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, 1995

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 EACH EXCHANGE ON WHICH REGISTERED
Common Stock, $1 par value	New York Stock Exchange, Inc. Pacific Stock Exchange, Inc.
9.125% Trust Originated Preferred Securities	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 'X' 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. ['X']

AGGREGATE MARKET VALUE OF THE VOTING STOCK HELD BY NONAFFILIATES OF THE REGISTRANT:

$401,741,616 at March 15, 1996

THE NUMBER OF SHARES OUTSTANDING OF COMMON STOCK:

Common Stock, $1 Par Value 24,722,561 shares as of March 15, 1996

DOCUMENTS INCORPORATED BY REFERENCE

None

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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. 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.

The Company is principally engaged in the business of purchasing, transporting, and distributing natural gas in portions of Arizona, Nevada, and California. The Company also engaged in financial services activities, through PriMerit Bank, Federal Savings Bank (PriMerit or the Bank), a wholly owned subsidiary. See Selected Financial Data for financial information related to natural gas operations and discontinued financial services operations.

In January 1996, the Company entered into a definitive agreement with Norwest Corporation to sell PriMerit. The sale is expected to be finalized in the third quarter of 1996. The financial services activities are accounted for as discontinued operations for consolidated financial reporting purposes. However, as required, the Company has also included the separate, stand-alone financial results and disclosures for the Bank on a going-concern basis in this Form 10-K. Full disclosure of Bank operating activities and results on a going-concern basis is included herein for purposes of providing information considered useful in analyzing the proposed sale.

Separate, stand-alone financial results and disclosures reported for the Bank on a going-concern basis are included in ITEM 1, BUSINESS (pages 7 to 23), ITEM 6, SELECTED FINANCIAL INFORMATION (page 29), ITEM 7, MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (pages 37 to 49), and Note 13 of ITEM 8, FINANCIAL STATEMENTS (pages 68 to 96). The separate stand-alone financial results and disclosures reported for the Bank on a going-concern basis differ from the results and disclosures reported for the Bank as a discontinued operation. See Note 12 of the Notes to Consolidated Financial Statements for reconciliations of Bank stand-alone financial information to the amounts shown as discontinued operations in the consolidated financial statements. In 1996, while the Company will continue, as required, to disclose the ongoing operating results of the Bank through the close of the proposed transaction, those amounts will not be realized or recognized by the Company in its consolidated financial statements, consistent with the terms of the sales agreement.

In November 1995, the Company entered into a definitive agreement to acquire Northern Pipeline Construction Co. (NPL), a full-service underground gas pipeline contractor. NPL provides local gas distribution companies with installation, replacement and maintenance services for underground natural gas distribution systems. The acquisition is anticipated to be completed during the first half of 1996. See Note 8 of the Notes to Consolidated Financial Statements for additional information.

CONTINUING OPERATIONS -- 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 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 1,029,000 residential, commercial, and industrial customers in geographically diverse portions of Arizona, Nevada, and California. There were 49,000 customers added to the system during 1995. See Natural Gas Operations Segment -- Capital Resources and Liquidity of MD&A for discussion of capital requirements to meet the Company's expected future growth.

For each of the years in the three-year period ended December 31, 1995, the percentage of operating margin (operating revenues less net cost of gas) derived from residential and small commercial customers was

79 percent, while the percentage related to large commercial, industrial, and other users was 7 percent. The remaining 14 percent was derived from transportation, electric generation, and resale customers.

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, the corresponding income 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 56 percent of total system throughput in 1995. Although the volumes were significant, these customers provide a much smaller proportionate share of the Company's operating margin. In 1995, customers who utilized this service transported over one billion therms.

The demand for natural gas is seasonal. Variability in weather from normal temperatures may materially impact results of operations. 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 2 of the Notes to Consolidated Financial Statements for additional discussion regarding these leases. Total gas plant, exclusive of leased property, at December 31, 1995, was $1.6 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, 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. Project costs of $11.1 million have been capitalized through December 1995 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, Kern River Gas Transmission 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. See additional discussion of recent PGA filings in Natural Gas Operations -- Capital Resources and Liquidity of MD&A.

The table below lists the docketed general rate filings initiated and/or completed within each ratemaking area in 1995 and the first quarter of 1996:

RATEMAKING AREA	TYPE OF FILING	MONTH FILED	MONTH FINAL RATES EFFECTIVE
California:			
Northern	Operational attrition	November 1995	January 1996
Northern & Southern	General rate case	January 1994	January 1995
Nevada:			
Northern & Southern	General rate case	December 1995	--
FERC:			
Paiute	General rate case	October 1992	April 1993(1)

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(1) 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 -- 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/builder 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. 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. The Company has been successful in retaining these customers by setting rates at levels competitive with alternative energy sources such as fuel oils and coal. 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 Tuscarora Gas Transmission Company, 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 closely monitor each customer's situation and provide competitive service in order to retain the customer.

The Company has maintained an intensive effort to mitigate bypass risks through the use of discounted transportation contract rates, special long-term contracts with electric generation and cogeneration customers, and new tariff programs. One such program currently in use in Arizona and proposed in Nevada is the special gas procurement program. This program provides an opportunity for potential bypass customers to purchase all natural gas-related services as a rebundled package, including the procurement of gas supply. The Company would enter into gas supply contracts for eligible customers, which would not be included in its system supply portfolio, and provide nomination and balancing services on behalf of the customer. The Company's competitive response initiatives, and otherwise competitive rates, have resulted in the Company experiencing no significant financial impact from the threat of bypass.

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 500 therms 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.

The Company has entered the residential cooling market by working with the manufacturers of gas air conditioning units and the builders of new residential units in the Arizona and southern Nevada areas. Gas air conditioning represents an emerging market with the long-term potential for the Company to smooth its currently seasonal earnings.

NATURAL GAS SUPPLY

The Company believes that natural gas supplies and pipeline capacity 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), and Texas (Permian 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 and pipeline capacity 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 balanced portfolio provides security as well as the operating flexibility needed to meet changing market conditions. During 1995, the Company acquired gas supplies from over 70 suppliers. In managing its gas supply portfolio, the Company does not utilize derivative financial instruments.

The purchase of natural gas at the wellhead is not regulated as all price ceilings were abolished by January 1993. 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.

The Company continues to evaluate natural gas storage as an option to enable the Company to take advantage of seasonal price differentials in obtaining natural gas from a variety of sources to meet the growing demand of its customers.

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 increased the complexity and time required to obtain 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, 1995, the natural gas operations segment had 2,383 regular full-time equivalent 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.

DISCONTINUED OPERATIONS -- FINANCIAL SERVICES ACTIVITIES

In January 1996, the Company reached an agreement to sell PriMerit to Norwest Corporation for approximately $175 million in cash. The sale is expected to be finalized in the third quarter of 1996, following receipt of shareholder and various governmental approvals and satisfaction of other customary closing conditions. Due to the intended sale of PriMerit during 1996, the financial services activities are considered discontinued operations for consolidated financial reporting purposes. The following Bank-related information and disclosures present the Bank as a stand-alone entity, and are presented for purposes of additional analysis. See Note 13 of the Notes to Consolidated Financial Statements for the Bank's stand-alone financial information.

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 income on real estate loans; debt securities; commercial, construction, corporate, and consumer loans; and to a lesser extent, fees received in connection with loans and deposits. The Bank's major expense is the interest paid on savings deposits and borrowings.

Since December 31, 1990, total assets have declined from $2.7 billion to $1.8 billion at December 31, 1995 as management restructured the balance sheet to more effectively operate under the guidelines of the Financial Institutions Reform, Recovery and Enforcement Act (FIRREA), the Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA), and as part of a long-term strategy to optimize the Bank's size and earnings potential.

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

	FOR THE YEAR ENDED DECEMBER 31,				
	1995	1994	1993	1992	1991
Return on average assets (net income divided by average total assets)	(0.2)%	0.4%	0.3 %	(0.5)%	(1.2)%
Return on average equity (net income divided by average stockholder's equity)	(1.8)%	4.4%	4.0 %	(6.0)%	(17.2)%
Equity-to-assets ratio (average stockholder's equity divided by average total assets)	10.0%	10.1%	8.2 %	7.5%	6.7%

LENDING ACTIVITIES

The Bank's loan portfolio totaled $1.1 billion at December 31, 1995, representing 61 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, corporate, and construction loans, and consumer loans including: recreational vehicle, marine, mobile home, auto, equity, and home improvement 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.

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

	DECEMBER 31,				
	1995	1994	1993	1992	1991
Loans collateralized by real estate:					
Conventional single-family residential	$ 531,147	$490,157	$436,853	$395,976	$497,448
FHA and VA insured single-family residential	44,018	35,429	25,051	24,670	35,563
Commercial mortgage	178,507	178,076	192,046	198,235	212,518
Construction and land(1)	137,728	90,992	82,638	91,344	120,776
	891,400	794,654	736,588	710,225	866,305
Commercial secured	58,352	40,349	25,443	30,137	26,736
Commercial unsecured	4,678	2,317	354	384	3,966
Consumer installment	157,726	119,460	93,431	42,444	53,537
Consumer unsecured	7,128	6,570	19,309	18,371	16,568
Equity and property improvement loans	29,216	26,054	21,061	16,712	14,287
Deposit accounts	2,392	2,659	2,944	4,248	5,122
	1,150,892	992,063	899,130	822,521	986,521
Undisbursed proceeds	(68,646)	(41,702)	(48,251)	(44,937)	(44,544)
Allowance for estimated credit losses	(16,353)	(17,659)	(16,251)	(17,228)	(12,061)
Premiums (discounts)	9,314	5,969	3,270	(125)	(1,294)
Deferred fees	(5,362)	(4,999)	(4,782)	(4,406)	(6,678)
Accrued interest	6,091	4,479	4,214	4,586	6,358
	(74,956)	(53,912)	(61,800)	(62,110)	(58,219)
Loans receivable, net	$1,075,936	$938,151	$837,330	$760,411	$928,302

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(1) The Bank's construction and land loans are 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 one-year constant maturity Treasury yield, the prime rate, the 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 mortgage (ARM) loans 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 repricing date, which is generally at six months or one year. The Bank's ARM loans 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 at over the life of the loan (lifetime caps). At December 31, 1995, periodic caps in the adjustable loan portfolio ranged from 25 to 500 basis points. Lifetime caps ranged from 9.75 to 22 percent.

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 estimated 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 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), and estimated ranges of recovery. 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 53 percent of the loan portfolio at December 31, 1995, compared to 56 percent at December 31, 1994. 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 loans offered with initial rates below the current market rate, the Bank qualifies the applicants using the fully indexed rate.

During 1995, the Bank made $24.7 million of loans using brokers. These loans were underwritten by the Bank using the same guidelines as loans originated internally.

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 on all properties securing its loans. Earthquake insurance, however, is not required.

Consumer Lending. Consumer loans include: installment loans secured by auto, recreational vehicles, boats, and mobile homes; home equity and property improvement loans; and loans secured by deposit accounts. Approximately 96 percent of the consumer loan portfolio is collateralized at December 31, 1995. 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 for loans 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 dealers. These loans are subject to credit scoring and 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, in some cases through a broker, 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.

Premiums on loans primarily represent premiums paid to dealers for originating consumer installment loans for the Bank. Prepayments of the loans can adversely affect the yield of the installment portfolio should the unearned premium be uncollectible from the dealer due to the contractual terms of the dealer agreement or the creditworthiness of the dealer or broker.

Commercial and Construction. The commercial and construction loan 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. Commercial secured loans include corporate loans secured by inventory, receivables, real estate, and collateral other than real estate. Residential tract construction loans are generally underwritten with a stabilized loan-to-value ratio of less than 85 percent, while commercial/income property loans are generally underwritten with a ratio less than or equal to 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 outside of Nevada. At December 31, 1995, 32 percent, or $18.5 million, of the Bank's outstanding commercial secured loan portfolio consisted of loans to borrowers in the gaming industry, with additional unfunded commitments of $9.9 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 to a lesser extent, 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.

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. The Bank originated $525 million and $466 million in new loans during 1995 and 1994, respectively, virtually all of which were secured by property located in Nevada. As of December 31, 1995, 86 percent of the loan portfolio was secured by property located in Nevada, 9 percent secured by property located in California, and 5 percent secured by property located in Arizona. The Bank originates real estate and commercial loans principally through its in-house personnel, with some broker-originated SFR loans. In 1994, the Bank purchased $41.9 million of single-family residential whole loans, while no such purchases of loans occurred in 1995.

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, 1995, $5.9 million of residential loans are designated as held for sale. See Note 13 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 $430 million at December 31, 1995, compared to $415 million at year-end 1994, including $58 million and $68 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.

In May 1995, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 122, "Accounting for Mortgage Servicing Rights." The statement eliminates the previous distinction between purchased and originated mortgage servicing rights. The statement requires an allocation of the cost basis of a mortgage loan between the mortgage servicing rights and the loan when mortgage loans are sold or securitized and the servicing is retained. The Bank adopted SFAS No. 122 effective April 1, 1995.

The servicing rights are being amortized over their estimated lives using a method approximating a level yield method. The book value of capitalized mortgage servicing rights at December 31, 1995 was $350,000. As all servicing rights capitalized during the year have been on new loan originations and no significant change in interest rates or servicing rights values have occurred, fair value is estimated to approximate book value at December 31, 1995.

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 fees, 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

Loan Impairment. On January 1, 1995, the Bank adopted SFAS No. 114, "Accounting by Creditors for Impairment of a Loan," and SFAS No. 118, "Accounting by Creditors for Impairment of a Loan -- Income Recognition and Disclosures." SFAS No. 114 requires the measurement of loan impairment to be based on the present value of expected future cash flows discounted at the loan's original effective interest rate or the fair value of the underlying collateral on collateral-dependent loans. SFAS No. 118 allows a creditor to use existing methods for recognizing interest income on impaired loans.

Upon adoption of SFAS No. 114 in the first quarter of 1995, $2.9 million of in-substance foreclosed assets were reclassified on the Bank's consolidated statement of financial condition from real estate acquired through foreclosure (REO-F) to loans receivable. SFAS No. 114 eliminated the in-substance designation. No other financial statement impact resulted from the Bank's adoption of SFAS No. 114.

In general, under SFAS No. 114, interest income on impaired loans will continue to be recognized by the Bank on the accrual basis of accounting, unless the loan is greater than 90 days delinquent with respect to principal or interest, or the loan has been partially or fully charged-off. Interest on loans greater than 90 days delinquent is generally recognized on a cash basis. Interest income on loans which have been fully or partially charged-off is generally recognized on a cost-recovery basis; that is, all proceeds from the loan payments are first applied as a reduction to principal before any income is recorded.

Interest payments received on impaired loans are recorded as interest income unless collection of the remaining recorded investment is in doubt, in which case payments received are recorded as reductions of principal.

Nonperforming Assets. Nonperforming assets are comprised of nonaccrual assets, restructured loans, and REO-F. Nonaccrual assets are those on which management believes the timely collection of interest or principal 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, 1995	1994	1993	1992	1991
Nonaccrual loans past due 90 days or more:					
Mortgage loans:					
Construction and land	$ 893	$ 576	$ 1,233	$ 8,514	$ 8,904
Single-family residences	3,720	5,517	6,636	4,667	7,737
Other mortgage loans	3,315	5,696	6,728	3,736	10,388
	7,928	11,789	14,597	16,917	27,029
Nonmortgage loans	637	904	184	2,164	87
Restructured loans	9,320	16,768	2,842	1,190	1,229
Total nonperforming loans	17,885	29,461	17,623	20,271	28,345
REO-F	3,403	7,631	9,707	24,488	14,875
Total nonperforming assets	$21,288	$37,092	$27,330	$44,759	$43,220
Allowance for estimated credit losses	$16,620	$17,659	$16,251	$17,228	$12,061
Allowance for estimated credit losses as a percentage of nonperforming loans	92.93%	59.94%	92.21%	84.99%	42.55%
Allowance for estimated credit losses as a percentage of nonperforming assets	78.07%	47.61%	59.46%	38.49%	27.91%

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 OTS regulations allow for removal of these loans from the "troubled debt restructured" designation, once the loan performs according to its contractual terms for twelve consecutive months. The reduction of $7.4 million in restructured loans from 1994 to 1995 was primarily due to earthquake-modified loans which met this criteria.

At December 31, 1995, all nonaccrual loans and REO-F are classified substandard. Additionally, $3.1 million of 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 $1.3 million for 1995. Actual interest income recognized on these assets was $439,000, resulting in $856,000 of interest income foregone for the year. See further discussion below in Provision and Allowance for Estimated 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."

Provision and Allowance for Estimated Credit Losses. The provision for estimated 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 most recent examination by the OTS in 1995, no additional allowances for losses were required to be recorded by the Bank.

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

	MORTGAGE LOANS	CONSTRUCTION & LAND LOANS	NON-MORTGAGE LOANS	TOTAL LOANS	DEBT SECURITIES	REAL ESTATE ACQUIRED THROUGH FORECLOSURE	REAL ESTATE HELD FOR SALE OR DEVELOPMENT	TOTAL	RATIO*
Balance, 12/31/90....	$ 1,134	$ 1,299	$ 1,213	$ 3,646	$ --	$ 4,087	$ 4,158	$ 11,891	
Provisions for estimated credit losses............	5,835	2,643	3,580	12,058	--	1,686	49,010	62,754	
Charge-offs..........	(844)	(1,121)	(2,111)	(4,076)	--	(6,914)	(49,564)	(60,554)	
Recoveries...........	450	--	566	1,016	--	319	35	1,370	
Transfers............	(583)	--	--	(583)	--	822	--	239	
Balance, 12/31/91....	5,992	2,821	3,248	12,061	--	--	3,639	15,700	5.85%
Provisions for estimated credit losses............	1,903	6,460	5,766	14,129	--	--	18,309	32,438	
Charge-offs..........	(717)	(4,262)	(5,837)	(10,816)	--	--	(20,490)	(31,306)	
Recoveries...........	202	497	1,155	1,854	--	--	5	1,859	
Balance, 12/31/92....	7,380	5,516	4,332	17,228	--	--	1,463	18,691	3.29%
Provisions for estimated credit losses............	4,634	172	1,406	6,212	--	--	1,010	7,222	
Charge-offs..........	(3,652)	(3,100)	(3,060)	(9,812)	--	--	(1,538)	(11,350)	
Recoveries...........	461	852	1,310	2,623	--	--	--	2,623	
Balance, 12/31/93....	8,823	3,440	3,988	16,251	--	--	935	17,186	1.07%
Provisions for estimated credit losses............	2,954	71	4,205	7,230	--	--	163	7,393	
Charge-offs..........	(2,601)	(1,499)	(3,787)	(7,887)	--	--	(1,412)	(9,299)	
Recoveries...........	815	202	1,048	2,065	--	--	790	2,855	
Balance, 12/31/94....	9,991	2,214	5,454	17,659	--	--	476	18,135	0.72%
Provisions for estimated credit losses............	(2,609)	(151)	8,506	5,746	2,077	326	162	8,311	
Charge-offs..........	(1,105)	(312)	(7,207)	(8,624)	(2,077)	(395)	(139)	(11,235)	
Recoveries...........	145	172	1,255	1,572	--	336	364	2,272	
Balance, 12/31/95....	$ 6,422	$ 1,923	$ 8,008	$ 16,353	$ --	$ 267	$ 863	$ 17,483	0.56%

* Ratio = Net charge-offs to average loans and real estate outstanding (includes debt securities for 1995).

Allocation of Allowance for Estimated 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,									
	1995		1994		1993		1992		1991	
	ALLOWANCE AMOUNT	PERCENT OF LOANS TO TOTAL LOANS	ALLOWANCE AMOUNT	PERCENT OF LOANS TO TOTAL LOANS	ALLOWANCE AMOUNT	PERCENT OF LOANS TO TOTAL LOANS	ALLOWANCE AMOUNT	PERCENT OF LOANS TO TOTAL LOANS	ALLOWANCE AMOUNT	PERCENT OF LOANS TO TOTAL LOANS
	(THOUSANDS OF DOLLARS)									
Loans by type										
Real estate.....	$ 6,422	69.1	$ 9,991	73.6	$ 8,823	76.9	$ 7,380	81.2	$ 5,992	82.4
Construction and land..........	1,923	6.3	2,214	5.1	3,440	4.0	5,516	4.3	2,821	4.8
Nonmortgage.....	8,008	24.6	5,454	21.3	3,988	19.1	4,332	14.5	3,248	12.8
Total.......	$16,353	100.0	$17,659	100.0	$16,251	100.0	$17,228	100.0	$12,061	100.0

REAL ESTATE DEVELOPMENT ACTIVITIES

The Bank's investment in real estate held for development, net of allowance for estimated losses, excluding REO-F, decreased from $28.1 million at December 31, 1991 to $247,000 at December 31, 1995.

The Bank's pretax loss from real estate operations was $196,000 in 1995, $612,000 in 1994, and $910,000 in 1993.

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 41 percent, 32 percent and 29 percent of total revenues for each of the years ended December 31, 1993, 1994 and 1995, respectively.

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 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, 1995 and 1994, no securities were designated as "trading securities."

In November 1995, the FASB issued a Special Report, "A Guide to Implementation of Statement 115 on Accounting for Certain Investments in Debt and Equity Securities" (the Special Report). The Special Report allowed a one-time opportunity, until December 31, 1995, for institutions to reassess the appropriateness of their designations of all securities and transfer debt securities from the held-to-maturity portfolio before calendar year-end 1995, without calling into question their intent to hold other debt securities to maturity in the future. The Bank reassessed its securities designations in light of the Special Report guidance and made no reclassifications.

The following tables present the composition of the debt security portfolios as of the dates indicated.

	DECEMBER 31,		
	1995	1994	1993
	(THOUSANDS OF DOLLARS)		
DEBT SECURITIES HELD TO MATURITY			
Corporate issue MBS	$ 43,964	$ 60,922	$ 69,660
U.S. Treasury securities	20,290	40,958	--
Total	$ 64,254	$101,880	$ 69,660

	DECEMBER 31, 1995	1994	1993
	(THOUSANDS OF DOLLARS)		
DEBT SECURITIES AVAILABLE FOR SALE			
GNMA -- MBS	$ 5,933	$ 6,397	$ 9,672
FHLMC -- MBS	238,926	300,896	379,786
FNMA -- MBS	94,894	109,108	119,657
CMO	66,359	88,380	47,249
Corporate issue MBS	16,309	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	$422,421	$529,400	$595,726

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):

	EXPECTED/CONTRACTUAL MATURITY					
DECEMBER 31, 1995	WITHIN ONE YEAR	AFTER ONE YEAR BUT WITHIN FIVE YEARS	AFTER FIVE YEARS BUT WITHIN TEN YEARS	AFTER TEN YEARS BUT WITHIN TWENTY YEARS	TOTAL AMORTIZED COST	YIELD
Corporate issue MBS	$11,360	$27,853	$4,596	$ 155	$43,964	7.99%
U.S. Treasury securities	20,290	--	--	--	20,290	7.37%
Total	$31,650	$27,853	$4,596	$ 155	$64,254	7.79%
Yield	7.57%	7.91%	8.55%	7.23%	7.79%	

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

	EXPECTED/CONTRACTUAL MATURITY					
DECEMBER 31, 1995	WITHIN ONE YEAR	AFTER ONE YEAR BUT WITHIN FIVE YEARS	AFTER FIVE YEARS BUT WITHIN TEN YEARS	AFTER TEN YEARS BUT WITHIN TWENTY YEARS	TOTAL ESTIMATED FAIR VALUE	YIELD(1)
GNMA -- MBS	$ 1,375	$ 3,780	$ 778	$ --	$ 5,933	8.27%
FHLMC -- MBS	60,947	148,188	25,625	4,166	238,926	7.45%
FNMA -- MBS	14,808	46,644	22,346	11,096	94,894	7.07%
CMO	24,400	41,661	298	--	66,359	5.50%
Corporate Issue MBS	3,027	10,855	1,661	766	16,309	7.25%
Total	$104,557	$251,128	$50,708	$16,028	$422,421	7.06%
Yield	6.94%	7.05%	7.27%	7.18%	7.06%	

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

DEPOSIT ACTIVITIES

Deposit accounts are the Bank's primary source of funds constituting 79 percent of the Bank's total liabilities at December 31, 1995. The Bank solicits both short-term and long-term deposits in the form of transaction-based and certificate of deposit accounts.

The Bank's average retail deposit base, as a percent of average interest-bearing liabilities, has remained steady during the past three years. The total average deposit base declined in 1994 versus 1993 as a result of the sale of the Bank's Arizona deposits in 1993. See Note 13 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 79 percent in 1995, compared to 80 percent in 1994 and 79 percent in 1993.

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 $26 million during 1995. This growth was principally in transaction-based accounts which increased by $27 million, offset by a decrease of $1 million in certificates of deposit. During 1995, the Bank offered new and restructured money market demand account (MMDA) products in order to encourage this growth and minimize loss of deposits to competitive products offered by other financial intermediaries.

At December 31, 1995, the Bank maintained over $419 million in collateral, at market value, which could be borrowed against or sold to offset any deposit outflows which could occur in a declining or low interest rate environment, or as a result of the pending acquisition of the Bank. While some loss of deposits may be experienced by the Bank, the anticipated volume is not expected to be significant.

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

	1995		1994		1993	
	BALANCE	YIELD	BALANCE	YIELD	BALANCE	YIELD
Noninterest-bearing demand deposits...	$ 80,028	--	$ 66,339	--	$ 77,144	--
Interest-bearing demand deposits......	319,449	3.23%	327,020	2.67%	329,785	2.60%
Savings deposits......................	71,963	2.38%	84,584	2.52%	83,935	2.81%
Certificates of deposit...............	774,948	5.15%	751,572	4.42%	952,764	4.90%
	$1,246,388	4.17%	$1,229,515	3.59%	$1,443,628	3.99%

Certificates of deposit include approximately $171 million, $169 million, and $152 million in time certificates of deposits in amounts of $100,000 or more at December 31, 1995, 1994, and 1993, 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, 1995 (thousands of dollars):

LESS THAN 3 MONTHS	3 MONTHS-6 MONTHS	6 MONTHS-1 YEAR	GREATER THAN 1 YEAR
$ 60,121	$29,724	$35,798	$45,696

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 13 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.

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

	1995	1994	1993
Balance at year end....................................	$140,710	$281,935	$259,041
Accrued interest payable at year end...................	1,417	3,335	3,871
Daily average amount outstanding during year...........	175,618	222,620	305,123
Maximum amount outstanding at any month end............	282,374	281,935	367,859
Weighted-average interest rate during the year.........	6.20%	4.95%	4.30%
Weighted-average interest rate on year-end balances....	6.10%	6.37%	4.31%

EMPLOYEES

At December 31, 1995, the Bank had 601 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 1995, 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 and through restructuring its MMDA product offerings.

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 11 are owned. The Bank leases the remaining facilities. The Bank opened a new branch in the Las Vegas area in May of 1995 while consolidating another branch during the year. See Note 13 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, 1995.

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, 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. 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 are imposed on institutions based upon the institution's level of capital and a supervisory risk assessment. Congressional proposals are currently pending to decrease the deposit insurance premiums after a one-time assessment is imposed to fully capitalize the SAIF.

