execution and administration of this Credit Agreement and the Depositary Agreement or any waiver or amendment of any provision hereof or thereof, (b) all documentary taxes, assessments or other similar charges or levies of any governmental authority which are incurred by or made against any Lender in connection with this Credit Agreement or the Notes or any waiver or amendment hereof or thereof and (c) if there is an Event of Default, all out-of-pocket expenses incurred by the Agent Bank, the Issuing Bank or any of the Lenders, including fees and disbursements of counsel, in connection with such Event of Default.

SECTION 9.6. Changes, Waivers, etc.

(a) Subject to the express provisions of subsection (b) of this Section 9.6, neither this Credit Agreement, nor the Notes, nor any provision hereof or thereof may be changed, waived, discharged or terminated orally, but only by a statement in writing signed by the party against which enforcement of the change, waiver, discharge or termination is sought.

(b) Any of the provisions of this Credit Agreement or of the Notes may be modified or amended by an agreement or agreements in writing entered into by the Borrower and the Majority Lenders; provided, however, that no such agreement shall (i) change the principal amount of, or extend or advance the maturity of or the date for the payment or required prepayment of principal of, or the payment of interest on, any Note or reduce the rate of interest on any Note or the amount of any fee due hereunder or change the method of computing interest or any fee payable hereunder, without the written consent of each Lender, and of the holder of each Note, affected thereby, (ii) change the principal amount of, or extend or advance the Expiration Date of or the date for repayment of amounts drawn under the Letter of Credit without the consent of each Lender, (iii) change the requirement that payments and prepayments of principal of, and payments of interest on, the Notes shall be made pro rata in accordance with the Commitment Percentages, without the written consent of each Lender affected thereby, (iv) change the requirement that all borrowings hereunder shall be from the Lenders, pro rata in accordance with their respective Commitments, without the written consent of each Lender, (v) change the Issuing Bank's obligation to make transfers of repayments of amounts drawn under the Letter of Credit pursuant to Section 3.5(c)(iii), (vi) modify or amend the provisions of this Section 9.6(b) or Section 9.9 or the

definition of Majority Lenders, without the written consent of each Lender, (vii) expressly provide for discrimination between Lenders except in a manner consistent with the existing terms of this Credit Agreement or with the consent of each Lender, (viii) provide for any change in the Commitment of any Lender hereunder, other than a voluntary reduction of any Commitment or of the Total Commitment provided for under this Credit Agreement or (ix) provide for any change in the conditions for a drawing under the Letter of Credit. Each Lender and each holder of any Note then or thereafter outstanding shall be bound by any modification or amendment authorized by this Section 9.6(b), whether or not such Note is marked to make reference thereto, and any consent by any holder of any Note pursuant to this Section 9.6(b) shall bind any subsequent holder of such Note, whether or not such Note is so marked. In addition, no amendment, waiver or consent to or under this Agreement which could reasonably be expected to affect adversely the rights of the holders of Commercial Paper Notes will become effective unless Moody's Investors Service, Inc. and Standard & Poor's Corporation have confirmed that such amendment, waiver or consent will not cause their rating of the Commercial Paper Notes to be lowered or withdrawn.

SECTION 9.7. Sharing of Setoffs and Other Payments. Each Lender agrees that if it shall, whether through the exercise of a right of banker's lien, setoff or counterclaim against the Borrower or otherwise, obtain payment (except as expressly permitted by the terms of this Credit Agreement) of a proportion of the aggregate indebtedness of the Borrower to it under the Notes or under Section 3.5(d) which is greater than the proportion of the aggregate indebtedness, if any, of the Borrower under the Notes or under Section 3.5(d) to any other Lender being paid simultaneously to such other Lender, (a) it shall be deemed to have purchased from such other Lender an interest in such indebtedness held by such other Lender so that the aggregate unpaid amount of such indebtedness and interest therein held by each Lender shall be proportionate to the aggregate indebtedness owing to it by the Borrower under the Notes and under Section 3.5(d) immediately prior to such payment, and (b) such other adjustments shall be made from time to time as shall be equitable to ensure that such Lender shares such payment pro rata; provided, however, that nothing herein contained shall in any way affect the right of any Lender to obtain payment (whether by exercise of right of banker's lien, setoff or counterclaim or otherwise) of indebtedness other than indebtedness under the Notes, as the case may be, or under Section 3.5(d). The Borrower expressly consents to the foregoing arrangements and agrees that any holder of any such interest or other participation in any such indebtedness,

whether or not acquired pursuant to the foregoing arrangement, may exercise any and all rights of banker's lien, setoff or counterclaim as fully as if such holder were a holder of such indebtedness in the amount of such interest or other participation.

SECTION 9.8. Separability. In case any one or more of the provisions contained in this Credit Agreement shall be invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions contained herein shall not in any way be affected or impaired thereby.

SECTION 9.9. Successors and Assigns.

(a) This Credit Agreement shall be binding upon and inure to the benefit of the Borrower, the Agent Bank, the Lenders, the Issuing Bank and the Depositary and their respective successors and assigns, except that the Borrower may not assign any of its rights or transfer any of its duties hereunder, without the prior written consent of each of the Lenders.

(b) Any Lender, with the prior written consent of (i) the Borrower (which consent may not be unreasonably withheld) and, as long as the Letter of Credit is outstanding, (ii) the Issuing Bank, may assign to any Lender, any affiliate thereof and one or more additional banks or financial institutions (each an "Assignee") all or any part of its rights and obligations under this Credit Agreement pursuant to an instrument of assignment (an "Assignment") in form and substance substantially as set forth in Exhibit H hereto pursuant to which the Assignee assumes the obligations of the transferor or Lender hereunder to the extent of the interest so assigned; provided, however, that no such consent shall be required for the assignment of such rights to a Federal Reserve Bank. Other than an assignment to a Federal Reserve Bank, there shall be an assignment fee of \$2,500.00 payable to the Agent Bank upon any such Assignment. Upon delivery of a copy of such Assignment and such assignment fee to the Agent Bank, the Assignee shall have the rights and obligations of a Lender hereunder with a Commitment as set forth therein, and the transferor Lender shall, to the extent provided in such Assignment, be released from its obligations under this Credit Agreement and, in the case of an Assignment covering all or the remaining portion of a transferor's rights and obligations under this Credit Agreement, such transferor shall cease to be a party hereto. The Borrower agrees, in the event of any assignment made in accordance with this Section 9.9, to execute and deliver to such Assignee Notes, completed in the name of such Assignee, to

represent any Loans assumed by such Assignee under such Assignment.

(c) Any Lender may subparticipate any portion of its Commitment hereunder without the consent of the Borrower, the Agent Bank or the Issuing Bank; provided, however, that no such subparticipation shall modify the Commitments set forth in Section 3.1 hereunder nor shall any such subparticipation result in liability for or the payment of any fees from the Borrower, the Agent Bank or the Issuing Bank to such subparticipant.

SECTION 9.10. Confidentiality. Each Lender agrees to take normal and reasonable precautions and exercise due care to maintain the confidentiality of all non-public information provided to it by the Borrower or any Subsidiary of the Borrower or by the Issuing Bank on the Borrower's or any Subsidiary's behalf in connection with this Agreement and neither it nor any of its Affiliates shall use any such information for any purpose or in any manner other than pursuant to the terms contemplated by this Credit Agreement, except to the extent such information (i) was or becomes generally available to the public other than as a result of a disclosure by the Issuing Bank or one of the participating Lenders, or (ii) was or becomes available on a non-confidential basis from a source other than the Borrower, provided that such source is not bound by a confidentiality agreement with the Borrower known to the individual participating Lenders; provided, further, however, that any Lender may disclose such information (A) at the request of any bank regulatory authority or in connection with an examination of such Lender by any such authority; (B) pursuant to subpoena or other court process; (C) when required to do so in accordance with the provisions of any applicable law; (D) at the express direction of any other agency of any State of the United States of America or of any other jurisdiction in which such Lender conducts its business and (E) to such Lenders' independent auditors and other professional advisors. Notwithstanding the foregoing, the Company authorizes each Lender to disclose to any Assignee and any prospective Assignee such financial and other information in such Lender's possession concerning the Borrower or its Subsidiaries which has been delivered to the Lenders pursuant to this Agreement or which has been delivered to the Lenders by the Borrower in connection with the Lenders' credit evaluation of the Borrower prior to entering into this Agreement; provided that such Assignee agrees in writing to such Lender to keep such information confidential to the same extent required of the Lenders hereunder.

SECTION 9.11. Jurisdiction. In consideration of the agreement of the Lenders to make and maintain the Loans hereunder, the Borrower agrees that any suit, action or proceeding with respect to this Credit Agreement or the borrowings hereunder may be brought in the Courts of the United States of America for the Southern District of New York or the State of New York, as the case may be, and by execution and delivery of this Credit Agreement the Borrower irrevocably submits to each such jurisdiction for that purpose; and in the case of New York, the Borrower hereby irrevocably designates, appoints and empowers O'Melveny & Myers, Citicorp Center, 153 East 53rd Street, New York, New York 10022 (or, in its absence, such other Person in The City of New York as shall be appointed by the Borrower or, in default thereof, such firm of lawyers in New York as the Agent Bank shall designate by notice to the Borrower), to receive for and on behalf of it service of process in any legal action or proceeding with respect to this Credit Agreement or the borrowings hereunder, a copy of

such process to be sent in each instance via registered mail, return receipt requested, to the Borrower.

SECTION 9.12. Headings. The headings of articles and sections herein are inserted for convenience only and form no part of this Credit Agreement.

SECTION 9.13. APPLICABLE LAW. THIS CREDIT AGREEMENT AND THE NOTES SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK APPLICABLE TO CONTRACTS MADE AND TO BE PERFORMED ENTIRELY WITHIN THAT STATE.

SECTION 9.14. Counterparts; Effective Date. This Credit Agreement may be signed in any number of counterparts with the same effect as if the signatures thereto and hereto were upon the same instrument. This Credit Agreement shall become effective as of the date hereof when the Agent Bank shall receive counterparts hereof signed by all of the parties hereto (or, in the case of any party as to which an executed counterpart shall not have been received, the Agent Bank shall have received telex, telecopy or other written confirmation from such party of execution of a counterpart hereof by such party).

SECTION 9.15. Survival of Representations. All representations and warranties of the Borrower contained in this Credit Agreement shall survive delivery of the Notes, the making of the Loans and the issuance of the Letter of Credit and of the Commercial Paper Notes herein contemplated.

SECTION 9.16. Entire Agreement. This Credit Agreement and the Exhibits hereto embody the entire agreement and understanding among the Borrower, the Agent Bank, the Issuing Bank and the Lenders and supersede all prior agreements and understandings among them relating to the subject matter hereof and thereof.

IN WITNESS WHEREOF, the parties hereto have executed this Credit Agreement as of the day and year first above written.

SOUTHWEST GAS CORPORATION,

Jeffrey W. Shaw
Vice President and Treasurer

UNION BANK OF SWITZERLAND,
LOS ANGELES BRANCH,
(Agent Bank)

By /s/ Patrick J. McKenna

Patrick J. McKenna
Title: Vice President

By /s/L. Scott Sommers

L. Scott Sommers
Title: Vice President

UNION BANK OF SWITZERLAND,
LOS ANGELES BRANCH,
(Issuing Bank)

By /s/Patrick J. McKenna

Patrick J. McKenna
Title: Vice President

By /s/L. Scott Sommers

L. Scott Sommers
Title: Vice President

SOCIETE GENERALE
(Co-Agent)

By /s/George Chen

George Chen
Title: Vice President

Lenders:

UNION BANK OF SWITZERLAND,
LOS ANGELES BRANCH
444 South Flower Street
Suite 4600
Los Angeles, CA 90071

Commitment: \$38,000,000
Commitment Percentage: 19%

By: /s/ Patrick J. McKenna

Patrick J. McKenna
Title: Vice President

By: /s/ L. Scott Sommers

L. Scott Sommers
Title: Vice President

SOCIETE GENERALE,
2029 Century Park East
Suite 2900
Los Angeles, CA 90067

Commitment: \$33,000,000
Commitment Percentage: 16.5%

By: /s/ George Chen

George Chen
Title: Vice President

DRESDNER BANK AG
LOS ANGELES AGENCY AND
GRAND CAYMAN BRANCH
725 S. Figueroa Street
Suite 3950
Los Angeles, CA 90017

Commitment: \$23,000,000
Commitment Percentage: 11.5%

By: /s/ Jon M. Bland

Jon M. Bland
Title: Senior Vice President

By: /s/ Barbara J. Readick

Barbara J. Readick
Title: Vice President

Commitment: \$21,000,000
Commitment Percentage: 10.5%

BANK OF MONTREAL
601 S. Figueroa Street
Suite 4900
Los Angeles, CA 90017

By: /s/ Warren R.1 Wimmer

Warren R. Wimmer
Title: Director

Commitment: \$21,000,000
Commitment Percentage: 10.5%

WESTDEUTSCHE LANDESBANK
GIROZENTRALE
1211 Avenue of the Americas
New York, NY 10036

By: /s/ Salvatore Battinelli

Salvatore Battinelli
Title: Vice President

By: /s/ Karen E. Hoplock

Karen E. Hoplock
Title: Vice President

Commitment: \$16,000,000
Commitment Percentage: 8%

UNION BANK
445 S. Figueroa Street
Los Angeles, CA 90071

By: /s/ John M. Edmonston

John M. Edmonston
Title: Vice President

Commitment: \$12,000,000
Commitment Percentage: 6%

THE INDUSTRIAL BANK OF JAPAN,
LIMITED, LOS ANGELES AGENCY
350 S. Grand Avenue
Suite 1500
Los Angeles, CA 90071

By: /s/ Masatake Yashiro

Masatake Yashiro
Title: General Manager

THE MITSUBISHI TRUST & BANKING
CORPORATION, LOS ANGELES
AGENCY
801 S. Figueroa Street
Suite 2400
Los Angeles, CA 90017

Commitment: \$12,000,000
Commitment Percentage: 6%

By /s/ S. Chad Schumacher

S. Chad Schumacher
Title: Senior Vice President and
Chief Manager

BANK OF AMERICA, N.T. & S.A.
555 S. Flower Street
49th Floor
Los Angeles, CA 90071

Commitment: \$8,000,000
Commitment Percentage: 4%

By /s/ Michael J. McCutchin

Title: Michael J. McCutchin
Vice President

BANK OF AMERICA NEVADA
300 South 4th Street
Second Floor
Las Vegas, NV 89101

Commitment: \$8,000,000
Commitment Percentage: 4%

By /s/ Israel Carmeli

Israel Carmeli
Title: Vice President

BARCLAYS BANK PLC
222 Broadway
11th Floor
New York, NY 10038

Commitment: \$8,000,000
Commitment Percentage: 4%

By /s/ Vijay Rajguru

Vijay Rajguru
Title: Associate Director

SCHEDULE I
INTEREST COVERAGE RATIO

	GAS OPERATION SEGMENT
Operating Margin	\$
Less:	
Operations	
Maintenance	
Depreciation	
General Taxes	
(A) OPERATING INCOME (excluding earnings and losses of PriMerit Bank)	\$
(B) INTEREST EXPENSE (excluding interest expenses allocated to PriMerit Bank for carrying costs)	\$

INTEREST COVERAGE RATIO
RATIO OF (A) TO (B) = _____ TO 1

EXHIBIT A

Form of Commercial Paper Note

PROMISSORY NOTE

(NOTE NUMBER)

\$ (FACE AMOUNT OF NOTE)

(DATE ISSUED), 19

For value received, Southwest Gas Corporation (the "Company") promises to pay [Bearer]* the sum of (FACE AMOUNT OF NOTE) US Dollars [plus interest in the amount of US Dollars]** on (MATURITY DATE), 19__ payable in immediately available funds at or before the close of business on the date of presentation (if presentation is made prior to or at 2:30 p.m. New York time) or at or before the close of business on the next succeeding business day (if presentation is made after 2:30 p.m. New York time) at Bank of Montreal Trust Company, 77 Water Street, New York, New York 10005 (the "Depository").

This Note has been issued in accordance with a Credit Agreement (the "Credit Agreement"), dated as of January 27, 1995, among the Company, Union Bank of Switzerland, as issuing bank (the "Issuing Bank") and as agent (the "Agent") for the Lenders named therein and a Depository Agreement (the "Depository Agreement"), dated as of January 27, 1995 among the Company, the Depository, the Issuing Bank and the Agent. The Depository, for the benefit of the holder hereof, is entitled to the benefit of an Irrevocable Letter of Credit, issued by Union Bank of Switzerland, as Issuing Bank.

A copy of the Credit Agreement, as amended from time to time, is on file with the Depository at its Corporate Trust Department at 77 Water Street, 4th Floor, New York, New York 10005, and reference is made to the Credit Agreement for a

* If to be issued to the order of a specified payee, strike the word "Bearer" and insert the name of such payee.

** In any Promissory Note issued on an interest-bearing basis, insert applicable amount of interest.

statement of the procedure governing drawings under the Letter of Credit by the Depositary.

This Note is issued in and shall be governed by and construed in accordance with the laws of the State of New York.

THIS NOTE IS NOT VALID FOR ANY PURPOSE UNLESS COUNTERSIGNED BY _____ AS ISSUING AGENT.

SOUTHWEST GAS CORPORATION,

By: _____
Authorized Signature

By: _____
Authorized Signature

COUNTERSIGNED FOR
AUTHENTICATION ONLY:

BANK OF MONTREAL TRUST COMPANY

By: _____
Authorized Signature
of the Depositary as
Issuing Agent

PROMISSORY NOTE

\$ _____

January __, 1995

FOR VALUE RECEIVED, SOUTHWEST GAS CORPORATION, a California corporation (the "Borrower"), DOES HEREBY PROMISE to pay to the order of _____ (the "Bank"), in the lawful money of the United States of America the principal amount of _____ (\$_____) or, if less than such principal amount, the aggregate outstanding principal amount of all Loans made by the Bank to the Borrower pursuant to the Credit Agreement referred to below, on the Expiration Date provided, or as otherwise provided, in the Credit Agreement. The Borrower promises to pay interest on the unpaid principal amount of each such Loan on the dates and at the rate or rates provided for in the Credit Agreement. All such payments of principal and interest shall be made in lawful money of the United States in Federal or other immediately available funds to the account of Union Bank of Switzerland--Los Angeles Branch, at Union Bank of Switzerland--New York Branch, 299 Park Avenue, New York, N.Y. 10171- 0026, in favor of UBS-LA Account No. 40064502 ref Southwest Gas.

All Loans made by the Bank, the respective types and maturities thereof and all repayments of the principal thereof shall be recorded by the Bank and, prior to any transfer hereof, appropriate notations to evidence the foregoing information with respect to each such Loan then outstanding shall be endorsed by the Bank on the schedule attached hereto, or on a continuation of such schedule attached to and made a part hereof; provided that the failure of the Bank to make any such recordation or endorsement shall not affect the obligations of the Borrower hereunder or under the Credit Agreement.

This Note is one of the Notes referred to in the Credit Agreement dated as of January 27, 1995 among the Borrower, the Lenders listed on the signature pages thereof and Union Bank of Switzerland as issuing bank and as agent bank for the Lenders (as the same may be amended from time to time, the "Credit Agreement"). Terms defined in the Credit Agreement are used herein with the same meanings. Reference is made to the Credit Agreement for provisions for the repayment hereof and the acceleration of the maturity hereof.

This Note is secured by certain collateral described in the Credit Agreement.

This Note may not be assigned or otherwise transferred except as set forth in the Credit Agreement.

This Note shall be governed by, and construed and interpreted in accordance with, the laws of the State of New York.

SOUTHWEST GAS CORPORATION

By _____

Schedule to
Promissory Note dated
as of
January , 1995

Loans

Date -----	Amount of Loan -----	Rate of Interest On Loan -----	Amount of Principal Paid -----	Notation Made By -----	Maturity Date -----
---------------	-------------------------------	---	---	------------------------------	---------------------------

Form of Loan Notice

Union Bank of Switzerland
 299 Park Avenue
 New York, New York 10071-0026

Attention: _____

Re: \$200,000,000 Credit Agreement, dated as of January 27, 1995,
 among Southwest Gas Corporation, the Lenders named
 therein and Union Bank of Switzerland

Ladies and Gentlemen:

Pursuant to Section 3.2(a)(iii) of the above-referenced credit agreement (the "Credit Agreement"), the Borrower hereby requests [a [CD/LIBOR/Base Rate] Loan] [the continuation/ conversion of an existing CD/LIBOR/Base Rate Loan] in the aggregate amount of \$_____* to be disbursed on _____, 19__.**

[Of the aggregate amount, [\$_____ shall be in the form of a CD Loan,] [and] [\$_____ shall be in the form of a Base Rate Loan,] [and \$_____ shall be in the form of a LIBOR Loan].]***

* Must be \$5,000,000 or in integral multiples of \$1,000,000 in excess thereof.

** Date of requested Loan must be at least three Business Days after date of Notice for LIBOR and CD Loans and at least one Business Day after date of Notice for Base Rate Loans (which Notice must be given prior to 11:00 A.M. New York time).

*** This paragraph is necessary only where more than one category of Loan is being requested.

[The Interest Period with respect to this Loan shall be _____].*

[The proceeds of this Loan will be used to reimburse a Letter of Credit Disbursement.]

The Borrower hereby represents and warrants to the Lenders that:

- a) the representations and warranties contained in Section 2.1 of the Credit Agreement are true and correct on and as of the date hereof, as though made on and as of the date hereof;
- b) no event has occurred and is continuing or would result from the Loan requested hereunder, which constitutes an Event of Default or Default.
- c) since September 30, 1994, neither the Borrower nor its Subsidiaries have entered into or consummated any transaction or transactions, and there has occurred no change, affecting the business, credit, operations, financial condition or prospects of the Borrower and its Subsidiaries, taken as a whole, which could have a Material Adverse Effect; and
- d) no litigation, proceeding or inquiry before or by any arbitrator or Governmental Authority is continuing or, to the best of the Borrower's knowledge, threatened which could have a Material Adverse Effect.

* Use for CD Loans and LIBOR Loans only.

Capitalized terms used herein and not defined herein have the meanings assigned to them in the Credit Agreement.

SOUTHWEST GAS CORPORATION

By: _____
Name:
Title:

IRREVOCABLE LETTER OF CREDIT

UNION BANK OF SWITZERLAND, LOS ANGELES BRANCH
c/o Union Bank of Switzerland, New York Branch
299 Park Avenue
New York, New York 10171-0026

Letter of Credit No. L/C003722

January __, 1995

To: Bank of Montreal Trust Company
77 Water Street
New York, New York 10005

Attention: Corporate Trust Department

The undersigned bank (the "Bank"), hereby establishes in your favor, in trust for the holders from time to time of Commercial Paper Notes (as hereinafter defined) of Southwest Gas Corporation (the "Company"), to the extent necessary for payment of such Notes at their maturity, and for the account of the Company, this irrevocable Letter of Credit for an aggregate amount not to exceed \$200,000,000 (as such amount may be reduced and reinstated pursuant to the terms hereof the "Stated Amount") available from time to time in amounts equal to the Face Value (as hereinafter defined) of certain promissory notes of the Company authenticated and delivered by you (the "Commercial Paper Notes") pursuant to the Depositary Agreement (the "Depositary Agreement"), dated as of January 27, 1995 among the Company, Union Bank of Switzerland, Los Angeles Branch, as issuing bank (the "Issuing Bank") and as agent bank (the "Agent Bank") for the lenders which are parties to the Credit Agreement (as hereinafter defined) and you (the "Depositary"). "Face Value" means, at the time any determination thereof is to be made, the sum of the aggregate face amount at maturity (if issued on a discount basis) and the aggregate principal amount (if issued on an interest-bearing basis), together with the aggregate amount of interest to the stated maturity date of interest-bearing Commercial Paper Notes, of all Commercial Paper Notes outstanding, excluding matured Commercial Paper Notes no longer entitled to the benefit of the Letter of Credit.

Demands for payment hereunder may be made by you (i) on or after the first Business Day (as hereinafter defined) preceding the maturity date of any Commercial Paper Note and prior to the expiration of this Letter of Credit as herein provided or (ii) upon receipt of a notice from the Agent Bank stating that an "Event of Default" has occurred under the Credit Agreement (the "Credit Agreement"), dated as of January 27, 1995, among the Company, the lenders named therein, the Issuing Bank and the Agent Bank. Such demand shall be made by presentation or by facsimile transmission of a demand notice executed by you in the form of Annex 1 hereto, with blanks appropriately completed and signed by your authorized employee to the New York Branch of the Issuing Bank, Attention: Letter of Credit Department, Facsimile (212) 821-3259. If such demand is made by facsimile transmission, then such transmission shall be confirmed immediately thereafter by telephone at (212) 821-3249; provided that the failure of the Depository to make such confirmation shall not affect the obligation of the Bank hereunder.

The Bank hereby agrees to honor each such demand drawn under and in compliance with this Letter of Credit, provided that such demand is delivered to the Issuing Bank not later than 4:00 P.M. New York City time on the day of such demand, by causing the transfer (through the Issuing Bank) after your opening of business but not later than 11:00 A.M., New York City time, on the first Business Day following the day of such demand, in immediately available funds the amount demanded to the "Letter of Credit Account," maintained by you pursuant to the Depositary Agreement, in trust for the holders of the Commercial Paper Notes for which such demand is made and to be applied to the payment of such Commercial Paper Notes. Upon such payment, the Stated Amount of this Letter of Credit shall be reduced in an amount equal to such drawing. The Issuing Bank will make its payments hereunder out of its own funds and in any event not out of funds of the Company on deposit with it.

The Stated Amount of this Letter of Credit (i) shall be automatically increased concurrently with the issuance of Commercial Paper Notes on any day by an amount equal to the Face Value of the Commercial Paper Notes issued on such day and (ii) shall be automatically decreased as soon as the Issuing Bank honors the Letter of Credit pursuant to a drawing hereunder by an amount equal to the amount of such drawing, provided that the Stated Amount shall never exceed \$200,000,000.

It is understood and agreed that the provisions of this Letter of Credit are intended to provide for payment of

the Commercial Paper Notes at their maturity. Accordingly, the Bank specifically acknowledges that in actions taken by you as beneficiary of this Letter of Credit you shall not be acting as an agent of the Company but shall be acting on behalf of the holders of Commercial Paper Notes.

This Letter of Credit shall expire with respect to each Commercial Paper Note authenticated and delivered pursuant to the Depositary Agreement at such time as the Issuing Bank honors the Depositary's drawing under the Letter of Credit with respect to such Commercial Paper Note. In no event shall this Letter of Credit remain in effect after the later of (x) the close of business on January 27, 1998 and (y) such later date as the Company and the Bank shall agree to in accordance with the terms of the Credit Agreement.

Demands for payment hereunder honored by the Issuing Bank shall not exceed the Stated Amount, as the Stated Amount may be reduced and increased as aforesaid. Subject to the preceding sentence, each demand for payment honored for payment by the Issuing Bank hereunder shall pro tanto reduce the amount available under this Letter of Credit.

This Letter of Credit sets forth in full the terms of our undertaking, and this undertaking shall not in any way be modified, amended or amplified by reference to any document, instrument or agreement referred to herein or to which this Letter of Credit relates, and any such reference shall not be deemed to incorporate by reference any such document, instrument or agreement.

As used herein, "Business Day" means any day other than a Saturday, Sunday or a day on which banking institutions in New York, New York are authorized or required by law to close.

This Letter of Credit is not negotiable, assignable or transferable and, except as otherwise expressly stated herein, is subject to the Uniform Customs and Practice for Documentary Credits (1993 Revision), International Chamber of Commerce, Publication No. 500 (the "Uniform Customs"). This Letter of Credit shall be deemed to be a contract made under the laws of the State of New York and shall, as to matters not governed by the

99
Uniform Customs, be governed and construed in accordance with the laws of said
State.

Very truly yours,

UNION BANK OF SWITZERLAND

By: _____
Authorized Signature

By: _____
Authorized Signature

This Annex Forms An Integral Part of
Letter of Credit No. L/C003722

DRAWING UNDER LETTER OF CREDIT NO. L/C003722

_____, 19__

TO: UNION BANK OF SWITZERLAND, LOS ANGELES BRANCH
c/o Union Bank of Switzerland, New York Branch
299 Park Avenue
New York, New York 10171-0026
Telecopy No: (212) 821-3891

Attention: Letter of Credit Department

1. The undersigned, acting on behalf of the holder or holders of the below-mentioned Commercial Paper Note or Commercial Paper Notes of Southwest Gas Corporation, hereby makes demand for payment under the above-captioned Letter of Credit (the "Letter of Credit") to pay the Face Value of such Commercial Paper Note or Commercial Paper Notes.

2. The note number, Face Value, date of issuance and maturity date of each such Commercial Paper Note is as follows:

Note Number	Face Value	Date of Issuance	Maturity Date
-----	-----	-----	-----

3. Each such Commercial Paper Note was authenticated and delivered by us pursuant to our authority under the Depositary Agreement.

4. The aggregate amount required to be drawn under the Letter of Credit to pay in full the Face Value of each such Commercial Paper Note specified in paragraph 2 hereof is \$_____.

5. All terms used herein which are defined in the Letter of Credit have the same meanings when used herein.

Very truly yours,

By: _____

[Letterhead of Robert M. Johnson, Esq.
Associate General Counsel to the Borrower]

January __, 1995

Union Bank of Switzerland, Los Angeles Branch
as Agent Bank and Issuing Bank
The Lenders Under the Credit Agreement
c/o Union Bank of Switzerland, Los Angeles Branch
444 S. Flower Street, Suite 4600
Los Angeles, California 90071

Gentlemen:

This opinion is furnished to you pursuant to Section 5.1(c) of the Credit Agreement (the "Credit Agreement"), dated as of January 27, 1995, among Southwest Gas Corporation, a California corporation (the "Borrower"), the Lenders named therein and Union Bank of Switzerland, Los Angeles Branch, as Agent Bank and Issuing Bank. Capitalized terms not otherwise defined herein shall have the same meanings as in the Agreement.

I am Associate General Counsel of the Borrower and have acted as counsel for the Borrower in connection with its authorization, execution and delivery of the Credit Agreement and the transactions contemplated thereby. I am familiar with the proceedings taken by the Borrower in connection with the foregoing and have inspected executed counterparts of the Credit Agreement, the Depositary Agreement, the form of Letter of Credit, the forms of Notes, and the forms of Commercial Paper Notes. I have also made such other investigation and have examined such other records and documents, including the Restated Articles of Incorporation and the Bylaws with all amendments thereto of the Borrower and copies of resolutions adopted by the Board of Directors of the Borrower on _____, 1994 authorizing the execution and delivery of the Credit Agreement and the Depositary Agreement and the issuance, execution and delivery of the Notes and the Commercial Paper Notes by the Borrower, as I thought appropriate. I have examined such other statutes, decisions and matters of laws as I deemed necessary to express the following opinions.

Based upon the foregoing, I am of the opinion that:

1. The Borrower is duly qualified and is in good standing as a foreign corporation in the States of Arizona and Nevada and is so qualified or otherwise appropriately licensed in each other jurisdiction where the conduct of its business or the ownership of its properties requires such qualification or licensing.
2. The execution, delivery and performance by the Borrower of the Credit Agreement, the Depositary Agreement, the Notes and the Commercial Paper Notes have been duly authorized by all proper and necessary corporate action, and do not and will not (i) violate any provision of any law, rule, regulation, order, writ, judgment, injunction, decree, determination or award currently in effect applicable to the Borrower or (ii) result in the breach of or constitute a default under any indenture, loan or credit agreement or any other agreement, lease or instrument, including, without limitation, the Restated Articles of Incorporation and Bylaws, to which the Borrower or any Subsidiary or any of their respective properties may be bound or affected.
3. Each of the Credit Agreement and the Depositary Agreement is, and each Note and Commercial Paper Note when hereafter executed and delivered hereunder will be, a legal, valid and binding obligation of the Borrower enforceable against the Borrower in accordance with their respective terms.
4. Neither the Agent Bank nor any Lender will be subject to regulation by the Public Utilities Commission of the State of California solely by reason of the transactions contemplated by the Credit Agreement, the Depositary Agreement, the Notes and the Letter of Credit.
5. All of the outstanding capital stock of each Subsidiary of the Borrower is validly issued, fully paid and nonassessable, and the shares thereof owned by the Borrower, directly or indirectly, are owned free and clear of all liens, claims, and encumbrances and security interests. Each Subsidiary is a corporation duly incorporated, validly existing and in good standing under the laws of the jurisdiction of its

incorporation, is duly qualified or licensed to do business and is in good standing as a foreign corporation in each other jurisdiction in which the conduct of its business or the ownership of its properties requires such qualification or licensing, and has all requisite power and authority, corporate or otherwise, to conduct its business and own its properties.

6. There is no pending or, to the best of my knowledge, threatened action, suit, proceeding or investigation affecting the Borrower or any Subsidiary thereof before any court, governmental agency, or arbitrator or other authority, domestic or foreign, which could materially, adversely affect the financial position, properties or operations of the Borrower and the Subsidiaries taken as a whole, or which affects the Borrower's obligations under or purports to affect the legality, validity or enforceability of the Credit Agreement, the Depositary Agreement, the Notes or the Commercial Paper Notes.
7. The obligations of the Borrower to pay principal, interest and all other sums payable under the Credit Agreement, the Notes and the Commercial Paper Notes will rank at least pari passu with all other unsecured Debt of the Borrower.
8. The Borrower is not a "holding company," or an "affiliate" or a "subsidiary company" of a "holding company," as such terms are defined in the Public Utility Holding Company Act of 1935, as amended (the "1935 Act") and is not subject to regulation under the 1935 Act and is not an "investment company" or company "controlled" by an "investment company" within the meaning of the Investment Company Act of 1940, as amended. The Lenders will not be required to register with the Securities and Exchange Commission pursuant to Section 5 of the 1935 Act as a result of extending the Letter of Credit pursuant to the Credit Agreement, and will not be subject to regulation by the Public Service Corporation Commission of the State of Nevada or the Arizona Corporation Commission under the current laws of those states and will not be subject to regulation under any current federal laws governing public utilities, natural gas companies, insurance companies or the storage of gas solely by reason of the transactions contemplated by the Credit Agreement,

the Depositary Agreement, the Notes or the Commercial Paper Notes.

9. None of the transactions contemplated in the Credit Agreement, the Depositary Agreement, the Notes or the Commercial Paper Notes will violate or result in a violation of Section 7 of the Securities Exchange Act of 1934, as amended, or any regulations issued pursuant thereto, or Regulations U and X of the Board of Governors of the Federal Reserve System, 12 C.F.R. Parts 221 and 224.

The opinion expressed in paragraph 8 hereof that the Lenders will not be required to register with the Arizona Corporation Commission as a result of extending the Credits pursuant to the Agreement is based upon the Opinion and Order of the Arizona Corporation Commission dated May 18, 1983 which is in full force and effect on the date hereof.

The foregoing opinions are based upon and are limited in all respects, except for the references to Arizona law set forth in paragraphs 1 and 8 hereof, to applicable laws of the United States and the State of Nevada. Insofar as the foregoing opinion relates to matters of New York law, I have, with your approval, relied on the opinion of Sullivan & Cromwell, special counsel for the Issuing Bank, dated of even date herewith and addressed to you. Lehman Commercial Paper, Inc., Moody's Investors Service, Inc. and Standard & Poor's Corporation may rely on this opinion as if it were addressed to them.

Respectfully submitted,

[DRAFT]

- o Moody's Investors Service, Inc.
99 Church Street
New York, New York 10007
- o Standard & Poor's Ratings Group,
a division of McGraw-Hill Inc.
25 Broadway
New York, New York 10004
- o Union Bank of Switzerland
Los Angeles Branch
444 South Flower Street
Los Angeles, California 90071
- o Sullivan & Cromwell
444 South Flower Street
Los Angeles, California 90071
- o Lehman Commercial Paper, Inc.
3 World Financial Center
New York, New York 10285-1200

January __, 1995

Dear Sirs:

As General Counsel of Union Bank of Switzerland (the "Bank"), I am rendering the following opinion in connection with the Irrevocable Letter of Credit No. L/C003722 (the "Letter of Credit") issued by the Bank, acting through its Los Angeles Branch (the "Branch"), in favor of Bank of Montreal Trust Company, as depositary for the holders from time to time of Commercial Paper Notes (as defined in the Depositary Agreement) (the "Depositary"), pursuant to the Depositary Agreement, dated as of January 27, 1995, among Southwest Gas Corporation (as borrower), Bank of Montreal (as depositary) and the Bank, acting through the Branch (as agent).

In this connection, I have examined originals or copies, certified or otherwise identified to my satisfaction, of such instruments, documents and records and such questions of Swiss law as I have deemed relevant and necessary for

purposes of my opinion hereinafter set forth. As to certain factual matters involved in this opinion which were not independently established, I have relied, to the extent I have deemed such reliance proper, on certificates or other documents obtained from public officials or officers of the Bank setting forth such matters.

In my examination, I have assumed the genuineness of all signatures, the due authority of the parties (other than the Bank) executing such documents and the authenticity of all documents submitted to me as originals, and the conformity with originals of all documents submitted to me as copies thereof. I have further assumed for the purpose of my opinion hereinafter expressed that the Letter of Credit will constitute the legal, valid and binding obligation of the Bank under New York law by which it is governed.

Based upon, and subject to, the foregoing, I am of the opinion that:

1. The Bank has been duly organized and is validly existing as a corporation as well as a bank under the laws of Switzerland and has full power and authority under the laws of Switzerland to maintain its Branch.
2. The Bank has all requisite corporate power to execute, deliver and perform its obligations under the Letter of Credit.
3. The Letter of Credit has been duly authorized, executed and delivered by the Bank and constitutes the legal, valid and binding obligation of the Bank, enforceable against the Bank acting through the Branch in accordance with its terms under the laws of Switzerland, except as such enforceability may be limited by (i) bankruptcy, insolvency, reorganization, liquidation, readjustment of debt or other similar laws affecting the enforcement of creditors' rights generally, or equitable principles of general applicability, that may be applicable in the event the Bank is subject to such a proceeding or (ii) the effect of any moratorium or similar occurrence affecting the Bank.
4. The Letter of Credit is enforceable in accordance with its terms against the Bank's Head Office in Switzerland under the laws of Switzerland (taking a legal action in the commercial court of the Canton of Zurich, which has jurisdiction over the Bank's Head Office), if the Branch defaults in its obligations thereunder or the Branch ceases to exist, except as such enforceability may be limited by (i) bankruptcy, insolvency, reorganization, liquidation, readjustment of debt and

other similar laws and equitable principles relating to or affecting the enforcement of creditors' rights generally, that may be applicable in the event the Bank is subject to such a proceeding, or (ii) the effect of any moratorium or similar occurrence affecting the Bank.

5. No license, consent or approval of, or registration with, any governmental or regulatory authority of Switzerland is required in connection with the execution, delivery or performance of the Letter of Credit by the Bank.
6. Neither the execution, delivery or performance by the Bank of the Letter of Credit, nor compliance by the Bank with the terms and provisions thereof, will (i) contravene any provision of any law of Switzerland or any applicable rules or regulations thereunder, (ii) violate any provision of the charter of the Bank, (iii) violate the provisions of any order, decree or judgment known to me of any court or governmental agency or (iv) result in the breach of, or constitute a default under, any indenture, agreement or instrument known to me to which the Bank is a party or by which the Bank or its property may be bound.
7. The choice of the laws of the State of New York and the Uniform Customs and Practice for Documentary Credits (1993 Revision), International Chamber of Commerce Publication No. 500 (the "Uniform Customs"), to govern the Letter of Credit is valid under the laws of Switzerland and would be given effect in any proceedings brought against the Bank in the courts of Switzerland.
8. Any judgment of a federal court sitting in the State of California or a court of the State of California in respect of any suit, action or other proceeding against the Branch for the enforcement of the Agreement will be recognized and, on petition by the interested party, declared enforceable against the Bank by the competent courts of Switzerland, (i) if jurisdiction lay with such United States court or such court of the State of California, (ii) if no ordinary judicial remedy can any longer be brought against such judgment or if such judgment is final, and (iii) if none of the following grounds for non-recognition exists. Such judgment will not be recognized in Switzerland (i) if its recognition is clearly incompatible with Swiss public policy (ordre public) or (ii) if a party proves (a) that the party was not properly served with process, unless the party entered an unconditional appearance in the proceedings;

(b) that the judgment was rendered in violation of essential principles of Swiss procedural law, especially, that the party was denied the right to be heard; (c) that a lawsuit between the same parties concerning the same case was first commenced or decided in Switzerland, or was first decided in a third country, provided that the prerequisites for the recognition of that decision are met. In no other respects may the foreign decision be reviewed on the merits. As a general rule it can be stated that judgments of federal courts sitting in the State of California and of courts of the State of California are recognized and declared enforceable in Switzerland.

9. A court of Switzerland would recognize the obligations of the Bank under the Letter of Credit as ranking at least equally with the obligations of the Bank to pay unsecured indebtedness for borrowed money and to pay general depositors not expressly privileged by law.

The opinions set forth in paragraphs 7, 8 and 9 above are subject to the limitation that the choice of law, enforceability of judgment or both may be denied under Swiss law, if any terms of the Letter of Credit or any provisions of New York law or the Uniform Customs applicable to the Letter of Credit violate the fundamental principles of the Swiss legal system (ordre public) or such judgment is rendered in violation of such principles. In this regard, I have no reason to believe that a money judgment against the Bank with respect to its obligations under the Letter of Credit would be considered contrary to fundamental principles of the Swiss legal system (ordre public).

I express no opinion as to any matters governed by any laws other than the laws of Switzerland (as in effect on the date hereof) or the Uniform Customs.

This opinion may not be used or relied upon by or copied, published or communicated to any party other than the addressees for any purpose whatsoever without my prior written approval in each instance. I have no obligation to advise the addressees hereof (or any other third party) of any changes of law or fact that may occur after the date hereof, notwithstanding that such changes may affect the legal analysis, a legal conclusion or an informational confirmation contained herein.

Very truly yours,

Dr. Urs P. Roth

[Letterhead of Borrower's Counsel]

_____, 1995

Union Bank of Switzerland, Los Angeles Branch
As Agent Bank and Issuing Bank
The Lenders Under the Credit Agreement
c/o Union Bank of Switzerland, Los Angeles Branch
444 South Flower Street, Suite 4600
Los Angeles, CA 90071.

Re: Credit Agreement, dated as of January 27, 1995,
among Southwest Gas Corporation, the Lenders Named
therein and Union Bank of Switzerland, as Agent Bank
and Issuing Bank

Ladies and Gentlemen:

We have acted as special counsel to Southwest Gas Corporation, a California corporation (the "Borrower"), in connection with the Credit Agreement, dated as of January 27, 1995, among the Borrower, the Lenders named therein and Union Bank of Switzerland, as Agent Bank and Issuing Bank (the "Credit Agreement").

This opinion is rendered to you pursuant to the provisions of Section 5.1(h) of the Credit Agreement. Capitalized terms used in this opinion and not otherwise defined herein shall have the meanings assigned thereto in the Credit Agreement.

In our capacity as special counsel to the Borrower, we have examined, among other things, originals or copies certified or otherwise identified to our satisfaction as being true copies of the Credit Agreement, the Depositary Agreement, the Notes and the Commercial Paper Notes and such

corporate records of the Borrower, certificates of public officials and officers of the Borrower and such other documents as we have deemed necessary for the purpose of this opinion.

On the basis of the foregoing and in reliance thereon and on our consideration of such other matters of fact and questions of law as we have deemed relevant under the circumstances and subject to the assumptions, qualifications and limitations set forth herein, we are of the opinion that:

(i). The Borrower has been duly incorporated and is validly existing in good standing under the laws of the State of California with the corporate power to execute, deliver and perform all of its obligations under the Credit Agreement, the Depositary Agreement, the Notes and the Commercial Paper Notes.

(ii). The Credit Agreement, the Depositary Agreement, the Notes and the Commercial Paper Notes have been duly authorized by all necessary corporate action on the part of the Borrower, and no stockholder approval is required.

(iii). Each of the Credit Agreement, the Depositary Agreement, the Notes and the Commercial Paper Notes provides that it is to be governed by, and construed and enforced in accordance with, the laws of the State of New York. We express no opinion as to the laws of the State of New York, or of their applicability to the matters covered hereby, nor do we express any opinion as to whether or not California law is applicable to any such documents. We are of the opinion, however, that if the Credit Agreement, the Depositary Agreement, the Notes and the Commercial Paper Notes were governed by the laws of the State of California (without reference to choice of law principles thereunder), the Credit Agreement, the Depositary Agreement, the Notes and the Commercial Paper Notes, when executed and delivered, will be legally valid and binding obligations of the Borrower, enforceable against the Borrower in accordance with their respective terms, except as limited by bankruptcy, insolvency, reorganization, moratorium or similar laws affecting the rights of creditors generally. We advise you that the enforceability of the Credit Agreement, the Depositary Agreement, the Notes and the Commercial

Paper Notes are subject to the effect of general principles of equity including, without limitation, concepts of materiality, reasonableness, good faith and fair dealing and the possible unavailability of specific performance or injunctive relief, regardless of whether considered in a proceeding at law or in equity.

(iv). Neither the execution and delivery of the Credit Agreement, the Depositary Agreement, the Notes or the Commercial Paper Notes nor the payment of the Notes or the Commercial Paper Notes or reimbursement of the Issuing Bank for any draws under the Letters of Credit will (x), to the best of our actual knowledge, conflict with or result in a breach by the Borrower of any present California statute, rule or regulation binding on the Borrower, or (y) conflict with any of the Restated Articles of Incorporation or Bylaws of the Company as presently in effect.

(v). No order, consent or approval of any California governmental authority is required on the part of the Company for the execution and delivery of the Credit Agreement, the Depositary Agreement, the Notes or the Commercial Paper Notes, other than the approval of the Public Utilities Commission of the State of California, which has been obtained.