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................	> or =10%	> or =6%	> or =5%
Adequately capitalized...........	> or =8%<10%	> or =4%<6%	> or =4%<5%
Undercapitalized................	> or =6%<8%	> or =3%<4%	> or =3%<4%
Significantly undercapitalized...	<6%	<3%	<3%

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Critically undercapitalized if tangible equity to total assets ratio < or =2%.

Institutions must meet all three capital ratios in order to qualify for a given category. At December 31, 1995, the Bank was classified as "well capitalized." At December 31, 1995, under fully phased-in capital rules applicable to the Bank at July 1, 1996, the Bank would have exceeded the "adequately capitalized" total risk-based, tier 1 risk-based, and tier 1 leverage ratios by $53.2 million, $81.6 million, and $52.6 million, respectively.

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, 1995, the Bank has a net deferred tax liability and, therefore, is not subject to the limitation. Management does not anticipate this regulation will impact the Bank's compliance and 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 exclude 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. Under the regulation, on January 1, 1995, none of the Bank's supervisory goodwill was 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.

In 1994, the OTS issued a regulation which added a component to an institution's risk-based capital calculation for institutions with interest rate risk (IRR) exposure classified as "above normal." In 1995, the regulation was indefinitely delayed and allowed "well capitalized" institutions, such as the Bank, to utilize their internal model to measure the IRR capital component. As measured by both the Bank's model and the OTS model, the Bank has a "normal" classification of IRR exposure as defined in the delayed regulation. Had the regulation been implemented, no capital deduction would have been required during any period presented.

See Note 13 of the Notes to Consolidated Financial Statements for the calculation of the Bank's regulatory capital and related excesses as of December 31, 1995 and 1994.

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 $674,000 in investments in and loans to nonpermissible activities at December 31, 1995. 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 REO-F.

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 $122 million at December 31, 1995, the Bank's commercial real estate lending limit was $488 million. At December 31, 1995, the Bank had $179 million invested in commercial real estate loans and, 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 March 1995, thrifts generally are not permitted to make loans to a single borrower in excess of 15 percent of the thrift's Tier 1 and Tier 2 capital actually included in risk-based capital, plus the allowance for loan and lease losses not included in Tier 2 capital, 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 an 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 $21 million at December 31, 1995. 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 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 valuation allowance. Management believes the Bank's current policies and procedures regarding 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, 1995, the Bank's QTL ratio was approximately 79.5 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." A final rule providing safety and soundness guidelines was issued in August 1995. 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 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 regulation also provides for procedures for the submission of compliance plans and the issuance of orders to correct deficiencies, if necessary. This final rule will have no material adverse impact on the Bank.

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: 1 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 5 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, 1995, of $11.1 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 and maintains a ratio substantially higher than the requirement due to its higher level of transaction accounts relative to a traditional thrift. For the month of December 1995, the Bank's liquidity ratios were 11.9 percent and 6.5 percent, respectively.

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. Under item (5), 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 required quarterly insurance premium payments beginning in 1995 instead of semi-annual payments as in prior years. Legislation is pending to provide for a one-time special assessment of approximately 75 to 79 basis points on SAIF insured deposits. 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 an "outstanding" evaluation in its most recent examination.

In April 1995, the Federal Reserve approved the final version of a new CRA regulation, to be fully implemented in July 1997. Data collection for large institutions, such as the Bank, began in January 1996. The regulation provides for different examination procedures for different sized financial institutions, to facilitate the basic differences in institutions structures and operations. The intent of the regulation is to establish performance-based CRA examinations that are complete and accurate but, to the maximum extent possible, mitigate the compliance burden for institutions.

Examiners will evaluate the CRA performance based on review of objective information about the institution, its community and its competitors, available demographic and economic data, and any information the institution chooses to provide about lending, service, and investment opportunities in its assessment area. The Bank implemented the new CRA regulation in 1995 and it had no material impact.

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 $47.7 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 MMDA (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 imposed by the OTS. At December 31, 1995, the Bank was required to maintain approximately $5.3 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 classified as a Tier 1 thrift.

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 has 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 OTS lifted this net worth maintenance stipulation in June 1995, at the request of the Company, since laws and regulations have been enacted which govern prompt corrective action measures when the capitalization of a thrift is deficient.

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.

In June 1995, the Bank requested the OTS lift the dividend stipulation, since laws and regulations have been enacted since the Company's acquisition of the Bank, in conjunction with FIRREA and FDICIA, which govern capital distributions and prompt corrective action measures when the capitalization of a thrift is deficient. In July 1995, the OTS terminated these stipulations such that capital distributions by the Bank are now governed by the laws and regulations governing all thrifts. In 1995, the Bank declared and paid $500,000 in cash dividends to the Company.

Under terms of the definitive sale agreement with Norwest Corporation, the Bank is limited in the amount of dividends payable to the Company through the closing date of the sale to $375,000 per quarter through June 30, 1996 and up to $3.5 million in the third quarter of 1996, dependant upon the timing of the closing date of the sale.

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 markets on which the common stock of the Company is traded are the New York Stock Exchange and the Pacific Stock Exchange. At March 15, 1996, there were 25,400 holders of record of common stock. The market price of the common stock was $16 1/4 as of March 15, 1996. Prices shown are those as quoted by the Wall Street Journal in the consolidated transaction reporting system.

COMMON STOCK PRICE AND DIVIDEND INFORMATION

	1995		1994		DIVIDENDS PAID	
	HIGH	LOW	HIGH	LOW	1995	1994
Fiscal Quarter						
First	$15 1/4	$13 5/8	$19 3/8	$15 3/4	$0.205	$0.195
Second	14 7/8	13 5/8	18 5/8	15	0.205	0.195
Third	16 3/4	14	18 1/4	17 1/2	0.205	0.205
Fourth	18 3/8	14 7/8	17 5/8	13 3/4	0.205	0.205
					$0.820	$0.800

See Holding Company Matters and Note 13 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,				
	1995	1994	1993	1992	1991
Operating revenues	$ 563,502	$ 599,553	$ 539,105	$ 534,390	$ 565,010
Operating expenses	505,090	510,863	461,423	448,815	498,753
Operating income	$ 58,412	$ 88,690	$ 77,682	$ 85,575	$ 66,257
Income from continuing operations	$ 2,654	$ 23,524	$ 13,751	$ 32,214	$ 18,291
Income (loss) from discontinued operations, net of tax (1)	(17,536)	2,777	1,655	(14,553)	(32,466)
Net income (loss)	$ (14,882)	$ 26,301	$ 15,406	$ 17,661	$ (14,175)
Net income (loss) applicable to common stock	$ (15,189)	$ 25,791	$ 14,665	$ 16,610	$ (15,500)
Total assets at year end	$1,532,527	$1,453,582	$1,362,861	$1,265,380	$1,268,321
Capitalization at year end					
Common equity	$ 356,050	$ 348,556	$ 335,117	$ 329,444	$ 327,149
Preferred and preference stocks	--	4,000	8,058	15,316	22,574
Trust originated preferred securities	60,000	--	--	--	--
Long-term debt	607,945	678,263	568,600	589,883	464,042
	$1,023,995	$1,030,819	$ 911,775	$ 934,643	$ 813,765
Common stock data					
Return on average common equity	(4.1)%	7.6%	4.4%	5.1%	(4.6)%
Earnings (loss) per share					
Continuing operations	$ 0.10	$ 1.09	$ 0.63	$ 1.51	$ 0.83
Discontinued operations	(0.76)	0.13	0.08	(0.70)	(1.59)
Earnings (loss) per share	$ (0.66)	$ 1.22	$ 0.71	$ 0.81	$ (0.76)
Dividends paid per share	$ 0.82	$ 0.80	$ 0.74	$ 0.70	$ 1.05
Payout ratio	N/A	66%	104%	86%	N/A
Book value per share at year end	$ 14.55	$ 16.38	$ 15.96	$ 15.99	$ 15.88
Market value per share at year end	$ 17.63	$ 14.13	$ 16.00	$ 13.75	$ 10.63
Market value per share to book value per share	121%	86%	100%	86%	67%
Common shares outstanding at year end (000)	24,467	21,282	20,997	20,598	20,598
Number of common shareholders at year end	25,133	20,765	21,851	22,943	24,396

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(1) Contribution from Financial Services Segment, including 1995 estimated loss on disposal.

NATURAL GAS OPERATIONS
(THOUSANDS OF DOLLARS)

	YEAR ENDED DECEMBER 31,				
	1995	1994	1993	1992	1991
Sales	$ 524,914	$ 560,207	$ 503,789	$ 506,937	$ 493,647
Transportation	38,588	39,061	34,361	27,190	21,201
Other	--	285	955	263	50,162
Operating revenue	563,502	599,553	539,105	534,390	565,010
Net cost of gas purchased	227,456	249,922	212,290	214,293	276,954
Operating margin	336,046	349,631	326,815	320,097	288,056
Expenses					
Operations and maintenance	187,969	178,310	169,921	159,954	154,370
Depreciation and amortization	62,492	57,284	55,088	52,277	47,140
Other	27,173	25,347	24,124	22,291	20,289
Operating income	$ 58,412	$ 88,690	$ 77,682	$ 85,575	$ 66,257
Contribution to consolidated net income (loss)	$ 2,654	$ 23,524	$ 13,751	$ 32,214	$ 18,291
Total assets at year end	$1,357,034	$1,277,727	$1,194,679	$1,103,794	$1,106,917
Net gas plant at year end	$1,137,750	$1,035,916	$ 954,488	$ 906,420	$ 854,254
Construction expenditures	$ 166,183	$ 141,390	$ 113,903	$ 102,517	$ 76,871
Cash flow, net					
From operating activities	$ 97,754	$ 84,074	$ 50,437	$ 81,457	$ 93,925
From investing activities	(163,718)	(141,547)	(116,246)	(103,065)	(96,588)
From financing activities	71,056	61,422	67,488	(7,792)	27,351
Net change in cash	$ 5,092	$ 3,949	$ 1,679	$ (29,400)	$ 24,688
Total throughput (thousands of therms)					
Sales	805,884	881,868	850,557	825,521	885,255
Transportation	1,016,011	914,791	725,023	651,141	509,478
Total throughput	1,821,895	1,796,659	1,575,580	1,476,662	1,394,733
Weighted average cost of gas purchased ($/therm)	$ 0.21	$ 0.30	$ 0.29	$ 0.26	$ 0.26
Customers at year end	1,029,000	980,000	932,000	897,000	870,000
Employees at year end	2,383	2,359	2,318	2,285	2,243
Degree days -- actual	2,084	2,427	2,470	2,261	2,470
Degree days -- ten year average	2,326	2,387	2,401	2,375	2,419

DISCONTINUED OPERATIONS -- FINANCIAL SERVICES
(THOUSANDS OF DOLLARS)

	YEAR ENDED DECEMBER 31,				
	1995	1994	1993	1992	1991
Interest income	$ 132,877	$ 118,434	$ 132,325	$ 165,678	$ 213,991
Interest expense	73,300	59,790	75,076	111,917	158,788
Net interest income	59,577	58,644	57,249	53,761	55,203
Provision for credit losses	(8,149)	(7,230)	(6,212)	(14,129)	(12,058)
Net interest income after credit loss provision	51,428	51,414	51,037	39,632	43,145
Net loss from real estate operations	(196)	(612)	(910)	(15,286)	(50,477)
Noninterest income (expense)	(37,086)	(36,738)	(40,231)	(34,073)	(29,822)
Impairment of excess of cost over net assets acquired	(11,823)	--	--	--	--
Income tax (expense) benefit	(5,528)	(6,391)	(6,345)	(91)	8,754
Net income (loss) before cumulative effect of accounting change	(3,205)	7,673	3,551	(9,818)	(28,400)
Cumulative effect of change in method of accounting for income taxes	--	--	3,045	--	--
Net income (loss)	$ (3,205)	$ 7,673	$ 6,596	$ (9,818)	$ (28,400)
Contribution to consolidated net income (loss)	$ (17,536)	$ 2,777	$ 1,655	$ (14,553)	$ (32,466)
Total assets at year end	$1,775,019	$1,816,321	$1,751,419	$2,237,734	$2,356,057
Interest-earning assets at year end	$1,646,659	$1,675,368	$1,582,720	$2,022,121	$2,152,494
Interest-bearing liabilities at year end	$1,579,176	$1,629,419	$1,546,158	$2,058,663	$2,164,402
Cash flow, net					
From operating activities	$ 20,821	$ 30,643	$ 38,863	$ 4,984	$ 19,033
From investing activities	25,750	(109,197)	460,069	139,110	316,303
From financing activities	(50,743)	83,261	(511,910)	(94,768)	(317,704)
Net change in cash	$ (4,172)	$ 4,707	$ (12,978)	$ 49,326	$ 17,632
Average yield on loans	8.90%	8.58%	9.25%	10.14%	10.95%
Average yield on debt securities	6.85	6.20	5.93	7.15	8.74
Average yield on cash equivalents	6.05	4.31	3.09	3.54	5.60
Average earning asset yield	8.08	7.45	7.28	8.32	9.56
Average cost of deposits	4.17	3.59	3.99	5.09	6.77
Average cost of borrowings	6.36	5.00	4.69	6.95	7.35
Average cost of funds (net of capitalized and transferred interest and cost of hedging activities)	4.66	3.90	4.14	5.58	7.03
Interest rate spread	3.42	3.55	3.14	2.74	2.53
Net yield on interest-earning assets	3.62	3.69	3.15	2.70	2.47

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

The Company is principally engaged in the business of purchasing, transporting, and distributing natural gas to residential, commercial, and industrial customers in geographically diverse portions of Arizona, Nevada, and California. The Company also engaged in financial services activities through PriMerit Bank, a wholly owned subsidiary. In January 1996, the Company signed a definitive agreement to sell PriMerit. The sale is expected to be finalized in the third quarter of 1996, following receipt of shareholder and various governmental approvals and satisfaction of other customary closing conditions. Due to the intended sale of PriMerit during 1996, the financial services activities are considered discontinued operations for consolidated financial reporting purposes. See additional discussion of the sale below.

In November 1995, the Company entered into a definitive agreement to acquire Northern Pipeline Construction Co. (NPL), a full-service underground gas pipeline contractor, for $24 million. NPL provides local gas distribution companies with installation, replacement, and maintenance services for underground natural gas distribution systems. The agreement is a stock-for-stock exchange in which 100 percent of the stock of NPL will be acquired in exchange for common stock of the Company. The acquisition is anticipated to be completed during the first half of 1996.

During 1995, the gas segment contributed income of $2.6 million, while discontinued operations-financial services experienced a $17.5 million loss, resulting in a total net loss of $14.9 million.

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 activity 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 significantly affect capital resources and liquidity in future years include inflation, growth in the economy, changes in income tax laws, the level of natural gas prices, interest rates, and changes in the ratemaking policies of regulatory commissions.

Inflation, as measured by the Consumer Price Index for all urban consumers averaged 2.5 percent in 1995, 2.7 percent in 1994, and 2.7 percent in 1993. See separate discussions for impact of inflation on natural gas operations and discontinued operations -- financial services activities.

The Company follows a common stock 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 Company's quarterly common stock dividend was 20.5 cents per share throughout 1995. The last change was on September 1, 1994, and resulted in a 1 cent, or five percent, increase from the previous level.

During 1995, the Company received $500,000 in cash dividends from the Bank. The Company is not dependent upon such dividends to meet the gas segment's cash requirements.

Cash inflows from operating activities increased $13.7 million from 1994, primarily due to the change in the unrecovered purchased gas cost account from an amount receivable to an amount payable to customers. Cash outflows from investing activities increased $22.2 million from 1994. This change is attributed to construction expenditures related to the upgrade and expansion of the Company's transmission and distribution facilities. Cash flows from financing activities increased $9.6 million, a result of the issuance of common stock, preferred securities, and long-term debt, offset somewhat by repayment of short-term debt.

Securities ratings issued by nationally recognized ratings agencies provide a method for determining the credit worthiness of an issuer. The Company's debt ratings are significant since long-term debt constitutes a significant portion of the Company's capitalization. These debt ratings are a factor considered by lenders when determining the cost of debt for the Company (i.e., the better the rating, the lower the cost to borrow funds). Management has undertaken to improve its credit ratings with the various agencies.

In September 1995, Duff & Phelps upgraded the Company's long-term unsecured debt from BB+ to BBB-. Duff & Phelps debt ratings range from AAA (highest credit quality) to DD (defaulted debt obligation). The Duff & Phelps rating of BBB- indicates that the Company's credit quality is considered sufficient for prudent investment.

In February 1995, Standard and Poor's (S&P) reaffirmed the Company's unsecured long-term debt rating at BBB-. S&P debt ratings range from AAA (highest rating possible) to D (obligation is in default). According to S&P, the BBB- rating indicates the debt is regarded as having an adequate capacity to pay interest and repay principal.

In November 1994, Moody's upgraded the Company's unsecured long-term debt rating from Ba1 to Baa3. Moody's debt ratings range from Aaa (best quality) to C (lowest quality). Moody's applies a Baa3 rating to obligations which are considered medium grade obligations, i.e., they are neither highly protected nor poorly secured.

A security rating is not a recommendation to buy, sell, or hold a security, and it is subject to revision or withdrawal at any time by the assigning rating organization. Each rating should be evaluated independently of any other rating.

See separate discussions of Capital Resources and Liquidity for the natural gas operations and discontinued operations -- financial services segments.

RESULTS OF OPERATIONS

	CONTRIBUTION TO NET INCOME YEAR ENDED DECEMBER 31,		
	1995	1994	1993
	(THOUSANDS OF DOLLARS)		
Continuing operations -- natural gas operations	$ 2,654	$23,524	$13,751
Discontinued operations -- financial services	(17,536)	2,777	1,655
Net income (loss)	$(14,882)	$26,301	$15,406

1995 vs. 1994

Loss per share for the year ended December 31, 1995 was $0.66, a $1.88 decline from earnings per share of $1.22 recorded for the year ended December 31, 1994. The loss was composed of per share earnings of $0.10 from natural gas operations and a per share loss of $0.76 from discontinued operations. Average shares outstanding increased by 2.1 million shares between years primarily resulting from a 2.1 million share public offering in May 1995. See separate discussions for an analysis of these changes. Dividends paid in 1995 were $0.82 per share reflecting the first full year of the dividend increase authorized by the Board in 1994.

1994 vs. 1993

Earnings per share for the year ended December 31, 1994, were $1.22, a $0.51 increase from earnings per share of $0.71 recorded for the year ended December 31, 1993. Earnings per share were composed of per share earnings of $1.09 from natural gas operations and $0.13 per share earnings from discontinued operations. Average shares outstanding increased by 349,000 shares between years. Dividends paid increased $0.06 to $0.80 per share, the result of the Board's decision to increase quarterly dividends. See separate discussions for an analysis of these changes.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

Recently issued accounting standards include SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of," which the Company adopted January 1, 1996, and SFAS No. 123, "Accounting for Stock-Based Compensation." See Note 1 of the Notes to Consolidated Financial Statements for a discussion of the impact of these new standards.

CONTINUING OPERATIONS
NATURAL GAS OPERATIONS

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 natural gas in most of southern, central, and northwestern Arizona, including the Phoenix and Tucson metropolitan areas. The Company is also the largest distributor and transporter of natural gas in Nevada, and serves the Las Vegas metropolitan area and northern Nevada. In addition, the Company distributes and transports natural gas in portions of California, including the Lake Tahoe area in northern California and high desert and mountain areas in San Bernardino County.

As of December 31, 1995, the Company had approximately 1,029,000 residential, commercial, industrial, and other customers, of which 605,000 customers were located in Arizona, 317,000 in Nevada, and 107,000 in California. Residential and commercial customers represented over 99 percent of the Company's customer base. During 1995, the Company added 49,000 customers, a five percent increase, of which 22,000 customers were added in Arizona, 25,000 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 five percent annually. Based on current commitments from builders, the Company expects customer growth to approximate five percent in 1996. During 1995, 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.

Total gas plant increased from $1.2 billion to $1.6 billion, or at an annual rate of eight percent, during the three-year period ended December 31, 1995. The increase is attributed to the investment in new transmission and distribution plant in Arizona, Nevada, and California to meet the demand from the Company's growing customer base.

CAPITAL RESOURCES AND LIQUIDITY

The growth of the Company has required capital resources in excess of the amount of cash flow generated from operating activities (net of dividends paid). During 1995, capital expenditures were $166 million. Cash flow from operating activities (net of dividends) provided $78 million, or approximately 47 percent, of the required capital resources pertaining to these construction expenditures. The remainder was provided from net external financing activities.

In October 1995, the Securities and Exchange Commission declared effective a $270 million shelf registration statement filed by the Company. This registration statement replaced a $300 million shelf registration statement which became effective in October 1994. Under the new registration statement, the Company may offer, up to the registered amount, any combination of debt securities, preferred stock, depositary shares, common stock, and preferred securities.

During 1995, the Company obtained external financing from a number of sources. In January 1995, term loan facilities totaling $165 million were refinanced with a new $200 million term loan facility. See Note 6 of Notes to Consolidated Financial Statements for further discussion. In May 1995, the Company completed an offering of 2.1 million primary shares of common stock. The net proceeds from this offering were $28.5 million after deducting underwriting discounts, commissions, and expenses. In October 1995, Southwest Gas Capital I (the Trust), a subsidiary of the Company, completed an offering of 2.4 million 9.125% Trust Originated

Preferred Securities. The Trust was formed for the sole purpose of issuing preferred securities and investing the proceeds thereof in an equivalent amount of subordinated debt of the Company. The net proceeds from the offering were $57.7 million after deducting underwriting discounts, commissions, and expenses. The proceeds from these various financings were used to repay short-term borrowings and finance utility construction.

The Company currently estimates that construction expenditures for its natural gas operations for the three-year period ending December 31, 1998 will be approximately $470 million. It is currently estimated that cash flow from operating activities (net of dividends) will fund approximately one-half of the gas operation's total construction expenditures for the three-year period ending December 31, 1998. A portion of the construction expenditure funding will be provided by $36 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.

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 purchased gas adjustment (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.

The Company's rate schedules in all of its service areas contain PGA clauses which permit the Company to adjust its rates as the cost of purchased gas changes. The PGA mechanism allows the Company to change the gas cost component of the rates charged to its customers to reflect increases or decreases in the price expected to be paid to its suppliers and companies providing upstream pipeline transportation service. In addition, the Company uses this mechanism to either refund amounts overcollected or charge for amounts undercollected as compared to the price paid by the Company for natural gas during the period since the last PGA rate change went into effect. 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.

While the changes relating to PGA have no significant net income impact, the Company's cash flow can be impacted. At December 31, 1994, the Company had a purchased gas cost asset of $15.2 million, reflecting payments to suppliers and pipelines in excess of rates paid by customers during the year. However, gas prices decreased dramatically, leading to an overcollection from customers of $32.8 million at December 31, 1995, or a $48 million change during the twelve-month period. The Company filed for PGA adjustments in five of its rate jurisdictions during the last half of 1995 to lower the gas cost component of rates charged in customer bills. The rates were also designed to refund the PGA overcollected balance within one year, with the exception of northern and southern Nevada, where a two-year period was approved. The aggregate amount of these decreases on an annual basis was $55.9 million. The following table shows the most recent PGA adjustments authorized by rate jurisdiction (thousands of dollars):

JURISDICTION	ANNUALIZED REVENUE ADJUSTMENT	PERCENTAGE	EFFECTIVE MONTH
Arizona:			
Central and Southern	$(20,900)	(17)%	August 1995
California:			
Southern	$(13,100)	(21)%	October 1995
Nevada:			
Northern and Southern	$(21,900)	(13)%	November 1995

In February 1996, the Company filed for additional annualized PGA decreases of $9.7 million in southern Nevada and $3.9 million in northern Nevada.

RESULTS OF NATURAL GAS OPERATIONS

	YEAR ENDED DECEMBER 31,		
	1995	1994	1993
	(THOUSANDS OF DOLLARS)		
Gas operating revenues	$563,502	$599,553	$539,105
Net cost of gas	227,456	249,922	212,290
Operating margin	336,046	349,631	326,815
Operations and maintenance expense	187,969	178,310	169,921
Depreciation and amortization	62,492	57,284	55,088
Taxes other than income taxes	27,173	25,347	24,124
Operating income	58,412	88,690	77,682
Other income (expense), net	(1,565)	(1,110)	(13,891)
Income before interest and income taxes	56,847	87,580	63,791
Net interest deductions	53,354	49,461	41,832
Income tax expense	839	14,595	8,208
Contribution to consolidated net income (loss)	$ 2,654	$ 23,524	$ 13,751

1995 vs. 1994

Contribution to consolidated net income decreased $20.9 million from 1994. The decrease was primarily attributed to a decrease in operating margin between periods. Increased operating costs and net interest deductions also contributed to the decrease in gas segment contribution.

Operating margin decreased $13.6 million, or four percent, during 1995 compared to 1994. Record-breaking warm weather throughout the Company's service territories for much of the 1995 heating seasons was the primary factor influencing the change. Temperatures in the Southwest were significantly above normal in January, February, November and December, the Company's prime heating months. As a result, operating margin was approximately $28 million less than would be expected if normal weather had been experienced. However, record customer growth and rate relief in southern Arizona and California partially mitigated the negative impact of warmer weather, contributing an additional $15 million of operating margin between years. During 1995, the Company added 49,000 new customers, an increase of 5 percent, and expects similar growth in 1996 based on commitments for new service.

Operations and maintenance expenses increased $9.7 million, or five percent, reflecting increases in labor and maintenance costs, including the incremental expenses associated with meeting the needs of the Company's growing customer base.

Depreciation expense and taxes other than income taxes increased $7 million, or nine percent, primarily due to an increase in average gas plant in service of $130 million, or nine percent. This is attributable to capital expenditures for the upgrade of existing operating facilities and the expansion of the system to accommodate customer growth.

Net interest deductions increased $3.9 million, or eight percent, in 1995, after deducting interest costs associated with discontinued operations. The change is attributed to an overall increase in average debt outstanding during 1995 of six percent, which consisted of a $70 million net increase in average long-term debt offset by a $27 million decrease in average short-term debt. The increase in long-term debt is attributed to the drawdown of IDRB funds previously held in trust and replacement of the $165 million term facilities with a new $200 million term loan facility. The proceeds from the common stock issuance in May 1995 and the preferred securities issuance in October 1995 are the primary factors for the decrease in average short-term debt. Higher interest rates on variable-rate debt also contributed to the increase in net interest deductions.

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 18 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.

Arizona Pipe Replacement Program Disallowances. In August 1990, the ACC issued its opinion and order 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 to 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.

The Company pursued various legal avenues seeking relief from the decision. Ultimately, the Arizona Court of Appeals issued a Mandate ordering the Company to comply with the ACC opinion and order. In December 1993, the Company wrote off $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 July 1994 settlement related to a southern Arizona general rate case, the Company agreed to write off an additional $3.2 million of gross plant in service related to the pipe replacement program. The settlement also established a disallowance formula to be used in future rate cases for expenditures related to defective materials and/or installation. The impact of both Arizona 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

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 was a mechanism by which actual margin was adjusted to the margin authorized in the Company's current tariff. The Company is now able to retain all 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. A safety-related operational attrition was filed in November 1995 related to northern California. The filing was approved effective January 1996, authorizing a $223,000 increase in annual margin.