(vi). The Lenders, the Agent Bank and the Issuing Bank will not be subject to regulation by the Public Utilities Commission of the State of California solely by reason of the transactions contemplated by the Credit Agreement and the Depositary Agreement.

We have assumed the genuineness of all signatures, the authenticity of all items submitted to us as originals and the conformity with the originals of all items submitted to us as copies or specimens thereof and the due authority of all persons executing the same. We have further assumed that the Credit Agreement and the Depositary Agreement have been duly executed and delivered by the Lenders and are each enforceable against the Lenders.

In addition to the foregoing assumptions, we express no opinion as to the substantive laws of any jurisdiction other than the State of California or the

effect of public policy on the enforceability of indemnification provisions.

This opinion is furnished by us as special counsel to the Borrower and is solely for your benefit and may not be relied on by, nor may copies be delivered to, any other person without our prior written consent, except that Sullivan & Cromwell, in rendering their opinion of even date herewith in connection with the subject transactions, may rely upon this opinion as to the legal conclusions affected by California law, and except that each of Lehman Commercial Paper, Inc., Moody's Investors Service, Inc. and Standard & Poor's Corporation may rely on this opinion as if it were addressed to them.

Respectfully submitted,

ASSIGNMENT AND ASSUMPTION AGREEMENT

AGREEMENT dated as of _____, 199_ among [ASSIGNOR] (the "Assignor"), [ASSIGNEE] (the "Assignee"), _____ (the "Borrower") and Union Bank of Switzerland as the issuer of a letter of credit (the "Issuing Bank").

W I T N E S S E T H

WHEREAS, this Assignment and Assumption Agreement (the "Agreement") relates to the Credit Agreement dated as of January 27, 1995 (the "Credit Agreement") among the Borrower, the Assignor, the other Banks party thereto, as Banks, and Union Bank of Switzerland, Los Angeles Branch, as Agent Bank and as Issuing Bank;

WHEREAS, as provided under the Credit Agreement, the Assignor has a Commitment to make Loans and participate in a Letter of Credit in an aggregate principal amount at any time outstanding not to exceed \$_____;

WHEREAS, Loans made by the Assignor under the Credit Agreement in the aggregate principal amount of \$_____ and participations by the Assignor in the Letter of Credit in an aggregate face amount of \$_____ are outstanding at the date hereof; and

WHEREAS, the Assignor proposes to assign to the Assignee all of the rights of the Assignor under the Credit Agreement in respect of a portion of its Commitment thereunder in an amount equal to \$_____ (the "Assigned Amount"), together with a corresponding portion of its outstanding Loans and participations in Letters of Credit, and the Assignee proposes to accept assignment of such rights and assume the corresponding obligations from the Assignor on such terms;

NOW, THEREFORE, in consideration of the foregoing and the mutual agreements contained herein, the parties hereto agree as follows:

SECTION 1. Definitions. All capitalized terms not otherwise defined herein shall have the respective meanings set forth in the Credit Agreement.

SECTION 2. Assignment. The Assignor hereby assigns and sells to the Assignee all of the right of the Assignor under the Credit Agreement to the extent of the Assigned Amount, and the Assignee hereby accepts such assignment from the Assignor and assumes all of the obligations of the Assignor under the Credit Agreement to the extent of the Assigned Amount. Upon the execution and delivery hereof by the Assignor, the Assignee, the Borrower and the Issuing Bank and the payment of the amounts specified in Section 3 required to be paid on the date hereof (i) the Assignee shall, as of the date hereof, succeed to the rights and be obligated to perform the obligations of a Bank under the Credit Agreement with a Commitment in an amount equal to the Assigned Amount, and (ii) the Commitment of the Assignor shall, as of the date hereof, be reduced by a like amount and the Assignor released from its obligations under the Credit Agreement to the extent such obligations have been assumed by the Assignee. The assignment provided for herein shall be without recourse to the Assignor.

SECTION 3. Payments. As consideration for the assignment and sale contemplated in Section 2 hereof, the Assignee shall pay to the Assignor on the date hereof in Federal funds an amount equal to \$_____*. It is understood that commitment fees accrued to the date hereof are for the account of the Assignor and such fees accruing from and including the date hereof are for the account of the Assignee. Each of the Assignor and the Assignee hereby agrees that if it receives any amount under the Credit Agreement which is for the account of the other party hereto, it shall receive the same for the account of such other party to the extent of such other party's interest therein and shall promptly pay the same to such other party.

SECTION 4. Consent of the Borrower and the Issuing Bank. This Agreement is conditioned upon the consent of the Borrower and the Issuing Bank pursuant to Section 9.9 of the Credit Agreement. The execution of this Agreement by the Borrower and the Issuing Bank is evidence of this consent. Pursuant to Section 9.9 the Borrower agrees to execute and deliver a Note payable to the order of

* Amount should combine principal and face together with accrued interest and breakage compensation, if any, to be paid by the Assignee, net of any portion of any upfront fee to be paid by the Assignor to the Assignee. It may be preferable in an appropriate case to specify these amounts generically or by formula rather than as a fixed sum.

the Assignee to evidence the assignment and assumption provided for herein.

SECTION 5. Non-Reliance on Assignor. The Assignor makes no representation or warranty in connection with, and shall have no responsibility with respect to, the solvency, financial condition, or statements of the Borrower, or the validity and enforceability of the obligations of the Borrower in respect of the Credit Agreement or any Note. The Assignee acknowledges that it has, independently and without reliance on the Assignor, and based on such documents and information as it has deemed appropriate, made its own credit analysis and decision to enter into this Agreement and will continue to be responsible for making its own independent appraisal of the business, affairs and financial condition of the Borrower.

SECTION 6. Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of New York.

SECTION 7. Counterparts. This Agreement may be signed in any number of counterparts, each of which shall be an original, with the same effect as if the signatures thereto and hereto were upon the same instrument.

IN WITNESS WHEREOF, the parties have caused this Agreement to be executed and delivered by their duly authorized officers as of the date first above written.

[ASSIGNOR]

By _____
Title:

[ASSIGNEE]

By _____
Title:

SOUTHWEST GAS COMPANY

By _____
Title:

UNION BANK OF SWITZERLAND,
as Issuing Bank

By _____
Title:

By _____
Title:

DEPOSITARY AGREEMENT

AGREEMENT (the "Agreement") dated as of January 27, 1995, among SOUTHWEST GAS CORPORATION, a California corporation (the "Borrower"), BANK OF MONTREAL TRUST COMPANY, as Depositary (the "Depositary"), and UNION BANK OF SWITZERLAND by its Los Angeles Branch, as agent (the "Agent Bank") for the benefit of the Lenders as hereinafter defined and as the issuing bank (the "Issuing Bank").

W I T N E S S E T H :

WHEREAS, the Borrower proposes to incur indebtedness pursuant to the terms of a Credit Agreement, dated as of the date hereof (the "Credit Agreement") with the Agent Bank and the Issuing Bank and the lenders named therein (the "Lenders") by issuing its promissory notes in substantially the form attached as Exhibit A to the Credit Agreement (the "Certificated Commercial Paper Notes") or in the form of book-entry notes, (the "Book-Entry Commercial Paper Notes" and together with the Certificated Commercial Paper Notes, the "Commercial Paper Notes") represented by a global note delivered to the Depositary, to be offered in the commercial paper market;

WHEREAS, pursuant to the Credit Agreement the Issuing Bank has agreed to issue a non-transferable, irrevocable Letter of Credit, substantially in the form of Exhibit D to the Credit Agreement (the "Letter of Credit")

with respect to Commercial Paper Notes sold by the Borrower, to be held by the Depository for the benefit of the holders of Commercial Paper Notes to be drawn on to pay matured Commercial Paper Notes, in accordance with the terms and conditions of the Letter of Credit and the Credit Agreement;

WHEREAS, the Borrower has requested the Depository to act on the Borrower's behalf as a depository for the safekeeping of Commercial Paper Notes and as issuing and paying agent in connection with the sale and payment from time to time of Commercial Paper Notes, and to undertake certain fiduciary obligations on behalf of the holders of the Commercial Paper Notes;

WHEREAS, the Issuing Bank has also requested the Depository to act as its agent as issuing agent and paying agent under the Letter of Credit; and

WHEREAS, the Depository has agreed to act in such capacities, subject to the terms and conditions of this Agreement, the Credit Agreement and, if the book-entry system of the Depository Trust Company ("DTC") is used for the Commercial Paper Notes, the Letter of Representations, dated as of the date hereof (the "Letter of Representations") from the Issuer and the Depository to DTC delivered in connection herewith.

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

SECTION 1. Defined Terms. Unless otherwise defined, capitalized terms used herein have the meanings assigned to such terms in the Credit Agreement.

SECTION 2. Establishment of Accounts; Proceeds of Commercial Paper Notes.

(a) Prior to or contemporaneously with the execution and delivery by the Borrower of this Agreement, and for the purposes of this Agreement and the Credit Agreement, the Depositary shall establish, on behalf of the Borrower, a special purpose restricted deposit account (said account being referred to herein and in the Credit Agreement as the "Commercial Paper Account" and being identified as Account No. 480 8237), over which the Agent Bank shall have exclusive control and the sole right of withdrawal. All proceeds from the sale of Commercial Paper Notes issued by the Borrower pursuant to the Credit Agreement shall be deposited by the Depositary in the Commercial Paper Account. In addition, there shall be deposited in the Commercial Paper Account such other amounts as the Borrower may from time to time furnish to the Depositary to provide for the reimbursement of amounts disbursed under the Letter of Credit and interest thereon. Withdrawals or other applications of funds on deposit in, or otherwise to the credit of, the Commercial Paper Account must be made in accordance with the instructions from the Agent Bank to the Depositary, acting as the agent of the Agent Bank, or

otherwise as provided in the Credit Agreement. The Depository shall keep accurate records of the date and amount of each deposit in the Commercial Paper Account and each disbursement therefrom for a period of three years following the date of such deposit or disbursement. The Borrower hereby irrevocably acknowledges and agrees that the Agent Bank shall have complete and absolute control over the Commercial Paper Account and any and all funds on deposit in, or otherwise to the credit of, the Commercial Paper Account, subject, however, to the applicable provisions of the Credit Agreement. The Depository agrees to give the Borrower and the Agent Bank immediate notice if the Commercial Paper Account or any funds on deposit in, or otherwise to the credit of, the Commercial Paper Account shall become subject to any writ, judgment, warrant of attachment, execution or similar process. Should the Borrower or the Depository receive notice that the Commercial Paper Account or any funds on deposit in, or otherwise to the credit of, the Commercial Paper Account are subject to any writ, order, judgment, warrant of attachment, execution or similar process, the Borrower shall not be permitted to issue or sell Commercial Paper Notes, except as specified in the Credit Agreement.

So long as the Agent Bank has not given the Borrower and the Depository written notice that an Event of Default or Default has occurred and is continuing and that

the Borrower is to cease issuing Commercial Paper Notes, any funds remaining on deposit in the Commercial Paper Account on the date of any Letter of Credit Disbursement, after the Commercial Paper Account is debited for the amount of such Letter of Credit Disbursement and interest thereon as aforesaid, shall be transferred by the Depository to such account of the Borrower as the Borrower shall have specified by written notice to the Agent Bank and the Depository.

(b) Prior to or contemporaneously with the execution and delivery by the Issuing Bank of this Agreement, and for the purposes of this Agreement and the Credit Agreement, the Issuing Bank shall establish for the benefit of the holders of the Commercial Paper Notes at the Corporate Trust Office in The City of New York of the Depository a segregated special purpose account (said account being referred to herein and in the Credit Agreement as the "Letter of Credit Account" and being identified as Account No. 480 8210). Prior to 11:00 a.m., New York City time, on the Business Day immediately succeeding the Business Day of receipt of a drawing request under the Letter of Credit (and subject to such drawing request having been properly made in accordance with the Letter of Credit), the Issuing Bank will cause to be credited, by way of a wire transfer, which shall not be revoked, to the Depository's account at Chemical Bank New York, ABA No. 021000128, Bank of Montreal Trust Company No. 400-046075 for immediate

deposit in the Letter of Credit Account an amount equal to the amount of such drawing. The amounts on deposit in the Letter of Credit Account may be withdrawn by the Depository only to effect payment of Commercial Paper Notes until such time as the Commercial Paper Notes have been paid in full. The Depository shall not authenticate and deliver any Commercial Paper Note before 12:30 p.m., New York City time, on any day. In addition, the Depository shall neither give issuance instructions to DTC nor authenticate and deliver any Commercial Paper Note at any time, if the amount required by this paragraph (b) with respect to Commercial Paper Notes maturing on such day has not been properly credited, by way of wire transfer by the Issuing Bank, to the Letter of Credit Account or, if the Borrower has not deposited in the Commercial Paper Account funds sufficient, when added to the amount of all proceeds of Commercial Paper Notes to be deposited on such day in the Commercial Paper Account, to reimburse the Issuing Bank in full for all Letter of Credit Disbursements made in respect of Commercial Paper Notes maturing on or prior to such day. The Depository shall record the date of each wire transfer by the Issuing Bank to, and maintain accurate records of each disbursement from, the Letter of Credit Account, in each case for a period of three years following the date of such wire transfer or disbursement.

SECTION 3. Notes Delivered for Safekeeping and Book-Entry.

(a) From time to time during the term of this Agreement, the Borrower may deliver to an officer or employee in the Corporate Trust Department of the Depository who shall be authorized to act for the Depository hereunder and whom the Depository shall designate by appropriate certificates of designation delivered to the Borrower, the Agent Bank and the Issuing Bank, Certificated Commercial Paper Notes (as defined in Section 4(b) hereof) substantially in the form included in Exhibit A of the Credit Agreement, which shall be numbered consecutively and bear such other identification as the Borrower may deem appropriate and shall be signed manually on behalf of the Borrower by the President, any Vice President, the Treasurer or other authorized officer of the Borrower (an "Authorized Officer"), or signed in facsimile by one of such persons, but shall not otherwise be completed. Prior to the initial issuance of the Commercial Paper Notes and, from time to time thereafter, the Borrower shall provide the Depository with incumbency certificates with respect to all Authorized Officers, together with specimen signatures of such Officers. Any Commercial Paper Note bearing the signature of an individual authorized to sign such Note on the date such a signature was affixed shall bind the Borrower notwithstanding that such individual has ceased to hold

office prior to delivery of such Note or did not hold such office at the date of such Note. Each Commercial Paper Note, or group of Commercial Paper Notes, at one time delivered to the Depository shall be accompanied by a letter from the Borrower identifying the Commercial Paper Note or Commercial Paper Notes transmitted therewith, and the Depository shall acknowledge receipt of such Commercial Paper Note or Commercial Paper Notes on the copy of such letter or some other form of written receipt deemed appropriate by the Depository at the time of delivery to the Depository of such Commercial Paper Note or Commercial Paper Notes. Pending the issuance of Commercial Paper Notes as provided in Section 4 hereof, all Commercial Paper Notes delivered to the Depository shall be held by the Depository's Corporate Trust Department for the account of the Borrower for safekeeping.

(b) In the event the DTC book-entry system is used from time to time for the Commercial Paper Notes, the Borrower will deliver to the Depository a Master Commercial Paper Note (as defined in Section 4(b) hereof), manually executed by an Authorized Officer, evidencing the aggregate face amount (to the extent issued on a discount basis) or principal amount (to the extent issued on an interest-bearing basis) of Book-Entry Commercial Paper Notes (as defined in Section 4(b) hereof) to be sold via DTC's book-entry system.

Such Master Commercial Paper Note shall be registered in the name of Cede & Co., as DTC's nominee, and held by the Depository as custodian and agent on DTC's behalf. As long as Cede & Co. is the registered owner of the Master Commercial Paper Note, the beneficial ownership interest therein shall be shown on, and the transfer of ownership thereof shall be effected through, entries in the books maintained by DTC and the books of its direct and indirect participants. The Depository shall not be responsible for sending transaction statements to DTC's participants or to beneficial owners or for maintaining, supervising or reviewing the records of DTC or its participants. The Master Commercial Paper Note and Book-Entry Commercial Paper Notes shall be subject to DTC's rules and procedures in effect at the time of the issuance of such Notes and as the same may be amended from time to time. The Borrower shall cooperate with the Depository in assuring compliance with such rules and procedures.

(c) Prior to the initial issuance of Commercial Paper Notes and, from time to time thereafter, the Agent Bank will furnish the Depository with incumbency certificates and specimen signatures with respect to those individuals who are authorized to act for the Agent Bank and the Issuing Bank in connection with this Agreement and with the Credit Agreement (an "Authorized Agent Officer"). The Depository may rely upon the most recent incumbency

certificate received from the Agent Bank. All notices, instructions and communications delivered to the Depository by the Agent Bank or the Issuing Bank, as the case may be, are valid only if received from an Authorized Agent Officer. For purposes of this Agreement, any two Authorized Agent Officers whose signatures are set forth in incumbency certificates to be delivered by the Agent Bank and/or the Issuing Bank shall be authorized to act, and to give instructions and notices on behalf of the Agent Bank and/or the Issuing Bank hereunder, and the Depository shall be entitled to rely on any writing, paper or notice purporting to be signed, sent or given by any such officers unless the Depository's Corporate Trust Department shall have actual knowledge that the particular writing, paper or notice was not signed, sent or given by such officers. The Issuing Bank hereby authorizes the Depository to act as its agent for the purpose of making payments on behalf of the Issuing Bank in connection with drawings under the Letter of Credit in accordance with the provisions hereof and of the Credit Agreement.

(d) The Depository shall deliver to the Borrower and the Agent Bank prior to receipt of the Commercial Paper Notes or of the Letter of Credit appropriate certificates of designation specifying the names of its officers and employees who are authorized to authenticate the Commercial Paper Notes and to disburse a receipt for, complete and

deliver such Notes and to act on behalf of the Depositary in connection with this Agreement and with the Credit Agreement (a "Designated Employee").

SECTION 4. Delivery of the Letter of Credit and Issuance of Commercial Paper Notes; Instructions.

(a) Prior to the initial issuance of the Commercial Paper Notes, the Issuing Bank shall deliver the Letter of Credit to the Depositary, for the benefit of the holders of the Commercial Paper Notes.

(b) The Commercial Paper Notes may be represented by either (i) a global security ("Master Commercial Paper Note") delivered to the Depositary as custodian and agent for DTC evidencing notes recorded in the book-entry system maintained by DTC (each, a "Book-Entry Commercial Paper Note") or (ii) a certificate issued in definitive form substantially in the form of Exhibit A of the Credit Agreement (each, a "Certificated Commercial Paper Note") delivered to the Depositary.

(c) Subject to the terms of this Agreement, on any Business Day and at a mutually agreed upon time, upon receipt of instructions by a Designated Employee, not later than 12:30 p.m., New York City time, by means of the electronic timesharing facility known as the Bank of Montreal Trust Company CP System (the "CP System"), from any Authorized Officer or any employee of an appropriate dealer who has been designated to the Depositary in writing by an

Authorized Officer as a person authorized to give issuing instructions hereunder ("Designated Dealer Employee"), which instructions shall provide each Certificated Commercial Paper Note's date of issue, maturity date, face amount, interest rate and amount of interest payable at maturity (if applicable), discount rate and amount of discount from face amount (if applicable), the total purchase price, the name, address and tax identification number of the person to whom the Certificated Commercial Paper Note is to be payable if such Certificated Commercial Paper Note is not payable to bearer, in the case of Certificated Commercial Paper Notes, the party to whom delivery of such Certificated Commercial Paper Note is to be made together with an address and instruction as to manner of delivery and, in the case of Book-Entry Commercial Paper Notes, the appropriate DTC instrument code, and which instructions shall direct the Depository to complete, authenticate and deliver Certificated Commercial Paper Notes, a Designated Employee shall withdraw the necessary number of Certificated Commercial Paper Notes from safekeeping, if applicable, and, in accordance with such instructions:

(i) In the case of Book-Entry Commercial Paper Notes, enter an issuance instruction in DTC's book-entry system in accordance with the Letter of Representations and applicable DTC procedures, which issuance instruction shall include a book-entry

delivery versus payment order to debit the account of the Depository with DTC. Upon confirmation of receipt of funds the Depository shall transfer the amount so received to the Commercial Paper Account as hereinafter provided. The Depository shall maintain a record of each change in the face amount (to the extent such changes relate to Commercial Paper Notes issued on a discount basis) or principal amount (to the extent such changes relate to Commercial Paper Notes issued on an interest-bearing basis) of outstanding Book-Entry Commercial Paper Notes and the maturity dates thereof (which maturity date, for any Book-Entry Commercial Paper Note, shall be a day on which banks are open in the City of New York and shall not be later than the earliest to occur of (1) the 270th day next succeeding the date of issuance thereof and (2) the first Business Day prior to the Expiration Date).

(ii) In the case of Certificated Commercial Paper Notes:

(A) date each such Certificated Commercial Paper Note the date of issuance thereof (which shall be a Business Day) and insert the maturity date thereof (which shall be a day on which banks are open in the City of New York and which shall not be later than the earliest to occur of (1) the 270th day next succeeding the date of issuance thereof and (2) the first Business

Day prior to the Expiration Date), and, in words and figures, the face amount (if issued on a discount basis) and the principal amount (if issued on an interest-bearing basis) and amount of interest to the stated maturity date, but in no case shall the face amount or the principal amount, as the case may be, be less than \$100,000;

(B) authenticate each such Certificated Commercial Paper Note in the appropriate space provided thereon by manually countersigning the same;

(C) insert the word "Bearer" or the name of a specified payee with respect to such Certificated Commercial Paper Note, as the case may be, in the space provided on such Certificated Commercial Paper Note;

(D) deliver each such Certificated Commercial Paper Note to the appropriate dealer (designated by such Authorized Officer), or the consignee, if any, designated by such dealer for the account of the dealer, but not before 12:30 p.m. on any day, against payment as provided in Section 5 hereof (provided that the Depository shall be instructed and required to deliver Certificated Commercial Paper Notes only to offices located in the financial district of The City of New York); and

(E) send a copy of each such Certificated Commercial Paper Note to the Borrower and, if the

Issuing Bank so requests, to the Issuing Bank on or within one Business Day of the date of issuance thereof.

In the event that the CP System is inoperative, issuance instructions with respect to Certificated Commercial Paper Notes shall be given to a Designated Employee by an Authorized Officer or Designated Dealer Employee by telephone, confirmed in writing within 24 hours, or by facsimile transmission or in writing. The Depository shall immediately repeat back all issuance instructions to the party giving such instructions to confirm that such instructions were correctly understood. In the event that a discrepancy exists between the telephone instructions and the written confirmation, the telephone instructions will be deemed to be controlling and proper instructions.

Each delivery of Certificated Commercial Paper Notes shall be subject to the rules of the New York Clearing House in effect at the time of the delivery and each issuance of Book-Entry Commercial Paper Notes shall be subject to the rules of the New York Clearing House and the rules and regulations of DTC in effect at the time of the issuance.

Unless the Authorized Agent Officers and an Authorized Officer shall each otherwise inform the Depository in writing, the Depository shall be entitled

conclusively to assume that the Expiration Date with respect to the Letter of Credit is January 27, 1998.

Instructions given via the CP System shall be entered as prescribed in the user documentation provided by the Depository and all instructions, whether via the CP System, by telephone or in writing, must be entered into the CP System or received by the Depository as the case may be, not later than 12:30 p.m. New York City time for same-day delivery.

(d) Notwithstanding any instructions received by the Depository from an Authorized Officer, if the Depository shall receive, prior to the time of delivery of the relevant Commercial Paper Notes to the appropriate dealer (or to its designated consignee), written instructions or telephonic instructions (confirmed promptly thereafter in writing in accordance with Section 14 hereof) from the Agent Bank not to issue or deliver Commercial Paper Notes in accordance with Section 3.5(b)(ii) of the Credit Agreement, which instructions may be specific with respect to a particular issue of Commercial Paper Notes or may be general and applicable to all Commercial Paper Notes issued or delivered, after receipt of such instructions, until such instructions are revoked or superseded by further instructions from the Agent Bank, the Depository shall neither give issuance instructions to DTC nor issue or deliver Commercial Paper Notes; provided, however, that the

Depository shall be required for a period not to exceed one Business Day from the receipt of such notice to give issuance instructions to DTC or deliver Commercial Paper Notes, as the case may be, in respect of agreements concluded by any dealer prior to receipt of notice of such instructions. For purposes of this paragraph (c), the Depository may rely on written notice given or delivered to it by the Authorized Agent Officers as to whether any particular Commercial Paper Note is to be issued in respect of any agreement concluded by a dealer, and the Depository shall have no obligation to make any other or further investigation.

(e) Notwithstanding any instructions received by the Depository from an Authorized Officer, the Depository shall neither give issuance instructions to DTC with respect to Commercial Paper Notes nor issue or deliver Commercial Paper Notes if (i) the Face Value of all Commercial Paper Notes outstanding plus the Face Value of all Commercial Paper Notes to be issued, will exceed (A) the Total Commitment minus the sum of (x) the aggregate principal amount of all Loans outstanding on such date plus (y) the aggregate amount on such date of all unreimbursed Letter of Credit Disbursements, plus (B) the proceeds of such Commercial Paper Notes to be deposited, on the same day as the day of such issuance, in the Commercial Paper Account for the purpose of contemporaneously repaying or prepaying

outstanding Loans and/or reimbursing Letter of Credit Disbursements relating to matured and concurrently maturing Commercial Paper Notes (whether or not presented for payment) plus the amount deposited by the Borrower in the Commercial Paper Account for the purpose of reimbursing such Letter of Credit Disbursements to the extent such Letter of Credit Disbursement exceed such proceeds or (ii) there shall fail to be credited, by way of a credit advice, to the Letter of Credit Account the funds required by Section 2(b) hereof to be credited to the Letter of Credit Account for the payment of all Commercial Paper Notes maturing on such day. An Authorized Agent Officer shall advise a Designated Employee in writing or by telephone (confirmed in writing within 24 hours thereafter), as promptly as practicable and, if possible, one Business Day prior to the proposed issuance of any Commercial Paper Notes, of each change in the Total Commitment that may at any time be utilized by the Borrower to issue Commercial Paper Notes and of each change in the Unused Total Commitment. For purposes of the foregoing calculations, the Depository may rely upon the telephonic instructions or written notices given or delivered to the Depository by any Authorized Agent Officer pursuant to the preceding sentence, and the Depository shall have no obligation to make any other or further investigation.

(f) The Depository agrees that it will cause its Corporate Trust Office specified in the Commercial Paper

Notes issued by the Depository hereunder as the place of payment of such Commercial Paper Notes, to be open for business whenever the Depository is open to the public for the purpose of carrying on substantially all of its banking functions.

SECTION 5. Delivery of Commercial Paper Notes; Deposit of Proceeds; Outstanding Commercial Paper Notes.

(a) No Certificated Commercial Paper Note shall be delivered by the Depository nor shall issuance instructions to DTC with respect to any Book-Entry Commercial Paper Note be given by the Depository except against payment therefor as herein provided. The parties understand that when the Depository is instructed to deliver Certificated Commercial Paper Notes, the delivery thereof and the receipt of payment therefor may not necessarily be simultaneous. The Depository is hereby authorized to follow the prevailing custom in the commercial paper market, which is currently that the Depository receives a receipt for delivery from the purchaser of such Certificated Commercial Paper Notes, in customary form (it being understood that the Depository is not responsible for the form and content of any such receipt other than to ascertain that the receipt adequately and accurately describes the Certificated Commercial Paper Notes to which such receipt relates), for each delivery of Certificated Commercial Paper Notes and, before the close of business on the day of delivery, the

Depository receives the purchase price of such Certificated Commercial Paper Notes in immediately available funds from such purchaser by means of a credit to the Depository's account at the Federal Reserve Bank of New York. The Depository shall have no responsibility or liability for credit risks involved in or arising from its delivery of Certificated Commercial Paper Notes against payment therefor in accordance with the provisions of this Agreement to persons designated by an Authorized Officer or Designated Dealer Employee, for delay by or the failure of such persons to effectuate payment therefor in whole or in part as herein contemplated, for delay by or the failure of any DTC participant purchasing a Book-Entry Commercial Paper Note in settling its balance with DTC or for failure by DTC to perform in any respect as herein contemplated.

(b) Payment of the proceeds of the sale of all Commercial Paper Notes shall be credited upon receipt by the Depository to the Commercial Paper Account. The Borrower and the Agent Bank acknowledge that, with respect to Book-Entry Commercial Paper Notes, the crediting of funds in connection therewith shall be contingent upon the occurrence of net settlement by DTC in accordance with its net settlement procedures.

(c) (i) Prior to the close of each Business Day, unless otherwise instructed by the Agent Bank and the Issuing Bank or unless no sale or issuance or payment of any

Commercial Paper Note had occurred on the preceding Business Day, the Depository shall make available to the Agent Bank, the Issuing Bank and the Borrower by means of the CP System a statement showing the aggregate face amount (if issued on a discount basis) and aggregate principal amount (if issued on an interest-bearing basis) together with the aggregate amount of interest to the stated maturity of interest-bearing Commercial Paper Notes, of all Commercial Paper Notes outstanding at the close of the next preceding Business Day, which statement shall include the serial numbers, issue dates, maturity dates and face amounts (if issued on a discount basis) and principal amount (if issued on an interest-bearing basis) and amount of interest to the stated maturity thereof.

If on any Business Day on which Commercial Paper Notes are issued or mature, the CP System should be inoperative, at the close of such Business Day the Depository shall prepare a written statement showing the aggregate face amount of all Commercial Paper Notes outstanding at the close of such Business Day, which statement shall include the note number, face amount, payee if other than Bearer, date of issue and maturity date of each Commercial Paper Note issued on such date. Each such statement shall be sent to the Borrower, the Issuing Bank and the Agent Bank by facsimile transmission, and confirmed immediately thereafter by telephone. In all other cases,

the Depositary shall not be obligated to provide the aforementioned daily statements.

SECTION 6. Payment of Commercial Paper Notes at Maturity; Drawings Under the Letter of Credit and Reimbursement of the Issuing Bank.

(a) The Certificated Commercial Paper Notes by their terms are payable by the Borrower at the offices of Bank of Montreal Trust Company, 77 Water Street, New York, New York 10005, and the Book-Entry Commercial Paper Notes are payable by transferring amounts payable to DTC, in accordance with the following procedures:

(i) As soon as practicable after the opening of business on the Business Day next preceding the maturity date of any Commercial Paper Note and in any event before 4:00 p.m., New York City time, on such Business Day, the Depositary shall make a demand for payment under the Letter of Credit in an amount equal to the aggregate amount required to pay the Commercial Paper Notes maturing on such date; or, upon receipt of a notice from the Agent Bank that an Event of Default has occurred, the Depositary shall make a demand for payment under the Letter of Credit in an amount equal to the aggregate amount required to pay all of the Commercial Paper Notes then outstanding upon their maturity. If such demand is by facsimile transmission,

the Depositary shall immediately after such transmission confirm such transmission by telephone.

(ii) Holders of Certificated Commercial Paper Notes shall be paid on the day of presentment of such matured Commercial Paper Notes at or after such time as is specified in the Notes. The Depositary shall pay each Certificated Commercial Paper Note in accordance with the provisions of the Code, as the same may be amended from time to time. The Depositary shall pay each Book-Entry Commercial Paper Note at the maturity thereof by transferring amounts payable to its account with DTC.

(iii) Upon presentment of a Certificated Commercial Paper Note to the Depositary on or after its maturity and payment thereof as provided herein, the Depositary will mark such Commercial Paper Note "Paid by Depositary". Not later than one Business Day after such payment or the issuance of any Commercial Paper Note, the Depositary will deliver to the Borrower, and if the Issuing Bank so requests, to the Issuing Bank, each such paid Certificated Commercial Paper Note and will make available to the Issuing Bank and the Borrower by means of the CP System a statement reflecting all outstanding Commercial Paper Notes as of such Business Day.

(iv) On any day on which Commercial Paper Notes are to be issued and either (A) a Letter of Credit Disbursement has been made or (B) the Borrower has instructed the Depositary that a specified amount of the proceeds of the Commercial Paper Notes are to be paid to the Agent Bank, the Depositary shall, but not earlier than 1:00 p.m., New York City time, on such day, pay by wire transfer to the Issuing Bank or to the Agent Bank, for the benefit of the Lenders, at Union Bank of Switzerland, New York Branch, 299 Park Avenue, New York, New York 10005, for credit to Union Bank of Switzerland, New York Branch, ABA No. 026008439, for further credit to Union Bank of Switzerland, Los Angeles Branch, Account No. 40064502, ref: Southwest Gas Corp., in order to reimburse the Issuing Bank for the Letter of Credit Disbursements made on such day or to effect payment to the Lenders as directed by the Borrower, as the case may be, an amount from the Commercial Paper Account (to the extent there are immediately available funds on deposit therein) equal to the amount of such Letter of Credit Disbursement or such payment, and until such payment is made, no other payment out of the Commercial Paper Account may be made. Additionally, (and subject to any such wire transfer to the Agent Bank or the Issuing Bank having been made, as aforesaid), the Depositary will make and

provide the Borrower and the Agent Bank, as the case may be, on a monthly basis, and preserve for at least three years thereafter, as the case may be, a record showing the date of each payment hereunder.

(b) Upon deposit by the Issuing Bank of its Letter of Credit Disbursement to the Letter of Credit Account in an amount sufficient to pay all of the Commercial Paper Notes then outstanding as a result of the occurrence of an Event of Default, the Depository shall hold such funds in trust and uninvested for the benefit of the holders of the Certificated Commercial Paper Notes and the beneficial owners of the Book-Entry Commercial Paper Notes and shall pay the holders of Certificated Commercial Paper Notes the face amount of the Certificated Commercial Paper Notes together with any interest due and owing with respect to such Certificated Commercial Paper Notes upon presentment of such matured Certificated Commercial Paper Notes and shall pay the holders of Book-Entry Commercial Paper Notes, through DTC, the face amount of the Book-Entry Commercial Paper Notes together with any interest due and owing with respect to such Book-Entry Commercial Paper Notes at or after such time as is specified in the Notes.

(c) After the opening of business of the Depository but at or before 11:00 a.m., New York City time, on the Business Day immediately succeeding the Business Day of receipt of a drawing request under the Letter of Credit

(and subject to such drawing request having been properly made in accordance with the Letter of Credit), in order to make payment of the amount of such drawing, the Issuing Bank will transfer to the Depository for deposit in the Letter of Credit Account funds sufficient for the payment of the amount of such drawing (such transfer or deposit on any one day being herein called a "Letter of Credit Disbursement"). The Depository will make and preserve for at least three years thereafter (or, if an event described in Section 7.1(i) of the Credit Agreement shall have occurred, the period during which such an event shall be continuing) a record showing the date of the receipt of such funds in the Letter of Credit Account.

SECTION 7. Inspection of Documents by Commercial Paper Noteholders. The Depository shall keep a fully executed, or conformed, copy of this Agreement (together with all amendments, modifications, supplements, waivers and consents made or given with respect thereto), on file at the Depository's Corporate Trust Office specified in the Commercial Paper Notes issued by the Depository pursuant hereto. The Depository shall permit reasonable inspection (and limited copying) to be made of this Agreement by the holder of any Certificated Commercial Paper Note or the beneficial owner of any Book-Entry Commercial Paper Note or by any officer, employee or agent of such holder or beneficial owner, provided that the person purporting to be such holder

or beneficial owner establishes to the Depository's satisfaction that he is in fact a holder or beneficial owner of such Commercial Paper Note or Notes and, in cases where inspection is sought to be made by a person purporting to be an officer, employee or agent of such holder or beneficial owner, that such person submits evidence satisfactory to the Depository of his authority to make such inspection on behalf of the holder or beneficial owner of such Commercial Paper Note. The Borrower shall deliver to the Depository and to each dealer in the Commercial Paper Notes a fully executed, or conformed copy of the Credit Agreement and shall promptly advise the Depository and each such dealer of any amendment, modification, waiver or consent made or given with respect to the Credit Agreement and, promptly after the effectiveness thereof, shall furnish the Depository and each such dealer with a fully executed or conformed copy of such amendment, modification, waiver or consent.

SECTION 8. Fees; Payment of Expenses and Taxes; Indemnity.

(a) For the services rendered hereunder by the Depository, the Borrower agrees to pay to the Depository such fees as shall be agreed upon in writing from time to time by the Borrower and the Depository.

(b) The Borrower agrees to pay all out-of-pocket expenses incurred by the Depository (including the fees and out-of-pocket expenses of counsel to the Depository and all

fees and charges assessed by DTC against the Depositary in connection with Book-Entry Commercial Paper Notes) in connection with the preparation of this Agreement, the issuance and payment of the Commercial Paper Notes, and the making of any drawings under the Letter of Credit, or in connection with any modification or amendment to, any waiver or consent under or in respect of, and the enforcement of this Agreement, the Commercial Paper Notes and the Letter of Credit. The Borrower also agrees to pay all fees, taxes and expenses in connection with the recording or filing, and all stamp and other taxes, fees and exercises, if any, including any interest and penalties which may be or are determined to be payable in connection with the issue and/or sale of the Commercial Paper Notes or the Letter of Credit.

(c) The Borrower agrees to indemnify and hold harmless the Depositary and its shareholders, directors, officers, employees and agents from and against any and all losses, liabilities (including liabilities for penalties), actions, suits, judgments, demands, damages, costs and expenses (including, without limitation, interest and attorneys' fees) resulting from the exercise of the Depositary's rights and/or the performance of its duties hereunder, including the exercise of its rights and/or the performance of its duties in connection with payment under the Letter of Credit, or resulting from any delay in paying all stamp and other taxes, if any, which may be payable or determined to

be payable in connection with the execution, delivery and enforcement of this Agreement, the Commercial Paper Notes and the Letter of Credit or any modification hereof or thereof; provided, however, that the Borrower shall not be liable to indemnify or pay the Depositary with respect to any loss, liability, action, suit, judgment, demand, damage, cost or expense resulting from or attributable to the Depositary's gross negligence or wilful misconduct or that of its officers, employees or agents (including, but not limited to, any Designated Employee). The foregoing indemnity includes, but is not limited to, any action taken or omitted to be taken by the Depositary upon telephonic instructions (if, and to the extent, authorized herein) received by the Depositary from, or believed by the Depositary reasonably and in good faith to have been given by, the proper person or persons; provided that any such person properly identifies himself or herself according to a prearranged procedure.

(d) Neither the Depositary nor any of its officers, employees or agents shall be liable to the Borrower or the Agent Bank and/or the Issuing Bank for any action taken or omitted to be taken by the Depositary or any of them hereunder or in connection with the Letter of Credit except for gross negligence or wilful misconduct, it being understood that, subject to the provisions of Section 4(c) hereof, wilful misconduct shall include (but not be limited

to) any case in which the Depository issues Commercial Paper Notes contrary to a direction from an Authorized Agent Officer or an Authorized Officer not to do so. The Depository shall not be responsible for any act or omission, or for the solvency, of DTC.

(e) The Borrower further hereby absolutely and irrevocably agrees to hold harmless and indemnify the Agent Bank and/or the Issuing Bank and its shareholders, directors, officers, employees and agents, from and against any and all claims, demands, suits, actions, causes of action, losses, costs, expenses (including the reasonable fees and disbursements of counsel) and all other liabilities whatsoever at any time and from time to time arising from the Agent Bank's and/or the Issuing Bank's performance of its duties or exercise of its rights under the Letter of Credit in accordance with the provisions of the Letter of Credit, the Credit Agreement and this Agreement, except, as to the Agent Bank, those which arise or are incurred as a result of the gross negligence or wilful misconduct of the Agent Bank and except, as to the Issuing Bank, those which arise or are incurred as a result of the gross negligence or wilful misconduct of the Issuing Bank.

SECTION 9. Additional Representation and Warranties of the

Borrower.

(a) In addition to any other representations and warranties on the part of the Borrower contained herein, the Borrower hereby represents and warrants to the Depository, the Agent Bank and the Issuing Bank that its entry into this Agreement, and the appointment by the Borrower of the Depository, have been duly authorized by all necessary corporate action on the part of the Borrower and will not violate, breach or contravene any law, rule, regulation, order, contract or agreement binding upon the Borrower.

(b) The Borrower hereby represents and warrants (which shall be a continuing representation and warranty) to the Depository, the Agent Bank and the Issuing Bank that all Commercial Paper Notes delivered to the Depository pursuant to this Agreement have been duly authorized and executed by the Borrower.

(c) Any instructions given to the Depository by an Authorized Officer to issue, authenticate and deliver a Commercial Paper Note shall constitute a representation and warranty by the Borrower that such instructions are in conformity with the terms hereof and of the Credit Agreement. The Borrower hereby acknowledges to the Depository that the Agent Bank, the Issuing Bank and the other Lenders are relying on the representation and warranty contained in the preceding sentence.

SECTION 10. Term and Termination.

(a) The term of this Agreement (except for the provisions of Sections 8 and 9, which shall survive indefinitely) shall extend from the date hereof and shall end at 5:00 p.m., New York City time, on the Expiration Date or, if earlier, the date of the termination provided in paragraph (b) below. Any Commercial Paper Notes issued and sold in accordance with the terms of this Agreement and outstanding on the date of termination of this Agreement shall nevertheless remain valid obligations of the Borrower and shall be entitled to the benefits of the Letter of Credit to the extent provided therein, and the provisions of this Agreement shall continue to be applicable with respect to Commercial Paper Notes to the same extent as if this Agreement had not terminated.

(b) Subject to the provisions of the last sentence of paragraph (a) of this Section 10, this Agreement may be terminated at any time by the Borrower or the Depositary upon 30 days' prior written notice to DTC, the Agent Bank and the Issuing Bank and the other party not terminating this Agreement.

(c) On the date of termination of this Agreement, the Depositary shall redeliver to the Borrower all Commercial Paper Notes then held by the Depositary hereunder for the Borrower's account for safekeeping, against receipt by the Borrower, and shall deposit in such accounts as may be

designated by the Borrower (unless otherwise advised by the Agent Bank) all funds, if any, then on deposit in, or otherwise to the credit of, the Commercial Paper Account in excess of that amount which is equal to the Face Value of all outstanding Commercial Paper Notes theretofore issued in accordance with the terms hereof.

SECTION 11. Concerning the Depositary.

(a) In actions undertaken by the Depositary, in holding funds on deposit in the Letter of Credit Account and in debiting the Letter of Credit Account to make payments to the holders of Commercial Paper Notes, the Depositary shall not be acting as an agent of the Borrower, the Agent Bank or the Issuing Bank, but shall be acting on behalf of the holders of the Commercial Paper Notes, and the Depositary shall hold such funds in trust for such holders.

(b) The Depositary undertakes to perform such duties and only such duties as are specifically set forth in this Agreement and no implied covenants or obligations shall be read into this Agreement against the Depositary.

(c) The Depositary may rely conclusively, as to the truth of the statements and correctness of the opinions expressed therein, upon certificates or opinions furnished to the Depositary by or on behalf of any party hereto.

(d) The Depositary shall not be liable for any error of judgment made in good faith by one of its officers, unless the Depositary was negligent in ascertaining the

pertinent facts or acting thereon. No provision of this Agreement shall require the Depositary to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties hereunder, or in the exercise of any of its rights or powers, if the Depositary shall have reasonable grounds for believing that repayment of such funds or adequate indemnity against such risk or liability is not reasonably assured to it.

(e) The Depositary may rely and shall be protected in acting or refraining from acting upon any resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, Commercial Paper Note or other paper or document believed by it to be genuine and to have been signed or presented by the proper party or parties. The Depositary shall not be bound to make any investigation into the facts or matters stated in any such resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, Commercial Paper Note or other paper or document furnished to the Depositary.

(f) Any request or direction of the Borrower, the Agent Bank and/or the Issuing Bank mentioned herein shall be sufficiently evidenced by any written or oral communication (confirmed in writing promptly thereafter) from an Authorized Agent Officer or an Authorized Officer.

(g) Whenever in the administration of this Agreement the Depository shall deem it desirable that a matter be proved or established prior to taking, suffering or omitting any action hereunder, the Depository (unless other evidence be herein specifically prescribed) may, in the absence of bad faith on its part, rely upon a certificate of an Authorized Agent Officer or an Authorized Officer and such certificates shall be full warranty to the Depository for any action taken, suffered or omitted by it under the provisions of this Agreement.

(h) The Depository may consult with counsel, and the written advice of such counsel or any opinion of counsel shall be full and complete authorization and protection in respect of any action taken, suffered or omitted by it hereunder in good faith and in reliance thereon.

(i) The Depository shall be under no obligation to exercise any of its rights or powers with respect to the Letter of Credit or any proceeds of a drawing or demand thereunder at the request or direction of any holder or holders of Commercial Paper Notes entitled to the benefit of such Letter of Credit, unless each such holder shall have offered to the Depository reasonable security or indemnity against the costs, expenses and liabilities which might be incurred by it in compliance with such request or direction.

(j) The Depositary may execute any of the trusts or powers hereunder or perform any duties hereunder either directly or by or through agents or attorneys.

(k) The recitals contained herein and in the Commercial Paper Notes, except the Depositary's certificate of authentication, shall be taken as the statements of the Borrower, and the Depositary assumes no responsibility for their correctness. The Depositary makes no representations as to the validity or sufficiency of this Agreement or of the Commercial Paper Notes. The Depositary shall not be accountable for the use or application by the Borrower of the Commercial Paper Notes or the proceeds thereof.

(l) The Depositary or any agent thereof, in its individual or in any other capacity, may become the owner or pledgee of the Commercial Paper Notes and may otherwise deal with the Borrower with the same rights it would have if it were not the Depositary or such agent.

(m) Money held by the Depositary in trust hereunder need not be segregated from other funds except to the extent required by law, by the Credit Agreement or herein. The Depositary shall be under no liability for interest on any money received by it hereunder.

SECTION 12. Resignation or Removal of Depositary.