Nevada

In December 1995, the Company filed general rate cases with the PSCN seeking approval to increase revenues by $15.8 million, or 12 percent, annually for its southern Nevada rate jurisdiction and $5 million, or 10 percent, annually for its northern Nevada rate jurisdiction. The Company is seeking recovery of increased operating and maintenance costs, construction-related financing, tax, insurance, and depreciation expenses associated with its expanding customer base. The Company is also proposing changes in its current rate design to reflect ongoing restructuring in the natural gas industry and to remain competitive with third-party providers of service to large customers. Rate relief is expected to become effective in the third quarter of 1996.

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. In July 1994, the ACC approved a settlement agreement of the southern Arizona general rate case which specified 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.

The Company anticipates filing for general rate relief in both southern and central Arizona rate jurisdictions in late 1996. The amount to be requested has yet to be determined. In Arizona, it takes approximately one year from the time of filing to receive a final rate order.

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.

Paiute intends to file a new general rate case in the second quarter of 1996. Under FERC rules, rates would be expected to go into effect, subject to refund, six months from the date of filing.

DISCONTINUED OPERATIONS -- FINANCIAL SERVICES SEGMENT

In January 1996, the Company reached an agreement to sell PriMerit Bank to Norwest Corporation for approximately $175 million in cash. The sale is expected to be finalized in the third quarter of 1996, following receipt of shareholder and various governmental approvals and satisfaction of other customary closing conditions. Due to the intended sale of PriMerit, the financial services segment is considered discontinued operations for consolidated financial reporting purposes. The following Bank-related information and disclosures present the Bank as a stand-alone entity, and are presented for purposes of additional analysis. See Note 13 of the Notes to Consolidated Financial Statements for the Bank's stand-alone financial information.

The separate stand-alone financial results and disclosures reported for the Bank on a going-concern basis differ from the results and disclosures reported for the Bank as a discontinued operation. See Note 12 of the Notes to Consolidated Financial Statements for reconciliations of Bank stand-alone financial information to the amounts shown as discontinued operations in the consolidated financial statements. In 1996, while the Company will continue, as required, to disclose the ongoing operating results of the Bank through the close of the proposed transaction, those amounts will not be realized or recognized by the Company in its consolidated financial statements, consistent with the terms of the sales agreement.

The Bank recorded a net loss of $3.2 million for the year ended December 31, 1995 compared to net income of $7.7 million and $6.6 million for the years ended December 31, 1994 and 1993, respectively. The 1995 net loss was attributable to recording $11.8 million in goodwill impairment as a result of the pending sale of the Bank to Norwest. Bank income from core banking operations in 1995 was $11.9 million. The Bank's 1994 income from core banking operations was $11.3 million compared to $7.9 million in 1993.

FINANCIAL AND REGULATORY CAPITAL

At December 31, 1995, recorded stockholder's equity was $173.6 million compared to $166.4 million at December 31, 1994. Stockholder's equity increased $7.2 million compared to December 31, 1994, as a result of the increase in unrealized gains, after tax, on debt securities available for sale partially offset by a net loss of $3.2 million and cash dividends of $500,000 paid to the Company during 1995. During 1995, the Bank's regulatory capital levels and ratios decreased under each of the three fully phased-in FDICIA capital standards. The decrease was primarily due to a decrease in the amount of goodwill and real estate investments includable in regulatory capital.

As discussed in Note 13 of the Notes to Consolidated Financial Statements, as of December 31, 1995 and 1994, the Bank exceeded all three fully phased-in minimum capital requirements under the regulatory capital regulations and is considered "well capitalized" 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 and 1995.

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, the 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 and 1995, no such gain (or loss) was included in regulatory capital.

DEPOSIT PREMIUMS

The deposit accounts of savings associations, including those of PriMerit, are insured to the maximum extent permitted by law by the FDIC through the SAIF. The deposit accounts of commercial banks are separately insured by the FDIC through the bank insurance fund (BIF). Commercial banks and savings associations are separately assessed annual deposit insurance premiums. For savings associations, the deposit premiums range from 23 to 31 cents per $100 of deposits and, under current requirements, will remain at that level until the SAIF is capitalized at 1.25 percent of insured deposits. The SAIF is not expected to reach this level of capitalization for several years. The BIF has reached the 1.25 percent capitalization level. As a result, the FDIC reduced the deposit insurance premiums paid by most commercial banks insured by BIF to a floor of $100. This regulatory change has given commercial banks a competitive advantage over savings associations and has placed additional pressure on the SAIF.

A number of plans have been proposed in Congress to deal with the undercapitalization of the SAIF. Several proposals provide for a one-time special assessment, estimated to approximate 75 to 79 basis points, on SAIF-insured deposits to fully capitalize the SAIF to 1.25 percent of insured deposits and require federally chartered thrifts, like the Bank, to change to a bank charter. These proposals would subsequently reduce annual premiums to levels similar to those of BIF-insured commercial banks and eventually merge the BIF and SAIF insurance funds. A change to a bank charter, under current law, would require recapture of the Bank's tax bad debt reserve. Proposals to deal with this issue include a "fresh start" approach, whereby thrifts would not need to recapture reserves established prior to December 31, 1987. The Bank is unable to predict if these proposals, or other proposals, will ultimately be approved by Congress.

Assuming a one-time special assessment and change in charter requirement was approved by Congress and became law in 1996, and was immediately charged against results of operations, the one-time assessment and tax bad debt recapture would, most likely, have a material impact on the Bank's 1996 results of operations. However, management believes the Bank would continue to be classified as "well-capitalized" under fully phased-in FDICIA capital rules. In addition, the Bank would not face any liquidity issues as a result of a one-time assessment.

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 1995, the Bank exceeded both regulatory liquidity requirements. For the month of December 1995, the Bank's liquidity ratios were 11.9 percent and 6.5 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, decreased from $282 million at December 31, 1994 to $141 million at December 31, 1995. During 1995, the Bank repaid $107 million in long-term borrowings, $18.7 million in short-term borrowings, and $15.2 million in flex repurchase agreements.

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 1995 were primarily met through $494 million of repayments on loans and debt securities, $118 million of borrowings from the FHLB, $38 million of loan sales, and $26 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, 1995, the Bank maintained in excess of $311 million of unencumbered assets, with a market value of $313 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 has designated the majority of the investment portfolio as available for sale. This enables management the flexibility to change the composition of the investment portfolio to quickly adjust the IRR exposure and to take advantage of interest rate changes in the markets.

As of December 31, 1995, the Bank's debt security portfolio was composed of securities with a fair value of $486 million (amortized cost of $485 million) with a yield of 7.16 percent compared to a debt security portfolio with a fair value of $629 million (amortized cost of $646 million) yielding 6.79 percent at December 31, 1994.

During 1995, the debt security portfolio balance declined by $145 million. The decline in the portfolio is primarily the result of sales, maturities, and principal repayments during 1995.

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 and interest rate risk, 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.

Interest Rate Risk (IRR) Management

For a complete discussion and additional disclosure of the Bank's methods and tools for measuring and managing its IRR, see Note 13 of Notes to Consolidated Financial Statements.

At December 31, 1995, the Bank had financial assets of $1.7 billion with a weighted average yield of 7.70 percent, and financial liabilities of $1.6 billion with a weighted average rate of 4.64 percent. The Bank's cumulative one-year static gap was a negative $60 million, or 3.5 percent of financial assets. The Bank's financial assets and financial liabilities are presented according to their frequency of repricing, and scheduled and expected maturities in the following table, also known as a static gap analysis (thousands of dollars):

STATIC GAP AS OF DECEMBER 31, 1995

				REPRICING SENSITIVITY AT DECEMBER 31, 1995		
	PERCENT OF TOTAL	TOTAL BALANCE	YIELD/ RATE	WITHIN 1 YEAR	1-5 YEARS	OVER 5 YEARS
FINANCIAL ASSETS						
Cash and cash equivalents(1)...	7.0%	$ 119,750	3.60%	$ 119,750	$ --	$ --
Debt securities available for sale(2)......................	24.9	422,421	7.06	312,769	100,558	9,094
Debt securities held to maturity(2)..................	3.8	64,254	7.79	50,874	10,022	3,358
Loans receivable:						
Loans receivable held for sale.......................	0.3	5,855	7.96	5,855	--	--
Adjustable-rate real estate(3)						
Construction and land......	4.1	69,082	10.02	68,846	77	159
Other real estate..........	14.6	247,311	7.53	232,546	14,765	--
Fixed-rate real estate(4)....	29.5	501,211	8.01	79,603	238,441	183,167
Consumer, commercial and all other(4)...................	15.2	258,787	9.66	139,485	101,933	17,369
FHLB stock(5)..................	0.6	11,057	4.90	11,057	--	--
Total financial assets.............	100.0%	1,699,728	7.70%	$1,020,785	$465,796	$213,147
Nonfinancial assets............		75,291				
Total assets...............		$1,775,019				
FINANCIAL LIABILITIES						
Deposits:						
Interest-bearing demand and money market deposits(6)...	20.4%	$ 322,847	3.12%	$ 322,847	$ --	$ --
Certificates of deposit(1)...	49.2	776,660	5.34	552,586	203,918	20,156
Savings deposits(6)..........	4.3	67,641	2.29	67,641	--	--
Noninterest-bearing demand deposits(7)................	6.3	98,923	--	52,173	20,541	26,209
Borrowings:						
Advances from FHLB(1)........	10.4	164,400	6.68	35,000	126,000	3,400
Securities sold under agreements to repurchase(8)..............	8.9	140,710	6.10	140,710	--	--
Other(10)....................	0.5	7,995	7.80	7,995	--	--
Total financial liabilities.........	100.0%	1,579,176	4.64%	1,178,952	350,459	49,765
Impact of hedging-fixed(9).....		--		98,200	(55,050)	(43,150)
Nonfinancial liabilities.......		22,284				
Stockholder's equity...........		173,559				
Total liabilities and stockholder's equity....		$1,775,019				
Maturity gap...................				$ (59,967)	$ 60,287	$120,232
Cumulative gap.................				$ (59,967)	$ 320	$120,552
Cumulative gap as a percent of financial assets............				(3.5)%	--%	7.1%

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, 1995

(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 securities 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 securities are based on contractual maturity, projected repayments, and projected prepayments of principal of the underlying loans.

(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 deposits, 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, 1995.

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 market value of the Bank's assets and liabilities. 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 management analyzes 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, 1995 PERCENTAGE OF PORTFOLIO	AT DECEMBER 31, 1994 PERCENTAGE OF PORTFOLIO
AAA	93.0%	91.2%
AA	2.5	2.7
A	1.0	1.0
BBB	--	1.3
Other	3.5	3.8
Total	100.0%	100.0%

Loan Impairment. On January 1, 1995, the Bank adopted SFAS No. 114, "Accounting by Creditors for Impairment of a Loan," and SFAS No. 118, "Accounting by Creditors for Impairment of a Loan -- Income Recognition and Disclosures." SFAS No. 114 requires the measurement of loan impairment to be based on the present value of expected future cash flows discounted at the loan's original effective interest rate or the fair value of the underlying collateral on collateral-dependent loans. SFAS No. 118 allows a creditor to use existing methods for recognizing interest income on impaired loans.

Upon adoption of SFAS No. 114, in the first quarter of 1995, $2.9 million of in-substance foreclosed assets were reclassified on the Bank's consolidated statement of financial condition from foreclosed real estate to loans receivable as SFAS No. 114 eliminated the in-substance designation. No other financial statement impact resulted from the Bank's adoption of SFAS No. 114.

In general, under SFAS No. 114, interest income on impaired loans will continue to be recognized by the Bank on the accrual basis of accounting, unless the loan is greater than 90 days delinquent with respect to principal or interest, or the loan has been partially or fully charged-off. Interest on loans greater than 90 days delinquent is generally recognized on a cash basis. Interest income on loans which have been fully or partially charged-off is generally recognized on a cost-recovery basis; that is, all proceeds from the loan payments are first applied as a reduction to principal before any income is recorded.

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 $35.8 million of its assets as "special mention" at December 31, 1995.

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,				
	1995	1994	1993	1992	1991
Substandard assets:					
Loans	$30,351	$29,591	$37,886	$55,727	$ 66,839
Foreclosed real estate (net)	3,402	7,631	9,707	24,488	14,875
Loans to facilitate	--	--	--	80	760
Real estate held for investment	1,111	1,191	2,166	1,616	24,587
Investments	--	21,972	29,509	--	--
Doubtful assets	--	--	--	--	--
Loss assets	--	--	--	--	--
Total classified assets	$34,864	$60,385	$79,268	$81,911	$107,061
Ratio of classified assets to total assets	1.96%	3.32%	4.53%	3.66%	4.54%

The Bank's "substandard" assets decreased from $60 million at December 31, 1994 to $35 million at December 31, 1995, primarily as a result of the upgrade and paydowns of an investment security from substandard to special mention, payoffs and paydowns of real estate loans, and the 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 $4.2 million during 1995, principally as a result of sales. 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, 1995.

The upgrade of the privately issued $20.2 million investment security from "substandard" to "special mention" during the second quarter of 1995 was the result of the stabilization of delinquencies of the security's underlying loans and the market values of collateral supporting such loans, and management's analysis of the credit enhancement of the security versus loss estimates on the underlying loans. The Bank continues to receive scheduled monthly payments of principal and interest on this security. At December 31, 1995, the balance of this security totaled $16.9 million and is included in special mention assets.

Special mention assets increased from $32.2 million at December 31, 1994 to $35.8 million at December 31, 1995. This increase was caused, primarily by the change in classification of the investment security from substandard to special mention, partially offset by a $3 million reclassification to substandard of a construction loan and paydowns of California residential loans, commercial real estate loans, and commercial loans.

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.

As a result of the Bank's internal review process, the allowance for estimated credit losses on loans decreased from $17.7 million at December 31, 1994, to $16.4 million at December 31, 1995. During 1995, the Bank established provisions for estimated credit losses totaling $8.3 million, of which $8.1 million related to the Bank's loan, foreclosed real estate, and debt security portfolio and $162,000 was related to its real estate investment portfolio. In 1994, the Bank established provisions for estimated credit losses totaling $7.4 million, of which $163,000 related to the Bank's real estate investment portfolio and $7.2 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, 1995 (thousands of dollars):

LOANS BY REGION

	RESIDENTIAL	COMMERCIAL MORTGAGE	CONSUMER	CONSTRUCTION AND LAND	COMMERCIAL	TOTAL
Nevada	$453,472	$162,454	$188,225	$63,463	$60,978	$ 928,592
California	92,889	4,576	990	476	--	98,931
Arizona	30,584	5,407	11,825	--	146	47,962
Other	264	--	187	--	--	451
Total	$577,209	$172,437	$201,227	$63,939	$61,124	$1,075,936

At December 31, 1995, 32 percent or $18.5 million of the Bank's outstanding commercial secured loan portfolio consisted of loans to borrowers in the gaming industry, with additional unfunded commitments of $9.9 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 following table sets forth by geographic location the amount of classified assets at December 31, 1995 (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	$17,369	$3,578	$4,734	$1,393	$1,111	$28,185
California	3,754	94	--	1,708	--	5,556
Arizona	822	--	--	301	--	1,123
Total	$21,945	$3,672	$4,734	$3,402	$1,111	$34,864

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, 1995 (thousands of dollars):

CLASSIFIED ASSETS BY TYPE OF LOAN

	LOANS	FORECLOSED REAL ESTATE	INVESTMENTS IN REAL ESTATE
Single-family residential	$ 5,162	$1,859	$ --
Commercial and multi-family mortgage	16,783	693	781
Construction/land	3,672	336	330
Consumer	797	514	--
Other	3,937	--	--
Total	$30,351	$3,402	$1,111

The largest substandard loan at December 31, 1995 was an $8.1 million multi-family real estate loan in Nevada. In addition, the Bank had four other substandard loans at December 31, 1995, in excess of $1 million: two hotel loans, one multi-family loan, and a shopping center loan, all located in Nevada.

The largest parcel of foreclosed real estate owned by the Bank at December 31, 1995, was a $460,000 single-family residence located in California.

Substandard real estate held for investment includes a $780,000 Nevada branch facility whose operations were consolidated with another branch in Nevada. This branch facility was formerly included in premises and equipment.

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

	NET CHARGE-OFFS		
	1995	1994	1993
Single-family residential (SFR)	$ 585	$ 827	$ 916
Commercial and multi-family mortgage	186	959	2,275
Construction/land	376	1,297	2,248
Nonmortgage	5,964	2,739	1,750
Debt securities	2,077	--	--
Net charge-offs	$9,188	$5,822	$7,189

The $186,000 of commercial mortgage charge-offs for the year ended December 31, 1995, were comprised principally of one apartment complex and one hotel/motel property totaling $161,000, both located in Nevada. Construction and land losses in 1995 consisted primarily of four California loans totaling $483,000 offset by sales of $123,000 on a single-family construction property also located in California. Nonmortgage loan charge-offs during 1995 were principally comprised of $2.6 million in charge-offs from the corporate loan portfolio, $2.5 million of losses related to installment loans, $390,000 of signature line charge-offs, and $362,000 in checking account charge-offs. SFR charge-offs for 1994 and 1993 consisted primarily of California-based loans and foreclosed real estate.

During the second quarter of 1995, the Bank transferred $4.4 million of its allowance for estimated credit losses affiliated with loans to separate allowances for credit losses affiliated with foreclosed real estate and debt securities. Of this amount, $1.3 million was transferred to the foreclosed real estate allowance for losses and $3.1 million was transferred to the allowance for losses on debt securities. Prior to the second quarter, the evaluation of the adequacy of the Bank's allowance for estimated credit losses affiliated with loans receivable incorporated estimates for losses in the foreclosed real estate and debt security portfolios, but were not deemed material enough to be segregated as separate allowances. Additionally, prior to the second quarter, no credit losses had been experienced in the debt security portfolio. Losses in the foreclosed real estate portfolio subsequent to foreclosure had been accounted for as loan losses. Based upon management's review and the recent performance of the debt security, the loss allowance was eliminated at December 31, 1995.

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 for 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,								
	1995			1994			1993		
	AVERAGE BALANCE	INTEREST	AVERAGE YIELD	AVERAGE BALANCE	INTEREST	AVERAGE YIELD	AVERAGE BALANCE	INTEREST	AVERAGE YIELD
Assets									
Interest-earning assets									
Cash equivalents..........	$ 43,611	$ 2,639	6.05%	$ 56,380	$ 2,432	4.31%	$ 42,787	$ 1,321	3.09%
Debt securities held to maturity................	89,899	6,798	7.56	73,520	4,919	6.69	425,141	26,909	6.33
Debt securities available for sale...............	484,567	32,562	6.72	556,781	34,165	6.14	542,264	30,395	5.61
Loans receivable..........	1,013,218	90,217	8.90	886,702	76,080	8.58	790,082	73,106	9.25
FHLB stock................	12,959	661	5.10	16,916	838	4.95	16,475	594	3.61
Total interest-earning assets....................	1,644,254	132,877	8.08	1,590,299	118,434	7.45	1,816,749	132,325	7.28
Noninterest-earning assets									
Real estate held for sale or development..........	4,683			10,785			26,132		
Premises and equipment, net.....................	21,555			22,236			28,807		
Other assets.............	37,249			39,502			56,443		
Excess of cost over net assets acquired.........	63,799			67,632			73,972		
Total assets...............	$1,771,540			$1,730,454			$2,002,103		
Liabilities and Stockholder's Equity									
Interest-bearing liabilities									
Deposits..................	$1,246,388	51,938	4.17	$1,229,515	44,116	3.59	$1,443,628	57,643	3.99
Securities sold under agreements to repurchase.............	175,618	10,889	6.20	222,620	11,024	4.95	305,123	13,132	4.30
Advances from FHLB........	142,523	9,191	6.45	73,510	3,543	4.82	38,897	2,147	5.52
Notes payable............	8,066	658	8.16	8,203	635	7.74	14,229	1,170	8.22
Unsecured senior notes....	--	--	--	--	--	--	13,777	1,021	7.41
Total interest-bearing liabilities..............	1,572,595	72,676	4.62	1,533,848	59,318	3.87	1,815,654	75,113	4.14
Cost of hedging activities................		624	.04		485	.03		24	--
Cost of funds..............		73,300	4.66		59,803	3.90		75,137	4.14
Noninterest-bearing liabilities and stockholder's equity									
Other liabilities and accrued expenses........	22,004			21,625			22,914		
Total liabilities...........	1,594,599			1,555,473			1,838,568		
Total stockholder's equity....................	176,941			174,981			163,535		
Total liabilities and equity....................	$1,771,540			$1,730,454			$2,002,103		
Capitalized and transferred interest..................		--	--		13	--		61	--
Net interest income.........		$ 59,577	3.42%		$ 58,644	3.55%		$ 57,249	3.14%
Net yield on interest-earning assets...			3.62%			3.69%			3.15%

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Note: Loans receivable include accrued interest and loans on nonaccrual, and are net of undisbursed funds, allowances for estimated credit losses, 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,					
	1995 COMPARED TO 1994 INCREASE (DECREASE) DUE TO CHANGES IN			1994 COMPARED TO 1993 INCREASE (DECREASE) DUE TO CHANGES IN		
	VOLUME	RATE	NET	VOLUME	RATE	NET
	(THOUSANDS OF DOLLARS)					
INTEREST INCOME ON:						
Cash equivalents	$ (264)	$ 471	$ 207	$ 496	$ 615	$ 1,111
Debt securities held to maturity	1,187	692	1,879	(23,620)	1,630	(21,990)
Debt securities available for sale	(5,901)	4,298	(1,603)	831	2,939	3,770
Loans receivable	7,343	6,794	14,137	7,336	(4,362)	2,974
Dividends on FHLB stock	(203)	26	(177)	16	228	244
Total interest income	2,162	12,281	14,443	(14,941)	1,050	(13,891)
INTEREST EXPENSE ON:						
Deposits	612	7,210	7,822	(8,035)	(5,492)	(13,527)
Securities sold under agreements to repurchase	(2,918)	2,783	(135)	(4,755)	2,647	(2,108)
Advances from FHLB	4,152	1,496	5,648	1,628	(232)	1,396
Notes payable	--	23	23	(470)	(65)	(535)
Unsecured senior notes	--	--	--	(1,021)	--	(1,021)
Total interest expense	1,846	11,512	13,358	(12,653)	(3,142)	(15,795)
Cost (benefit) of hedging activity	105	34	139	730	(269)	461
Cost of funds	1,951	11,546	13,497	(11,923)	(3,411)	(15,334)
Capitalized and transferred interest	(13)	--	(13)	(12)	(36)	(48)
Net interest income	$ 198	$ 735	$ 933	$ (3,030)	$ 4,425	$ 1,395

1995 vs. 1994

The Bank recorded a net loss of $3.2 million for the year ended December 31, 1995, compared to net income of $7.7 million for the year ended December 31, 1994. The decrease in net income was principally due to the goodwill impairment of $11.8 million in 1995. Core earnings from Banking operations increased from $11.3 million at December 31, 1994 to $11.9 million at December 31, 1995, primarily due to increased net interest margin.

The higher interest-earning asset base is the result of the Bank's strategy of offering loans tied to market rates held in the portfolio. The increase in the average yield on interest-earning assets is the result of increased loan and security yields as a result of a large portion of the asset portfolio's adjustable-rate attributes and new originations at higher rates, which partially offset the increased cost in interest-bearing liabilities.

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 during the year.

(ii) The average balance on debt securities held to maturity and the average yield were higher in 1995 due to the purchase of higher yielding securities late in 1994. The income on debt securities available for sale increased due to increased rates on adjustable-rate securities offsetting most of the decrease in balances due to paydowns on securities, maturities and sales.

(iii) Total loan originations for 1995 were $525 million compared to originations of $466 million for 1994. The increase in loan originations for 1995 was due to the growth in the Las Vegas real estate market. The average yield on loans increased as a result of an increase in market interest rates resulting in higher rates on adjustable-rate mortgage loans.

(iv) Dividends on FHLB stock decreased as a result of stock sales and the higher interest rate environment in 1995.

(v) The increase in the cost of savings was due to a slight increase in balances combined with the higher 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, largely offset by an increase in the rate paid.

(vii) The increase in the average balance for FHLB advances was due to the new borrowings during the year. The increase in the cost of these advances was due to higher interest rates on the new borrowings.

The Bank's cost of hedging activities increased principally as a result of the increased outstanding balance of interest rate swaps of $98.2 million (notional amount) in 1995 compared to $72.5 million (notional amount) of interest rate swaps in 1994.

The net gain on sale of loans increased $843,000 from $247,000 in 1994 to $1.1 million in 1995, due to higher prices received on loans sold and implementation of SFAS No. 122. The loans sold were $46 million in 1994 and $38 million in 1995. Net gains on the sale of debt securities increased from a net gain of $34,000 in 1994 to $970,000 in 1995, primarily due to the sale of CMO residuals to take advantage of favorable market conditions, eliminate an area of possible regulatory concern due to the volatile aspects of the securities, and enhance the credit quality of the investment portfolio. 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).

The Bank's high effective tax rate of 238 percent in 1995 was primarily the result of impairment of goodwill associated with the anticipated sale to Norwest Corporation, which is not tax deductible.

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 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 a rising interest rate environment and a corresponding decline in refinancing 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 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 an increase in the notional amount of interest rate swaps outstanding of $72.5 million in 1994 compared to $7.5 million in 1993.

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.