Subject to the further provisions of this Section 12, the Depositary may resign at any time as Depositary hereunder by delivery to the Borrower, the Agent Bank and the Issuing

Bank of written notice of resignation, and may be removed by the Borrower as such Depositary at any time, with or without cause, by written notice of removal delivered to the Depositary, the Agent Bank and the Issuing Bank, and upon any such resignation or removal the Borrower may, without other formality than appointment and designation in writing, appoint a successor Depositary hereunder, provided that such successor is approved by a majority of the Lenders under the Credit Agreement. Any such appointment and designation of a successor Depositary delivered by the Borrower pursuant to this Section 12 shall be effective only if accompanied by the written consents of the Agent Bank and of the Issuing Bank concurring with such action. Upon acceptance by a qualified successor Depositary of its appointment hereunder, the Depositary shall deliver to the Issuing Bank all unissued Commercial Paper Notes as well as the Letter of Credit then held by it hereunder for the Borrower's and the Issuing Bank's accounts for safekeeping, against receipt therefor by the Issuing Bank, and shall transmit to its successor for deposit in the Commercial Paper Account and Letter of Credit Account established by such successor, all funds, if any, then on deposit in, or otherwise to the credit of, the Commercial Paper Account or the Letter of Credit Account, in excess of that amount which is equal to the Face Value of all outstanding Commercial Paper Notes theretofore issued by it hereunder. No Commercial Paper

Notes shall be delivered to the Depositary by the Borrower for safekeeping or issuance hereunder at or any time following the time of transmission to the Depositary of the Borrower's written notice of removal or the time of the Borrower's receipt of the Depositary's written notice of resignation, nor shall any Commercial Paper Notes be issued or delivered by the Depositary after transmission by it of written notice of resignation or the time of its receipt of the Borrower's written notice of removal. Anything herein to the contrary notwithstanding, the Depositary shall not be discharged from its duties or obligations hereunder following resignation or removal until a successor Depositary has been appointed by the Borrower with the approval of the Agent Bank and the Issuing Bank and such successor has accepted its appointment hereunder, a new Commercial Paper Account and a new Letter of Credit Account have been established by such successor for purposes of this Agreement and the Credit Agreement, all Commercial Paper Notes then held hereunder for the Borrower's, the Agent Bank's and the Issuing Bank's accounts for safekeeping have been delivered to the Agent Bank and all funds, if any, on deposit in, or otherwise to the credit of, the Commercial Paper Account and Letter of Credit Account maintained by the Depositary, in excess of that amount necessary to pay the Face Value of outstanding Commercial Paper Notes in full, shall have been transferred to the successor Depositary for

deposit in the Commercial Paper Account and the Letter of Credit Account established by the successor Depository. The Depository shall continue to perform its obligations hereunder with respect to all Commercial Paper Notes outstanding on the date of its resignation or removal.

SECTION 13. Amendments and Modifications. No amendment, modification, termination or waiver of any provision of this Agreement shall be effective unless the same shall be in writing and signed by all of the parties hereto (including the Agent Bank and the Issuing Bank). No such amendment, modification, termination or waiver shall affect adversely the rights of the holder or holders of any Commercial Paper Note outstanding at the time of such amendment, modification, termination or waiver unless consented to in writing by such holder or holders. In addition, no amendment, waiver or consent to or under this Agreement which could reasonably be expected to affect adversely the rights of the holders of Commercial Paper Notes will become effective unless Moody's Investors Service, Inc. and Standard & Poor's Corporation have confirmed that such amendment, waiver or consent will not cause their rating of the Commercial Paper Notes to be lowered or withdrawn.

SECTION 14. Notices. All notices, requests and demands to or upon any of the following parties shall be deemed to have been duly given or made when received and

shall be given to each party at its address set forth as follows (or to such other address for any party as may be hereafter designated in writing by such party to the other parties):

Depository:

Bank of Montreal Trust Company
77 Water Street, 4th Floor
New York, New York 10005

Attention: Therese Gaballah
Telephone: (212) 701-7652
Telecopy: (212) 701-7684

Borrower:

Southwest Gas Corporation
5241 Spring Mountain Road
Post Office Box 98510
Las Vegas, Nevada 89193-8510

Attention: Treasurer
Telephone: (702) 876-7246
Telecopy: (702) 876-7037

Agent Bank:

Union Bank of Switzerland, Los Angeles Branch
444 S. Flower Street
New York, New York 10171-0026

Attention: L. Scott Sommers
Telephone: (213) 489-0648
Telecopy: (213) 489-0697

Issuing Bank:

Union Bank of Switzerland, Los Angeles Branch
c/o Union Bank of Switzerland, New York Branch
299 Park Avenue
New York, New York 10171-0026

Attention: Clemencia Stewart
Telephone: (212) 821-3249
Telecopy: (212) 821-3259

Any notices, requests or demands required hereunder to be sent to Lehman Commercial Paper, Inc., as dealer in the Commercial Paper Notes, shall be given in accordance

with the provisions of this Section 14 to the following address (or to such other address as may hereafter be designated in writing by such dealer to the parties hereto):

Lehman Commercial Paper, Inc.
3 World Financial Center
New York, New York 10285

Attention: Commercial Paper Product Management
Telephone: (212) 526-2069
Telecopy: (212) 528-6925

The Borrower may, with the written consent of the Agent Bank and the Issuing Bank, which consent shall not be unreasonably withheld, appoint a successor or additional dealer in the Commercial Paper Notes; provided that such successor or additional dealer shall designate in writing to the parties hereto an address where all notices, requests or demands required hereunder are to be sent.

SECTION 15. Binding Effect, Assignment. This Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns; provided, however, that no party hereto may assign any of its rights or obligations hereunder except with the prior written consent of all parties hereto.

SECTION 16. Governing Law. This Agreement shall be deemed to be a contract made under the laws of the State of New York and for all purposes shall be governed by and construed in accordance with the laws of said State, without regard to principles of conflicts of laws.

SECTION 17. Acknowledgement of Receipt of Documents. The Depository hereby acknowledges receipt of a fully executed counterpart of the Credit Agreement. Reference is made to the provisions of the Credit Agreement for the terms upon which Commercial Paper Notes may be issued and sold by the Borrower. The Depository shall have no obligation to the Borrower or any other Person, however, for the performance of any of the terms of the Credit Agreement except as specifically required by this Agreement.

SECTION 18. Execution in Counterparts. This Agreement may be executed in any number of counterparts and by different parties hereto on separate counterparts, each of which counterparts, when so executed and delivered, shall be deemed to be an original and all of which counterparts, taken together, shall constitute one and the same Agreement. Sections headings used in this Agreement are for convenience only and shall not affect the construction of this Agreement.

SECTION 19. Rights of Agent Bank and Issuing Bank. Whenever the word "party" is used herein, it shall include the Agent Bank and the Issuing Bank, each of which has joined in this Agreement as a consenting party, unless the context indicates otherwise. The Borrower and the Depository further agree that the Agent Bank and the Issuing Bank shall be entitled to enforce for the benefit of the

Lenders the respective obligations of the Borrower and the Depositary hereunder.

IN WITNESS WHEREOF, the parties hereto have executed this Depositary Agreement as of the day and year first above written.

SOUTHWEST GAS CORPORATION

By: _____
Title:

BANK OF MONTREAL TRUST
COMPANY, as Depositary

By: _____
Title:

UNION BANK OF SWITZERLAND,
LOS ANGELES BRANCH, AGENT BANK

By: _____
Title:

By: _____
Title:

UNION BANK OF SWITZERLAND,
LOS ANGELES BRANCH, ISSUING BANK

By: _____
Title:

By: _____
Title:

SOUTHWEST GAS CORPORATION
LIST OF SUBSIDIARIES OF THE REGISTRANT
AT DECEMBER 31, 1994

SUBSIDIARY NAME -----	STATE OF INCORPORATION OR ORGANIZATION TYPE -----
The Southwest Companies	Nevada
PriMerit Bank	Federally chartered stock savings bank
Paiute Pipeline Company	Nevada
Carson Water Company	Nevada
Southwest Gas Transmission Company	Partnership between Southwest Gas Corporation and Utility Financial Corp.
Utility Financial Corp.	Nevada
LNG Energy, Inc.	Nevada

PRIMERIT BANK
SUBSIDIARIES
AT DECEMBER 31, 1994

First Nevada, Ltd.	Nevada
Home Trustee, Inc.	Nevada
Nevada Vistas Corporation	Nevada
Nevada High Country II Corporation	Nevada
Trans-Pacific Funding Corp.	California
Nevada Karmico	California
Nevada Los Colinas	Nevada
Nevada Verdemont	California
First Nevada Company	Nevada
Nevada Equities, Ltd.	Nevada
BSF Trustee, Inc.	Nevada
Nevada Laurel Corporation	Nevada
Nevada Capital, Ltd.	California
PriMerit Investor Services	Nevada
Nevada Victorville Corporation	California
Nevada Esinore Corporation	California
Nevada La Cresta Corporation	California

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants, we hereby consent to the incorporation of our report dated February 8, 1995 included in this Form 10-K, into Southwest Gas Corporation's previously filed registration statements on Form S-3 (File No. 33-35636), Form S-8 (File No. 33-35637), Form S-8 (File No. 33-35737) and Form S-3 (File No. 33-55621).

ARTHUR ANDERSEN LLP

Las Vegas, Nevada
March 14, 1995

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM SOUTHWEST GAS CORPORATION'S FORM 10-K FOR THE YEAR ENDED DECEMBER 31, 1994 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

1,000

YEAR	DEC-31-1994	DEC-31-1994
		35,262
	77,657	
	11,003	
	0	
529,400		
101,880		
99,403		
	955,810	
	17,659	
	3,089,993	
	1,239,949	
	281,935	
342,222		
	790,798	
	22,912	
4,000		
	0	
	316,177	
3,089,993		
	76,080	
	39,084	
	3,270	
	118,434	
	44,116	
	59,790	
	58,644	
	7,230	
	34	
	47,981	
	44,023	
26,301		
	0	
	0	
	26,301	
	1.22	
	1.22	
	3.69	
	12,693	
	0	
	16,768	
	32,200	
	16,251	
	8,422	
	2,600	
	17,659	
17,659		
	0	
	0	

BALANCE SPECIFIC TO FINANCIAL SERVICES SEGMENT
 CONSOLIDATED FINANCIAL STATEMENT BALANCE
 INCLUDES GAS PLANT IN SERVICE, NET \$1,035,916
 BALANCE INCLUDES CONSOLIDATED DEFERRED INCOME TAXES, ACCOUNTS PAYABLE AND
 OTHER ACCRUED LIABILITIES
 BANK SPECIFIC ITEMS INCLUDING GENERAL AND ADMINISTRATIVE EXPENSE, GOODWILL
 AMORTIZATION AND LOSS (INCOME) FROM REAL ESTATE OPERATIONS

PRIMERIT BANK

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

(DOLLARS IN THOUSANDS)

	DECEMBER 31,	
	1994	1993
	-----	-----
ASSETS		
Cash and due from banks.....	\$ 35,262	\$ 55,712
Cash equivalents.....	88,660	63,503
Debt securities available for sale, at fair value.....	529,400	595,726
Debt securities held to maturity (fair value of \$99,403 in 1994 and \$68,738 in 1993).....	101,880	69,660
Loans receivable held for sale (fair value of \$2,135 in 1994 and \$22,019 in 1993).....	2,114	20,051
Loans receivable, net of allowance for estimated credit losses of \$17,659 in 1994 and \$16,251 in 1993.....	936,037	817,279
Real estate acquired through foreclosure.....	7,631	9,707
Real estate held for sale or development, net of allowance for estimated losses of \$476 in 1994 and \$935 in 1993.....	771	4,088
Premises and equipment, net.....	21,666	22,326
FHLB stock, at cost.....	17,277	16,501
Income tax benefit.....	4,055	2,149
Other assets.....	5,928	5,216
Excess of cost over net assets acquired.....	65,640	69,501
	-----	-----
	\$1,816,321	\$1,751,419
	=====	=====
LIABILITIES AND STOCKHOLDER'S EQUITY		
Deposits.....	\$1,239,949	\$1,207,852
Securities sold under agreements to repurchase.....	281,935	259,041
Advances from FHLB.....	99,400	71,000
Notes payable.....	8,135	8,265
Other liabilities and accrued expenses.....	20,514	28,318
	-----	-----
Total liabilities.....	1,649,933	1,574,476
	-----	-----
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDER'S EQUITY:		
Common stock: \$1.00 par value; authorized: 100,000 shares; issued and outstanding: 56,629 shares in 1994 and 1993.....	57	57
Additional paid-in capital.....	160,442	160,442
Unrealized gain (loss), net of tax, on debt securities available for sale.....	(9,467)	8,761
Retained earnings.....	15,356	7,683
	-----	-----
Total stockholder's equity.....	166,388	176,943
	-----	-----
	\$1,816,321	\$1,751,419
	=====	=====

See notes to consolidated financial statements.

PRIMERIT BANK
CONSOLIDATED STATEMENTS OF OPERATIONS
(DOLLARS IN THOUSANDS)

	YEAR ENDED DECEMBER 31,		
	1994	1993	1992
Interest income on:			
Loans receivable.....	\$ 76,080	\$ 73,106	\$ 87,038
Debt securities available for sale.....	34,165	30,395	1,043
Debt securities held to maturity.....	4,919	26,909	75,955
Cash equivalents.....	2,432	1,321	1,349
Dividends on FHLB stock.....	838	594	293
	-----	-----	-----
Total interest income.....	118,434	132,325	165,678
	-----	-----	-----
Interest expense on:			
Deposits.....	44,116	57,643	85,974
Securities sold under agreements to repurchase.....	11,024	13,132	12,213
Borrowings.....	4,178	4,338	9,908
Cost of hedging activities.....	485	24	4,794
Less capitalized and transferred interest.....	(13)	(61)	(972)
	-----	-----	-----
Total interest expense.....	59,790	75,076	111,917
	-----	-----	-----
Net interest income.....	58,644	57,249	53,761
Provision for estimated credit losses.....	(7,230)	(6,212)	(14,129)
	-----	-----	-----
Net interest income after provision for estimated credit losses.....	51,414	51,037	39,632
Net loss from real estate operations.....	(612)	(910)	(15,286)
Non-interest income (loss):			
Gain on sale of loans.....	598	1,835	5,676
Loss on sale of loans.....	(351)	(84)	(1,043)
Gain on sale of debt securities.....	56	8,317	13,649
Loss on sale of debt securities.....	(22)	(344)	(371)
Gain (loss) on secondary marketing hedging activities....	389	(968)	--
Gain on sale of mortgage loan servicing.....	--	--	1,930
Loss on cancellation of interest rate swaps.....	--	--	(14,087)
Loss on sale -- Arizona branches.....	--	(6,262)	--
Loan related fees.....	1,165	1,025	2,280
Deposit related fees.....	6,788	6,397	5,413
Gain on sale of credit card receivables.....	1,689	--	--
Other income.....	319	2,133	1,945
	-----	-----	-----
Total non-interest income.....	10,631	12,049	15,392
General and administrative expenses:			
Compensation and employee benefits.....	21,781	23,566	22,542
Office occupancy.....	6,197	6,189	5,717
Furniture, fixtures and equipment.....	4,078	4,799	4,921
Deposit insurance premiums.....	3,310	3,744	3,638
Marketing.....	1,295	1,637	2,115
Data processing and communications.....	2,623	2,831	2,556
Other.....	4,224	5,530	3,820
	-----	-----	-----
Total general and administrative expenses.....	43,508	48,296	45,309
Amortization of excess of cost over net assets acquired....	3,861	3,984	4,156
	-----	-----	-----
Earnings (loss) before provision for income taxes.....	14,064	9,896	(9,727)
Provision for income taxes.....	6,391	6,345	91
	-----	-----	-----
Net earnings (loss) before cumulative effect of accounting change.....	7,673	3,551	(9,818)
Cumulative effect of change in method of accounting for income taxes.....	--	3,045	--
	-----	-----	-----
Net earnings (loss).....	\$ 7,673	\$ 6,596	\$ (9,818)
	=====	=====	=====

See notes to consolidated financial statements.

PRIMERIT BANK

CONSOLIDATED STATEMENTS OF CASH FLOWS

(DOLLARS IN THOUSANDS)

	YEAR ENDED DECEMBER 31,		
	1994	1993	1992
Cash flows from operating activities:			
Net earnings (loss).....	\$ 7,673	\$ 6,596	\$ (9,818)
Adjustments to net earnings (loss) to reconcile to net cash provided by operating activities:			
Cumulative effect of change in method of accounting for income taxes.....	--	(3,045)	--
Depreciation and amortization.....	3,918	4,511	4,235
Provisions for estimated losses.....	7,393	7,222	32,438
Net gains on sales of loans, servicing, and credit card receivables.....	(1,936)	(1,751)	(6,563)
Net gains on sales of debt securities.....	(34)	(7,973)	(13,278)
Loss (gain) on secondary marketing hedging activities.....	(389)	968	--
Cancellation of interest rate swaps.....	--	--	14,087
Dividends on FHLB stock.....	(838)	(594)	(494)
Amortization of deferred fees.....	(4,194)	(3,424)	(3,087)
Amortization of premiums, discounts and deferred gains.....	2,265	3,291	2,868
Amortization of excess of cost over net assets acquired.....	3,861	3,984	4,156
Loss on sale of Arizona branches.....	--	6,262	--
Increase (decrease) in income taxes payable.....	6,837	(2,013)	(2,110)
Deferred income taxes (benefit).....	1,098	12,478	(6,982)
Decrease (increase) in other assets.....	(650)	1,964	1,745
Increase (decrease) in other liabilities.....	565	10,387	(12,213)
Total adjustments.....	17,896	32,267	14,802
Net cash provided by operating activities...	25,569	38,863	4,984
Cash flows from investing activities:			
Proceeds from maturities and principal repayments of debt securities.....	291,747	293,788	348,603
Purchases of debt securities.....	(296,349)	(113,078)	(545,706)
Proceeds from sales of debt securities.....	5,074	360,853	274,802
Proceeds from redemption of FHLB stock.....	--	902	3,695
Principal repayments of loans.....	311,236	330,033	326,920
Loan originations.....	(466,260)	(516,642)	(517,431)
Proceeds from sales of loans, loan servicing rights, and credit card receivables.....	46,090	78,353	240,605
Proceeds (payment) for termination of secondary marketing hedges.....	389	(968)	--
Termination of interest rate swaps.....	--	--	(14,087)
Proceeds from sales of real estate held for development.....	4,294	1,926	11,003
Acquisition of real estate held for development....	(1,140)	(3,211)	(4,246)
Proceeds from sales of real estate acquired through foreclosure.....	4,048	22,916	18,030
Proceeds from sale of Arizona assets and services...	--	6,718	--
Net change to premises and equipment.....	(3,252)	(1,521)	(3,078)
Net cash provided by (used in) investing activities.....	(104,123)	460,069	139,110

See notes to consolidated financial statements.

PRIMERIT BANK

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

(DOLLARS IN THOUSANDS)

	YEAR ENDED DECEMBER 31,		
	1994	1993	1992
Cash flows from financing activities:			
Proceeds from deposits.....	\$ 4,872,023	\$ 9,933,585	\$ 8,245,167
Sale and assumption of Arizona deposit liabilities.....	--	(320,902)	--
Payments for maturing deposits.....	(4,839,926)	(10,026,400)	(8,356,613)
Proceeds from securities sold under agreements to repurchase.....	281,333	1,499,893	1,448,546
Repayment of securities sold under agreements to repurchase.....	(258,439)	(1,617,711)	(1,336,220)
Proceeds from other borrowings.....	31,900	65,000	1,244
Repayment of other borrowings.....	(3,630)	(45,375)	(106,892)
Proceeds from capital contribution by Southwest.....	--	--	10,000
Net cash provided by (used in) financing activities.....	83,261	(511,910)	(94,768)
Net increase (decrease) in cash and cash equivalents.....	4,707	(12,978)	49,326
Cash and cash equivalents at the beginning of the year.....	119,215	132,193	82,867
Cash and cash equivalents at December 31.....	\$ 123,922	\$ 119,215	\$ 132,193
Supplemental disclosures of cash flow information:			
Cash paid (received) during the year for:			
Interest, net of amount capitalized.....	\$ 14,521	\$ 18,291	\$ 33,843
Income taxes, net.....	\$ (1,517)	\$ (4,103)	\$ 9,332

CONSOLIDATED STATEMENTS OF STOCKHOLDER'S EQUITY

(DOLLARS IN THOUSANDS)

	COMMON STOCK	ADDITIONAL PAID-IN CAPITAL	UNREALIZED GAIN (LOSS)	RETAINED EARNINGS	TOTAL STOCKHOLDER'S EQUITY
Balance, January 1, 1992.....	\$53	\$150,446	\$ --	\$10,905	\$161,404
Capital contribution.....	4	9,996	--	--	10,000
Net loss.....	--	--	--	(9,818)	(9,818)
Balance, December 31, 1992.....	57	160,442	--	1,087	161,586
Unrealized gain, net of tax, on debt securities available for sale.....	--	--	8,761	--	8,761
Net earnings.....	--	--	--	6,596	6,596
Balance, December 31, 1993.....	57	160,442	8,761	7,683	176,943
Unrealized loss, net of tax, on debt securities available for sale.....	--	--	(18,228)	--	(18,228)
Net earnings.....	--	--	--	7,673	7,673
Balance, December 31, 1994.....	\$57	\$160,442	\$ (9,467)	\$15,356	\$166,388

See notes to consolidated financial statements.

PRIMERIT BANK

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(DOLLARS IN THOUSANDS)

NOTE 1 -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BUSINESS

PriMerit Bank and subsidiaries (the Bank), a wholly-owned subsidiary of Southwest Gas Corporation (Southwest), operates in the thrift industry as a federal savings bank with membership in the Federal Home Loan Bank (FHLB) system. The Bank's deposit accounts are insured by the Savings Association Insurance Fund, a division of the Federal Deposit Insurance Corporation, up to the maximum permitted by law.

SALE OF ARIZONA BRANCH OPERATIONS

In May 1993, the Bank signed a Definitive Agreement with World Savings and Loan Association (World) of Oakland, California, whereby World agreed to acquire the Bank's Arizona branch operations, including all related deposit liabilities of approximately \$321 million (Arizona sale). The transaction was approved by the appropriate regulatory authorities and closed in August 1993. During 1993, the Bank recorded a write-off of \$5.9 million in goodwill (excess of cost over net assets acquired) which resulted from a 1988 acquisition of an Arizona thrift, and \$367 in other net costs related to the Bank's Arizona operations included in Loss on sale -- Arizona branches in the Consolidated Statements of Operations. The Bank sold \$334 million of mortgage-backed securities (MBS) to effect the sale of the Bank's Arizona-based deposit liabilities to World and to maintain the Bank's interest rate risk (IRR) position. The sale of the securities resulted in a gain of \$7.4 million (\$4.9 million after tax) included in Gain on sale of debt securities in the Consolidated Statements of Operations for 1993. The final disposition of the Bank's Arizona branch operations and sale of MBS resulted in an after-tax loss of approximately \$1 million.

PRINCIPLES OF CONSOLIDATION

The accompanying financial statements consolidate the accounts of the Bank and all of its subsidiaries. All material intercompany transactions and accounts have been eliminated. The Bank's investments in real estate ventures are accounted for on the equity method.