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 $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 Arizona sale. 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.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

SOUTHWEST GAS CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(THOUSANDS OF DOLLARS)

	DECEMBER 31, 1995	DECEMBER 31, 1994
ASSETS		
Utility plant		
Gas plant	$1,579,665	$1,428,941
Less: accumulated depreciation	(474,891)	(433,429)
Acquisition adjustments	6,298	6,729
Construction work in progress	26,678	33,675
Net utility plant (Note 2)	1,137,750	1,035,916
Other property and investments	35,128	34,195
Current assets		
Cash and cash equivalents	11,168	6,076
Accounts receivable, net of allowances (Note 3)	38,186	57,905
Accrued utility revenue	43,900	47,533
Deferred purchased gas costs (Note 4)	--	15,219
Deferred tax benefit (Note 10)	17,089	--
Prepaids and other current assets	31,386	36,589
Net assets of discontinued operations (Note 12)	175,493	175,855
Total current assets	317,222	339,177
Deferred charges and other assets (Note 4)	42,427	44,294
Total assets	$1,532,527	$1,453,582
CAPITALIZATION AND LIABILITIES		
Capitalization		
Common stock, $1 par (authorized -- 30,000,000 shares; issued and outstanding -- 24,467,499 and 21,281,717 shares)	$ 26,097	$ 22,912
Additional paid-in capital	312,631	273,217
Retained earnings	17,322	52,427
Total common equity	356,050	348,556
Preferred stock (Note 5)	--	4,000
Company-obligated mandatorily redeemable preferred securities of the Company's subsidiary, Southwest Gas Capital I, holding solely $61.8 million principal amount of 9.125% subordinated notes of the Company due 2025 (Note 5)	60,000	--
Long-term debt, less current maturities (Note 6)	607,945	678,263
Total capitalization	1,023,995	1,030,819
Commitments and contingencies (Note 8)		
Current liabilities		
Current maturities of long-term debt (Note 6)	120,000	5,000
Short-term debt (Note 7)	37,000	92,000
Accounts payable	41,864	48,965
Customer deposits	21,406	22,893
Accrued taxes	29,116	42,936
Deferred taxes (Note 10)	--	6,943
Accrued interest	11,107	12,064
Deferred purchased gas costs (Note 4)	32,776	--
Other current liabilities	36,942	23,762
Total current liabilities	330,211	254,563
Deferred income taxes and other credits		
Deferred income taxes and investment tax credits (Note 10)	138,893	130,175
Other deferred credits (Note 4)	39,428	38,025
Total deferred income taxes and other credits	178,321	168,200
Total capitalization and liabilities	$1,532,527	$1,453,582

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,		
	1995	1994	1993
Gas operating revenues	$563,502	$599,553	$539,105
Net cost of gas	227,456	249,922	212,290
Operating margin	336,046	349,631	326,815
Operating expenses:			
Operations and maintenance	187,969	178,310	169,921
Depreciation and amortization	62,492	57,284	55,088
Taxes other than income taxes	27,173	25,347	24,124
Total operating expenses	277,634	260,941	249,133
Operating income	58,412	88,690	77,682
Other income and (expenses):			
Net interest deductions	(53,354)	(49,461)	(41,832)
Preferred securities distributions (Note 5)	(913)	--	--
Other income (deductions), net	(652)	(1,110)	(13,891)
Total other income and (expenses)	(54,919)	(50,571)	(55,723)
Income from continuing operations before income taxes	3,493	38,119	21,959
Income tax expense (Note 10)	839	14,595	8,208
Income from continuing operations	2,654	23,524	13,751
Discontinued operations (Note 12):			
Income (loss) from discontinued segment, net of tax expense (benefit) of $(2,306), $3,127 and $3,051	(4,513)	2,777	1,655
Loss on disposal of discontinued segment, including tax expense of $9,900	(13,023)	--	--
Net income (loss) from discontinued operations	(17,536)	2,777	1,655
Net income (loss)	(14,882)	26,301	15,406
Preferred/preference stock dividend requirements	307	510	741
Net income (loss) applicable to common stock	$(15,189)	$ 25,791	$ 14,665
Earnings per share from continuing operations	$ 0.10	$ 1.09	$ 0.63
Earnings (loss) per share from discontinued operations	(0.76)	0.13	0.08
Earnings (loss) per share of common stock (Note 11)	$ (0.66)	$ 1.22	$ 0.71
Average number of common shares outstanding	23,167	21,078	20,729

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,		
	1995	1994	1993
CASH FLOW FROM OPERATING ACTIVITIES:			
Net income	$ (14,882)	$ 26,301	$ 15,406
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	62,492	57,284	55,088
Deferred income taxes	(15,314)	(9,178)	16,736
Changes in current assets and liabilities			
Accounts receivable	19,719	(6,487)	5,426
Accrued utility revenue	3,633	(1,300)	(1,744)
Unrecovered purchased gas costs	47,995	9,014	(33,571)
Accounts payable	(7,101)	(2,811)	1,676
Accrued taxes	(13,820)	11,594	(7,101)
Other current assets and liabilities	3,661	6,681	11,967
Other	(205)	649	(6,850)
Undistributed (income) loss from discontinued operations	11,576	(7,673)	(6,596)
Net cash provided by operating activities	97,754	84,074	50,437
CASH FLOW FROM INVESTING ACTIVITIES:			
Construction expenditures	(166,183)	(141,390)	(113,903)
Other	2,465	(157)	(2,343)
Net cash used in investing activities	(163,718)	(141,547)	(116,246)
CASH FLOW FROM FINANCING ACTIVITIES:			
Issuance of common stock	44,844	4,773	6,790
Issuance of trust originated preferred securities	57,713	--	--
Reacquisition of preferred/preference stocks	(4,000)	(4,058)	(7,258)
Dividends paid	(19,575)	(17,411)	(16,139)
Issuance of long-term debt	49,407	73,000	21,909
Retirement of long-term debt	(2,285)	(648)	(3,392)
Issuance (repayment) of short-term debt	(55,000)	6,000	66,000
Other	(48)	(234)	(422)
Net cash provided from financing activities	71,056	61,422	67,488
Change in cash and temporary cash investments	5,092	3,949	1,679
Cash at beginning of period	6,076	2,127	448
Cash at end of period	$ 11,168	$ 6,076	$ 2,127
Supplemental information:			
Interest paid, net of amount capitalized	$ 52,741	$ 55,167	$ 48,594
Income taxes, net of refunds	$ 20,413	$ 3,574	$ 15,151

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	RETAINED	
	SHARES	AMOUNT	CAPITAL	EARNINGS	TOTAL
DECEMBER 31, 1992	20,598	$22,228	$262,296	$ 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)
DECEMBER 31, 1993	20,997	22,627	268,725	43,765	335,117
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)
Redemption of second preference stock			4	(4)	--
DECEMBER 31, 1994	21,282	22,912	273,217	52,427	348,556
Common stock issuances	3,185	3,185	41,659		44,844
Issuance costs, preferred securities			(2,287)		(2,287)
Net loss				(14,882)	(14,882)
Dividends declared					
Preferred: $9.50 per share				(307)	(307)
Common: $0.82 per share				(19,826)	(19,826)
Redemption of preferred stock			42	(90)	(48)
DECEMBER 31, 1995	24,467*	$26,097	$312,631	$ 17,322	$356,050

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* At December 31, 1995, 1.5 million common shares were registered and available for issuance under provisions of the Employee Investment Plan and the Company's Dividend Reinvestment and Stock Purchase Plan.

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

Basis of Presentation. The Company follows generally accepted accounting principles (GAAP) in all of its businesses, which requires the use of estimates made by management for the preparation of financial statements. 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 Southwest Gas Corporation and its wholly owned subsidiaries, excluding PriMerit Bank. All significant intercompany balances and transactions have been eliminated. In January 1996, management reached an agreement to sell PriMerit Bank, which constituted the financial services segment of the business. For consolidated financial reporting purposes, the financial services segment is classified as discontinued operations.

Reclassifications. The financial statements for prior years have been reclassified to conform to the current year presentation of the Bank as discontinued operations. Additional reclassifications have also been made to prior years amounts to conform to the current year presentation.

Net Utility Plant. Net utility plant 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.

Deferred Purchased 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.

Income Taxes. The Company uses 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. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the period that includes the enactment date.

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

Gas Operating Revenues. Revenues are recorded when customers are billed. Customer billings are based on monthly meter reads and are calculated in accordance with applicable tariffs. The Company also recognizes accrued utility revenues for the estimated amount of services rendered between the meter-reading dates in a particular month and the end of such month.

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, including components which adjust for salvage value and removal costs, as approved by the appropriate regulatory agency. When plant is retired from service, the original cost of plant, including costs of removal, less salvage, is charged to the accumulated provision for depreciation. Acquisition adjustments are amortized as ordered by regulatory bodies at the date of acquisition, which periods approximate the 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.

SOUTHWEST GAS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

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

Allowance for Funds Used During Construction (AFUDC). AFUDC represents the cost of both debt and equity funds used to finance utility construction. AFUDC is capitalized as part of the cost of utility plant. The Company capitalized $1.2 million, $805,000, and $470,000 of AFUDC related to natural gas utility operations for each of the years ended December 31, 1995, 1994, and 1993, respectively. The debt portion of AFUDC is reported in the consolidated statements of income as an offset to net interest deductions and the equity portion is reported as other income. Utility plant construction costs, including AFUDC, are recovered in authorized rates through depreciation when completed projects are placed into operation, and general rate relief is requested and granted.

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

Cash Flows. For purposes of reporting consolidated cash flows, cash and cash equivalents include cash on hand and financial instruments with a maturity of three months or less, but excludes funds held in trust for industrial development revenue bonds.

New Accounting Standards. Effective for fiscal years beginning January 1, 1996, Statement of Financial Accounting Standards (SFAS) No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of," requires the review of long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The adoption of this standard will not have a material impact on the Company's current financial condition or results of operations.

In October 1995, the Financial Accounting Standards Board issued SFAS No. 123, "Accounting for Stock-Based Compensation." This new standard permits the continued use of accounting methods prescribed by Accounting Principles Board (APB) Opinion No. 25, "Accounting for Stock Issued to Employees," or use of the fair value based method of accounting as encouraged by the statement. The adoption of this standard will not have a material impact on the Company's current financial condition or results of operations.

NOTE 2 -- UTILITY PLANT

Net utility plant as of December 31, 1995 and 1994 was as follows (thousands of dollars):

	DECEMBER 31, 1995	DECEMBER 31, 1994
Gas plant:		
Storage	$ 14,546	$ 14,252
Transmission	143,989	140,281
Distribution	1,206,503	1,077,425
General	179,378	164,018
Other	35,249	32,965
	1,579,665	1,428,941
Less: accumulated depreciation	(474,891)	(433,429)
Acquisition adjustment, net	6,298	6,729
Construction work in progress	26,678	33,675
Net gas utility property	$1,137,750	$1,035,916

Depreciation expense on gas plant was $62 million, $56.5 million, and $54 million during the years ended December 31, 1995, 1994, and 1993, respectively.

SOUTHWEST GAS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

NOTE 2 -- UTILITY PLANT (CONTINUED)

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 $4.6 million in the aggregate over the remaining initial term for the Las Vegas facility, and $6.7 million annually and $50 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, 1995. 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.

NOTE 3 -- RECEIVABLES AND RELATED ALLOWANCES

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. At December 31, 1995, approximately 59 percent of the gas utility customers were in Arizona, 31 percent in Nevada, and 10 percent in California. While the Company seeks to minimize its credit risk related to utility operations by requiring security deposits for new customers, certain customer accounts are ultimately not collected. Provisions for uncollectible accounts are recorded monthly, as needed, and are included in the ratemaking process as a cost of service. Activity in the allowance for uncollectibles is summarized as follows (thousands of dollars):

	ALLOWANCE FOR UNCOLLECTIBLES
Balance, December 31, 1992	$ 1,507
Additions charged to expense	1,460
Accounts written off, less recoveries	(1,284)
Balance, December 31, 1993	1,683
Additions charged to expense	1,445
Accounts written off, less recoveries	(1,575)
Balance, December 31, 1994	1,553
Additions charged to expense	1,295
Accounts written off, less recoveries	(1,621)
Balance, December 31, 1995	$ 1,227

NOTE 4 -- REGULATORY ASSETS AND LIABILITIES

The Company's natural gas operations are subject to the regulation of the Arizona Corporation Commission, the Public Service Commission of Nevada, the California Public Utilities Commission, and the Federal Energy Regulatory Commission. The Company's accounting policies conform to generally accepted accounting principles applicable to rate-regulated enterprises and reflect the effects of the ratemaking process. Such effects concern mainly the time at which various items enter into the determination of net income in accordance with the principle of matching costs with related revenues.

SOUTHWEST GAS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

NOTE 4 -- REGULATORY ASSETS AND LIABILITIES (CONTINUED)

The following table represents existing regulatory assets and liabilities (thousands of dollars):

	DECEMBER 31, 1995	DECEMBER 31, 1994
SUMMARY OF REGULATORY ASSETS AND LIABILITIES		
Assets		
SFAS No. 109 -- Income taxes, net	$ 13,211	$14,991
Unamortized premium on reacquired debt	10,848	11,582
Deferred purchased gas costs	--	15,219
Other	15,686	22,144
	39,745	63,936
Liabilities		
Supplier and other rate refunds due customers	(4,844)	(7,966)
Deferred purchased gas costs	(32,776)	--
Other	(3,389)	(4,348)
Net regulatory assets (liabilities)	$ (1,264)	$51,622

NOTE 5 -- PREFERRED STOCK, PREFERENCE STOCK, AND PREFERRED SECURITIES

In December 1995, the Company redeemed all remaining outstanding $100 Cumulative Preferred Stock, 9.5% Series. Scheduled annual mandatory redemption requirements were 8,000 shares, or $800,000 per year, through 1999. After the 1995 annual mandatory redemption requirement was satisfied, the Company exercised its option to redeem an additional 8,000 shares at par. The remaining 24,000 shares were redeemed at $102 per share, plus accrued and unpaid dividends. The stock was redeemed because other less costly financing options were available.

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 1993 and 1994, the dividend rate was 3 percent.

Preferred Securities of Southwest Gas Capital I. In October 1995, Southwest Gas Capital I (the Trust), a consolidated wholly owned subsidiary of the Company, issued $60 million of 9.125% Trust Originated Preferred Securities (the Preferred Securities). In connection with the Trust's issuance of the Preferred Securities and the related purchase by the Company of all of the Trust's common securities (the Common Securities), the Company issued to the Trust $61.8 million principal amount of its 9.125% Subordinated Deferrable Interest Notes, due 2025 (the Subordinated Notes). The sole assets of the Trust are and will be the Subordinated Notes. The interest and other payment dates on the Subordinated Notes correspond to the distribution and other payment dates on the Preferred Securities and Common Securities. Under certain circumstances, the Subordinated Notes may be distributed to the holders of the Preferred Securities and holders of the Common Securities in liquidation of the Trust. The Subordinated Notes are redeemable at the option of the Company on or after December 31, 2000, at a redemption price of $25 per Subordinated Note plus accrued and unpaid interest. In the event that the Subordinated Notes are repaid, the Preferred Securities and the Common Securities will be redeemed on a pro rata basis at $25 per Preferred Security and Common Security plus accumulated and unpaid distributions. The Company's obligations under the Subordinated Notes, the Declaration of Trust (the agreement under which the Trust was formed), the guarantee of payment of certain distributions, redemption payments and liquidation payments with respect to the Preferred Securities to the extent the Trust has funds available therefor and the indenture governing the Subordinated

SOUTHWEST GAS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

NOTE 5 -- PREFERRED STOCK, PREFERENCE STOCK, AND PREFERRED SECURITIES (CONTINUED)

Notes, including the Company's agreement pursuant to such indenture to pay all fees and expenses of the Trust, other than with respect to the Preferred Securities and Common Securities, taken together, constitute a full and unconditional guarantee on a subordinated basis by the Company of payments due on the Preferred Securities. As of December 31, 1995, 2.4 million Preferred Securities were outstanding.

The Company has the right to defer payments of interest on the Subordinated Notes by extending the interest payment period at any time for up to 20 consecutive quarters (each, an Extension Period). If interest payments are so deferred, distributions will also be deferred. During such Extension Period, distributions will continue to accrue with interest thereon (to the extent permitted by applicable law) at an annual rate of 9.125% per annum compounded quarterly. There could be multiple Extension Periods of varying lengths throughout the term of the Subordinated Notes. If the Company exercises the right to extend an interest payment period, the Company shall not during such Extension Period (i) declare or pay dividends on, or make a distribution with respect to, or redeem, purchase or acquire or make a liquidation payment with respect to, any of its capital stock, or (ii) make any payment of interest, principal or premium, if any, on or repay, repurchase, or redeem any debt securities issued by the Company that rank pari passu with or junior to the Subordinated Notes; provided, however, that restriction (i) above does not apply to any stock dividends paid by the Company where the dividend stock is the same as that on which the dividend is being paid. The Company has no present intention of exercising its right to extend the interest payment period.

NOTE 6 -- LONG-TERM DEBT

	DECEMBER 31,			
	1995 CARRYING AMOUNT	1995 MARKET VALUE	1994 CARRYING AMOUNT	1994 MARKET VALUE
	(THOUSANDS OF DOLLARS)			
Debentures--				
9% Series A, due 2011	$ 26,890	$ 27,663	$ 27,557	$ 26,386
9% Series B, due 2011	31,213	32,110	31,913	30,557
8 3/4% Series C, due 2011	18,353	18,881	19,261	18,587
9 3/8% Series D, due 2017	120,000	126,150	120,000	118,650
10% Series E, due 2013	23,069	23,963	23,079	23,541
9 3/4% Series F, due 2002	100,000	117,600	100,000	102,897
Unamortized discount	(6,209)	--	(6,723)	--
	313,316	346,367	315,087	320,618
Term-loan facilities and other debt	200,000		200,000	
Industrial development revenue bonds--				
Variable-rate bonds				
Series due 2028	50,000		50,000	
Less funds held in trust	(32,942)		(38,510)	
	17,058		11,490	
Fixed-rate bonds				
7.30% 1992 Series A, due 2027	30,000	31,560	30,000	30,338
7.50% 1992 Series B, due 2032	100,000	106,500	100,000	102,550
6.50% 1993 Series A, due 2033	75,000	75,000	75,000	71,807
Unamortized discount	(3,757)	--	(3,865)	--
Less funds held in trust	(3,672)	--	(44,449)	--
	197,571		156,686	
	727,945		683,263	
Less current maturities	120,000		5,000	
	$607,945		$678,263	

SOUTHWEST GAS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

NOTE 6 -- LONG-TERM DEBT (CONTINUED)

In January 1995, the Company finalized a $200 million term-loan facility with a group of banks. This facility was utilized to refinance existing loans and short-term notes payable which were classified as long-term debt at December 31, 1994. The $200 million facility provides for a revolving period through January 1999 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 LIBOR or certificate of deposit rate, plus a margin based on the Company's credit rating, or the prime rate. In addition to direct borrowing options, a letter of credit is available to provide credit support for the issuance of commercial paper. During 1995, the average cost of this facility was 6.86 percent.

Prior to obtaining the $200 million facility, the Company had two term-loan facilities totaling $165 million. The first facility was a Restated and Amended Credit Agreement dated April 1990 in the amount of $125 million. The average cost of this facility during 1994 was 4.99 percent. The second term loan was a $40 million Bridge Term Loan Facility (Bridge Loan) which was used to refinance a $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.

The interest rate on the variable rate industrial development revenue bonds is established on a weekly basis and averaged 4.80 percent during 1995 and 3.85 percent during 1994. 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 the debentures and fixed-rate IDRB were determined based on dealer quotes using trading records for December 31, 1995 and 1994, as applicable, and other secondary sources which are customarily consulted for data of this kind. The carrying value of the IDRB 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 at December 31, 1995 for the next five years are expected to be $5 million, $5 million, $11 million, $211 million, and $11 million, respectively. Upon completion of the sale of PriMerit Bank, the Company intends to use the proceeds to retire indebtedness of the Company. In the consolidated balance sheet, $120 million of long-term debt is shown as current maturities.

NOTE 7 -- SHORT-TERM DEBT

The Company has an agreement with several banks for committed credit lines which aggregate $150 million at December 31, 1995. The agreement provides for the payment of interest at competitive market rates. The lines of credit also require the payment of a commitment fee based on the long-term debt rating of the Company. The committed credit lines have no compensating balance requirements and expire in July 1996. Short-term borrowings at December 31, 1995 and 1994 were $37 million and $92 million, respectively. The weighted average interest rates on these borrowings were 6.64 percent at December 31, 1995 and 6.36 percent at December 31, 1994.

NOTE 8 -- COMMITMENTS AND CONTINGENCIES

Pending Acquisition. In November 1995, the Company entered into a definitive agreement to acquire Northern Pipeline Construction Co. (NPL), a full-service underground gas pipeline contractor, for $24 million. NPL provides local gas distribution companies with installation, replacement and maintenance services for underground natural gas distribution systems. The agreement is a stock-for-stock exchange in which 100 percent of the stock of NPL will be acquired in exchange for common stock of the Company. The acquisition is anticipated to be completed during the first half of 1996.

SOUTHWEST GAS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

NOTE 8 -- COMMITMENTS AND CONTINGENCIES (CONTINUED)

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 9 -- 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, a mutual fund investing in foreign stocks, an insurance company contract, and cash or cash equivalents.

The plan 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 $6.8 million in 1995, $7.8 million in 1994, and $6.6 million in 1993.

The following table sets forth the plan's funded status and amounts recognized on the Company's consolidated balance sheets and statements of income.

	DECEMBER 31,	
	1995	1994
	(THOUSANDS OF DOLLARS)	
Actuarial present value of benefit obligations:		
Accumulated benefit obligation, including vested benefits of $(111,035) and $(86,800), respectively	$(119,340)	$ (93,225)
Projected benefit obligation for service rendered to date	$(167,414)	$(136,157)
Market value of plan assets	169,524	130,497
Projected benefit obligation less than (in excess of) assets	2,110	(5,660)
Unrecognized net transition obligation being amortized through 2004	6,652	7,489
Unrecognized net loss (gain)	(8,669)	(2,010)
Unrecognized prior service cost	466	523
Prepaid retirement plan asset included in the Consolidated Balance Sheets	$ 559	$ 342
Assumptions used to develop pension obligations were:		
Discount rate	7.25%	8.25%
Long-term rate of return on assets	9.00%	8.75%
Rate of increase in compensation levels	4.75%	5.50%

SOUTHWEST GAS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

NOTE 9 -- EMPLOYEE POSTRETIREMENT BENEFITS (CONTINUED)

	YEAR ENDED DECEMBER 31,		
	1995	1994	1993
	(THOUSANDS OF DOLLARS)		
Net retirement plan costs include the following components:			
Service cost	$ 7,153	$ 7,805	$ 6,339
Interest cost	11,084	10,164	9,213
Actual return on plan assets	(35,557)	254	(8,853)
Net amortization and deferrals	24,136	(10,440)	(67)
Net periodic retirement plan cost	$ 6,816	$ 7,783	$ 6,632

In addition to the basic retirement plan, the Company has a separate unfunded supplemental retirement plan which is limited to certain officers. The 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 in 1995, $2 million in 1994, and $1.5 million in 1993. The accumulated benefit obligation of the plan was $14.9 million, including vested benefits of $13.9 million, at December 31, 1995. 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 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 $2.3 million in 1995, $2.6 million in 1994, and $1.9 million in 1993.

The Company provides postretirement benefits other than pensions (PBOP) to its qualified retirees for health care, dental, and life insurance. 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 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 a master trust.

SOUTHWEST GAS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

NOTE 9 -- EMPLOYEE POSTRETIREMENT BENEFITS (CONTINUED)

The following table sets forth the PBOP funded status and amounts recognized on the Company's consolidated balance sheets and statements of income.

	DECEMBER 31, 1995	DECEMBER 31, 1994
	(THOUSANDS OF DOLLARS)	
Accumulated postretirement benefit obligation (APBO)		
Retirees	$(15,030)	$(13,348)
Fully eligible actives	(1,956)	(1,639)
Other active participants	(6,182)	(4,524)
Total	(23,168)	(19,511)
Market value of plan assets	1,647	697
APBO in excess of plan assets	(21,521)	(18,814)
Unrecognized transition obligation	14,738	15,605
Unrecognized prior service cost	--	--
Unrecognized loss	3,003	175
Accrued postretirement benefit liability	$ (3,780)	$ (3,034)
Assumptions used to develop postretirement benefit obligations were:		
Discount rate	7.25%	8.25%
Medical inflation	9% graded to 5%	10% graded to 5%
Salary increases	4.75%	5.50%

	YEAR ENDED DECEMBER 31, 1995	1994	1993
	(THOUSANDS OF DOLLARS)		
Net periodic postretirement benefit costs include the following components:			
Service cost	$ 399	$ 473	$ 346
Interest cost	1,562	1,472	1,394
Actual return on plan assets	(286)	--	--
Net amortization and deferrals	1,061	911	867
Net periodic postretirement benefit cost	$2,736	$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 average annual increase is projected to be five percent. A one percent increase in these assumptions would change the accumulated postretirement benefit obligation by approximately $900,000 at December 31, 1995. Future annual benefit costs would increase $130,000.

SOUTHWEST GAS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

NOTE 10 -- INCOME TAXES

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

	YEAR ENDED DECEMBER 31,		
	1995	1994	1993
Current:			
Federal	$ 13,588	$16,481	$ 8,531
State	1,985	2,701	1,194
	15,573	19,182	9,725
Deferred:			
Federal	(13,752)	(4,441)	(2,140)
State	(982)	(146)	623
	(14,734)	(4,587)	(1,517)
Total income tax expense	$ 839	$14,595	$ 8,208

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

	YEAR ENDED DECEMBER 31,		
	1995	1994	1993
Deferred federal and state:			
Property-related items	$ 4,921	$ 2,441	$ 815
Purchased gas cost adjustments	(16,488)	(5,531)	3,804
Self insurance	(885)	1,161	(691)
All other deferred	(1,414)	(1,782)	(4,596)
Total deferred federal and state	(13,866)	(3,711)	(668)
Deferred investment tax credit, net	(868)	(876)	(849)
Total deferred income tax benefit	$(14,734)	$(4,587)	$(1,517)

The consolidated effective income tax rate for the period ended December 31, 1995 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,		
	1995	1994	1993
Federal statutory income tax rate	35.0%	35.0%	35.0%
Net state tax liability	9.0	4.3	6.1
Property-related items	24.1	2.1	5.2
Tax credits	(22.7)	(2.3)	(3.9)
Tax exempt interest	(13.8)	--	(0.8)
Effect of Internal Revenue Service examination	--	--	(5.2)
Corporate-owned life insurance	(12.5)	(1.4)	(0.2)
All other differences	4.9	0.6	1.2
Consolidated effective income tax rate	24.0%	38.3%	37.4%

SOUTHWEST GAS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

NOTE 10 -- INCOME TAXES (CONTINUED)

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

	DECEMBER 31, 1995	DECEMBER 31, 1994
Deferred tax assets:		
Deferred income taxes for future amortization of ITC	$ 13,256	$ 13,784
Employee benefits	5,306	2,813
Regulatory balancing accounts	12,411	--
Other	3,017	6,429
Valuation allowance	--	--
	33,990	23,026
Deferred tax liabilities:		
Property-related items, including accelerated depreciation	101,133	95,026
Property-related items previously flowed-through	26,467	28,776
Unamortized ITC	19,874	20,741
Regulatory balancing accounts	--	9,048
Debt-related costs	4,462	4,941
Other	3,858	1,612
	155,794	160,144
Net deferred tax liabilities	$121,804	$137,118
Current	$(17,089)	$ 6,943
Noncurrent	138,893	130,175
Net deferred tax liabilities	$121,804	$137,118

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 financial 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.

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.

SOUTHWEST GAS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

NOTE 11 -- 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)			
1995				
Operating revenues	$203,521	$122,189	$ 91,433	$ 146,359
Operating income (loss)	36,829	(2,873)	(9,215)	33,671
Income (loss) from continuing operations	14,449	(9,951)	(13,353)	11,509
Income (loss) from discontinued operations	196	610	522	(18,864)
Net income (loss)	14,645	(9,341)	(12,831)	(7,355)
Net income (loss) applicable to common stock	14,550	(9,436)	(12,926)	(7,377)
Earnings (loss) per share from continuing operations*	0.67	(0.44)	(0.56)	0.47
Earnings (loss) per share from discontinued operations*	0.01	0.03	0.02	(0.77)
Earnings (loss) per share per common share*	0.68	(0.41)	(0.54)	(0.30)
1994				
Operating revenues	$207,369	$108,407	$ 92,245	$ 191,532
Operating income (loss)	47,519	(4,251)	(8,302)	53,725
Income (loss) from continuing operations	21,734	(10,735)	(11,911)	24,436
Income (loss) from discontinued operations	976	954	746	101
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 share from continuing operations*	1.03	(0.52)	(0.57)	1.15
Earnings (loss) per share from discontinued operations*	0.04	0.05	0.03	--
Earnings (loss) per share per common share*	1.07	(0.47)	(0.54)	1.15
1993				
Operating revenues	$182,449	$100,306	$ 84,291	$ 172,059
Operating income (loss)	34,454	(1,404)	(8,534)	53,166
Income (loss) from continuing operations	14,692	(7,106)	(11,445)	17,610
Income (loss) from discontinued operations	2,434	(5,966)	4,101	1,086
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 from continuing operations*	0.70	(0.35)	(0.57)	0.85
Earnings (loss) per share from discontinued operations*	0.12	(0.29)	0.20	0.05
Earnings (loss) per share per common share*	0.82	(0.64)	(0.37)	0.90

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* 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 12 -- DISCONTINUED OPERATIONS -- FINANCIAL SERVICES ACTIVITIES

In January 1996, the Company entered into a definitive agreement to sell PriMerit Bank (the Bank), a wholly owned subsidiary, to Norwest Corporation (Norwest) for approximately $175 million in cash. The intended use of the proceeds will be to reduce outstanding long-term debt. The sale is expected to be finalized in the third quarter of 1996, following receipt of shareholder and various governmental approvals and satisfaction of other customary closing conditions.

The Company estimates that the disposition of the Bank will result in a net loss of approximately $13 million, which includes a pretax book loss of approximately $3.1 million plus income taxes estimated at $9.9 million. The income tax expense results from the Company's tax basis in the Bank being lower than its book basis. The net loss is reported as loss on disposal of discontinued segment in the 1995 consolidated financial statements.

Due to the pending sale of the Bank, the results of operations and net assets of the financial services activities have been classified as discontinued operations in the consolidated financial statements of the Company as of December 31, 1995. Comparative consolidated financial statements of the Company presented for previous years have been reclassified to reflect the financial services activities as discontinued operations.

Income Statement Presentation. The amounts shown as discontinued operations in the Consolidated Statements of Income consist of the income (loss) from the Bank's stand-alone income statements adjusted for corporate carrying costs allocated to the Bank to properly reflect the contribution of the financial services activities to consolidated net income (loss). (See Note 13 of the Notes to Consolidated Financial Statements for the complete stand-alone financial statements of the Bank.) Included in the discontinued operations amount shown in the consolidated income statement for 1995 is an accrual relating to a proposed Savings Association Insurance Fund (SAIF) assessment ($7.2 million after tax) and a reversal of the goodwill impairment recorded by the Bank. The estimated goodwill impairment recorded by the Bank is replaced in the consolidated statements of income with the Company's loss on disposal calculation.

A reconciliation of the Bank's stand-alone net income to the discontinued operations and contribution to net income (loss) shown in the consolidated statements of income for each of the three years in the period ended December 31, 1995 follows (thousands of dollars):

	1995	1994	1993
Stand-alone net income (loss) of PriMerit Bank	$ (3,205)	$ 7,673	$ 6,596
Goodwill impairment recorded by the Bank in 1995 arising from the sale to Norwest	11,823	--	--
Allocation of corporate carrying costs, principally interest, net of tax	(5,961)	(4,896)	(4,941)
SAIF accrual recorded in 1995 for consolidated purposes, net of tax	(7,170)	--	--
Amount reported as discontinued operations	(4,513)	2,777	1,655
Accrual for estimated loss on disposal, net of tax	(13,023)	--	--
Discontinued operations contribution to consolidated net income (loss)	$(17,536)	$ 2,777	$ 1,655

Balance Sheet Presentation. The amounts shown as net assets of discontinued operations in the Consolidated Balance Sheets represent the Company's ownership of 100 percent of the common equity of the Bank. For years prior to 1995, the Company's investment equaled the stand-alone equity of the Bank (excluding the unrealized gain (loss) relating to securities covered by SFAS No. 115). For 1995, the net assets of discontinued operations equals the estimated realizable value to the Company of the net assets of the Bank. (See the table below for a reconciliation of Bank's equity to the net assets of discontinued operations as

SOUTHWEST GAS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

NOTE 12 -- DISCONTINUED OPERATIONS -- FINANCIAL SERVICES ACTIVITIES (CONTINUED)

shown on the consolidated balance sheet of the Company.) An accrual for the anticipated loss on disposal, including taxes, is included in other accrued liabilities in the consolidated balance sheet of the Company.

A reconciliation of the stand-alone equity of the Bank to the net assets of discontinued operations shown in the consolidated balance sheets as of December 31, 1995 and 1994 follows (thousands of dollars):

	1995	1994
Stand-alone equity of PriMerit	$173,559	$166,388
Goodwill impairment recorded by the Bank in 1995	11,823	--
Eliminate SFAS No. 115 adjustment	(1,409)	9,467
SAIF accrual recorded in 1995 for consolidated purposes, net of tax	(7,170)	--
Other, net of tax	(1,310)	--
Net assets of discontinued operations	$175,493	$175,855

SOUTHWEST GAS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

NOTE 13 -- PRIMERIT BANK

PRIMERIT BANK

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
(THOUSANDS OF DOLLARS)

	DECEMBER 31, 1995	DECEMBER 31, 1994
ASSETS		
Cash and due from banks	$ 46,759	$ 35,262
Cash equivalents	72,991	88,660
Debt securities available for sale, at fair value	422,421	529,400
Debt securities held to maturity (fair value of $63,675 and $99,403)	64,254	101,880
Loans receivable held for sale (fair value of $6,032 and $2,135)	5,855	2,114
Loans receivable, net of allowance for estimated losses of $16,353 and $17,659	1,070,081	936,037
Real estate acquired through foreclosure, net of allowance for estimated losses of $267 and $0	3,136	7,631
Real estate held for sale or development, net of allowance for estimated losses of $863 and $476	247	771
Premises and equipment, net	20,282	21,666
FHLB stock, at cost	11,057	17,277
Income tax benefit	1,358	4,055
Other assets	6,622	5,928
Excess of cost over net assets acquired, net of impairment allowance of $11,823 and $0	49,956	65,640
Total assets	$1,775,019	$1,816,321
LIABILITIES AND STOCKHOLDER'S EQUITY		
Deposits	$1,266,071	$1,239,949
Securities sold under agreements to repurchase	140,710	281,935
Advances from FHLB	164,400	99,400
Notes payable	7,995	8,135
Deferred income taxes	2,971	--
Other liabilities and accrued expenses	19,313	20,514
Total liabilities	1,601,460	1,649,933
Commitments and contingencies		
STOCKHOLDER'S EQUITY:		
Common stock, $1.00 par value; authorized -- 100,000 shares; issued and outstanding -- 56,629 shares	57	57
Additional paid-in capital	160,442	160,442
Unrealized gain (loss), net of tax, on debt securities available for sale	1,409	(9,467)
Retained earnings	11,651	15,356
Total stockholder's equity	173,559	166,388
Total liabilities and stockholder's equity	$1,775,019	$1,816,321

See accompanying notes to PriMerit financial statements.

SOUTHWEST GAS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

NOTE 13 -- PRIMERIT BANK (CONTINUED)

PRIMERIT BANK

CONSOLIDATED STATEMENTS OF OPERATIONS
(THOUSANDS OF DOLLARS)

	YEAR ENDED DECEMBER 31,		
	1995	1994	1993
Interest income	$132,877	$118,434	$132,325
Interest expense	73,300	59,790	75,076
Net interest income	59,577	58,644	57,249
Provision for estimated credit losses	(8,149)	(7,230)	(6,212)
Net interest income after provision for estimated credit losses	51,428	51,414	51,037
Net loss from real estate operations	(196)	(612)	(910)
Noninterest income (loss):			
Gain on sale of loans	1,167	598	1,835
Loss on sale of loans	(77)	(351)	(84)
Net gain on sale of debt securities	970	34	7,973
Gain (loss) on secondary marketing hedging activities	(120)	389	(968)
Loss on sale -- Arizona branches	--	--	(6,262)
Loan related fees	1,455	1,165	1,025
Deposit related fees	7,589	6,788	6,397
Gain on sale of credit card receivables	--	1,689	--
Other income	186	319	2,133
Total noninterest income	11,170	10,631	12,049
General and administrative expenses	44,395	43,508	48,296
Amortization of excess of cost over net assets acquired	3,861	3,861	3,984
Impairment of excess of cost over net assets acquired	11,823	--	--
Income before income taxes	2,323	14,064	9,896
Income tax expense	5,528	6,391	6,345
Net income (loss) before cumulative effect of accounting change	(3,205)	7,673	3,551
Cumulative effect of change in method of accounting for income taxes	--	--	3,045
Net income (loss)	$ (3,205)	$ 7,673	$ 6,596

See accompanying notes to PriMerit financial statements.

SOUTHWEST GAS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

NOTE 13 -- PRIMERIT BANK (CONTINUED)

PRIMERIT BANK

CONSOLIDATED STATEMENTS OF CASH FLOWS
(THOUSANDS OF DOLLARS)

	YEAR ENDED DECEMBER 31,		
	1995	1994	1993
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income (loss)	$ (3,205)	$ 7,673	$ 6,596
Adjustments to net income (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	3,819	3,918	4,511
Provisions for estimated losses	8,311	7,393	7,222
Net gains on sales of loans, servicing, and credit card receivables	(1,090)	(1,936)	(1,751)
Proceeds from sales of trading debt securities	--	5,074	--
Net gains on sales of debt securities	(970)	(34)	(7,973)
Loss (gain) on secondary marketing hedging activities	120	(389)	968
Dividends on FHLB stock	(661)	(838)	(594)
Amortization of deferred fees	(3,649)	(4,194)	(3,424)
Amortization of premiums, discounts and deferred gains	4,249	2,265	3,291
Amortization of excess of cost over net assets acquired	3,861	3,861	3,984
Impairment of excess of cost over net assets acquired	11,823	--	--
Loss on sale of Arizona branches	--	--	6,262
Increase (decrease) in income taxes payable	(891)	6,837	(2,013)
Deferred income tax provision	702	1,098	12,478
(Increase) decrease in other assets	(421)	(650)	1,964
Increase (decrease) in other liabilities	(1,177)	565	10,387
Net cash provided by operating activities	20,821	30,643	38,863
CASH FLOWS FROM INVESTING ACTIVITIES:			
Proceeds from maturities and principal repayments of debt securities	150,990	291,747	293,788
Purchase of debt securities	--	(296,349)	(113,078)
Proceeds from sales of debt securities available for sale	3,118	--	360,853
Proceeds from sales of debt securities held to maturity	4,420	--	--
Proceeds from sale of FHLB stock	6,951	--	902
Principal repayments of loans	343,218	311,236	330,033
Loan originations	(524,849)	(466,260)	(516,642)
Proceeds from sales of loans and loan servicing rights and credit card receivables	38,407	46,090	78,353
Proceeds (payment) for termination of secondary marketing hedges	(120)	389	(968)
Proceeds from sales of real estate held for development	1,035	4,294	1,926
Expenditures for real estate held for development	(675)	(1,140)	(3,211)
Proceeds from sales of real estate acquired through foreclosure	6,145	4,048	22,916
Proceeds from sale of Arizona assets and services	--	--	6,718
Net change to premises and equipment	(2,890)	(3,252)	(1,521)
Net cash provided by (used in) investing activities	25,750	(109,197)	460,069

See accompanying notes to PriMerit financial statements.

SOUTHWEST GAS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

NOTE 13 -- PRIMERIT BANK (CONTINUED)

PRIMERIT BANK

CONSOLIDATED STATEMENTS OF CASH FLOWS -- (CONTINUED)
(THOUSANDS OF DOLLARS)

	YEAR ENDED DECEMBER 31,		
	1995	1994	1993
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from deposits	$ 5,378,949	$ 4,872,023	$ 9,933,585
Sale and assumption of Arizona deposit liabilities	--	--	(320,902)
Payments for maturing deposits	(5,352,827)	(4,839,926)	(10,026,400)
Proceeds from securities sold under agreements to repurchase	684,428	281,333	1,499,893
Repayment of securities sold under agreements to repurchase	(825,653)	(258,439)	(1,617,711)
Proceeds from other borrowings	118,000	31,900	65,000
Repayment of other borrowings	(53,140)	(3,630)	(45,375)
Dividends paid to Southwest	(500)	--	--
Net cash provided by (used in) financing activities	(50,743)	83,261	(511,910)
Net increase (decrease) in cash and cash equivalents	(4,172)	4,707	(12,978)
Cash and cash equivalents at the beginning of the year	123,922	119,215	132,193
Cash and cash equivalents at December 31	$ 119,750	$ 123,922	$ 119,215
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:			
Cash paid (received) during the year for:			
Interest, net of amount capitalized	$ 23,305	$ 14,521	$ 18,291
Income taxes, net	$ 5,717	$ (1,517)	$ (4,103)

See accompanying notes to PriMerit financial statements.

NOTE 13 -- PRIMERIT BANK (CONTINUED)

Note A -- Summary of Significant Accounting Policies

Business

PriMerit Bank and subsidiaries (the Bank), a wholly owned subsidiary of Southwest Gas Corporation (Southwest or the Company), 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.

The Bank is engaged in retail and commercial banking. The Bank's principal business is to attract deposits from the general public and to make loans. The loans may be secured by real estate or other collateral for borrowers to purchase, construct, refinance, or improve such collateral.

Revenues are derived from interest income on single-family residential loans; debt securities; commercial, construction, and corporate loans; consumer loans, and to a lesser extent, deposit and loan related fees. The Bank occupies facilities at 25 locations in Nevada, of which 17 are located in southern Nevada and 8 are in northern Nevada.

The Bank follows generally accepted accounting principles (GAAP) as applied to the banking and thrift industries. The application of GAAP requires the use of management estimates which are periodically reviewed. Actual results may differ from those estimates used.

Sale of Bank/Impairment of Goodwill

In January 1996, Southwest entered into a definitive agreement to sell the Bank to Norwest Corporation for approximately $175 million in cash, subject to regulatory and stockholder approval. The sale is anticipated to close in the third quarter of 1996. The Bank recorded an $11.8 million impairment loss in 1995 on its excess of cost over net assets acquired (goodwill) originating from Southwest's acquisition of the Bank in 1986. The impairment loss is based upon the difference between the purchase price compared to the Bank's projected equity on the closing date and will be adjusted in future periods for changes in the estimated projected closing equity. The Bank will record no goodwill amortization expense in 1996 as a result of the pending acquisition and related impairment loss.

The separate stand-alone financial results and disclosures reported for the Bank on a going-concern basis differ from the results and disclosures reported for the Bank as a discontinued operation. See Note 12 of the Notes to Consolidated Financial Statements for reconciliations of Bank stand-alone financial information to the amounts shown as discontinued operations in the consolidated financial statements. In 1996, while Southwest will continue, as required, to disclose the ongoing operating results of the Bank through the close of the proposed transaction, those amounts will not be realized or recognized by Southwest in its consolidated financial statements, consistent with the terms of the sales agreement.

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 and $367,000 in other net costs related to the Bank's Arizona operations included in Loss on sale -- Arizona branches in the Bank's Statements of Operations.

Excess of Cost Over Net Assets Acquired

Excess of cost over net assets acquired (goodwill) arose from Southwest's acquisition of the Bank in 1986 and from the Bank's acquisition of a thrift institution in 1988. The goodwill which arose from the acquisition of a thrift institution in 1988 was written-off in conjunction with the Arizona sale in 1993. Goodwill related to

SOUTHWEST GAS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

NOTE 13 -- PRIMERIT BANK (CONTINUED)

Southwest's acquisition of the Bank in 1986 was being amortized to expense over a 25 year period using the straight-line method prior to the impairment loss described above.

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.

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 statements of cash flows present gross cash receipts and disbursements from lending and deposit gathering activities.

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 states 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 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 Bank's Statements of Financial Condition. Changes in fair value are reported net of tax as a separate component of stockholder's equity. At December 31, 1995, the Bank recorded a $1.4 million unrealized gain, net of tax, on $422 million of debt securities available for sale. Subsequent 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, 1995 and 1994, no securities were designated as trading securities.

In November 1995, the Financial Accounting Standards Board (FASB) issued a Special Report, "A Guide to Implementation of Statement 115 on Accounting for Certain Investments in Debt and Equity Securities" (the Special Report). The Special Report allowed a one-time opportunity, until December 31, 1995, for institutions to reassess the appropriateness of their designations of all securities and transfer debt securities from their held-to-maturity portfolio before calendar year-end 1995, without calling into question their intent to hold other debt securities to maturity in the future. The Bank reassessed its securities designations in light of the Special Report guidance and made no reclassifications.

SOUTHWEST GAS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

NOTE 13 -- PRIMERIT BANK (CONTINUED)

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 generally credited to income when earned.

Fees are charged for originating and in some cases, for committing to originate loans. In accordance with SFAS No. 91, "Accounting for Nonrefundable 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, and equity and property improvement loans are amortized to income over the contractual lives of the loans using a method which approximates the level-yield method.

On January 1, 1995, the Bank adopted SFAS No. 114, "Accounting by Creditors for Impairment of a Loan," and SFAS No. 118, "Accounting by Creditors for Impairment of a Loan -- Income Recognition and Disclosures." SFAS No. 114 requires the measurement of loan impairment to be based on the present value of expected future cash flows discounted at the loan's original effective interest rate or the fair value of the underlying collateral on collateral-dependent loans. SFAS No. 118 amends SFAS No. 114 to allow a creditor to use existing methods for recognizing interest income on impaired loans. The Bank's initial adoption of these statements on January 1, 1995 did not have a material impact on its financial position or results of operations.

Mortgage Banking Activities

The Bank's accounting policy designates 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 interestsensitive 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 the time of origination or purchase.

Gains and losses on loan and debt security 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 cost basis of the loans and debt securities. Loans sold with servicing retained have included 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 mortgage-backed securities and designated as trading securities.

In May 1995, the FASB issued SFAS No. 122, "Accounting for Mortgage Servicing Rights." The statement eliminates the previous distinction between purchased and originated mortgage servicing rights. The statement requires an allocation of the cost basis of a mortgage loan between the mortgage servicing rights and the loan when mortgage loans are sold or securitized and the servicing is retained. The Bank adopted SFAS No. 122 effective April 1, 1995. As a result of implementation, pretax earnings increased $344,000 ($224,000, after tax). The amount of mortgage servicing rights capitalized during 1995 was $486,000, including $109,000 in allocated costs for loans subject to definitive sales agreements. Amortization for the year was $33,000.

The servicing rights are being amortized over their estimated lives using a method approximating a level yield method. The book value of capitalized mortgage servicing rights at December 31, 1995 was $350,000. As all servicing rights capitalized during the year have been on new loan originations and no significant change in

NOTE 13 -- PRIMERIT BANK (CONTINUED)

interest rates or servicing rights' values have occurred, fair value is estimated to approximate book value at December 31, 1995.

Real Estate Acquired Through Foreclosure

Real estate acquired through foreclosure is stated at the lower of cost or fair value less costs to sell. In 1994, real estate acquired through foreclosure included loans foreclosed in-substance, representing loans accounted for as foreclosed property even though actual foreclosure had not occurred. Although the collateral underlying these loans had not been repossessed, the borrower had little or no equity in the collateral at its current estimated fair value. Proceeds for repayment were expected to come only from the operation or sale of the collateral, and it was doubtful the borrower would rebuild equity in the collateral or repay the loan by other means in the foreseeable future. Included in real estate acquired through foreclosure is $2.9 million of loans foreclosed in-substance at December 31, 1994. Upon adoption of SFAS No. 114 in the first quarter of 1995, $2.9 million of in-substance foreclosed assets were reclassified on the Bank's Consolidated Statement of Financial Condition from real estate acquired through foreclosure to loans receivable as SFAS No. 114 eliminated the in-substance designation. No other financial statement impact resulted from the Bank's adoption of SFAS No. 114. Write downs to fair value, disposition gains and losses, and operating income and costs are charged to the allowance for estimated credit losses.

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 valuation allowance methodology. Valuation allowances are established for each of the loan and real estate portfolios for estimated 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 loan, investment, and real estate portfolios and examinations by regulatory authorities.

Charge-offs are recorded on specific 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 less costs to sell based on a current appraisal of the subject property.

While management uses currently available information to evaluate the adequacy of allowances and to 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.

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 derivative financial instruments approved for the Bank to use to hedge its exposure to interest rate risk (IRR) include: interest rate swaps, interest rate caps, interest rate collars, interest rate futures, and put and call options. These instruments are used only to hedge asset and liability portfolios and are not used for

SOUTHWEST GAS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

NOTE 13 -- PRIMERIT BANK (CONTINUED)

speculative purposes. Premiums, discounts, and fees associated with interest rate exchange agreements are amortized to expense on a straight-line basis over the contractual lives of the agreements. The net interest received or paid is reflected in interest expense as a cost of hedging. Gains or losses resulting from the early cancellation of agreements hedging assets and liabilities which remain outstanding are deferred and amortized over the remaining contractual 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. On January 1, 1993, the Bank adopted SFAS No. 109, "Accounting for Income Taxes." SFAS No. 109 supersedes Accounting Principles Board Opinion (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, 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 million in 1993.

Pension Plan

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 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.

Reclassifications

Certain reclassifications have been made to conform the prior years with the current year presentation.

Note B -- Fair Value of Financial Instruments

Fair value estimates of financial instruments 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 judgments 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 judgment and therefore cannot be considered as precise. Changes in assumptions could significantly affect the estimates.

The fair value estimates are disclosed 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.

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

SOUTHWEST GAS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

NOTE 13 -- PRIMERIT BANK (CONTINUED)

through sale or other disposition. No attempt should be made to adjust stockholder's equity to reflect the following fair value disclosures.

Fair value estimates, methods, and assumptions are set forth below for the Bank's financial instruments as of December 31 (thousands of dollars):

	1995		1994	
	CARRYING VALUE	FAIR VALUE	CARRYING VALUE	FAIR VALUE
ASSETS				
Cash and due from banks	$ 46,759	$ 46,759	$ 35,262	$ 35,262
Cash equivalents	72,991	72,991	88,660	88,660
Debt securities available for sale	422,421	422,421	529,400	529,400
Debt securities held to maturity	64,254	63,675	101,880	99,403
Loans receivable held for sale	5,855	6,050	2,114	2,135
Loans receivable, net	1,070,081	1,093,972	936,037	897,723
Federal Home Loan Bank stock	11,057	11,057	17,277	17,277
Originated mortgage servicing rights	350	350	--	--
LIABILITIES				
Deposits	1,266,071	1,267,516	1,239,949	1,238,127
Securities sold under agreements to repurchase	140,710	140,886	281,935	282,155
Advances from FHLB	164,400	171,166	99,400	97,565
Notes payable	7,995	8,020	8,135	8,174

	1995		1994	
	COMMITMENT	FAIR VALUE	COMMITMENT	FAIR VALUE
OFF-BALANCE SHEET				
Outstanding commitments to originate loans	$ 86,891	$ 137	$ 46,387	$ (420)
Commercial and other letters of credit	4,824	25	707	6
Interest rate swaps	98,200	(4,865)	72,450	2,986
Loan servicing rights	397,572	4,366	415,097	4,958
Outstanding firm commitments to sell loans and MBS	7,475	(61)	2,544	(2)
Outstanding master commitments to sell loans	10,500	(2)	116,097	(14)
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 was 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 direct broker quotes and quoted market prices, 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.

SOUTHWEST GAS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

NOTE 13 -- PRIMERIT BANK (CONTINUED)

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, residential mortgage, installment, 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 rate that loans with similar maturity and underwriting characteristics would be made on December 31, 1995 or 1994, 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. Originated servicing rights capitalized during the year have been on new loan originations. These new loan originations have had no significant adverse changes in interest rates or servicing rights values during the year. Fair value of originated servicing rights is estimated to approximate book value at December 31, 1995.

The fair value of commitments to originate loans was estimated by calculating a theoretical gain or loss on the sale of funded loans 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 originated prior to 1995 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 and the type of loan. 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, savings, 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 borrowing funds in the market.

Note C -- Cash Equivalents

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

	DECEMBER 31,	
	1995	1994
Securities purchased under resale agreements	$67,789	$77,657
Federal funds sold	5,202	11,003
	$72,991	$88,660

Securities purchased under resale agreements of $67.8 million at December 31, 1995 and $77.7 million at December 31, 1994 matured within 12 days and 11 days, respectively, and called for delivery of the same securities. The collateral for these agreements consisted of debt securities which at December 31, 1995 and 1994 were held on the Bank's behalf by its safekeeping agents for various investment bankers. The securities purchased under resale agreements represented 39 percent of the Bank's stockholder's equity at December 31, 1995 and 47 percent at December 31, 1994.

NOTE 13 -- PRIMERIT BANK (CONTINUED)

The average amount of securities purchased under resale agreements outstanding during the years ended December 31, 1995 and 1994 were $31.5 million and $36.2 million, respectively. The maximum amount of resale agreements outstanding at any month end was $73.2 million during 1995 and $77.7 million during 1994.

Note D -- 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 (thousands of dollars):

DECEMBER 31, 1995	AMORTIZED COST	TOTAL UNREALIZED GAINS	TOTAL UNREALIZED LOSSES	ESTIMATED FAIR VALUE	YIELD
Corporate issue MBS......................	$ 43,964	$ 68	$ 964	$43,068	7.99%
U.S. Treasury securities.................	20,290	317	--	20,607	7.37%
Total..........................	$ 64,254	$385	$ 964	$63,675	7.79%
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%

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):

	EXPECTED/CONTRACTUAL MATURITY				
DECEMBER 31, 1995	WITHIN ONE YEAR	AFTER ONE YEAR BUT WITHIN FIVE YEARS	AFTER FIVE YEARS BUT WITHIN TEN YEARS	AFTER TEN YEARS BUT WITHIN TWENTY YEARS	TOTAL AMORTIZED COST
Corporate issue MBS....................	$11,360	$27,853	$4,596	$155	$43,964
U.S. Treasury securities...............	20,290	--	--	--	20,290
Total........................	$31,650	$27,853	$4,596	$155	$64,254

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 (thousands of dollars):

DECEMBER 31, 1995	AMORTIZED COST	TOTAL UNREALIZED GAINS	TOTAL UNREALIZED LOSSES	ESTIMATED FAIR VALUE	YIELD
GNMA -- MBS............................	$ 5,615	$ 318	$ --	$ 5,933	8.27%
FHLMC -- MBS...........................	234,955	4,417	446	238,926	7.45%
FNMA -- MBS............................	96,220	602	1,928	94,894	7.07%
CMO....................................	67,042	28	711	66,359	5.50%
Corporate issue MBS....................	16,420	22	133	16,309	7.25%
Total........................	$420,252	$5,387	$3,218	$422,421	7.06%

SOUTHWEST GAS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

NOTE 13 -- PRIMERIT BANK (CONTINUED)

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%
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%

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, and can change based upon a number of factors, including the level of market interest rates (thousands of dollars).