PRINCIPLES OF STATEMENTS OF CASH FLOWS

For purposes of reporting cash flows, cash and cash equivalents include cash on hand, amounts due from banks, and federal funds sold. Generally, federal funds are sold for one business day. In addition, the Bank considers all debt securities with maturities of three months or less to be cash equivalents. The statement of cash flows present gross cash receipts and disbursements from lending and deposit gathering activities.

DEBT SECURITIES

On December 31, 1993, the Bank adopted Statement of Financial Accounting Standards (SFAS) No. 115, "Accounting for Certain Investments in Debt and Equity Securities." The statement requires classification of investments in debt and equity securities into one of three categories: held to maturity, available for sale, or trading. At the time of purchase, the Bank designates a security into one of these three categories.

Debt securities classified as held to maturity are those which the Bank has the positive intent and ability to hold to maturity. These securities are carried at cost adjusted for the amortization of the related premiums or accretion of the related discounts into interest income using methods approximating the level-yield method or a method based on principal repayments over the actual lives of the underlying loans. The Bank has the ability and it is its policy to hold the debt securities so designated until maturity. The Bank's current accounting policy states that no security with a remaining maturity greater than 25 years may be designated as held to maturity.

PRIMERIT BANK

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(DOLLARS IN THOUSANDS)

Securities classified as available for sale are those which the Bank intends to hold for an indefinite period and may be sold in response to changes in market interest rates, changes in the security's prepayment risk, the Bank's need for liquidity, changes in the availability and yield of alternative investments, and other asset/liability management needs.

Securities classified as available for sale are stated at fair value in the Consolidated Statements of Financial Condition. Changes in fair value are reported net of tax as a separate component of stockholder's equity. At December 31, 1994, the Bank recorded a \$9.5 million unrealized loss, net of tax, on \$529.4 million of debt securities available for sale. Subsequent realized gains or losses are recorded into income when these securities are sold.

Trading securities are those which are bought and held principally for the purpose of selling them in the near term. Trading securities include MBS held for sale in conjunction with mortgage banking activities. Trading securities are measured at fair value with changes in fair value included in earnings. At December 31, 1994 and December 31, 1993, no securities were designated as trading securities.

LOANS RECEIVABLE

Real estate loans are recorded at cost, net of the undisbursed loan funds, loan discounts, unearned interest, deferred loan fees and provisions for estimated credit losses. Interest on loans receivable is credited to income when earned. Generally, when a loan becomes 90 days contractually delinquent, the accrual of interest is ceased and all previously accrued, but uncollected, interest income is reversed. Interest income on loans placed on non-accrual status is generally recognized on a cash basis.

Fees are charged for originating and in some cases, for committing to originate loans. In accordance with SFAS No. 91, "Accounting for Non-refundable Fees and Costs Associated with Originating or Acquiring Loans and Initial Direct Costs of Leases," loan origination and commitment fees, offset by certain direct origination costs, are being deferred, and the net amounts amortized as an adjustment of the related loans' yields over the contractual lives thereof. Unamortized fees are recognized as income upon the sale or payoff of the loan.

Unearned interest, premiums and discounts on consumer installment, equity and property improvement loans are amortized to income over the expected lives of the loans using a method which approximates the level-yield method.

MORTGAGE BANKING ACTIVITIES

The Bank began execution of a strategy to restructure its balance sheet, and changed its accounting policy with regard to loans held for investment versus held for sale as a result of a review of the Bank's asset size, mix and IRR in 1992. The Bank's balance sheet restructuring involved the sale of all fixed-rate single-family residential loans and MBS with remaining maturities greater than or equal to 25 years (which possess normal qualifying characteristics required for sale), canceling interest rate swaps which hedged the IRR of such assets, and reinvesting the proceeds of the sales in adjustable-rate and five-year fixed-rate balloon MBS.

The Bank's accounting policy was amended to designate all fixed-rate interest-sensitive assets with maturities greater than or equal to 25 years (which possess normal qualifying characteristics required for sale) as held for sale or available for sale, along with single-family residential loans originated for specific sales commitments. Fixed-rate interest-sensitive assets with maturities less than 25 years, and all adjustable-rate interest-sensitive assets continue to be held for investment unless designated as held for sale or available for sale at time of origination or purchase.

In conjunction with this balance sheet restructuring, in 1992, the Bank sold \$152 million of fixed-rate single-family residential loans, \$241 million of fixed-rate MBS, and canceled \$300 million (notional amount) of interest rate swaps hedging these assets. Loans held for sale are carried at the lower of amortized cost or market value as determined by outstanding investor commitments or, in the absence of such commitments, current investor yield requirements calculated on an aggregate basis. Valuation adjustments are charged against loss on sale of loans in the Consolidated Statements of

PRIMERIT BANK

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(DOLLARS IN THOUSANDS)

Operations. Gains and losses on loan and MBS sales are determined using the specific identification method. Gains and losses are recognized to the extent that sales proceeds exceed or are less than the carrying value of the loans and MBS. Loans sold with servicing retained include a normal servicing fee to be earned by the Bank as income over the life of the loan. Loans held for sale may be securitized into MBS and designated as trading securities.

REAL ESTATE ACQUIRED THROUGH FORECLOSURE

Real estate acquired through foreclosure is stated at the lower of cost or fair value less costs to sell. Included in real estate acquired through foreclosure is \$2.9 million and \$5.5 million of loans foreclosed in-substance at December 31, 1994 and 1993, respectively. Write downs to fair value, disposition gains and losses, and operating income and costs are charged to the allowance for estimated credit losses.

Loans foreclosed in-substance consist of loans accounted for as foreclosed property even though actual foreclosure has not occurred. Although the collateral underlying these loans has not been repossessed, the borrower has little or no equity in the collateral at its current estimated fair value. Proceeds for repayment are expected to come only from the operation or sale of the collateral, and it is doubtful the borrower will rebuild equity in the collateral or repay the loan by other means in the foreseeable future. The amounts ultimately recovered from loans foreclosed in substance could differ from the amounts used in arriving at the net carrying value of the assets because of future market factors beyond management's control or changes in strategy for recovering the investment.

ALLOWANCE FOR ESTIMATED CREDIT LOSSES

On a routine basis, management evaluates the adequacy of the allowances for estimated losses on loans, investments, and real estate and establishes additions to the allowances through provisions to expense. The Bank utilizes a comprehensive internal asset review system and general valuation allowance methodology. General valuation allowances are established for each of the loan, investment, and real estate portfolios for unforeseen losses. A number of factors are taken into account in determining the adequacy of the level of allowances including management's review of the extent of existing risks in the portfolios and of prevailing and anticipated economic conditions, actual loss experience, delinquencies, regular reviews of the quality of the Bank's loan, investment, and real estate portfolios by the Risk Management Committee and examinations by regulatory authorities.

Charge-offs are recorded on particular assets when it is determined that the fair or net realizable value of an asset is below the carrying value. When a loan is foreclosed, the asset is written down to fair value based on a current appraisal of the subject property.

While management uses currently available information to evaluate the adequacy of allowances and estimate identified losses for charge off, ultimate losses may vary from current estimates. Adjustments to estimates are charged to earnings in the period in which they become known.

In May, 1993, the Financial Accounting Standards Board issued SFAS No. 114, "Accounting by Creditors for Impairment of a Loan," which was amended by SFAS No. 118, in October, 1994. A loan is considered impaired when, based on current information and events, it is probable that a creditor will be unable to collect all amounts due according to the contractual terms of the loan agreement. These statements are applicable to all creditors and to all loans, uncollateralized as well as collateralized, except for large groups of smaller-balance homogeneous loans that are collectively evaluated for impairment, loans that are measured at fair value or at lower of cost or fair value, leases, and debt securities as defined in SFAS No. 115. The statements require that impaired loans be measured at the present value of expected future cash flows by discounting those cash flows at the loan's effective interest rate or, in the case of collateral dependent loans such as mortgage loans, at the fair value of the collateral. The statements also amend SFAS No. 5, "Accounting for Contingencies," to clarify that a creditor should evaluate the collectibility of both contractual interest and principal of a receivable when assessing the need for a loss accrual.

PRIMERIT BANK

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(DOLLARS IN THOUSANDS)

The provisions of the statements apply to financial statements issued for fiscal years beginning after December 15, 1994, with earlier application permitted. Retroactive restatement of previously issued annual financial statements is not permitted. The initial adoption of these statements on January 1, 1995 did not have a material impact on its financial position or results of operations.

PREMISES AND EQUIPMENT

Depreciation and amortization of premises and equipment are provided using the straight-line method over the estimated useful lives of the various classes of assets. Maintenance and repairs are charged to expense as incurred. Major expenditures for renewals and betterments are capitalized and depreciated over their estimated useful lives.

INTEREST RATE EXCHANGE AGREEMENTS

The financial instruments approved for the Bank to use include: interest rate swaps, interest rate caps, interest rate collars, interest rate futures, and put and call options to hedge its exposure to IRR. These instruments are used only to hedge asset and liability portfolios and are not used for speculative purposes. Premiums, discounts, and fees associated with interest rate exchange agreements are amortized to expense on a straight-line basis over the lives of the agreements. The net interest received or paid is reflected as interest expense as a cost of hedging. Gains or losses resulting from the cancellation of agreements hedging assets and liabilities which remain outstanding are deferred and amortized over the remaining contract lives. Gains or losses are recognized in the current period if the hedged asset or liability is retired.

INCOME TAXES

The Bank files a consolidated federal income tax return with Southwest. Income taxes for the Bank are provided for on a separate return basis.

The provision for income taxes is based on earnings before income taxes reflected in the Consolidated Statements of Operations after giving effect to applicable income tax laws. Prior to 1993, the Bank utilized the deferred method of accounting for income taxes under Accounting Principle Bulletin Opinion No. 11 (APB No. 11). The provision for income taxes includes deferred income taxes, which result from reporting items of income and expense for financial statement purposes in different accounting periods than for income tax purposes.

On January 1, 1993, the Bank adopted SFAS No. 109, "Accounting for Income Taxes." SFAS No. 109 supersedes APB No. 11 and SFAS No. 96. The statement utilizes the liability method for recognition and measurement of income taxes and allows recognition of deferred tax assets. SFAS No. 109 generally eliminates on a prospective basis, Accounting Principle Bulletin Opinion No. 23 (APB No. 23) exceptions, including the tax bad debt reserve of savings and loan institutions. Under SFAS No. 109, no deferred taxes are provided on bad debt reserves arising prior to December 31, 1987, unless it becomes apparent that those differences will reverse in the foreseeable future. Deferred taxes are provided on bad debt reserves arising after December 31, 1987. The Bank adopted SFAS No. 109 on a prospective basis, with the cumulative effect of this accounting change amounting to a reduction of financial statement tax liability of \$3,045 in 1993.

PENSION PLAN

The Bank has utilized SFAS No. 87, "Employers' Accounting for Pensions" since 1987. It is the policy of the Bank to reflect in the projected benefit obligation all benefit improvements to which the Bank is committed as of the current valuation date. The Bank is amortizing the initial net transition liability as of January 1, 1987 (the effective date of this statement) over a period of 15 years utilizing the straight-line method. The Bank uses the market value of assets to determine pension expense and amortizes the increases in prior service costs over the expected future service of active participants as of the date such costs are first recognized.

PRIMERIT BANK

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(DOLLARS IN THOUSANDS)

EXCESS OF COST OVER NET ASSETS ACQUIRED

Excess of cost over net assets acquired arose from Southwest's acquisition of the Bank in 1986 and from the Bank's acquisition of a thrift institution in 1982. The excess of cost over net assets acquired which arose from the acquisition of a thrift institution in 1988 was written-off in conjunction with the Arizona sale in 1993. Excess of cost over net assets acquired is amortized to expense over a 25 year period using the straight-line method.

POSTEMPLOYMENT BENEFITS

On January 1, 1994, the Bank adopted SFAS No. 112, "Employer's Accounting for Postemployment Benefits." The statement requires an employer to recognize the cost of benefits provided to former or inactive employees after employment but before retirement on an accrual basis as employees perform services to earn the benefit. Postemployment benefits include disability benefits, salary continuation, severance benefits and continuation of benefits such as health care and life insurance coverage. Adoption has had an immaterial impact on the Bank's financial position and results of operations.

SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions," was adopted in 1993, but had no impact on the Bank's financial position or results of operations.

RECLASSIFICATIONS

Certain reclassifications have been made to conform the prior years with the current year presentation.

NOTE 2 -- FAIR VALUE OF FINANCIAL INSTRUMENTS

SFAS No. 107, "Disclosures About Fair Value of Financial Instruments," requires that the Bank disclose estimated fair values for its financial instruments.

The fair value estimates were made at a discreet point in time based on relevant market information and other information about the financial instruments. Because no active market exists for a significant portion of the Bank's financial instruments, fair value estimates were based on judgments regarding current economic conditions, risk characteristics of various financial instruments, prepayment assumptions, future expected loss experience, and such other factors. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

In addition, the fair value estimates were based on existing on and off-balance sheet financial instruments without attempting to estimate the value of existing and anticipated future customer relationships and the value of assets and liabilities that were not considered financial instruments. Significant assets and liabilities that were not considered financial assets or liabilities include the Bank's retail branch network, deferred tax assets and liabilities, furniture, fixtures and equipment, and goodwill.

Additionally, the Bank intends to hold a significant portion of its assets and liabilities to their stated maturities. Therefore, the Bank does not intend to realize any significant differences between carrying value and fair value through sale or other disposition. No attempt should be made to adjust stockholder's equity to reflect the following fair value disclosures.

PRIMERIT BANK

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(DOLLARS IN THOUSANDS)

Fair value estimates, methods and assumptions are set forth below for the Bank's financial instruments as of December 31:

	1994		1993	
	CARRYING VALUE	FAIR VALUE	CARRYING VALUE	FAIR VALUE
ASSETS				
Cash and due from banks.....	\$ 35,262	\$ 35,262	\$ 55,712	\$ 55,712
Cash equivalents.....	88,660	88,660	63,503	63,503
Debt securities available for sale.....	529,400	529,400	595,726	595,726
Debt securities held to maturity.....	101,880	99,403	69,660	68,738
Loans receivable held for sale.....	2,114	2,135	20,051	22,305
Loans receivable, net.....	936,037	897,723	817,279	841,127
Federal Home Loan Bank Stock.....	17,277	17,277	16,501	16,501
LIABILITIES				
Deposits.....	1,239,949	1,229,893	1,207,852	1,217,225
Securities sold under agreements to repurchase.....	281,935	282,155	259,041	261,625
Advances from FHLB.....	99,400	97,565	71,000	71,281
Notes payable.....	8,135	8,174	8,265	8,647

	1994		1993	
	COMMITMENT	FAIR VALUE	COMMITMENT	FAIR VALUE
OFF-BALANCE SHEET				
Outstanding commitments to originate loans.....	\$ 46,387	\$ (420)	\$ 47,903	\$ 53
Commercial and other letters of credit.....	707	6	1,169	12
Interest rate swaps.....	72,450	2,986	7,500	169
Loan servicing rights.....	415,097	4,958	476,835	4,451
Outstanding firm commitments to sell loans and MBS.....	2,544	(2)	25,905	21
Outstanding master commitments to sell loans.....	116,097	(14)	217,393	(11)
Outstanding commitments to purchase loans and MBS.....	--	--	51,500	3
Outstanding commitments to builders....	10,543	(33)	--	--

The fair value of cash and due from banks, cash equivalents, and FHLB stock was estimated as the carrying value. This is based upon the short term nature of the instruments and in the case of FHLB stock, the book value represents the price at which the FHLB will redeem the stock. The fair value of debt securities held to maturity, debt securities available for sale, and loans receivable held for sale was estimated using quoted market prices and dealer quotes, with the exception of privately issued debt securities and collateralized mortgage obligation (CMO) residuals. Privately issued debt securities were valued based on the estimated fair value of the underlying loans. CMO residuals were valued using the discounted estimated future cash flows from these investments. The fair value for securities sold under agreements to repurchase and notes payable was estimated by discounting the future cash flows using market and dealer quoted rates available to the Bank for debt with the same remaining maturities and characteristics. The fair value for advances from FHLB was estimated using the quoted cost to prepay the advances.

Fair values for loans receivable were estimated for portfolios of loans with similar financial characteristics. Loans were segregated by type, such as commercial, commercial real estate, single-family residential, credit card, and other consumer.

PRIMERIT BANK

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(DOLLARS IN THOUSANDS)

Each loan category was further segregated into fixed and adjustable-rate interest terms. Fair value for single-family residential loans was estimated by discounting the estimated future cash flows from these instruments using quoted market rates and dealer prepayment assumptions. Fair value for commercial mortgage, construction, land, and other commercial loans was derived by discounting the estimated future cash flows from these instruments using the rate that loans with similar maturity and underwriting characteristics would be made on December 31, 1994 or December 31, 1993 as applicable. Fair value for consumer loans was estimated using dealer quotes for securities backed by similar collateral. The book value for the allowance for estimated credit losses was used as the fair value estimate for credit losses within the entire loan portfolio.

The fair value of commitments to originate loans and builder commitments was estimated by calculating a theoretical gain or loss on the sale of a funded loan considering the difference between current levels of interest rates and the committed loan rates. Letters of credit were valued based on fees currently charged for similar agreements. The fair value of interest rate swaps was determined by using various dealer quotes. The fair value for loan servicing rights was estimated based upon dealer and market quotes for the incremental price paid for loans sold servicing released, adjusted for the age of the portfolio. Outstanding firm and master commitments to purchase and sell loans and debt securities were valued based on the market and dealer quotes to terminate or fill the commitments.

The fair value of demand deposits, savings deposits and money market deposits was estimated at book value as reported in the financial statements since it represents the amount payable on demand. The fair value of fixed maturity deposits was estimated using the rates currently offered by the Bank for deposits with similar remaining maturities. The fair value of deposits does not include an estimate of the long term relationship value of the Bank's deposit customers or the benefit that results from the low cost funding provided by deposit liabilities compared to the cost of wholesale borrowings.

NOTE 3 -- CASH EQUIVALENTS

Cash equivalents are stated at cost, which approximates fair value, and include the following:

	1994	1993
	-----	-----
Securities purchased under resale agreements.....	\$77,657	\$55,102
Federal funds sold.....	11,003	8,401
	-----	-----
	\$88,660	\$63,503
	=====	=====

Securities purchased under resale agreements of \$77,657 at December 31, 1994 and \$55,102 at December 31, 1993 matured within 11 days and 24 days, respectively, and called for delivery of the same securities. The collateral for these agreements consisted of debt securities which at December 31, 1994 and 1993 were held on the Bank's behalf by its safekeeping agents for various broker/dealers. The securities purchased under resale agreements represented 46.7% of the Bank's stockholder's equity at December 31, 1994 and 31.1% at December 31, 1993.

The average amount of securities purchased under resale agreements outstanding during the years ended December 31, 1994 and 1993 were \$36,214 and \$26,599, respectively. The maximum amount of resale agreements outstanding at any month end was \$77,657 during 1994 and \$60,018 during 1993.

PRIMERIT BANK

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(DOLLARS IN THOUSANDS)

NOTE 4 -- DEBT SECURITIES HELD TO MATURITY AND DEBT SECURITIES AVAILABLE FOR SALE

Debt securities held to maturity are stated at amortized cost. The yields are computed based upon amortized cost. The amortized cost, estimated fair values and yields of debt securities held to maturity are as follows:

	AMORTIZED COST	TOTAL UNREALIZED GAINS	TOTAL UNREALIZED LOSSES	ESTIMATED FAIR VALUE	YIELD
	-----	-----	-----	-----	-----
DECEMBER 31, 1994					
Corporate Issue MBS.....	\$ 60,922	\$ 50	\$2,292	\$ 58,680	7.25%
U.S. Treasury Securities....	40,958	--	235	40,723	8.01
	-----	-----	-----	-----	-----
Total.....	\$101,880	\$ 50	\$2,527	\$ 99,403	7.55%
	=====	=====	=====	=====	=====
DECEMBER 31, 1993					
Corporate Issue MBS.....	\$ 69,660	\$403	\$1,325	\$ 68,738	6.85%
	-----	-----	-----	-----	-----
Total.....	\$ 69,660	\$403	\$1,325	\$ 68,738	6.85%
	=====	=====	=====	=====	=====

The following schedule of the expected maturity of debt securities held to maturity is based upon dealer prepayment expectations and historical prepayment activity.

EXPECTED/CONTRACTUAL MATURITY

	WITHIN ONE YEAR	AFTER ONE YEAR BUT WITHIN FIVE YEARS	AFTER FIVE YEARS BUT WITHIN TEN YEARS	AFTER TEN YEARS BUT WITHIN TWENTY YEARS	AFTER TWENTY YEARS	TOTAL AMORTIZED COST
	-----	-----	-----	-----	-----	-----
DECEMBER 31, 1994						
Corporate Issue MBS.....	\$15,593	\$ 31,603	\$8,883	\$4,574	\$269	\$ 60,922
U.S. Treasury Securities...	20,822	20,136	--	--	--	40,958
	-----	-----	-----	-----	-----	-----
Total.....	\$36,415	\$ 51,739	\$8,883	\$4,574	\$269	\$101,880
	=====	=====	=====	=====	=====	=====

PRIMERIT BANK

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(DOLLARS IN THOUSANDS)

Debt securities available for sale are stated at fair value. The yields are computed based upon amortized cost. The amortized cost, estimated fair values and yields of debt securities available for sale are as follows:

	AMORTIZED COST	TOTAL UNREALIZED GAINS	TOTAL UNREALIZED LOSSES	ESTIMATED FAIR VALUE	YIELD
DECEMBER 31, 1994					
GNMA -- MBS.....	\$ 6,564	\$ 70	\$ 237	\$ 6,397	8.29%
FHLMC -- MBS.....	307,082	745	6,931	300,896	6.64
FNMA -- MBS.....	112,892	154	3,938	109,108	7.11
CMOs.....	92,097	928	4,645	88,380	5.92
Corporate Issue MBS.....	20,225	11	719	19,517	7.24
Obligations of U.S. Government Corporations and Agencies.....	5,105	--	3	5,102	5.83
Total.....	\$543,965	\$ 1,908	\$16,473	\$529,400	6.65%
DECEMBER 31, 1993					
GNMA -- MBS.....	\$ 9,081	\$ 591	\$ --	\$ 9,672	8.41%
FHLMC -- MBS.....	368,436	11,518	168	379,786	6.12
FNMA -- MBS.....	119,208	1,144	695	119,657	6.60
CMOs.....	45,733	1,516	--	47,249	4.82
Corporate Issue MBS.....	24,644	159	697	24,106	5.81
Commercial paper.....	10,036	--	--	10,036	3.37
Obligations of U.S. Government Corporations and Agencies.....	5,110	110	--	5,220	5.93
Total.....	\$582,248	\$15,038	\$ 1,560	\$595,726	6.09%

The following table reflects the expected maturity of MBS and CMOs and the contractual maturity of all other debt securities available for sale. The expected maturity of MBS and CMOs are based upon dealer prepayment expectations and historical prepayment activity.

EXPECTED/CONTRACTUAL MATURITY

	WITHIN ONE YEAR	AFTER ONE YEAR BUT WITHIN FIVE YEARS	AFTER FIVE YEARS BUT WITHIN TEN YEARS	AFTER TEN YEARS BUT WITHIN TWENTY YEARS	AFTER TWENTY YEARS	TOTAL ESTIMATED FAIR VALUE
DECEMBER 31, 1994						
GNMA -- MBS.....	\$ 1,595	\$ 4,091	\$ 711	\$ --	\$ --	\$ 6,397
FHLMC -- MBS.....	57,237	167,998	37,894	29,991	7,776	300,896
FNMA -- MBS.....	15,879	49,915	20,241	20,030	3,043	109,108
CMOs.....	48,692	38,236	819	606	27	88,380
Corporate Issue MBS.....	3,295	11,283	4,056	778	105	19,517
Obligations of U.S. Government Corporations and Agencies.....	5,102	--	--	--	--	5,102
Total.....	\$131,800	\$271,523	\$63,721	\$51,405	\$10,951	\$529,400

PRIMERIT BANK

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(DOLLARS IN THOUSANDS)

NOTE 5 -- LOANS RECEIVABLE AND LOANS RECEIVABLE HELD FOR SALE

Loans receivable held for investment at amortized cost are summarized as follows:

	DECEMBER 31,	
	1994	1993
Loans collateralized by real estate:		
Conventional single-family residential.....	\$489,649	\$431,854
FHA and VA insured single-family residential.....	33,823	21,491
Commercial mortgage.....	178,076	192,046
Construction and land.....	90,992	82,638
	792,540	728,029
Commercial secured.....	40,349	25,443
Commercial unsecured.....	2,317	354
Consumer installment.....	119,460	93,431
Consumer unsecured.....	6,570	7,817
Equity and property improvement loans.....	26,054	21,061
Deposit accounts.....	2,659	2,944
	989,949	879,079
Undisbursed proceeds.....	(41,702)	(48,251)
Allowance for estimated credit losses.....	(17,659)	(16,251)
Premiums.....	5,969	3,270
Deferred fees.....	(4,999)	(4,782)
Accrued interest.....	4,479	4,214
	(53,912)	(61,800)
Loans receivable held for investment.....	\$936,037	\$817,279

Loans receivable held for sale are stated at the lower of aggregate cost or market and are summarized as follows:

Loans collateralized by single-family residential real estate:		
Conventional.....	\$ 508	\$ 4,999
FHA and VA insured.....	1,606	3,560
	2,114	8,559
Credit card receivables.....	--	11,492
Loans receivable held for sale.....	\$2,114	\$20,051

PRIMERIT BANK

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(DOLLARS IN THOUSANDS)

Additional loan information:

	DECEMBER 31,	
	1994	1993
Average portfolio yield at end of year.....	8.11%	8.12%
Principal balance of loans serviced for others (including \$67,871 and \$92,658 in 1994 and 1993 of loans serviced for MBS owned by the Bank).....	\$415,097	\$476,835
Adjustable-rate real estate loans.....	\$286,868	\$233,133
Outstanding commitments to originate loans.....	\$ 46,387	\$ 47,903
Unused lines of credit.....	\$ 57,180	\$ 79,472
Standby letters of credit.....	\$ 707	\$ 1,004
Outstanding commitments to builders.....	\$ 10,543	\$ --

Outstanding commitments to originate loans represent agreements to originate real estate secured loans to customers at specified rates of interest. Commitments generally expire in 30 to 60 days and may require payment of a fee. Builder commitments represent agreements to home builders for the Bank to provide loans secured by real estate to unspecified qualified customers of the builder at interest rates not to exceed specified levels. Some of the commitments are expected to expire without being drawn upon, therefore the total commitments do not necessarily represent future cash requirements.

The Bank has designated portions of its portfolio of residential real estate loans and credit card receivables as held for sale. These loans are carried at the lower of aggregate cost, market or sales commitment price. On January 3, 1994, the Bank sold its credit card portfolio held for sale and a gain of approximately \$1.7 million was recorded.

At December 31, 1994, 48% or \$19.5 million of the Bank's outstanding commercial secured loan portfolio consisted of loans to borrowers in the gaming industry, with additional unfunded commitments of \$11.5 million. These loans are generally secured by real estate, machinery and equipment. The Bank's portfolio of loans, collateralized by real estate, consists principally of real estate located in Nevada, California and Arizona. Collectibility is, therefore, somewhat dependent on the economies and real estate values of these industries and areas.

The Bank's loan approval process is intended to assess both: (i) the borrower's ability to repay the loan by determining whether the borrower meets the Bank's established underwriting criteria, and (ii) the adequacy of the proposed security by determining whether the appraised value of the security property is sufficient for the proposed loan.

It is the general policy of the Bank not to make single-family residential loans when the loan-to-value ratio exceeds 80% unless the loans are insured by private mortgage insurance, FHA insurance or VA guarantee. Residential tract construction loans are generally underwritten with the discounted loan-to-value ratio less than 85% while commercial/income property loans are generally underwritten with a ratio less than 75%.

Management considers the above mentioned factors when evaluating the adequacy of the allowance for estimated credit losses.

Many of the Bank's adjustable-rate loans contain limitations as to both the amount the interest rate can change at each repricing date (periodic caps) and the maximum rate the loan can be repriced to over the lifetime of the loan (lifetime caps). At December 31, 1994, periodic caps in the adjustable-rate loan portfolio ranged from 25 basis points to 800 basis points. Lifetime caps ranged from 9.75% to 22%.

PRIMERIT BANK

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(DOLLARS IN THOUSANDS)

NOTE 6 -- ALLOWANCES FOR ESTIMATED CREDIT LOSSES

Activity in the allowances for losses on loans and real estate held for sale or development is summarized as follows:

	MORTGAGE LOANS	CONSTRUCTION AND LAND LOANS	NON-MORTGAGE LOANS	TOTAL LOANS	REAL ESTATE HELD FOR SALE OR DEVELOPMENT	TOTAL
BALANCE AT DECEMBER 31, 1991.....	\$ 5,992	\$ 2,821	\$ 3,248	\$12,061	\$ 3,639	\$ 15,700
Provisions for estimated losses.....	1,903	6,460	5,766	14,129	18,309	32,438
Charge-offs, net of recovery.....	(515)	(3,765)	(4,682)	(8,962)	(20,485)	(29,447)
BALANCE AT DECEMBER 31, 1992.....	7,380	5,516	4,332	17,228	1,463	18,691
Provisions for estimated losses.....	4,634	172	1,406	6,212	1,010	7,222
Charge-offs, net of recovery.....	(3,191)	(2,248)	(1,750)	(7,189)	(1,538)	(8,727)
BALANCE AT DECEMBER 31, 1993.....	8,823	3,440	3,988	16,251	935	17,186
Provisions for estimated losses.....	2,954	71	4,205	7,230	163	7,393
Charge-offs, net of recovery.....	(1,786)	(1,297)	(2,739)	(5,822)	(622)	(6,444)
BALANCE DECEMBER 31, 1994.....	\$ 9,991	\$ 2,214	\$ 5,454	\$17,659	\$ 476	\$ 18,135

The Bank establishes allowances for estimated credit losses by portfolio through charges to expense. On a regular basis, management reviews the level of allowances which have been provided against the portfolios. Adjustments are made thereto in light of the level of problem loans and current economic conditions. Included in net charge-offs are \$1,859, \$2,623 and \$2,554 of recoveries for 1992, 1993, and 1994, respectively.

Write-downs to fair value, disposition gains and losses, and operating income and costs affiliated with real estate acquired through foreclosure are charged to the allowance for estimated credit losses. See Note 1 of Consolidated Financial Statements for further discussion.

NOTE 7 -- REAL ESTATE HELD FOR SALE OR DEVELOPMENT

Real estate held for sale or development includes the following:

	DECEMBER 31,	
	1994	1993
Real estate held for sale, development or investment.....	\$ 997	\$4,216
Investments in and loans to real estate ventures.....	250	807
	1,247	5,023
Allowance for estimated real estate losses.....	(476)	(935)
	\$ 771	\$4,088

The net realizable value of the investments is dependent upon real estate values, the local economies, and real estate sales activity. Management evaluates the adequacy of the allowance for estimated real estate losses by incorporating these factors.

PRIMERIT BANK

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(DOLLARS IN THOUSANDS)

Pre-tax loss from real estate operations (excluding interest income on loans to real estate ventures) is summarized as follows:

	DECEMBER 31,		
	1994	1993	1992
Gross profit from real estate operations.....	\$1,165	\$ 491	\$ 5,020
Less expenses allocated(1):			
General and administration.....	546	243	1,053
Legal costs and settlement.....	1,055	87	24
Interest.....	13	61	920
Provisions for estimated real estate losses.....	163	1,010	18,309
Net loss from real estate operations.....	\$ (612)	\$ (910)	\$ (15,286)

(1) Allocated general and administrative expenses are based on personnel and other costs incurred in the Bank's real estate operations. Interest is allocated based upon the Bank's average cost of funds devoted to such operations.

Summarized below is condensed financial information for the Bank's real estate ventures:

	DECEMBER 31,	
	1994	1993
ASSETS:		
Cash.....	\$ 171	\$1,606
Development costs.....	1,142	1,142
Other assets.....	52	1,490
	\$1,365	\$4,238
LIABILITIES:		
Total liabilities.....	\$ 975	\$3,267
EQUITY:		
PriMerit Bank.....	250	807
Other investors.....	140	164
	390	971
	\$1,365	\$4,238

NOTE 8 -- PREMISES AND EQUIPMENT

Premises and equipment are summarized as follows:

	DECEMBER 31,	
	1994	1993
Land.....	\$ 4,066	\$ 4,057
Buildings and leasehold improvements.....	18,381	16,872
Furniture, fixtures and equipment.....	26,970	26,289
	49,417	47,218
Less: Accumulated depreciation and amortization.....	27,751	24,892
	\$21,666	\$22,326

PRIMERIT BANK

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(DOLLARS IN THOUSANDS)

The Bank leases certain of its facilities under noncancelable operating lease agreements. The more significant of these leases have terms expiring between 1994 and 2029 and provide for renewals subject to certain escalation clauses. The following is a schedule of net future minimum rental payments under various operating lease agreements that have initial or remaining noncancelable lease terms in excess of one year as of December 31, 1994:

YEAR ENDING DECEMBER 31,	TOTAL MINIMUM LEASE PAYMENTS	TOTAL MINIMUM SUBLEASE RECEIPTS	NET MINIMUM LEASE PAYMENTS
1995.....	\$ 5,026	\$ 2,664	\$ 2,362
1996.....	4,988	2,580	2,408
1997.....	4,950	2,213	2,737
1998.....	4,602	1,926	2,676
1999.....	3,969	1,613	2,356
Thereafter.....	46,608	2,275	44,333
	<u>\$70,143</u>	<u>\$13,271</u>	<u>\$56,872</u>

Net rental expense was approximately \$2,737 in 1994, \$3,099 in 1993, and \$2,964 in 1992.

NOTE 9 -- DEPOSITS

Deposits are summarized as follows:

	DECEMBER 31,	
	1994	1993
Interest bearing demand and money market deposits...	\$ 313,949	\$ 324,011
Non-interest bearing demand deposits.....	69,294	64,797
Savings deposits.....	78,876	86,781
Total transaction accounts.....	462,119	475,589
Certificates of deposit:		
< \$100,000.....	608,872	580,018
> \$100,000.....	168,958	152,245
Total certificates of deposit.....	777,830	732,263
	<u>\$1,239,949</u>	<u>\$1,207,852</u>
Average annual interest rate at end of year.....	3.97%	3.56%

The above balance includes \$5.8 million deposited by the State of Nevada that is collateralized by single-family residential loans and debt securities with a fair value of approximately \$8.5 million at December 31, 1994. There were no brokered deposits at December 31, 1994 and December 31, 1993.

Interest expense on deposits for the years ended December 31, is summarized as follows:

	1994	1993	1992
Interest bearing demand and money market deposits.....	\$ 8,740	\$ 8,578	\$ 8,915
Savings deposits.....	2,135	2,364	1,779
Certificates of deposit.....	33,241	46,701	75,280
Total deposit interest expense.....	<u>\$44,116</u>	<u>\$57,643</u>	<u>\$85,974</u>

PRIMERIT BANK

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(DOLLARS IN THOUSANDS)

Certificates of deposit maturity schedule:

INTEREST RATE CATEGORY	CERTIFICATES MATURING ON OR PRIOR TO DECEMBER 31,					
	1995	1996	1997	1998	1999	THEREAFTER
2.99% and lower.....	\$ 3,793	\$ 88	\$ 14	\$ 13	\$ 8	\$ 9
3.00% to 3.99%.....	298,360	7,253	93	--	--	27
4.00% to 4.99%.....	171,177	23,046	9,141	2,140	5	--
5.00% to 5.99%.....	14,679	22,828	16,086	19,897	10,182	13,498
6.00% to 6.99%.....	909	2,698	39,614	360	19,641	11,484
7.00% to 7.99%.....	2,398	34,484	5,756	14	15,163	203
8.00% to 8.99%.....	32,069	79	--	--	--	136
9.00% and over.....	53	--	33	399	--	--
	=====	=====	=====	=====	=====	=====
	\$523,438	\$90,476	\$70,737	\$22,823	\$44,999	\$ 25,357

NOTE 10 -- SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE

The Bank sells securities under agreements to repurchase (reverse repurchase agreements). Reverse repurchase agreements are treated as borrowings and are reflected as liabilities in the accompanying Consolidated Statements of Financial Condition. Reverse repurchase agreements are summarized as follows:

	DECEMBER 31,	
	1994	1993
Balance at year end.....	\$281,935	\$259,041
Accrued interest payable at year end.....	3,335	3,871
Daily average amount outstanding during year.....	222,620	305,123
Maximum amount outstanding at any month end.....	281,935	367,859
Weighted average interest rate during the year.....	4.95%	4.30%
Weighted average interest rate on year end balances....	6.37%	4.31%

All agreements are collateralized by MBS and U.S. Treasury Notes and require the Bank to repurchase identical securities as those which were sold. The MBS collateralizing the agreements are reflected as assets with a carrying value of \$16,970 in excess of borrowing amount and a weighted average maturity of 1.35 years. Agreements were transacted with the following dealers: Morgan Stanley & Co., Inc., Lehman Brothers, and Bear Stearns. Reverse repurchase agreements are collateralized as follows:

	DECEMBER 31,			
	1994		1993	
	BOOK VALUE	FAIR VALUE	BOOK VALUE	FAIR VALUE
MBS.....	\$258,477	\$258,477	\$280,928	\$280,928
U.S. Treasury Notes.....	40,428	40,191	--	--
	=====	=====	=====	=====
	\$298,905	\$298,668	\$280,928	\$280,928

At December 31, 1994, outstanding borrowings of \$144,438 were in accordance with a long-term agreement executed with one dealer. The agreement, which allows for a maximum borrowing of \$300,000 with no minimum, matures in July 1997. The interest rate on the borrowings is adjusted monthly based upon a spread over or under the one month London Interbank Offering Rate (LIBOR), dependent upon the underlying collateral.

PRIMERIT BANK

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(DOLLARS IN THOUSANDS)

The Bank is also party to two separate flexible reverse repurchase agreements (flex repos) totaling \$19,661 at December 31, 1994. A flex repo represents a long-term fixed-rate contract to borrow funds through a primary dealer, collateralized by MBS with a flexible repayment schedule. The principal balance of the Bank's flex repo agreements will decline over the stated maturity period based upon the counterparty's need for the funds.

Principal payments on flex repos at December 31, 1994 are projected as follows. Actual principal payments may differ from those shown below due to the actual timing of the funding being faster or slower than originally projected.

PROJECTED REPAYMENT	FLEX REPO-1	FLEX REPO-2
12 months.....	\$ 500	\$15,222
24 months.....	3,939	--
	\$4,439	\$15,222
	=====	=====
Maturity date.....	July 1996	June 1995
Interest rate.....	8.86%	8.65%
	=====	=====

NOTE 11 -- BORROWINGS

Borrowings are summarized as follows:

	DECEMBER 31,	
	1994	1993
Advances from FHLB.....	\$ 99,400	\$71,000
Notes payable.....	8,135	8,265
	\$107,535	\$79,265
	=====	=====

Borrowings coupon interest rates are as follows:

	1994	1993
Advances from FHLB.....	4.30%-8.23%	4.30%-8.23%
Notes payable.....	8.20%-8.50%	8.00%-8.50%

Principal payments on borrowings at December 31, 1994 are due as follows:

	INTEREST RATE	ADVANCES FROM FHLB	NOTES PAYABLE
12 months.....	4.30%-8.20%	\$50,000	\$ 140
24 months.....	4.40%-8.50%	10,000	7,995
36 months.....	8.23%	6,000	--
48 months.....	5.01%	5,000	--
60 months.....	8.23%	25,000	--
84 months.....	7.52%	3,400	--
		\$99,400	\$8,135
		=====	=====
Weighted average interest rate.....		5.682%	7.795%
		=====	=====

PRIMERIT BANK

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(DOLLARS IN THOUSANDS)

Borrowings are collateralized as follows:

	1994		1993	
	BOOK VALUE	FAIR VALUE	BOOK VALUE	FAIR VALUE
MBS.....	\$ 13,971	\$ 13,971	\$ 14,797	\$14,797
Real estate loans.....	140,000	99,400	98,860	71,000
	\$153,971	\$113,371	\$113,657	\$85,797
	=====	=====	=====	=====

In 1994, the FHLB approved a Financing Availability for the Bank which currently totals 25 percent of the Bank's assets with terms up to 360 months. All borrowings from the FHLB must be collateralized by mortgages or securities. The Bank also has the capability of borrowing up to \$5,000 in federal funds from Bank of America. On December 31, 1994 and 1993, there were no outstanding draws from this line of credit which expires August, 1995.

NOTE 12 -- INCOME TAXES

The Bank utilizes the accrual basis of accounting for tax purposes. Under the Internal Revenue Code, the Bank is allowed a special bad debt deduction (unrelated to the amount of losses charged to earnings) based on a percentage of taxable income (currently eight percent). Under SFAS No. 109, no deferred taxes are provided on tax bad debt reserves arising prior to December 31, 1987 unless it becomes apparent that these differences will reverse in the foreseeable future. At December 31, 1994, the tax bad debt reserves not expected to be reversed are \$14,300, resulting in a retained earnings benefit of \$5,000.

The following is a summary of the provision for income tax expense (benefit):

	YEAR ENDED DECEMBER 31,		
	1994	1993	1992
Current			
Federal.....	\$5,276	\$ (6,051)	\$ 6,923
State.....	17	(82)	150
	5,293	(6,133)	7,073
Deferred			
Federal.....	997	12,632	(6,970)
State.....	101	210	(12)
Tax rate change.....	--	(364)	--
	1,098	12,478	(6,982)
	\$6,391	\$ 6,345	\$ 91
	=====	=====	=====

PRIMERIT BANK

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(DOLLARS IN THOUSANDS)

The components of the net deferred income tax provision (benefit) resulting from timing differences in the recognition of revenue and expense for financial reporting purposes in different accounting periods than for income tax purposes are as follows:

	YEAR ENDED DECEMBER 31,		
	1994	1993	1992
Deferred loan fees/costs.....	\$1,068	\$ (186)	\$ (676)
Installment sales revenue.....	(503)	(288)	(352)
Provisions for loan losses.....	(31)	(934)	--
Book versus tax real estate income.....	376	12,846	(4,069)
Book versus tax depreciation.....	(420)	(263)	(116)
Collateralized mortgage obligations -- principal amortization.....	473	827	(544)
Delinquent interest.....	(92)	611	(354)
FHLB stock dividends.....	251	54	(587)
Other deferred income.....	18	169	205
Other expense and loss provisions not deductible until paid.....	(42)	6	(489)
Tax rate change.....	--	(364)	--
Deferred income tax expense (benefit).....	<u>\$1,098</u>	<u>\$12,478</u>	<u>\$(6,982)</u>

The income tax benefit reported on the Consolidated Statements of Financial Condition include the following asset (liability) components at December 31:

	1994	1993
Current:		
Federal.....	\$ 452	\$ 7,197
State.....	16	214
	<u>468</u>	<u>7,411</u>
Deferred:		
Federal.....	3,587	(5,305)
State.....	--	43
	<u>3,587</u>	<u>(5,262)</u>
	<u>\$4,055</u>	<u>\$ 2,149</u>

PRIMERIT BANK

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(DOLLARS IN THOUSANDS)

At December 31, the net deferred tax asset (liability) is comprised of the following items:

	1994	1993
	-----	-----
Deferred tax assets:		
Allowance for estimated loan losses.....	\$ 6,198	\$ 5,785
Securities available for sale (SFAS 115).....	5,098	--
Real estate held for sale.....	5,267	4,865
Delinquent interest.....	1,038	960
Compensation/Pension.....	483	447
Collateralized mortgage obligations.....	351	390
Other.....	260	164
	-----	-----
	18,695	12,611
	-----	-----
Deferred tax liabilities:		
Tax bad debt reserve.....	(2,887)	(2,381)
Securities available for sale (SFAS 115).....	--	(4,717)
Loan fees/costs.....	(5,188)	(2,933)
Installment sales.....	(1,441)	(1,973)
Depreciation.....	(1,063)	(1,914)
FHLB stock.....	(2,087)	(1,644)
Other.....	(2,442)	(2,311)
	-----	-----
	(15,108)	(17,873)
	-----	-----
	\$ 3,587	\$ (5,262)
	=====	=====

No valuation allowance has been recorded for deferred tax assets as all assets are expected to be realized through terms of the tax sharing agreement with Southwest.

The effective tax rates in 1994, 1993 and 1992 differ from the federal statutory tax rate of 35% in 1994 and 1993 and 34% in 1992. The sources of these differences and the effect of each are summarized as follows:

	YEAR ENDED DECEMBER 31,		
	1994	1993	1992
	-----	-----	-----
Computed "expected" tax provision			
(benefit).....	35.0%	35.0%	(34.0)%
Increase (reduction) in taxes resulting			
from:			
Bad debt deduction.....	--	--	(25.3)
Goodwill amortization and write-offs.....	9.6	34.9	14.5
Provisions for estimated credit losses...	--	--	49.4
Gain on sale of real estate.....	--	--	(6.0)
Tax rate change.....	--	(3.7)	--
Other.....	.8	(2.1)	2.3
	-----	-----	-----
Effective tax rate (benefit).....	45.4%	64.1%	0.9%
	=====	=====	=====

The provisions for income taxes related to the gain on sale of loans and debt securities were \$98 in 1994, \$3,403 in 1993, and \$6,089 in 1992.

PRIMERIT BANK

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(DOLLARS IN THOUSANDS)

NOTE 13 -- REGULATORY MATTERS

Regulatory Capital

The Bank is subject to various capital adequacy requirements under a uniform framework by the federal banking agencies. Specific capital guidelines require the Bank to maintain minimum amounts and ratios as set forth below.

The Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA) required the federal banking agencies to adopt regulations implementing a system of progressive constraints as capital levels decline at banks and savings institutions. The federal banking agencies have enacted uniform "prompt corrective action" rules which classify banks and savings institutions into one of five categories based upon capital adequacy, ranging from "well capitalized" to "critically undercapitalized." Banks become subject to prompt corrective action when their ratios fall below "adequately capitalized" status. A reconciliation of stockholder's equity, as shown in the accompanying Consolidated Statements of Financial Condition, to the FDICIA capital standards and the Bank's resulting ratios are set forth in the table below.

	DECEMBER 31, 1994			DECEMBER 31, 1993		
	TOTAL RISK-BASED	TIER 1 RISK-BASED	TIER 1 LEVERAGE	TOTAL RISK-BASED	TIER 1 RISK-BASED	TIER 1 LEVERAGE
Stockholder's equity.....	\$166,388	\$166,388	\$ 166,388	\$176,943	\$176,943	\$ 176,943
Capital adjustments:						
Nonsupervisory goodwill.....	(40,376)	(40,376)	\$ (40,376)	(42,464)	(42,464)	(42,464)
Supervisory goodwill.....	(18,661)	(18,661)	(18,661)	(14,422)	(14,422)	(14,422)
Real estate investment.....	(1,325)	(194)	(194)	(478)	--	--
Unrealized loss, net of tax, on debt securities available for sale.....	9,467	9,467	9,467	--	--	--
General loan loss reserves...	11,512	--	--	11,008	--	--
Regulatory capital.....	\$127,005	\$116,624	\$ 116,624	\$130,587	\$120,057	\$ 120,057
Regulatory capital ratio.....	13.88%	12.75%	6.62%	14.92%	13.71%	7.14%
Adequately capitalized required ratio.....	8.00	4.00	4.00	8.00	4.00	4.00
Excess.....	5.88%	8.75%	2.62%	6.92%	9.71%	3.14%
Asset base.....	\$914,812	\$914,812	\$1,760,801	\$875,387	\$875,387	\$1,681,952

As of December 31, 1994 and 1993, the Bank exceeded the adequately capitalized ratios and was categorized as "well capitalized."

The regulatory capital standards contain certain phase-in requirements concerning the amount of supervisory goodwill which is includable in tier 1 and risk-based capital as well as the amount of real estate investments which are required to be deducted from capital under all three standards. On January 1, 1995, all supervisory goodwill must be deducted from regulatory capital. Based upon this limitation, the Bank's risk-based and tier 1 capital levels declined by \$6.6 million on January 1, 1995.

The decline in the Bank's capital ratios over prior year-end is principally the result of the change in the allowable supervisory goodwill and the inclusion of \$8.8 million of unrealized gain, net of tax, on debt securities available for sale in regulatory capital for 1993 versus the exclusion of such unrealized gain (loss) for 1994; partially offset by year-to-date net income of \$7.7 million. At December 31, 1994, under fully phased-in capital rules applicable at July 1, 1996, the Bank would have exceeded the "adequately capitalized" fully phased-in, total risk-based, tier 1 risk-based, and tier 1 leverage ratios by \$46.7 million, \$72.8 million and \$38.7 million, respectively.

The Bank is subject to an Office of Thrift Supervision (OTS) regulation requiring institutions with IRR exposure classified as "above normal" to reduce their risk-based capital by 50 percent of the amount by which the IRR exposure

PRIMERIT BANK

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(DOLLARS IN THOUSANDS)

exceeds a specified "normal" threshold. The normal IRR threshold is defined as a two percent decline of an institution's net portfolio value as a percentage of its market value of assets after a hypothetical 200 basis point immediate and sustained increase or decrease in market interest rates. The reduction of an institution's risk-based capital resulting from its exceeding the IRR threshold becomes effective at the end of the third calendar quarter after the measurement date, unless the institution's IRR exposure returns to a "normal" level or below in the interim.

Based on the OTS's measurement of the Bank's IRR as of September 30, 1994 and as of December 31, 1994 the Bank may be required to reduce its risk-based capital by approximately \$1.5 million on June 30, 1995 and \$1.9 million on September 30, 1995, in the absence of corrective action to reduce the Bank's IRR exposure or significant change in market interest rates in the interim. As of December 31, 1994, the Bank has sufficient risk-based capital to allow it to continue to be classified as "well capitalized" under FDICIA capital requirements after such a reduction for IRR exposure. Management is currently reviewing possible strategies for reducing the Bank's IRR exposure to a "normal" level or below.

Other Regulatory Matters

In conjunction with the acquisition of the Bank in 1986, Southwest agreed that as long as it controls the Bank, adequate capital as required by applicable regulations, will be maintained at the Bank and if required, Southwest will infuse additional capital into the Bank to assure compliance with such requirements. Even though the Bank met all existing regulatory capital requirements, on October 16, 1991, Southwest committed to make an additional \$20 million capital contribution to the Bank in order to further improve the Bank's capital position. Under this commitment, Southwest contributed \$10 million in 1991 and \$10 million in 1992 in exchange for common stock of the Bank. Southwest does not anticipate making future capital contributions to the Bank.

Pursuant to the acquisition of the Bank by Southwest, the OTS stipulated that dividends paid by the Bank to Southwest could not exceed 50 percent of the Bank's cumulative net earnings after the date of acquisition. Since the acquisition, the Bank's cumulative net earnings are \$37,132, resulting in maximum dividends of \$18,566 as of December 31, 1994. Since the acquisition, the Bank has paid Southwest \$1,776 in capital distributions, net of the \$20 million capital contribution received from Southwest.

Capital distributions, including dividends, are also governed by an OTS regulation which limits distributions by applying a tiered system based on capital levels. Under the regulation, the Bank is restricted to paying no more than 75 percent of its net income over the preceding 4 quarters to Southwest. The Bank did not pay any dividends to Southwest during 1994, 1993 or 1992.

NOTE 14 -- EMPLOYEE BENEFITS

Pension Plan

The Bank maintains a defined benefit pension plan for substantially all of its employees. The Bank's policy is to fund the pension expense accrued for each year but not less than the minimum required contribution nor more than the tax deductible limit. Pension expense was \$119 in 1994, \$478 in 1993, and \$524 in 1992. The terms of the pension plan are the same for the years ended December 31, 1993 and 1992. In 1994, the Board of Directors approved the curtailment of the defined benefit pension plan effective April 1, 1994. Under the terms of the curtailment, employees that have not satisfied the eligibility requirements under the plan will not be eligible to participate in the plan. Except for vesting purposes, credited service accruals will cease for all participants, but future compensation will continue to be used

PRIMERIT BANK

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(DOLLARS IN THOUSANDS)

when calculating final benefits upon termination, disability, death or retirement. Net periodic pension expense included the following components:

	YEAR ENDED DECEMBER 31,		
	1994	1993	1992
Service cost.....	\$ --	\$ 458	\$ 493
Interest cost.....	288	291	290
Actual return on plan assets.....	64	(186)	(122)
Net amortization and deferral.....	(233)	(85)	(137)
Net periodic pension expense.....	\$ 119	\$ 478	\$ 524
	=====	=====	=====

Accumulated plan benefit information estimated by consulting actuaries and net assets of the Bank's defined benefit pension plan are:

	DECEMBER 31,	
	1994	1993
Actuarial present value of accumulated plan benefits:		
Vested.....	\$ 777	\$2,235
Nonvested.....	253	609
	\$1,030	\$2,844
Market value of plan assets.....	\$2,412	\$3,537
	=====	=====

The assumptions used in determining the actuarial present value of the accumulated plan benefit obligation at December 31, 1994 and 1993 are as follows: The weighted average discount rate used was 8.5% for 1994 and 7.5% for 1993. The rate of increase in future compensation levels used in determining the actuarial present value of the projected benefit obligation was 5.0% and the expected long-term rate of return on assets used was 8.0% for both years.

The following table sets forth the amounts recognized in the Bank's Consolidated Statements of Financial Condition:

	DECEMBER 31,	
	1994	1993
Projected benefit obligation.....	\$2,349	\$ 4,613
Market value of plan assets.....	2,412	3,537
Unfunded (overfunded) projected benefit obligation.....	(63)	1,076
Net transition liability.....	356	407
Unrecognized prior service cost.....	(82)	(103)
Unrecognized net loss.....	(336)	(1,373)
Pension liability/(Prepaid pension asset).....	\$ (125)	\$ 7
	=====	=====

Employees' 401K Plan

Effective January 1, 1988, the Bank offered to all its eligible employees participation in the Employees' 401K Plan of PriMerit Bank (Plan). The Plan provides for purchases of certain investment vehicles by eligible employees through annual payroll deductions of up to 15% of base compensation, with a statutory limitation of \$9.2. In 1994, the Bank contributed annual amounts of up to 6.0% of an employee's base compensation up to a maximum of \$9.0. These contributions are used by the Plan to purchase Southwest common stock. During 1992 and 1993, the Bank contributed

PRIMERIT BANK

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(DOLLARS IN THOUSANDS)

annual amounts of up to 1.5% for 1992 and 3.0% for 1993 of an employee's base compensation up to a maximum of \$2.2 and \$4.5, respectively.

NOTE 15 -- INTEREST RATE RISK MANAGEMENT

The Bank is exposed to IRR resulting from (a) timing differences in the maturity and/or repricing of the Bank's assets, liabilities, and off-balance sheet contracts; (b) the exercise of options embedded in the Bank's financial instruments and accounts, such as prepayments of loans before scheduled maturity, caps on the amounts of interest rate movement permitted for adjustable-rate loans, and withdrawals of funds on deposit with and without stated terms to maturity; and (c) differences in the behavior of lending and funding rates, referred to as basis risk. The role of the Bank's asset/liability management function is to prevent the erosion of the Bank's earnings and equity capital due to interest rate fluctuations. Changes in the Bank's IRR exposure affect the current market values of the Bank's loan, debt securities, deposit and borrowing portfolios, as well as the Bank's future earnings. The level of the Bank's IRR exposure can also adversely affect the Bank's regulatory capital.

The Bank's Board of Directors (BOD) has established certain guidelines to manage the exposure of the Bank's net interest income, net income, and net portfolio value (NPV) to interest rate fluctuations. NPV represents a theoretical estimate of the market value of the Bank's stockholder's equity, calculated as the net present value of expected cash flows from financial assets and liabilities, plus the book values of all non-financial assets and liabilities. The guidelines include limits on the Bank's overall IRR exposure, methods of accountability and specific reports to be provided to the BOD by management for periodic review, and establishes acceptable activities and instruments to manage IRR.

The Bank maintains an IRR simulation model which enables the Bank to measure IRR exposure using various assumptions and interest rate scenarios, and to incorporate alternative strategies for the reduction of IRR exposure. The Bank measures its IRR using several methods to provide a comprehensive view of its IRR from various perspectives. These methods include projection of current NPV and future periods' net interest income after rapid and sustained interest rate movements, static analysis of repricing and maturity mismatches, or gaps, between assets and liabilities, and analysis of the size and sources of basis risk.

Using the Bank's IRR simulation model, the following table presents management's estimate of the Bank's NPV after a hypothetical, instantaneous 200 basis points (bps) change in the market interest rates at December 31, 1994 and 1993:

CHANGE IN INTEREST RATES	ESTIMATED NPV DECEMBER 31, 1994	ESTIMATED NPV DECEMBER 31, 1993
+200 bps.....	\$ 102,192	\$ 113,128
0.....	\$ 143,020	\$ 132,827
-200 bps.....	\$ 155,585	\$ 123,742

As shown above, the Bank's estimated NPV increased from December 31, 1993 to December 31, 1994 by \$10.2 million and \$31.8 million under assumed changes in market interest rates of zero bps and -200 bps, respectively. Over the same period, however, the Bank's estimated NPV declined by \$10.9 million under an assumed change in market rates of +200 bps.

During 1994, market interest rates generally increased. Although the Bank's estimated NPV had been expected to decline in a rising rate environment in IRR simulations as of December 31, 1993, the opposite actually occurred as a result of actions taken by management. During 1994, the intangible value of the Bank's core deposits increased as the Bank was able to lag increases in the interest rates it pays on such deposits relative to increases in market interest rates. During 1994, management also acted to acquire long-term deposits and borrowings at historically low interest rates, and implemented several off-balance sheet hedges to effectively convert certain fixed-rate loans to adjustable-rate loans. These

PRIMERIT BANK

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(DOLLARS IN THOUSANDS)

actions had a net effect of outweighing other declines in the estimated market values of the Bank's assets, resulting in a net increase in the Bank's estimated NPV as of December 31, 1994. These actions also benefited the Bank's net interest margin and resulted in an increase in the net yield of the Bank's interest-earning assets from 3.15% in 1993 to 3.69% in 1994.

Management also measures the Bank's IRR using static gap analysis to further identify sources of IRR and its potential impact on the Bank's net interest income. Static gap analysis measures the difference between financial assets and financial liabilities scheduled and expected to mature or reprice within a specified time period. The gap for that period is positive when repricing and maturing assets exceed repricing and maturing liabilities. The gap for that period is negative when repricing and maturing liabilities exceed repricing and maturing assets. A positive or negative cumulative gap indicates in a general way how the Bank's net interest income should respond to interest rate fluctuations. A positive cumulative gap for a period generally means that rising interest rates would be reflected sooner in financial assets than in financial costing liabilities, thereby increasing net interest income over that period. A negative cumulative gap for a period would produce an increase in net interest income over that period if interest rates declined.

At December 31, 1994 and 1993, the Bank's cumulative one-year static gap was (\$144.9) million and (\$39.4) million, respectively, or eight percent and two percent of financial assets.

The financial instruments approved by the BOD to manage the Bank's IRR exposure in its balance sheet include the Bank's debt security portfolio, interest rate swaps, interest rate caps, interest rate collars, interest rate futures, and put and call options. These financial instruments provide effective methods of reducing the impact of changes in interest rates on the market values of and earnings provided by the Bank's financial assets and liabilities. The Bank also actively manages its retail and wholesale funding sources to minimize its cost of funds and provide stable funding sources for its loan and investment portfolios. Management's use of particular financial instruments is based on a complete analysis of the Bank's current IRR exposure and the projected effect of any proposed strategy on the Bank's IRR exposure. In addition, to manage the IRR exposure associated with the Bank's held for sale loan portfolio, the Bank utilizes forward sale commitments.

At December 31, 1994 and 1993, the Bank utilized interest rate swap agreements as a hedge to convert fixed-rate loans into adjustable-rate loans. The agreements require the Bank to make fixed-rate payments and in turn, the Bank receives floating rate payments based on the six month LIBOR.

The following table presents the notional amount of interest rate swaps outstanding, unrealized gains and losses of the swaps, the weighted average interest rates payable and receivable, and the remaining term.

DECEMBER 31, 1994					
MATURITY	FIXED-RATE PAID	VARIABLE RATE RECEIVED	NOTIONAL AMOUNT	UNREALIZED GAIN	UNREALIZED LOSS
1-3 Years.....	6.70%	5.56%	\$21,400	\$ 652	\$ --
3-5 Years.....	7.22	5.66	26,150	833	--
5-10 Years.....	6.88	5.76	24,900	1,506	(5)
	6.95%	5.66%	\$72,450	\$2,991	\$(5)
	====	====	=====	=====	===

DECEMBER 31, 1993					
MATURITY	FIXED-RATE PAID	VARIABLE RATE RECEIVED	NOTIONAL AMOUNT	UNREALIZED GAIN	UNREALIZED LOSS
5-10 Years.....	5.45%	3.55%	\$7,500	\$169	\$--
	====	====	=====	=====	===

The notional amount of interest rate swaps do not represent amounts exchanged by the parties and, thus, are not a measure of the Bank's exposure through its use of derivatives. The amounts exchanged are determined by reference to the notional amounts and the interest rates.

PRIMERIT BANK

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(DOLLARS IN THOUSANDS)

The Bank is exposed to credit-related losses in the event of nonperformance by counterparties to financial instruments but does not expect any counterparties to fail to meet their obligations. The Bank deals only with highly rated broker/dealers. The current credit exposure of derivatives is represented by the fair value of contracts with a positive fair value (unrealized gain) at the reporting date.

During 1992, in conjunction with the restructuring of the Bank's balance sheet, through the sale of long term fixed-rate assets, \$300 million (notional amount) of interest rate swaps hedging such assets were cancelled at a cost of \$14,087, which is included as an expense in the accompanying Consolidated Statements of Operations. In addition, \$35 million (notional amount) of interest rate swaps matured during 1992. No interest rate swaps matured or were terminated during 1993 and 1994. The interest rate swap agreements at December 31, 1994 are collateralized with MBS with a fair value of \$2,723. The net expense on interest rate swaps of \$485, \$24 and \$4,794 in 1994, 1993 and 1992, respectively, are included in interest expense as a cost of hedging activities in the accompanying Consolidated Statements of Operations.

The Bank is also exposed to IRR through the issuance of fixed-rate loan commitments and builder loan commitments. Fixed-rate loan commitments represent firm commitments to originate loans secured by real estate to specific borrowers at a specified rate of interest. Builder commitments represent agreements to home builders for the Bank to provide loans secured by real estate to unspecified qualified customers of the builder at interest rates not to exceed specified levels. Fixed-rate loan commitments generally expire in 30 to 60 days and builder commitments generally expire within 6 to 12 months. The Bank generally receives a fee for both of these types of commitments. Many of the commitments are expected to expire without fully being drawn upon; therefore, the total commitments do not necessarily represent future cash requirements.

The Bank hedges IRR on fixed-rate loan commitments expected to be sold in the secondary market and the inventory of loans held for sale through a combination of commitments from permanent investors, optional delivery commitments, and mandatory forward contracts. Outstanding firm commitments to sell loans represent agreements to sell loans to a third party at a specified price on a specified date. These commitments are used to hedge loans for sale and to hedge outstanding commitments to originate loans. Outstanding master commitments to sell loans represent agreements to sell a stated volume of loans to a third party within a specified period of time without regard to price. Master commitments are entered in order to ensure availability of a buyer for loans meeting specified underwriting criteria and to maximize the sales price at the time a firm commitment is executed. Related hedging gains and losses are recognized at the time gains and losses are recognized on the related loans. See Note 2 -- "Fair Value of Financial Instruments" for commitments outstanding and their estimated fair value.

NOTE 16 -- LEGAL PROCEEDINGS

The Bank has been named as defendant in various legal proceedings. The ultimate dispositions of these proceedings are not presently determinable; however, it is the opinion of management, based upon the advice of counsel, that no litigation to which the Bank or any of its subsidiaries is subject will have a material adverse impact on the Bank's financial condition or results of operations.

PRIMERIT BANK

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(DOLLARS IN THOUSANDS)

NOTE 17 -- QUARTERLY FINANCIAL DATA (UNAUDITED)

	QUARTER ENDED MARCH 31	QUARTER ENDED JUNE 30	QUARTER ENDED SEPTEMBER 30	QUARTER ENDED DECEMBER 31	YEAR ENDED
1994					
Interest income.....	\$ 28,045	\$ 29,124	\$ 29,894	\$ 31,371	\$118,434
Interest expense.....	(14,049)	(14,200)	(14,867)	(16,674)	(59,790)
Provision for estimated credit losses.....	(1,434)	(2,275)	(1,493)	(2,028)	(7,230)
Net interest income after provisions for estimated credit losses.....	12,562	12,649	13,534	12,669	51,414
Net income (loss) from real estate operations.....	(485)	595	(108)	(614)	(612)
Other income.....	3,812	2,418	2,259	2,142	10,631
Other expenses.....	(11,954)	(11,738)	(12,081)	(11,596)	(47,369)
Earnings before provision for income taxes.....	3,935	3,924	3,604	2,601	14,064
Provision for income taxes.....	1,746	1,748	1,627	1,270	6,391
Net earnings.....	<u>\$ 2,189</u>	<u>\$ 2,176</u>	<u>\$ 1,977</u>	<u>\$ 1,331</u>	<u>\$ 7,673</u>
1993					
Interest income.....	\$ 35,997	\$ 34,976	\$ 31,881	\$ 29,471	\$132,325
Interest expense.....	(22,240)	(20,906)	(17,267)	(14,663)	(75,076)
Provision for estimated credit losses.....	(1,123)	(1,180)	(2,742)	(1,167)	(6,212)
Net interest income after provisions for estimated credit losses.....	12,634	12,890	11,872	13,641	51,037
Net income (loss) from real estate operations.....	(163)	(206)	57	(598)	(910)
Other income (loss)....	2,040	(3,482)	9,335	4,156	12,049
Other expenses.....	(13,028)	(13,200)	(12,986)	(13,066)	(52,280)
Earnings (loss) before provision for income taxes.....	1,483	(3,998)	8,278	4,133	9,896
Provision for income taxes.....	874	719	2,937	1,815	6,345
Cumulative effect of change in method of accounting for income taxes.....	3,045	--	--	--	3,045
Net earnings (loss)....	<u>\$ 3,654</u>	<u>\$ (4,717)</u>	<u>\$ 5,341</u>	<u>\$ 2,318</u>	<u>\$ 6,596</u>

PRIMERIT BANK

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(DOLLARS IN THOUSANDS)

	QUARTER ENDED MARCH 31	QUARTER ENDED JUNE 30	QUARTER ENDED SEPTEMBER 30	QUARTER ENDED DECEMBER 31	YEAR ENDED
	-----	-----	-----	-----	-----
1992					
Interest income.....	\$ 47,552	\$ 44,910	\$ 37,818	\$ 35,398	\$ 165,678
Interest expense.....	(33,041)	(30,933)	(25,315)	(22,628)	(111,917)
Provision for estimated credit losses.....	(8,590)	(2,242)	(1,016)	(2,281)	(14,129)
	-----	-----	-----	-----	-----
Net interest income after provisions for estimated credit losses.....	5,921	11,735	11,487	10,489	39,632
Net loss from real estate operations....	(2,773)	(6,769)	(3,906)	(1,838)	(15,286)
Other income.....	2,509	3,306	3,807	5,770	15,392
Other expenses.....	(10,644)	(12,779)	(12,699)	(13,343)	(49,465)
	-----	-----	-----	-----	-----
Earnings (loss) before provision for income taxes.....	(4,987)	(4,507)	(1,311)	1,078	(9,727)
Provision for income taxes (benefit).....	(90)	(617)	246	552	91
	-----	-----	-----	-----	-----
Net earnings (loss)....	\$ (4,897)	\$ (3,890)	\$ (1,557)	\$ 526	\$ (9,818)
	=====	=====	=====	=====	=====

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

We have audited the accompanying consolidated statements of financial condition of PriMerit Bank (a federal savings bank and wholly-owned subsidiary of Southwest Gas Corporation) and subsidiaries as of December 31, 1994 and 1993, and the related consolidated statements of operations, stockholder's equity and cash flows for each of the three years in the period ended December 31, 1994. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial condition of PriMerit Bank and subsidiaries as of December 31, 1994 and 1993, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1994 in conformity with generally accepted accounting principles.

As discussed in Notes 1, 4, and 12 of the Notes to Consolidated Financial Statements, and as required by generally accepted accounting principles, the Bank changed its methods of accounting for debt securities and income taxes in 1993.

ARTHUR ANDERSEN LLP

Las Vegas, Nevada
February 8, 1995