	EXPECTED/CONTRACTUAL MATURITY				
DECEMBER 31, 1995	WITHIN ONE YEAR	AFTER ONE YEAR BUT WITHIN FIVE YEARS	AFTER FIVE YEARS BUT WITHIN TEN YEARS	AFTER TEN YEARS BUT WITHIN TWENTY YEARS	TOTAL ESTIMATED FAIR VALUE
GNMA--MBS	$ 1,375	$ 3,780	$ 778	$ --	$ 5,933
FHLMC--MBS	60,947	148,188	25,625	4,166	238,926
FNMA--MBS	14,808	46,644	22,346	11,096	94,894
CMO	24,400	41,661	298	--	66,359
Corporate issue MBS	3,027	10,855	1,661	766	16,309
Total	$104,557	$251,128	$50,708	$16,028	$422,421

Proceeds, gains, and losses from the sales of debt securities are summarized as follows (thousands of dollars):

	1995 SALES			1994 SALES			1993 SALES		
	PROCEEDS	GAINS	(LOSSES)	PROCEEDS	GAINS	(LOSSES)	PROCEEDS	GAINS	(LOSSES)
Held to maturity	$4,420	$ --	$ --	$ --	$--	$ --	$ --	$ --	$ --
Available for sale	3,118	970	--	--	--	--	360,853	8,317	(344)
Trading	--	--	--	5,074	56	(22)	--	--	--
Total	$7,538	$970	$ --	$5,074	$56	$(22)	$360,853	$8,317	$(344)

In 1991, the Bank purchased $10 million of adjustable-rate MBS issued by the Resolution Trust Corporation. The securities were rated AA by Standard & Poor's (S&P) and Aa2 by Moody's on the dates of issuance and purchase. When the Bank implemented SFAS No. 115 on December 31, 1993, these securities were designated as held to maturity. The securities were still rated AA and Aa2 at that time. The loans underlying the securities were affected by high delinquency and foreclosure rates, and higher than anticipated losses on the ultimate disposition of real estate acquired through foreclosure. This resulted in rating agency downgrades of the securities beginning in July 1994, and substantial deterioration in the amount of the loss absorption capacity provided by credit enhancement features. At December 31, 1994, the securities were performing according to their contractual terms, and all realized losses from the disposition of foreclosed real

SOUTHWEST GAS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

NOTE 13 -- PRIMERIT BANK (CONTINUED)

estate were being absorbed by credit enhancement features of the securities. In April 1995, S&P and Moody's lowered their ratings on the securities to the below investment grade ratings of BB and Ba3, respectively. As a result of this deterioration, the Bank determined that the securities should be considered "other than temporarily" impaired under the provisions of SFAS No. 115. A pretax loss of $1.9 million was recorded as a credit-related charge-off through the valuation allowance for debt securities in the second quarter. In June 1995, the Bank sold these securities. No additional loss was recorded at the time of sale.

Also during the second quarter of 1995, the Bank sold a $1.5 million security from its available for sale portfolio at a loss of $181,000. The security was a privately issued MBS whose credit rating was downgraded by Moody's to Baa3 in April 1995. As a result of the downgrade, the Bank sold the security and recorded the loss as a credit related charge-off to the general valuation allowance for debt securities.

In 1993, the Bank sold $334 million of MBS to effect the sale of Arizona-based deposit liabilities to World and to maintain the Bank's 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 Statements of Operations for 1993.

Note E -- Loans Receivable and Loans Receivable Held for Sale

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

	DECEMBER 31, 1995	DECEMBER 31, 1994
Loans collateralized by real estate:		
Conventional single-family residential	$ 529,076	$ 489,649
FHA and VA insured single-family residential	40,939	33,823
Commercial mortgage	178,507	178,076
Construction and land	137,728	90,992
	886,250	792,540
Commercial secured	57,647	40,349
Commercial unsecured	4,678	2,317
Consumer installment:		
Automobile	59,540	43,279
Recreational vehicle, marine, and mobile home	98,186	76,181
Consumer unsecured	7,128	6,570
Equity and property improvement	29,216	26,054
Deposit accounts	2,392	2,659
	1,145,037	989,949
Undisbursed proceeds	(68,646)	(41,702)
Allowance for estimated credit losses	(16,353)	(17,659)
Premiums	9,314	5,969
Deferred fees	(5,362)	(4,999)
Accrued interest	6,091	4,479
	(74,956)	(53,912)
Loans receivable held for investment	$1,070,081	$ 936,037

SOUTHWEST GAS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

NOTE 13 -- PRIMERIT BANK (CONTINUED)

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 (thousands of dollars):

	DECEMBER 31, 1995	DECEMBER 31, 1994
Conventional	$2,071	$ 508
FHA and VA insured	3,079	1,606
	5,150	2,114
Small Business Administration (SBA)	705	--
Loans receivable held for sale	$5,855	$2,114

Additional loan information (thousands of dollars):

	DECEMBER 31, 1995	DECEMBER 31, 1994
Average portfolio yield at end of year	8.34%	8.11%
Principal balance of loans serviced for others (including $58,424 and $67,871 of loans serviced for MBS owned by the Bank)	$430,100	$415,097
Adjustable-rate real estate loans	$316,393	$286,868
Outstanding commitments to originate loans	$ 86,891	$ 46,387
Unused lines of credit	$ 68,176	$ 57,180
Standby letters of credit	$ 4,824	$ 707
Outstanding commitments to builders	$ --	$ 10,543

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, 1995, periodic caps in the adjustable loan portfolio ranged from 25 basis points to 500 basis points. Lifetime caps ranged from 9.75 to 22 percent.

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 SBA loans 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 recorded a gain of approximately $1.7 million ($1.1 million net of charge-offs).

At December 31, 1995, 32 percent or $18.5 million of the Bank's outstanding commercial secured loan portfolio consisted of loans to borrowers in the gaming industry, with additional unfunded commitments of $9.9 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.

NOTE 13 -- PRIMERIT BANK (CONTINUED)

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 a stabilized loan-to-value ratio of less than 85 percent, while commercial income property loans are generally underwritten with a ratio less than or equal to 75 percent.

Interest payments received on impaired loans are recorded as interest income unless collection of the remaining recorded investment is in doubt, in which case payments received are recorded as reductions of principal. Interest income recognized on impaired loans during the year ended December 31, 1995 consisted of $2.8 million using an accrual basis of accounting and $21,000 using a cash basis of accounting. The average balance outstanding of impaired loans for the year ended December 31, 1995 was $23.9 million, while at December 31, 1995, the outstanding impaired loan balance was $25.3 million.

Premiums on loans primarily represent premiums paid to dealers for originating consumer installment loans for the Bank. Prepayments of the loans can adversely affect the yield of the installment portfolio should the unearned premium be uncollectible from the dealer due to the contractual terms of the dealer agreement or the credit worthiness of the dealer.

Note F -- Allowances for Estimated Credit Losses

Activity in the allowances for losses on loan, debt securities, and real estate is summarized as follows (thousands of dollars):

	LOANS RECEIVABLE	INVESTMENTS IN REAL ESTATE	TOTAL
Balance at 12/31/92	$17,228	$ 1,463	$ 18,691
Provisions for estimated losses	6,212	1,010	7,222
Charge-offs	(9,812)	(1,538)	(11,350)
Recoveries	2,623	--	2,623
Balance at 12/31/93	16,251	935	17,186
Provisions for estimated losses	7,230	163	7,393
Charge-offs	(7,887)	(1,412)	(9,299)
Recoveries	2,065	790	2,855
Balance 12/31/94	$17,659	$ 476	$ 18,135

		LOANS RECEIVABLE				
	DEBT SECURITIES	IMPAIRED LOANS	OTHER LOANS	FORECLOSED REAL ESTATE	INVESTMENTS IN REAL ESTATE	TOTAL
Balance at 12/31/94*	$ --	$ 3,038	$14,621	$ --	$ 476	$ 18,135
Provisions for estimated losses	2,077	2,908	2,838	326	162	8,311
Charge-offs	(2,077)	(2,908)	(5,716)	(395)	(139)	(11,235)
Recoveries	--	35	1,537	336	364	2,272
Balance at 12/31/95	$ --	$ 3,073	$13,280	$ 267	$ 863	$ 17,483

* Allowance for estimated loss balances for impaired and other loans at December 31, 1994 have been reclassified to reflect adoption of SFAS No. 114.

SOUTHWEST GAS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

NOTE 13 -- PRIMERIT BANK (CONTINUED)

Included in the "other loans" category are charge-offs, net of recoveries, of $585,000 for single-family residential loans and $3.3 million for consumer loans. These are considered homogeneous pools of loans that are excluded from the definition of impaired loans for evaluation under SFAS No. 114.

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 and trends of problem loans, portfolio growth, and current economic conditions.

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.

Note G -- Premises and Equipment

Premises and equipment are summarized as follows (thousands of dollars):

	DECEMBER 31, 1995	DECEMBER 31, 1994
Land	$ 3,435	$ 4,066
Buildings and leasehold improvements	19,130	18,381
Furniture, fixtures, and equipment	28,899	26,970
	51,464	49,417
Less: Accumulated depreciation and amortization	31,182	27,751
Premises and equipment, net	$20,282	$21,666

The Bank leases certain of its facilities under noncancelable operating lease agreements. The more significant of these leases have terms expiring between 1996 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, 1995 (thousands of dollars):

	TOTAL MINIMUM LEASE PAYMENTS	TOTAL MINIMUM SUBLEASE RECEIPTS	NET MINIMUM LEASE PAYMENTS
Year Ending December 31:			
1996	$ 5,632	$ 2,739	$ 2,893
1997	5,558	2,240	3,318
1998	5,128	1,824	3,304
1999	4,468	1,516	2,952
2000	4,293	961	3,332
Thereafter	45,513	1,300	44,213
	$70,592	$10,580	$60,012

Net rental expense was approximately $2.5 million in 1995, $2.7 million in 1994, and $3.1 million in 1993.

SOUTHWEST GAS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

NOTE 13 -- PRIMERIT BANK (CONTINUED)

Note H -- Deposits

Deposits are summarized as follows (thousands of dollars):

	DECEMBER 31,	
	1995	1994
Interest-bearing demand and money market deposits	$ 322,847	$ 313,949
Noninterest-bearing demand deposits	98,923	69,294
Savings deposits	67,641	78,876
Total transaction accounts	489,411	462,119
Certificates of deposit:		
$100,000	605,321	608,872
$100,000	171,339	168,958
Total certificates of deposit	776,660	777,830
	$1,266,071	$1,239,949
Average annual interest rate at end of year	4.19%	3.97%

The above balance includes $5.9 million deposited by the State of Nevada that is collateralized by single-family residential loans and debt securities with a fair value of approximately $6.3 million at December 31, 1995. There were no brokered deposits at December 31, 1995 and 1994.

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

	1995	1994	1993
Interest-bearing demand and money market deposits	$10,327	$ 8,740	$ 8,578
Savings deposits	1,718	2,135	2,364
Certificates of deposit	39,893	33,241	46,701
Total interest expense on deposits	$51,938	$44,116	$57,643

Certificates of deposit maturity schedule (thousands of dollars):

	CERTIFICATES MATURING ON OR PRIOR TO DECEMBER 31,					
INTEREST RATE CATEGORY	1996	1997	1998	1999	2000	THEREAFTER
2.99% and lower	$ 8,199	$ 36	$ 12	$ 12	$ 15	$ 6
3.00% to 3.99%	10,194	7	--	--	--	--
4.00% to 4.99%	279,124	8,831	1,795	24	--	92
5.00% to 5.99%	212,653	47,565	22,667	10,232	10,843	7,483
6.00% to 6.99%	7,338	41,076	5,561	20,807	12,316	12,442
7.00% to 7.99%	35,013	5,714	15	15,350	369	212
8.00% to 8.99%	74	--	--	--	148	--
9.00% and over	--	36	399	--	--	--
	$552,595	$103,265	$30,449	$46,425	$23,691	$20,235

SOUTHWEST GAS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

NOTE 13 -- PRIMERIT BANK (CONTINUED)

Note I -- 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 Bank's Statements of Financial Condition. Reverse repurchase agreements are summarized as follows (thousands of dollars):

	DECEMBER 31, 1995	DECEMBER 31, 1994
Balance at year end	$140,710	$281,935
Accrued interest payable at year end	1,417	3,335
Daily average amount outstanding during year	175,618	222,620
Maximum amount outstanding at any month end	282,374	281,935
Weighted average interest rate during the year	6.20%	4.95%
Weighted average interest rate on year-end balances	6.10%	6.37%

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 securities collateralizing the agreements are reflected as assets with a carrying value of $473,000 less than the borrowing amount and a weighted average maturity of 1.34 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, 1995		DECEMBER 31, 1994	
	BOOK VALUE	FAIR VALUE	BOOK VALUE	FAIR VALUE
MBS	$120,181	$120,181	$258,477	$258,477
U.S. Treasury notes	20,056	20,373	40,428	40,191
	$140,237	$140,554	$298,905	$298,668

At December 31, 1995, borrowings of $37.1 million were outstanding in accordance with a long-term agreement executed with one dealer. The agreement, which allows for a maximum borrowing of $300 million with no minimum, matures in July 2000. 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 a separate flexible reverse repurchase agreement (flex repo) totaling $4.4 million with an average rate of 8.86 percent at December 31, 1995. 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 agreement is expected to mature in July 1996.

SOUTHWEST GAS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

NOTE 13 -- PRIMERIT BANK (CONTINUED)

Note J -- Borrowings

Borrowings are summarized as follows (thousands of dollars):

	DECEMBER 31, 1995	DECEMBER 31, 1994
Advances from FHLB	$164,400	$ 99,400
Notes payable	7,995	8,135
	$172,395	$107,535

Borrowings coupon interest rates are as follows:

	1995	1994
Advances from FHLB	4.40% - 8.23%	4.30% - 8.23%
Notes payable	8.50%	8.20% - 8.50%

Principal payments on borrowings at December 31, 1995 are due as follows (thousands of dollars):

	INTEREST RATE	ADVANCES FROM FHLB	NOTES PAYABLE
12 months	4.40% - 8.50%	$ 35,000	$7,995
24 months	5.92% - 8.23%	26,000	--
36 months	5.01% - 5.89%	25,000	--
48 months	8.23%	25,000	--
60 months	7.38% - 7.52%	50,000	--
72 months	7.52%	3,400	--
		$164,400	$7,995
Weighted average effective interest rate		6.68%	7.80%

Borrowings are collateralized as follows (thousands of dollars):

	DECEMBER 31, 1995	DECEMBER 31, 1994
MBS	$ 14,002	$ 13,971
Real estate loans	382,407	171,673
	$396,409	$185,644

In 1994, the FHLB established 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.

SOUTHWEST GAS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

NOTE 13 -- PRIMERIT BANK (CONTINUED)

Note K -- 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, 1995, the tax bad debt reserves not expected to reverse are $16.9 million, resulting in a retained earnings benefit of $5.9 million.

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

	YEAR ENDED DECEMBER 31,		
	1995	1994	1993
Current			
Federal	$4,818	$5,276	$(6,051)
State	8	17	(82)
	4,826	5,293	(6,133)
Deferred			
Federal	702	997	12,632
State	--	101	210
Tax rate change	--	--	(364)
	702	1,098	12,478
Total income tax expense	$5,528	$6,391	$ 6,345

The components of the net deferred income tax expense 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 (thousands of dollars):

	YEAR ENDED DECEMBER 31,		
	1995	1994	1993
Deferred loan fees/costs	$ 603	$1,068	$ (186)
Installment sales revenue	(177)	(503)	(288)
Provisions for credit losses	(1,203)	(31)	(934)
Book versus tax real estate income	1,393	376	12,846
Book versus tax depreciation	(444)	(420)	(263)
CMO residuals -- principal amortization	350	473	827
Delinquent interest	592	(92)	611
FHLB stock dividends	(558)	251	54
Other deferred income	111	18	169
Other expense and loss provisions not deductible until paid	35	(42)	6
Tax rate change	--	--	(364)
Deferred income tax expense	$ 702	$1,098	$12,478

NOTE 13 -- PRIMERIT BANK (CONTINUED)

The income tax benefit (payable) reported on the Bank's Statements of Financial Condition include the following asset (liability) components (thousands of dollars):

	DECEMBER 31, 1995	DECEMBER 31, 1994
Current:		
Federal	$ 1,352	$ 452
State	6	16
	1,358	468
Deferred:		
Federal	(2,965)	3,587
State	(6)	--
	(2,971)	3,587
Income tax benefit (payable)	$(1,613)	$4,055

At December 31, the net deferred tax asset (liability) is comprised of the following items (thousands of dollars):

	1995	1994
Deferred tax assets:		
Allowance for estimated credit losses	$ 5,834	$ 6,198
Debt securities available for sale (SFAS No. 115)	--	5,098
Real estate held for sale	4,240	5,267
Delinquent interest	445	1,038
Compensation/pension	549	483
CMO residuals	--	351
Other	44	260
Total deferred tax assets	11,112	18,695
Deferred tax liabilities:		
Tax bad debt reserve	(1,215)	(2,887)
Debt securities available for sale (SFAS No. 115)	(759)	--
Loan fees/costs	(5,951)	(5,188)
Installment sales	(1,263)	(1,441)
Depreciation	(419)	(1,063)
FHLB stock	(1,528)	(2,087)
Other	(2,948)	(2,442)
Total deferred tax liabilities	(14,083)	(15,108)
Total net deferred tax assets (liabilities)	$ (2,971)	$ 3,587

No valuation allowance has been recorded for deferred tax assets as all assets are expected to be realized through the terms of the tax sharing agreement with the Company.

SOUTHWEST GAS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

NOTE 13 -- PRIMERIT BANK (CONTINUED)

The effective tax rates in 1995, 1994, and 1993 differ from the federal statutory tax rate of 35 percent. The sources of these differences and the effect of each are summarized as follows:

	YEAR ENDED DECEMBER 31,		
	1995	1994	1993
Computed "expected" tax provision	35.0%	35.0%	35.0%
Increase (reduction) in taxes resulting from:			
Bad debt deduction	(34.7)%	--	--
Goodwill amortization, impairment, and write-offs	236.3%	9.6%	34.9%
Tax rate change	--	--	(3.7)%
Other	1.4%	0.8%	(2.1)%
Effective tax rate	238.0%	45.4%	64.1%

The provisions for income taxes related to the gain on sale of loans and debt securities were $721,000 in 1995, $98,000 in 1994, and $3.4 million in 1993.

Note L -- Regulatory Matters

Regulatory Capital

The Bank is subject to various capital adequacy requirements under a uniform framework administered 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 the "adequately capitalized" status. A reconciliation of stockholder's equity, as shown in the Bank's Statements of Financial Condition, to the FDICIA capital standards and the Bank's resulting ratios are set forth in the table below (thousands of dollars):

	DECEMBER 31, 1995			DECEMBER 31, 1994		
	TOTAL RISK-BASED	TIER 1 RISK-BASED	TIER 1 LEVERAGE	TOTAL RISK-BASED	TIER 1 RISK-BASED	TIER 1 LEVERAGE
Stockholder's equity	$173,559	$173,559	$ 173,559	$166,388	$166,388	$ 166,388
Capital adjustments:						
Nonsupervisory goodwill	(38,287)	(38,287)	(38,287)	(40,376)	(40,376)	(40,376)
Supervisory goodwill	(23,492)	(23,492)	(23,492)	(18,661)	(18,661)	(18,661)
Goodwill impairment allowance	11,823	11,823	11,823	--	--	--
Real estate investment and mortgage servicing rights	(1,283)	(367)	(367)	(1,325)	(194)	(194)
Unrealized loss (gain), net of tax on debt securities available for sale	(1,409)	(1,409)	(1,409)	9,467	9,467	9,467
General loan loss reserves	12,542	--	--	11,512	--	--
Regulatory capital	$133,453	$121,827	$ 121,827	$127,005	$116,624	$ 116,624
Regulatory capital ratio	13.35%	12.19%	7.07%	13.88%	12.75%	6.62%
Adequately capitalized required ratio	8.00%	4.00%	4.00%	8.00%	4.00%	4.00%
Excess	5.35%	8.19%	3.07%	5.88%	8.75%	2.62%
Asset base	$999,560	$999,560	$1,724,306	$914,812	$914,812	$1,760,801

SOUTHWEST GAS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

NOTE 13 -- PRIMERIT BANK (CONTINUED)

As of December 31, 1995 and 1994, PriMerit Bank exceeded the adequately capitalized ratios and was categorized as "well capitalized."

The decline in the Bank's risk-based capital ratios over prior year-end is principally the result of the change in the amount of allowable supervisory goodwill includable in capital and an increase in the risk-weighted asset base caused by a higher level of real estate and commercial loans replacing mortgage-backed securities, partially offset by year-to-date net income, excluding goodwill amortization and impairment, of $12.5 million. At December 31, 1995, 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 $53.2 million, $81.6 million, and $52.6 million, respectively.

The Office of Thrift Supervision (OTS) regulation requiring institutions with IRR exposure classified as "above normal" to reduce their risk-based capital has been indefinitely delayed. As measured by both the Bank's model and the OTS model, the Bank has a "normal" classification of interest rate risk as defined in the delayed regulation. Had the regulation been implemented, no capital deduction would have been required during any period presented.

Other Regulatory and Contractual Matters

The Company, at the time that it acquired the Bank, stipulated in an agreement with the Federal Home Loan Bank Board (predecessor to the OTS) that it would assist the Bank in maintaining levels of regulatory capital required by the regulations in effect at the time or as they were amended thereafter and limited dividends from the Bank to specified amounts, so long as it controlled the Bank. In July 1995, upon the request of the Company, the OTS terminated these stipulations, such that capital distributions by the Bank and capitalization of the Bank are now governed by the laws and regulations governing all other thrifts. During 1995, the Bank paid the Company $500,000 in cash dividends.

Under the terms of the definitive sale agreement with Norwest, the Bank is limited in the amount of dividends payable to the Company through the closing date of the sale of $375,000 per quarter through June 30, 1996 and up to $3.5 million in the third quarter of 1996, dependant upon the timing of the closing date of the sale.

The deposit accounts of savings associations, including those of PriMerit, are insured to the maximum extent permitted by law by the FDIC through the SAIF. The deposit accounts of commercial banks are separately insured by the FDIC through the bank insurance fund (BIF). Commercial banks and savings associations are separately assessed annual deposit insurance premiums. For savings associations, the deposit premiums range from 23 to 31 cents per $100 of deposits and, under current requirements, will remain at that level until the SAIF is capitalized at 1.25 percent of insured deposits. The SAIF is not expected to reach this level of capitalization for several years. Under current assessments, a number of plans have been proposed in Congress to deal with the undercapitalization of the SAIF. Several proposals provide for a one-time special assessment estimated to approximate 75 to 79 basis points, on SAIF-insured deposits to fully capitalize the SAIF to 1.25 percent of insured deposits. These proposals would subsequently reduce annual premiums to levels similar to those of BIF-insured commercial banks and eventually merge the BIF and SAIF insurance funds.

Assuming a one-time special assessment was approved by Congress and became law in 1996, and was immediately charged against results of operations, the one-time assessment would approximate $10 million, pretax, for the Bank. Management believes the Bank would continue to be classified as "well-capitalized" under fully phased-in FDICIA capital rules and would not face any liquidity issues as a result of such a one-time assessment.

SOUTHWEST GAS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

NOTE 13 -- PRIMERIT BANK (CONTINUED)

Note M -- Employee Benefits

Pension Plan/Employees' 401(k) 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. Commencing April 1994, the pension plan was curtailed. Employees hired on or after that date will not be able to participate in the pension plan, while existing employees will not be able to increase benefits under the pension plan through additional service with the Bank. The Bank offers all its eligible employees participation in the Employees' 401(k) plan of PriMerit Bank. The 401(k) plan provides for purchases of certain investment vehicles by eligible employees through annual payroll deductions of up to 15 percent of base compensation. The cost and liability of both plans are not material.

Other Benefits

The Bank has contractual obligations with selected officers of the Bank which require payment to the officers of additional one time compensation should a change of control (as defined) of the Bank occur and additional one time compensation to the officers if their employment is terminated subsequent to the change of control. These contingent obligations total approximately $3 million at December 31, 1995.

Note N -- Asset/Liability Management

Asset/Liability Management is a unified process for managing the structure and mix of the Bank's balance sheet and off-balance sheet financial instruments to provide for optimum levels of net interest income while maintaining prudent levels of IRR and liquidity. The Bank's Board of Directors has established written policies governing the management of the Bank's IRR that include defined acceptable levels of IRR and acceptable tools for the management of IRR within these levels. Also included in the Board's written policies are defined acceptable classes and uses of derivative financial instruments as tools in the management of the Bank's IRR.

IRR in general is one of several inherent risks of the financial services industry. Profitable operation of the Bank depends in part on prudent acceptance and successful management of IRR. There are two general forms of IRR, both of which derive from future changes in interest rates: the risk that future levels of net interest income will be reduced, and the risk that the Bank's net market value will be reduced.

IRR results 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 amounts of interest rate movement permitted for adjustable-rate loans, and the withdrawals of funds on deposit with and without stated terms to maturity; and (c) changes in the spread relationships between lending and funding interest rates, referred to as basis risk.

Traditional measures of IRR have focused on that portion of the risk resulting from timing differences in the maturity and/or repricing of assets, liabilities, and off-balance sheet contracts, and are usually expressed in the form of a static gap report. The "gap" for a given period is positive when repricing and maturing assets exceed repricing and maturing liabilities within that period. The gap for a given period is negative when repricing and maturing liabilities exceed repricing and maturing assets within that period. A positive or negative cumulative gap may indicate in a general way how the Bank's net interest income should respond to interest rate fluctuations. A positive cumulative gap for a given period would generally mean that rising interest rates would be reflected in financial assets sooner than in financial liabilities, resulting in higher net

NOTE 13 -- PRIMERIT BANK (CONTINUED)

interest income. A negative cumulative gap for a given period might result in higher net interest income over that period if interest rates declined.

At December 31, 1995 and 1994, the Bank's one-year cumulative static gap was $(60) million and $(145) million, respectively, or negative 3.5 percent and negative 8.4 percent of total financial assets.

While providing a rough measure of IRR as it relates to expected future levels of net interest income, gap has a number of drawbacks; including that it is a static, point-in-time measurement, it does not capture the effects of basis risk, and it does not capture risk that varies either asymmetrically or nonproportionately with changes in interest rates. Because of these limitations and weaknesses, the Bank uses a dynamic simulation model as its primary method of measuring potential risks to future levels of net interest income. The simulation model captures not only gap repricing and maturity mismatches, but also the effects of basis risk, embedded customer and contractual options, and the effects of prepayments of assets and resulting funds reinvestment risk. Through selective variation of a number of modeling assumptions and possible interest rate changes, management is able to more completely assess the sources and size of potential risk and optimize the Bank's balance sheet size and structure and/or utilize derivative financial instruments to minimize such risks.

As compared to the IRR profile of a typical commercial bank, the Bank's IRR profile is comparatively longer-term in nature. Whereas static gap measures and net interest income simulation usually focus on potential IRR effects over a one-year horizon, indicators of the level of IRR inherent in the Bank's current balance sheet and off-balance sheet contracts over the entire maturity spectrum can be measured through market value analysis. The Bank maintains a market valuation model to facilitate such analysis.

The Bank's market valuation model computes the net present value of discounted future cash flows for each category of the Bank's assets, liabilities, and derivative financial instruments. In this type of analysis, net present values of discounted future cash flows are used as a proxy for actual market values, since factors unrelated to current and projected future levels of interest rates can have significant effects on actual market values.

The theoretical market value of the Bank's stockholder's equity can be derived from the net market values of the Bank's assets, liabilities, and derivative financial instruments. This theoretical market value of stockholder's equity is known as Net Portfolio Value (NPV) under OTS regulations. By analyzing the behavior of the Bank's NPV under varying assumptions as to changes in the general level of interest rates, management is further able to optimize the Bank's balance sheet mix and devise strategies using derivative financial instruments and on balance sheet strategies to mitigate potential adverse effects of interest rate fluctuations on future net interest income levels.

The Bank's Board of Directors' written policy governing management of the Bank's IRR sets forth maximum allowable levels for changes in the Bank's NPV under specific assumed changes in the general level of interest rates. Under the policy, the maximum allowable change in the Bank's NPV for an immediate and sustained interest rate change of 200 basis points (2.00 percent) is a decline of 30.0 percent. The Bank's estimates of its Net Portfolio Values were significantly within this limit for each quarter of 1995 and 1994. The following table sets forth management's estimates of the Bank's NPV as of December 31, 1995 and 1994, and under simulated 200 basis point changes in interest rates (thousands of dollars):

CHANGE IN INTEREST RATES	ESTIMATED NPV DECEMBER 31, 1995	PERCENT CHANGE IN NPV	ESTIMATED NPV DECEMBER 31, 1994	PERCENT CHANGE IN NPV
+ 200 basis points	$137,558	(11.08)%	$102,192	(28.55)%
-0-	$154,702	--	$143,020	--
- 200 basis points	$148,661	(3.90)%	$155,585	8.79%

SOUTHWEST GAS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

NOTE 13 -- PRIMERIT BANK (CONTINUED)

The financial instruments approved by the Bank's Board of Directors for use in managing the Bank's IRR include the Bank's debt security portfolio, borrowings from the FHLB and other sources, 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 Bank's net interest income and NPV. 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 a proposed strategy on the Bank's IRR exposure.

The Bank is exposed to IRR through the issuance of fixed-rate loan commitments. Fixed-rate loan commitments represent firm commitments to originate loans secured by real estate to specific borrowers at predetermined interest rates. Fixed-rate loan commitments generally expire in 30 to 60 days. The Bank generally receives a fee for 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 B -- Fair Value of Financial Instruments for commitments outstanding and their estimated fair values.

At December 31, 1995 and 1994, the Bank had issued and held interest rate swap agreements as a hedge to convert certain fixed-rate permanent loans into variable-rate instruments. The interest rate swap agreements require the Bank to make fixed payments on nonamortizing notional balances, and in turn, the Bank receives variable interest payments based on the six month LIBOR on these same balances. If the balances of the loans on the Bank's balance sheet that are related to the interest rate swap were to decline below the nominal amounts of the interest rate swaps, the excess portions of the interest rate swaps would be marked to market, and the resulting gains or losses included in the Bank's income.

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

DECEMBER 31, 1995

MATURITY	FIXED RATE PAID	VARIABLE RATE RECEIVED	NOTIONAL AMOUNT	UNREALIZED GAIN	UNREALIZED LOSS
1 - 3 Years	6.70%	5.94%	$21,400	$--	$ (516)
3 - 5 Years	6.83	5.95	33,650	84	(1,470)
5 - 10 Years	7.00	5.93	43,150	--	(2,963)
	6.87%	5.94%	$98,200	$84	$(4,949)

NOTE 13 -- PRIMERIT BANK (CONTINUED)

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)

The notional amounts 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 off-balance sheet financial contracts, but does not expect any counterparties to fail to meet their obligations. The Bank performs credit analyses on all counterparties, and its credit exposure at any given time is limited to the value of off-balance sheet contracts that have become favorable to the Bank and have unrealized gains on that date. The Bank generally uses only highly rated Wall Street investment firms as counterparties to its off-balance sheet financial contacts, but because of the different business emphasis of each of the firms, adverse economic changes or conditions are not likely to produce similar adverse changes to the credit risk of all of the Bank's counterparties to the same extent.

No interest rate swaps matured or were terminated during 1995, 1994 or 1993. The interest rate swap agreements at December 31, 1995 are collateralized with MBS with a fair value of $6.5 million. The net expense on interest rate swaps of $624,000, $485,000 and $24,000 in 1995, 1994 and 1993, respectively, are included in interest expense as a cost of hedging activities in the Bank's Statements of Operations.

Note O -- 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, it is unlikely that any 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.

SOUTHWEST GAS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

NOTE 13 -- PRIMERIT BANK (CONTINUED)

Note P -- Quarterly Financial Data (Unaudited)

	QUARTER ENDED				
	MARCH 31	JUNE 30	SEPTEMBER 30	DECEMBER 31	YEAR ENDED
	(THOUSANDS OF DOLLARS)				
1995					
Interest income	$33,211	$32,801	$ 33,394	$ 33,471	$132,877
Interest expense	18,429	18,347	18,503	18,021	73,300
Provision for estimated credit losses	1,364	2,035	1,604	3,146	8,149
Net income (loss)	1,678	2,102	2,015	(9,000)	(3,205)
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 income	2,189	2,176	1,977	1,331	7,673
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 income (loss) before cumulative effect	609	(4,717)	5,341	2,318	3,551
Cumulative effect of change in method of accounting for income taxes	3,045	--	--	--	3,045
Net income (loss)	3,654	(4,717)	5,341	2,318	6,596

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Shareholders,
Southwest Gas Corporation:

We have audited the accompanying consolidated balance sheets of Southwest Gas Corporation (a California corporation, hereinafter referred to as the Company) and subsidiaries as of December 31, 1995 and 1994, and the related consolidated statements of income, stockholders' equity and cash flows for each of the three years in the period ended December 31, 1995. 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, 1995 and 1994, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1995 in conformity with generally accepted accounting principles.

ARTHUR ANDERSEN LLP

Las Vegas, Nevada
February 7, 1996

ITEM 9. DISAGREEMENTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

(a) Identification of Directors. The names of the members of the Board of Directors, the principal occupation of each member and his or her employer for the last five years or longer, and the principal business of the corporation or other organization, if any, in which such occupation or employment is carried on, follow.

RALPH C. BATASTINI
Former President, Vice Chairman and Chief Financial Officer
The Dial Corp (Formerly The Greyhound Corporation)

Director Since: 1992
Board Committees: Audit (Chairman), Pension Plan Investment

Mr. Batastini, 66, received his undergraduate degree from Illinois State University and his M.B.A. degree in finance from the University of Chicago. He joined The Greyhound Corporation in 1957 and retired in 1984 as vice chairman and chief financial officer. At the time of his retirement Mr. Batastini headed the Greyhound financial group of companies involved in capital equipment leasing, computer leasing, reinsurance, money orders, mortgage insurance, and real estate. He subsequently served as president of Batastini & Co. from 1985 to 1990. He currently is the president of the Barrow Neurological Foundation and has been a director of PriMerit Bank since 1992.

MANUEL J. CORTEZ
President and Chief Executive Officer
Las Vegas Convention and Visitors Authority

Director Since: 1991
Board Committees: Nominating and Compensation, Pension Plan Investment

Mr. Cortez, 57, served four terms (1977-1990) on the Clark County Commission and is a former chairman of the Commission. He has been active on various boards, including the Environmental Quality Policy Review Board, the Las Vegas Valley Water District Board of Directors and the University Medical Center Board of Trustees, and served as chairman of the Liquor and Gaming Licensing Board and the Clark County Sanitation District. He has also held leadership roles with numerous civic and charitable organizations such as Boys and Girls Clubs of Clark County, Lied Discovery Children's Museum, and Boys Town. Currently, Mr. Cortez holds professional memberships in the American Society of Association Executives, the Professional Convention Managers Association, the International Association of Convention and Visitors Bureaus, and the American Society of Travel Agents. He has been a director of PriMerit Bank since 1991.

LLOYD T. DYER
Retired President and Chief Executive Officer
Harrah's

Director Since: 1978
Board Committees: Executive, Nominating and Compensation

Mr. Dyer, 68, obtained a degree in banking and finance from the University of Utah prior to his employment with Harrah's, a hotel/gaming corporation with its principal facilities in Reno and Lake Tahoe, in 1957. He was elected president and chief operating officer of Harrah's in 1975, and elected president and chief executive officer in 1978. He remained in those positions with Harrah's until his retirement in April 1980.

Mr. Dyer has been a director of PriMerit Bank since 1986. He is also a trustee of the William F. Harrah Trusts.

KENNY C. GUINN
Chairman of the Board
Southwest Gas Corporation and PriMerit Bank

Director Since: 1981
Board Committees: Executive (Chairman), Nominating and Compensation

Mr. Guinn, 59, was appointed President and Chief Operating Officer of Southwest Gas Corporation in 1987, Chairman and Chief Executive Officer in 1988 and was elected Chairman of the Board of Directors in 1993. Mr. Guinn is actively involved in numerous business, charitable, and civic activities. He is past chairman of the Las Vegas Metropolitan Police Fiscal Affairs Committee and past chairman of the Board of Trustees for the University of Nevada, Las Vegas Foundation. In May 1994 he was appointed Interim President of the University of Nevada, Las Vegas and served in this capacity for approximately one year. He is also a director for Oasis Residential, Inc., Boyd Gaming Corporation, and Del Webb Corporation. Mr. Guinn was elected a director of PriMerit Bank in 1980 and has served as Chairman of the Board of Directors of PriMerit since 1987.

THOMAS Y. HARTLEY
President and Chief Operating Officer
Colbert Golf Design and Development

Director Since: 1991
Board Committees: Audit, Nominating and Compensation

Mr. Hartley, 62, obtained his degree in business from Ohio University in 1955, and was employed in various capacities by Deloitte Haskins & Sells from 1959 until his retirement as an area managing partner in 1988. Mr. Hartley is actively involved in numerous business and civic activities. He is chairman of the University of Nevada, Las Vegas Foundation and president of the Las Vegas Founders Club. He has also held executive positions with the Nevada Development Authority, the Las Vegas Founders Golf Foundation, the Las Vegas Chamber of Commerce, and the Boulder Dam Area Council of the Boy Scouts of America. He is a director of Rio Hotel and Casino, Inc., Sierra Health Services, Inc. and has been a director of PriMerit Bank since 1991.

MICHAEL B. JAGER
Private Investor

Director Since: 1989
Board Committees: Audit, Pension Plan Investment

Mr. Jager, 64, obtained a degree in petroleum geology from Stanford University in 1955. After a four-year employment with the Richfield Oil Corporation as a petroleum geologist, he joined the Frank H. Ayres & Son Construction Company and was involved in the construction of subdivisions and homes in southern California until 1979. Since that time he has consulted in the single family residential development industry, and owns and manages a number of businesses in Oregon and Nevada. He has been a director of PriMerit Bank since 1989.

LEONARD R. JUDD
Former President, Chief Operating Officer, and Director
Phelps Dodge Corporation

Director Since: 1988
Board Committees: Audit, Nominating and Compensation (Chairman)

Mr. Judd, 57, former president, chief operating officer, and director of Phelps Dodge Corporation, joined Phelps Dodge in 1963 and worked at that company's operations in Arizona, New Mexico and New York City. He was elected to the Phelps Dodge board of directors in 1987, became president of Phelps Dodge Mining Company in 1988 and became president and chief operating officer of Phelps Dodge in 1989. He remained in those positions until November 1991. Mr. Judd is a member of various professional organizations and is active in numerous civic groups. He serves as a director of the Kasler Holding Company, the Montana College of Mineral Science and Technology Foundation, and has been a director of PriMerit Bank since 1988.

JAMES R. LINCICOME
Retired Executive Vice President and General Manager,
Government Electronics Group, Motorola Corporation

Director Since: 1987
Board Committees: Audit, Executive, Nominating and Compensation

Mr. Lincicome, 70, was employed by Motorola in its Communications Division in 1950. After progressing through positions in that Division, he transferred to the Government Electronics Group, where from 1979 until his retirement in 1987, he was General Manager responsible for various national defense, space exploration and other government related programs. Mr. Lincicome is a member of various professional organizations and is past Chairman of the Arizona State University Engineering Advisory Council, Junior Achievement of Central Arizona, the Phoenix Urban League, United for Arizona, and the Valley of the Sun United Way. He has held a number of leadership roles in other civic and charitable organizations in Arizona, including the Research Committee of the Arizona Town Hall and Board Member of the Goldwater Institute, and was vice chairman of the Government Division of the Electronic Industries Association in 1986. He has been a director of PriMerit Bank since 1988.

MICHAEL O. MAFFIE
President and Chief Executive Officer
Southwest Gas Corporation

Director Since: 1988
Board Committees: Executive

Mr. Maffie, 48, joined the company in 1978 as Treasurer after seven years with Arthur Andersen & Co. He was named Vice President/Finance and Treasurer in 1982, Senior Vice President and Chief Financial Officer in 1984, Executive Vice President in 1987, President and Chief Operating Officer in 1988, and President and Chief Executive Officer in 1993. He has been a director of PriMerit Bank since 1993. He received his undergraduate degree in accounting and his M.B.A. degree in finance from the University of Southern California. A member of various professional organizations, he serves as a board member of the United Way of Nevada, Nevada School of the Arts, Boys and Girls Clubs of Las Vegas, a trustee of the Las Vegas Symphony Orchestra, the University of Nevada, Las Vegas Foundation, and the Nevada Development Authority. He also serves as a Commissioner on the State of Nevada Commission on Substance Abuse Education, Prevention, Enforcement and Treatment, and is a former president of the Allied Arts Council. He is a director of the Pacific Coast Gas Association and a former director of the American Gas Association.

CAROLYN M. SPARKS
Co-Founder
International Insurance Services, Ltd.

Director Since: 1988
Board Committees: Audit, Pension Plan Investment (Chairperson)

Mrs. Sparks, 54, graduated from the University of California at Berkeley in 1963, and with her husband, co-founded International Insurance Services, Ltd., in 1966 in Las Vegas. She has served on the University and Community College System of Nevada Board of Regents since 1984, and in 1991 was elected to a two-year term as Chairperson of the Board of Regents. Mrs. Sparks is actively involved with numerous charitable and civic organizations, including founding chairperson of the University Medical Center Foundation and the Children's Miracle Network Telethon. She also served on the board for Bishop Gorman High School and is currently chair of the board for the Las Vegas Center for Children. She is a director of Showboat, Inc., a hotel/gaming corporation and has been a director of PriMerit Bank since 1988.

ROBERT S. SUNDT
Retired President
Sundt Corp.

Director Since: 1987
Board Committees: Executive, Pension Plan Investment

Mr. Sundt, 69, has been associated with Sundt Corp. in a variety of positions since 1948. He was named President of Sundt Corp. in 1983. He is now retired and has no continuing association with Sundt Corp. He has been a director of PriMerit Bank since 1988. He is a member of the American Institute of Constructors, Consulting Constructors Council of America and a life director of the Associated General Contractors of America. He is a member of the American Arbitration Association and serves as an arbitrator on disputes concerning the construction industry. He is past member of the Construction Industry Presidents Forum. Mr. Sundt is affiliated with a number of community organizations and is past chairman of the Tucson Metropolitan Chamber of Commerce.

(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......	48	President and Chief Executive Officer	1993-Present
		President and Chief Operating Officer	1991-1993
Dan J. Cheever.........	40	President and Chief Executive Officer/PriMerit Bank	1992-Present
		President and Chief Operating Officer/PriMerit Bank	1991-1992
George C. Biehl........	48	Senior Vice President and Chief Financial Officer	1991-Present
James F. Lowman........	49	Senior Vice President/Central Arizona Division	1991-Present
Dudley J. Sondeno......	43	Senior Vice President/Staff Operations	1993-Present
		Vice President/Engineering and Operations Support	1991-1993
L. Keith Stewart.......	55	Senior Vice President/Operations	1993-Present
		Senior Vice President/Southern Arizona Division	1992-1993
		Senior Vice President/Nevada-California Region	1991-1992
Thomas J. Trimble......	64	Senior Vice President, General Counsel and Corporate Secretary	1991-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 described in (a) above. 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 1995, all the required reports were filed timely.

ITEM 11. EXECUTIVE COMPENSATION

DIRECTORS COMPENSATION

Outside directors receive an annual retainer of $20,000, plus $900 for each Board or committee meeting attended. Committee chairpersons receive an additional $500 for each committee meeting attended. The outside directors also receive an annual retainer of $16,000 and fees for serving on the Board of Directors of PriMerit Bank. Each director receives a fee of $700 for each Bank Board or committee meeting attended, and the Bank committee chairpersons also receive an additional $250 for each committee meeting attended. The Chairman of the Company's Board, Mr. Guinn, receives an additional $25,000 annually for serving in that capacity. Directors who are full-time employees of the Company or its subsidiaries receive no additional compensation for Board service.

Outside directors may defer their compensation until retirement or other termination of status as a director. Amounts deferred bear interest at 150 percent of the Moody's Seasoned Corporate Rate.

The Company also provides a retirement plan for its outside directors. With a minimum of ten years of service, an outside director can retire and receive a benefit equal to the annual retainer, at retirement, for serving on the Company's Board. Directors who retire before age 65, after satisfying the minimum service obligation will receive retirement benefits upon reaching age 65.

EXECUTIVE COMPENSATION

The following table provides for fiscal years ended December 31, 1993, 1994 and 1995, compensation earned by the Company's Chief Executive Officer and each of the four other most highly compensated executive officers of the Company.

SUMMARY COMPENSATION TABLE(1)

					LONG-TERM COMPENSATION			
					AWARDS		PAYOUTS	
	ANNUAL COMPENSATION							
NAME AND PRINCIPAL POSITION	YEAR	SALARY($)	BONUS($)(2)	OTHER ANNUAL COMPENSATION($)	RESTRICTED STOCK AWARD(S) ($)(2)(3)(4)	OPTIONS/ SARS(#)	LTIP PAYOUTS ($)(5)	ALL OTHER COMPENSATION($) (6)(7)(8)
Michael O. Maffie........ President/C.E.O.	1995	408,671	128,270	0	179,246	N/A	N/A	40,481
	1994	370,616	73,149	0	51,098	N/A	N/A	32,898
	1993	316,904	48,510	0	48,510	N/A	N/A	31,070
Dan J. Cheever........... President/C.E.O. PriMerit Bank	1995	255,135	95,000	0	N/A	N/A	N/A	23,037
	1994	226,770	69,913	0	N/A	N/A	N/A	12,484
	1993	208,725	75,000	0	N/A	N/A	N/A	4,497
Thomas J. Trimble........ Senior Vice President/ General Counsel/ Corporate Secretary	1995	212,367	40,114	0	60,172	N/A	N/A	48,153
	1994	209,178	20,413	0	20,413	N/A	N/A	39,404
	1993	206,345	19,219	0	19,219	N/A	N/A	38,223
George C. Biehl.......... Senior Vice President/ Chief Financial Officer	1995	197,326	41,448	0	56,523	N/A	N/A	12,137
	1994	187,068	25,124	0	16,988	N/A	N/A	9,148
	1993	175,449	16,632	0	16,632	N/A	N/A	8,732
L. Keith Stewart......... Senior Vice President/ Operations	1995	162,142	30,929	0	46,389	N/A	N/A	16,168
	1994	154,712	15,359	0	15,359	N/A	N/A	11,650
	1993	144,622	13,861	0	13,861	N/A	N/A	11,170

- ---------------
(1) All compensation reflected in the Summary Compensation Table is reported on an earned basis for each fiscal year.

(2) Bonuses and performance shares accrued for calendar years 1993, 1994 and 1995 were paid and awarded in 1994, 1995 and 1996, respectively.

(3) Dividends equal to the dividends paid on the Company's Common Stock will accrue on the performance shares awarded under the long-term component of the Company's management incentive plan during the restriction period.

(4) Messrs. Maffie, Trimble, Biehl and Stewart were awarded performance shares (restricted stock) under the Company's management incentive plan. Mr. Cheever does not participate in the Company's management incentive plan. The total number of performance shares granted in 1994 and 1995, for calendar years 1993 and 1994, and their value based on the market price of Company Common Stock at December 29, 1995 for each individual are as follows:

	SHARES	VALUE
Mr. Maffie...	6,457	$113,805
Mr. Trimble..	2,604	45,896
Mr. Biehl..	2,206	38,881
Mr. Stewart..	1,922	33,875

(5) If the impending sale of the Bank is consummated, the long-term performance awards under the performance periods described below, or $94,959, will be paid to Mr. Cheever at least one week prior to closing.

(6) For Messrs. Maffie, Trimble, Biehl and Stewart, the amounts shown in this column for each year consist of above-market interest on deferred compensation and matching contributions under the Company's executive deferral plan. Under the plan, executive officers may defer up to 50 percent of their annual compensation for payment at retirement or at some other employment terminating event. Interest on such deferrals is set at 150 percent of the Moody's Seasoned Corporate Rate. As part of the plan, the

Company provides matching contributions that parallel the contributions made under the Company's 401(k) plan, which is available to all Company employees, equal to one-half of the deferred amount, up to six percent of their annual salary.

(7) For Mr. Cheever, the amounts shown in this column for each year consist of matching contributions under the Bank's 401(k) plan, and for 1994 include a matching contribution under the Bank's executive deferral plan. Under the Bank's executive deferral plan, Mr. Cheever may defer up to 50 percent of his annual salary and bonus for payment at retirement or at some other employment terminating event. Interest on executive plan deferrals is set at 150 percent of the Moody's Seasoned Corporate Rate. For 1994 and the first two months of 1995, the Bank provided matching contributions equal to the amount deferred under each plan, up to six percent of Mr. Cheever's annual salary and bonus. For the remainder of 1995, such matching contributions were only provided to Mr. Cheever under the provisions of the Bank's executive deferral plan.

(8) All Other Compensation consists of matching contributions under the Company's or PriMerit Bank's deferral plans and interest on such deferrals in excess of 120 percent of the Applicable Federal Long-term [bond] Rate. The breakdown of such compensation for each named executive officer is as follows:

	INTEREST	CONTRIBUTIONS
Mr. Maffie	$ 28,239	$12,242
Mr. Cheever	5,920	17,117
Mr. Trimble	41,783	6,370
Mr. Biehl	6,221	5,916
Mr. Stewart	11,307	4,861

LONG-TERM INCENTIVE PLAN AWARDS FOR 1995

The following table summarizes the long-term cash incentive awards earned by Dan Cheever under PriMerit Bank's performance based executive compensation plan for the three-year performance periods of January 1, 1994 through December 31, 1996 and January 1, 1995 through December 31, 1997. Of the named executive officers, only Mr. Cheever was eligible to participate in the PriMerit Bank plan. If the impending sale of the Bank is consummated, the long-term performance awards under both performance periods will be paid to Mr. Cheever at least one week prior to closing and the plan will be terminated.

LONG-TERM INCENTIVE PLAN TABLE

			ESTIMATED FUTURE PAYOUT UNDER NON-STOCK PRICE-BASED PLANS		
NAME	NUMBER OF SHARES, UNITS OR OTHER RIGHTS(#)	PERFORMANCE OR OTHER PERIOD UNTIL MATURATION OR PAYOUT	THRESHOLD ($ OR #)	TARGET ($ OR #)	MAXIMUM ($ OR #)
Dan Cheever	N/A	1994-1996(1)	$34,007	$ 34,007	$34,007
Dan Cheever	N/A	1995-1997(2)	$37,782	$ 37,782	$37,782

- ---------------

(1) The long-term performance award earned by Mr. Cheever for the first performance period represents 30 percent or the second year's percentage of such award. Mr. Cheever earned 20 percent, or $23,170, during the first year of this performance period. This year's award is not subject to further adjustment during the performance period, and if the pending sale of the Bank is consummated, the awards earned through the end of 1995 will be paid out to Mr. Cheever at least one week prior to closing.

(2) The long-term performance award earned by Mr. Cheever for the second performance period represents 33 percent or the first year's percentage of such award. This year's award is not subject to further adjustment during the performance period, and if the pending sale of the Bank is consummated, the awards earned through the end of 1995 will be paid out to Mr. Cheever at least one week prior to closing.

BENEFIT PLANS

Southwest Gas Basic Retirement Plan. The named executive officers, except Mr. Cheever, participate in the Company's non-contributory, defined-benefit retirement plan, which is available to all employees of the Company and its subsidiaries (except PriMerit Bank which has a separate plan). Benefits are based upon an employee's years of service, up to a maximum of 30 years, and the employee's highest five consecutive years salary within the final 10 years of service.

SOUTHWEST GAS PENSION PLAN TABLE(1)(2)

ANNUAL COMPENSATION	YEARS OF SERVICE 10	15	20	25	30
$ 50,000........	$ 8,750	$ 13,125	$ 17,500	$ 21,875	$ 26,250
100,000........	17,500	26,250	35,000	43,750	52,500
150,000........	26,250	39,375	52,500	65,625	78,750
200,000........	35,000	52,500	70,000	87,500	105,000
250,000........	43,750	65,625	87,500	109,375	131,250
300,000........	52,500	78,750	105,000	131,250	157,500
350,000........	61,250	91,875	122,500	153,125	183,750
400,000........	70,000	105,000	140,000	175,000	210,000
450,000........	78,750	118,125	157,500	196,875	236,250
500,000........	87,500	131,250	175,000	218,750	262,500

- ---------------

(1) Years of service beyond 30 years will not increase benefits under the basic retirement plan.

(2) For 1996, the maximum annual compensation that can be considered in determining benefits under the plan is $150,000. For future years the maximum annual compensation will be adjusted to reflect changes in the cost of living as established by the Internal Revenue Service.

Compensation covered under the basic retirement plan is based on salary depicted in the Summary Compensation Table. As of December 31, 1995, the credited years of service for the named executive officers shown in the Summary Compensation Table are as follows: Mr. Maffie, 17 years; Mr. Biehl, 10 years; Mr. Stewart, 11 years; and Mr. Trimble, 9 years.

Amounts shown in the pension plan table are straight-life annuity amounts, notwithstanding the availability of joint survivorship benefit provisions. Benefits paid under the basic and supplemental retirement plans are not reduced by any Social Security benefits received.

Supplemental Retirement Plan. The named executive officers, except Mr. Cheever, also participate in the Company's supplemental retirement plan. Such officers with 10 or more years of service may retire at age 55 or older and will receive benefits under the plan. Such benefits, when added to benefits received under the basic retirement plan, will equal 60 percent of their highest 12 months of compensation with the Company. The total benefit may be reduced if an officer retires prior to age 60, depending upon his age and total years of service with the Company. The cost to the Company for benefits under the supplemental retirement plan for any one of the named executive officers cannot be properly allocated or determined because of the overall plan assumptions and options available.

PriMerit Bank Retirement Income Plan. Mr. Cheever, who is a named executive officer, participates in the Bank's non-contributory, defined-benefit retirement plan, which was available to all employees of the Bank and its subsidiaries. Through March 1994, benefits were based upon an employee's years of service, up to a maximum of 15 years, and the employee's 60 highest paid consecutive months of employment with the Bank. Commencing April 1, 1994, the plan was curtailed. Employees hired on or after that date will not be able to participate in the plan, while existing employees will not be able to increase benefits under the plan through additional service with the Bank. Salary changes for existing employees, however, will continue to affect plan benefits. If the pending sale of the Bank is consummated, the plan will be merged with the defined-benefit retirement plan of Norwest.

PRIMERIT BANK PENSION PLAN TABLE(1)(2)

ANNUAL COMPENSATION	YEARS OF SERVICE 5	10	15
$ 50,000	$ 5,833	$11,667	$ 17,500
100,000	11,667	23,333	35,000
150,000	17,500	35,000	52,500
200,000	23,333	46,667	70,000
250,000	29,167	58,333	87,500
300,000	35,000	70,000	105,000

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(1) Prior to March 31, 1994, years of service beyond 15 years would not increase benefits under the plan. With the curtailment of the plan, additional years of service will no longer increase benefits under the plan.

(2) For 1996, the maximum annual compensation that can be considered in determining benefits under the Plan is $150,000. For future years, the maximum annual compensation will be adjusted to reflect changes in the cost of living as established by the Internal Revenue Service.

Compensation covered under the Bank's retirement plan is based on salary depicted in the Summary Compensation Table. At the time the plan was curtailed, Mr. Cheever had five years of service with the Bank. Only future salary changes will affect Mr. Cheever's benefits under the plan.

Amounts shown in the pension plan table are straight life annuity amounts notwithstanding the availability of joint survivorship benefit provisions. Benefits paid under the Bank's retirement and supplemental retirement plans are not reduced by any Social Security benefits.

PriMerit Bank Supplemental Executive Retirement Plan. Mr. Cheever also participates in the Bank's supplemental retirement plan. Participation in the supplemental plan is limited to officers of the Bank selected by the Bank's Board of Directors. Benefits under the plan, when added to benefits received under the defined benefit retirement plan, will equal 60 percent of the participant's average annual salary over the 60 highest paid consecutive months of service. The total benefit will be reduced if a participant retires prior to age 65, and with less than 15 years of service with the Bank. The cost to the Bank for benefits under the supplemental retirement plan for Mr. Cheever cannot be properly determined because of the overall plan assumptions and options available. If the pending sale of the Bank is consummated, the plan will be terminated and Mr. Cheever's accrued benefit, estimated to be $75,000, would be paid prior to closing.

CHANGE IN CONTROL ARRANGEMENT

PriMerit Bank, during 1994, entered into an agreement with Mr. Cheever that is designed to support his continued employment with the Bank. Under the terms of the agreement, Mr. Cheever would be entitled to a lump sum benefit payment of $500,000 if he is employed by the Bank at the time of a change in control of the Bank. Such payment would become due and payable only after the occurrence of a change in control. The agreement also provides that Mr. Cheever would be entitled to a lump sum deferred compensation benefit equal to 200 percent of his annual salary if his employment with the Bank is terminated (or his responsibilities are substantially changed without his consent) within 12 calendar months of a change in control for other than cause, death, disability, or retirement. The one-year agreement was extended through May 1996.

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

The Directors who served on the Company's Nominating and Compensation Committee during 1995 were Leonard R. Judd (Chairman), Manuel J. Cortez, Lloyd T. Dyer, Kenny C. Guinn, Thomas Y. Hartley, and James R. Lincicome. Mr. Guinn retired as Chairman and Chief Executive Officer of the Company on May 12, 1993, and retired as a full-time employee of the Company on August 31, 1993. Mr. Guinn became a member of the Committee after his retirement as an officer of the Company.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

(a) Not applicable.

(b) The following table discloses all common stock of the Company beneficially owned by the directors and executive officers of the Company as of March 1, 1996.

DIRECTOR/EXECUTIVE OFFICER	NO. OF SHARES BENEFICIALLY OWNED(1)(2)
Ralph C. Batastini	5,838
Manuel J. Cortez	1,731
Lloyd T. Dyer	4,141
Kenny C. Guinn	54,332
Thomas Y. Hartley	7,687
Michael B. Jager	4,861(3)
Leonard R. Judd	2,000
James R. Lincicome	2,000
Michael O. Maffie	33,957(4)
Carolyn M. Sparks	2,343
Robert S. Sundt	5,000
George C. Biehl	14,613(4)
Dan J. Cheever	3,434
L. Keith Stewart	7,430
Thomas J. Trimble	11,091(4)
Other Executive Officers	23,108

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(1) As of March 1, 1996, the directors and executive officers of the Company beneficially owned 183,566 shares, which represents less than 1 percent of the outstanding shares of the Company's Common Stock. No investor owned more than 5 percent of the outstanding voting stock of the Company as of March 1, 1996.

(2) The Common Stock holdings listed in this column include performance shares granted to the Company's executive officers under the Company's Management Incentive Plan for 1993, 1994, and 1995.

(3) Number of shares includes 3,000 shares held in trust for Margaret Jager, over which Mr. Jager has no control.

(4) Number of shares does not include 6,618 shares held by the Southwest Gas Corporation Foundation, which is a charitable trust. Messrs. Maffie, Trimble, and Biehl are trustees of the Foundation but disclaim beneficial ownership of said shares.

(c) Not applicable.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

During 1995, some directors and executive officers of the Company were depositors of, and had transactions with, PriMerit Bank. These transactions were on the same terms (including interest rates, repayment terms, and collateral) as those prevailing at the time for comparable transactions with other persons of similar credit-worthiness and, in the opinion of the Board of Directors of the Bank, do not involve more than a normal risk of collectibility or other unfavorable characteristics.

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:

(2) All schedules have been omitted because the required information is either inapplicable or included in the Notes to Consolidated Financial Statements.

(3) See list of exhibits.

(b) Reports on Form 8-K

The Company filed a Form 8-K, dated November 13, 1995, reporting on the proposed acquisition of Northern Pipeline Construction Co.

The Company filed a Form 8-K, dated January 8, 1996, reporting on the agreement to sell PriMerit Bank, a wholly owned subsidiary, to Norwest Corporation.

The Company filed a Form 8-K, dated February 14, 1996, reporting summary financial information for the year ended December 31, 1995.

The Company filed a Form 8-K, dated March 5, 1996, disclosing the adoption of a Rights Agreement.

(c) See Exhibits.

LIST OF EXHIBITS

EXHIBIT NUMBER	DESCRIPTION OF DOCUMENT
2.01(18)	Agreement between Southwest Gas Corporation and The Southwest Companies as sellers and Norwest Corporation as buyer, dated January 8, 1996, regarding sale of stock or assets of PriMerit Bank.
3.01(2)	Restated Articles of Incorporation, as amended.
3.02(11)	Amended Bylaws of Southwest Gas Corporation.
4.01(3)	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.
4.02(4)	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.
4.03(4)	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.
4.04(5)	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.
4.05(5)	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.
4.06(6)	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.
4.07(7)	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.
4.08(8)	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.
4.09(10)	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.
4.10(10)	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.
4.11(14)	Certificate of Trust of Southwest Gas Capital I.
4.12(16)	Amended and Restated Declaration of Trust of Southwest Gas Capital I.
4.13(16)	Form of Preferred Security (attached as Annex I to Exhibit A to the Amended and Restated Declaration of Trust of Southwest Gas Capital I included as Exhibit 4.12 hereto).
4.14(15)	Form of Guarantee with respect to Preferred Securities.
4.15(17)	Southwest Gas Capital I Preferred Securities Guarantee by the Company and Harris Trust and Savings Bank, dated as of October 31, 1995.

EXHIBIT NUMBER	DESCRIPTION OF DOCUMENT
4.16(17)	Form of Subordinated Debt Security (included in the First Supplemental Indenture included as Exhibit 4.18 hereto).
4.17(17)	Subordinated Debt Securities Indenture between the Company and Harris Trust and Savings Bank, dated as of October 31, 1995.
4.18(17)	First Supplemental Indenture between the Company and Harris Trust and Savings Bank, dated as of October 31, 1995, supplementing and amending the Indenture dated as of October 31, 1995, with respect to the 9.125% Subordinated Debt Securities.
4.19(12)	Form of Deposit Agreement.
4.20(12)	Form of Depositary Receipt (attached as Exhibit A to Deposit Agreement included as Exhibit 4.11 hereto).
4.21(12)	Form of Indenture relating to the Senior Debt Securities.
4.22(19)	Rights Agreement between the Company and Harris Trust Company, as Rights Agent, dated as of March 5, 1996.
4.23	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(1)	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(1)	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(10)	Financing Agreement between the Company and Clark County, Nevada, dated September 1, 1992.
10.04(10)	Financing Agreement between the Company and Clark County, Nevada, dated as of December 1, 1993.
10.05(10)	Project Agreement between the Company and City of Big Bear Lake, California, dated as of December 1, 1993.
10.06(11)	Southwest Gas Corporation Executive Deferral Plan, amended and restated May 10, 1994.
10.07(9)	Southwest Gas Corporation Directors Deferral Plan, as amended October 29, 1992.
10.08(10)	Southwest Gas Corporation Board of Directors Retirement Plan, amended and restated effective October 1, 1993.
10.09(11)	Southwest Gas Corporation Management Incentive Plan, amended and restated May 10, 1994.
10.10(11)	Southwest Gas Corporation Supplemental Retirement Plan, amended and restated as of May 10, 1994.
10.11(13)	Management Contract with PriMerit Bank officer.
10.12(13)	$200 million Credit Agreement between the Company, Union Bank of Switzerland, et al., dated as of January 27, 1995.
10.13	Merger Agreement among the Company and Northern Pipeline Construction Co., dated as of November 13, 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.

EXHIBIT NUMBER	DESCRIPTION OF DOCUMENT
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.

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(1) Incorporated herein by reference to the Company's report on Form 10-K for the year ended December 31, 1982.

(2) Incorporated herein by reference to the Company's Registration Statement on Form S-2, No. 2-92938.

(3) Incorporated herein by reference to the Company's Registration Statement on Form S-3, No. 33-7931.

(4) Incorporated herein by reference to the Company's report on Form 10-K for the year ended December 31, 1986.

(5) Incorporated herein by reference to the Company's report on Form 10-Q for the quarter ended March 31, 1987.

(6) Incorporated herein by reference to the Company's report on Form 8-K dated August 23, 1988.

(7) Incorporated herein by reference to the Company's report on Form 10-Q for the quarter ended June 30, 1992.

(8) Incorporated herein by reference to the Company's report on Form 10-Q for the quarter ended September 30, 1992.

(9) Incorporated herein by reference to the Company's report on Form 10-K for the year ended December 31, 1992.

(10) Incorporated herein by reference to the Company's report on Form 10-K for the year ended December 31, 1993.

(11) Incorporated herein by reference to the Company's report on Form 10-Q for the quarter ended June 30, 1994.

(12) Incorporated herein by reference to the Company's Registration Statement on Form S-3, No. 33-55621.

(13) Incorporated herein by reference to the Company's report on Form 10-K for the year ended December 31, 1994.

(14) Incorporated herein by reference to the Company's Registration Statement on Form S-3, No. 33-62143.

(15) Incorporated herein by reference to the Company's Amendment No. 1 to Registration Statement on Form S-3, No. 33-62143.

(16) Incorporated herein by reference to the Company's report on Form 8-K dated October 26, 1995.

(17) Incorporated herein by reference to the Company's report on Form 10-Q for the quarter ended September 30, 1995.

(18) Incorporated herein by reference to the Company's report on Form 8-K dated January 8, 1996.

(19) Incorporated herein by reference to the Company's report on Form 8-K dated March 5, 1996.

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 26, 1996

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 26, 1996
EDWARD A. JANOV (Edward A. Janov)	Controller (Chief Accounting Officer)	March 26, 1996

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 26, 1996
MANUEL J. CORTEZ (Manuel J. Cortez)	Director	March 26, 1996
LLOYD T. DYER (Lloyd T. Dyer)	Director	March 26, 1996
KENNY C. GUINN (Kenny C. Guinn)	Chairman of the Board of Directors	March 26, 1996
THOMAS Y. HARTLEY (Thomas Y. Hartley)	Director	March 26, 1996
MICHAEL B. JAGER (Michael B. Jager)	Director	March 26, 1996
LEONARD R. JUDD (Leonard R. Judd)	Director	March 26, 1996
JAMES R. LINCICOME (James R. Lincicome)	Director	March 26, 1996
MICHAEL O. MAFFIE (Michael O. Maffie)	President and Director (Chief Executive Officer)	March 26, 1996
CAROLYN M. SPARKS (Carolyn M. Sparks)	Director	March 26, 1996
ROBERT S. SUNDT (Robert S. Sundt)	Director	March 26, 1996

GLOSSARY OF TERMS

401k	-- The Employees' Investment Plan
ACC	-- Arizona Corporation Commission
AFS	-- Available-For-Sale
AFUDC	-- Allowance for Funds Used During Construction
ARM	-- Adjustable-Rate Mortgages
the Bank	-- PriMerit Bank
the Board	-- Southwest Gas Corporation 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
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
MMDA	-- Money Market Demand Account
NOW	-- Negotiable Order of Withdrawal
NPL	-- Northern Pipeline Construction Co.
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
REO-F	-- Real Estate Acquired Through Foreclosure
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

EXHIBIT INDEX

EXHIBIT NUMBER	DESCRIPTION OF DOCUMENT
10.13	Merger Agreement among the Company and Northern Pipeline Construction Co., dated as of November 13, 1995.
21.01	List of Subsidiaries of Southwest Gas Corporation.
23.01	Consent of Arthur Andersen LLP, Independent Public Accountants.
27.01	Financial Data Schedule (filed electronically only).

EXHIBIT 10.13

MERGER AGREEMENT

AMONG

SOUTHWEST GAS CORPORATION,

SOUTHWEST GAS CORPORATION OF ARIZONA

AND

NORTHERN PIPELINE CONSTRUCTION CO.

NOEL T. COON, ET UX.

WILLIAM L. JOHNSON, ET UX.

MICHAEL J. KEMPER, ET UX.

DATED AS OF

November 13, 1995

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MERGER AGREEMENT

This Merger Agreement (the "Agreement") is made and entered into as of the 13th day of November, 1995 by and among Southwest Gas Corporation, a California corporation ("Southwest"), Southwest Gas Corporation of Arizona, a Nevada Corporation wholly owned by Southwest (the "Merger Sub"), and Northern Pipeline Construction Co., a Minnesota corporation ("NPL"), and Noel T. Coon and Alexa S. Higashi, his wife, William L. Johnson and Judy Johnson, his wife, and Michael J. Kemper and Frances Kemper, his wife ("NPL Shareholders").

RECITALS

The respective boards of directors of Southwest and NPL have determined that it is advisable to consummate the Merger described in Section 1 (the "Merger"), as a result of which all of the outstanding NPL common stock will be converted into shares of the Common Stock, $1.00 par value per share, of Southwest ("Southwest Common Stock") and NPL will be owned directly or indirectly by Southwest; all on the terms and subject to the conditions set forth in this Agreement.

NOW, THEREFORE, the parties agree as follows:

1. Plan of Merger. The respective boards of directors of Southwest, Merger Sub and NPL have approved or will approve, by resolutions duly adopted, the following provisions of this Section 1 as the Plan of Merger required by the laws of the states of Minnesota and Nevada in connection with the Merger:

1.1 The Merger. At the Effective Time (as defined in Section 1.3), in accordance with this Agreement and applicable law, NPL shall be merged with and into the Merger Sub, the separate existence of NPL (except as may be continued by operation of law) shall cease, and the Merger Sub shall continue as the surviving corporation under the corporate name possessed by NPL immediately prior to the Effective Time, subject to Section 1.4 of this Agreement. The Merger Sub, in its capacity as the corporation surviving the Merger, sometimes is referred to herein as the "Surviving Corporation."

1.2 Effect of the Merger. The Surviving Corporation shall possess all the rights, privileges, immunities and franchises, of a public as well as of a private nature, of each of the Merger Sub and NPL (collectively, the "Constituent Corporations"); and all property, real, personal, and mixed, and all debts due on whatever account, including subscriptions to shares, and all other choses in action, and all and every other interest of or belonging to or due to each of the Constituent Corporations, shall be taken and deemed to be transferred to and vested in the Surviving Corporation without further act or deed; and the Surviving Corporation shall be responsible and liable for all liabilities and obligations of each of the Constituent Corporations.

1.3 Consummation of the Merger. On the Closing Date, the parties hereto will cause articles of merger relating to the Merger to be delivered to the Secretary of State of the states of Minnesota and Nevada, in such form as required by, and executed in accordance with, the relevant provisions of applicable law. The Merger shall be effective at such time as such articles of merger are duly filed by the Secretary of State of the states of Minnesota and Nevada in accordance with the applicable law (the "Effective Time").

1.4 Articles of Incorporation and Bylaws; Directors and Officers. The Articles of Incorporation and Bylaws of the Merger Sub, as in effect immediately prior to the Effective Time, shall be the Articles of Incorporation (except that such Articles of Incorporation shall be amended as of the Effective Time to change the name to NPL) and Bylaws (except that such Bylaws shall be amended as of the Effective Time to change the name to NPL) of the Surviving Corporation immediately after the Effective Time and shall thereafter continue to be its Articles of Incorporation and Bylaws until amended as provided therein and under the applicable law. The directors of the Merger Sub holding office immediately prior to the Effective Time shall be the directors of the Surviving Corporation immediately after the Effective Time. The officers of the Merger Sub holding office immediately prior to the Effective Time shall sign letters of resignation on or prior to the Closing. The officers of NPL (except Noel T. Coon) holding office immediately prior to the Effective Time shall be the officers (holding the same offices as they held with NPL) of the Surviving Corporation immediately after the Effective Time.

1.5 Conversion of Securities. At the Effective Time, by virtue of the Merger and without any action on the part of the Merger Sub, NPL or the holder of any of the following securities:

(a) All shares of NPL Common Stock issued and outstanding immediately prior to the Effective Time (other than shares to be canceled pursuant to Section 1.5[b]) shall automatically be canceled and extinguished and be converted into and become a right to receive the number of shares of Southwest Common Stock to be calculated in accordance with Section 1.9 having a total Fair Market Value of Southwest Common Stock equal to twenty-four million dollars ($24,000,000). Each NPL Shareholder shall be entitled to receive his proportionate share of such

Southwest Common Stock based upon his percentage ownership interest of NPL Common Stock at the Effective Time. Cash will be issued in lieu of fractional shares based on Fair Market Value.

(b) Each share of NPL Common Stock issued and outstanding immediately prior to the Effective Time and held in the treasury of NPL or owned by Southwest or the Merger Sub shall automatically be canceled and extinguished and no payment shall be made with respect thereto.

(c) Each share of Merger Sub Common Stock, par value $1.00 per share, issued and outstanding immediately prior to the Effective Time shall automatically be converted into and become one validly issued, fully paid and nonassessable share of Common Stock, par value $1.00 per share, of the Surviving Corporation.

1.6 Closing of NPL Transfer Books. At the Effective Time, the stock transfer books of NPL shall be closed and no transfer of shares of NPL Common Stock issued and outstanding immediately prior to the Effective Time shall thereafter be made. If, after the Effective Time, valid certificates previously representing such shares are presented to the Surviving Corporation or the Disbursing Agent (as defined in Section 1.7), they shall be exchanged as provided in Section 1.7.

1.7 Exchange of Certificates. After the Effective Time, the Stock Transfer Department of Southwest shall act as Disbursing Agent (the "Disbursing Agent") in effecting the exchange of Southwest Common Stock for certificates which, immediately prior to the Effective Time, represented shares of NPL Common Stock entitled to such exchange pursuant to Section 1.5(a). Upon the surrender and exchange of a certificate theretofore representing shares of NPL Common Stock, the holder shall be issued a certificate representing the number of shares of Southwest Common Stock to which he is entitled pursuant to Section 1.5(a) and the certificate representing NPL Common Stock shall forthwith be canceled. Until so surrendered and exchanged, each such certificate shall represent solely the right to receive the Southwest Common Stock into which the shares of NPL Common Stock it theretofore represented shall have been converted pursuant to Section 1.5(a), and the Surviving Corporation shall not be required to issue to the holder thereof the Southwest Common Stock to which he otherwise would be entitled; provided that procedures allowing for issuance against lost or destroyed certificates against receipt of customary and appropriate certifications and indemnities shall be provided.

1.8 Taking of Necessary Action; Further Action. Southwest and the Merger Sub, on the one hand, and NPL and NPL Shareholders, on the other hand, shall use all reasonable efforts to take all such action (including without limitation action to cause the satisfaction of the conditions of the other to effect the Merger) as may be necessary or appropriate in order to effectuate the Merger as promptly as possible. If, at any time after the Effective Time, any further action is necessary or desirable to carry out the purposes of this Agreement and to vest the Surviving Corporation with full possession of all the rights, privileges, immunities and franchises of the Constituent Corporations, the officers and directors of the Surviving Corporation are fully authorized in the name of the Constituent Corporations or otherwise to take, and shall take, all such action.

1.9 Fair Market Value.

(a) For purposes of this Agreement, the "Fair Market Value" of a share of Southwest Common Stock shall be determined as follows:

(i) Upon receipt of all required regulatory approvals of the Merger, the parties shall as promptly as practicable make a joint public announcement (the "Public Announcement") that such regulatory approvals have been obtained.

(ii) The "Fair Market Value" of a share of Southwest Common Stock shall be the average of the closing prices of the Southwest Common Stock on the New York Stock Exchange, for the twenty trading days ending on the trading day which is five trading days prior to the Closing Date. The closing prices printed in The Wall Street Journal will be presumed to be correct in the absence of evidence to the contrary.

(b) Notwithstanding Section 1.9(a):

(i) If the Fair Market Value of a share of Southwest Common Stock determined as provided in Section 1.9(a) is greater than $17.50, Noel T. Coon may terminate this Agreement (on behalf of NPL and NPL Shareholders) by written notice to Southwest delivered not less than two business days prior to the Closing Date unless Southwest and Merger Sub notify Noel T. Coon in writing on or prior to the Closing Date that Southwest and Merger Sub agree that, for purposes of this Agreement, the Fair Market Value of a share of Southwest Common Stock shall be $17.50; and

(ii) If the Fair Market Value of a share of Southwest Common

Stock determined as provided in Section 1.9(a) is less than $15.00, Southwest may terminate this Agreement by written notice to Noel T. Coon delivered not less than two business days prior to the Closing Date unless Noel T. Coon notifies Southwest in writing on or prior to the Closing Date that he agrees (on behalf of NPL and NPL Shareholders) that, for purposes of this Agreement, the Fair Market Value of a share of Southwest Common Stock shall be $15.00.

(iii) NPL and NPL Shareholders each agree to be bound by the decision made by Noel T. Coon pursuant to the provisions of subsections 1.9(b)(i) and (ii) above.

In the event of any termination of this Agreement pursuant to Section 1.9(b), the parties hereto shall have no further obligation whatsoever to each other hereunder except pursuant to those provisions of this Agreement which expressly survive the termination hereof.

2. Effective Time; Closing. The Merger shall become effective at the Effective Time.

3. Representations and Warranties of NPL. The "NPL Disclosure Schedules" shall mean all of the disclosure schedules required by this Agreement, dated as of the date hereof, which have been delivered by NPL. NPL hereby represents and warrants to Southwest as follows:

3.1 Organization, Power, Good Standing, Etc.

(a) NPL is a corporation duly organized, validly existing and in good standing under the laws of the State of Minnesota. NPL has all the requisite corporate power and authority to own, lease and operate all of its properties and assets and to carry on its business as currently conducted. NPL is duly licensed or qualified to do business and is in good standing in each jurisdiction in which the nature of the business conducted by it makes such licensing or qualification necessary and where the failure to be so qualified would, individually or in the aggregate, have a Material Adverse Effect (as defined below) on NPL. NPL has heretofore delivered to Southwest correct copies of its Articles of Incorporation (the "Articles") and its Bylaws as in effect on the date hereof. As used in this Agreement, the term "Material Adverse Effect" with respect to a party shall mean any change or effect that is reasonably likely to be materially adverse to the business, operations, properties, condition (financial or otherwise), assets or liabilities of such party taken as a whole.

(b) NPL has no subsidiaries. NPL has no affiliates, other than other businesses, firms, corporations, partnerships, joint ventures, or similar organizations which are owned in whole or in part by Noel T. Coon.

(c) The minute books of NPL contain materially complete and accurate records of all meetings held and other corporate action taken, since December 31, 1990, by the company's stockholders and Board of Directors.

(d) Except as set forth on Disclosure Schedule 3.1(d), NPL does not own (beneficially or otherwise) any capital stock or other equity interest in any corporation or other entity.

(e) Except as listed on Disclosure Schedule 3.1(e), NPL is not a party to nor is it or any of its assets bound by any agreement which relates to any equity interest of NPL in any partnership, joint venture, or similar enterprise pursuant to which NPL may be required to transfer funds in respect of any equity interest to, make an investment in, or guarantee or assume any debt, dividend or other obligation of, any person, entity, partnership, joint venture or similar enterprise, or pursuant to which NPL is or is required to become an equity investor.

(f) Except as specifically disclosed in this Agreement, no other agreements, either written or oral, exist between NPL and Noel T. Coon or businesses owned by Noel T. Coon which would require the transfer of NPL funds or assets.

3.2 Capitalization. The authorized capital stock of NPL consists of 15,000 shares of common stock, par value $10 per share ("NPL Common Stock"). As of the date hereof, 5,771 shares of NPL Common Stock (and no shares of NPL Preferred Stock) were issued and outstanding. No shares of stock are held in NPL's treasury. All of the issued and outstanding shares of NPL Common Stock have been duly authorized, validly issued, and are fully paid and nonassessable, with no personal liability attaching to the ownership thereof. Other than shares reserved for issuance under the Stock Purchase Agreement (as hereinafter defined), there are no shares of NPL Common Stock reserved for issuance for any reason. NPL is not bound by any outstanding subscriptions, options, warrants, calls, commitments or agreements of any character calling for the transfer, purchase, or issuance of any shares of its capital stock or any securities representing the right to purchase or otherwise receive any shares of its capital stock or any securities convertible into or representing the right to purchase or subscribe for any such shares except for the obligations of NPL under the Stock Purchase Agreement of March 7, 1994, as amended (the "Stock Purchase Agreement"), providing for the possible issuance of up to 1,236 additional shares each to Messrs. Johnson and Kemper (up to 2,472 in total) in order to implement said Agreement. Notwithstanding the foregoing, NPL further represents that all of its stock is now owned by Noel T. Coon and that William L. Johnson and Michael J. Kemper have an option to purchase up to 15 percent each of the outstanding shares of NPL by purchasing with promissory notes ("Option Notes") newly issued shares of NPL from NPL as provided in the Amendment to Stock Purchase Agreement dated November 12, 1995. Immediately prior to the exercise of such option, NPL will issue a dividend to Noel T. Coon in the form of a promissory note ("Dividend Note") in the amount equal to (and conditioned upon the execution and delivery of) the Option Notes. NPL will pay and discharge the Dividend Note by transferring the Option Notes to Coon. Southwest hereby consents to the exercise of the option, the foregoing dividend and payment of the Dividend Note as provided above, and agrees to recognize Messrs. Johnson and Kemper as shareholders of NPL in the event the option is legally exercised in accordance with its terms on or prior to the Closing Date.

3.3 Authority. NPL and NPL Shareholders have the requisite power and authority to execute and deliver this Agreement and to consummate the transactions contemplated hereby. Assuming the due authorization, execution and delivery hereof by the other parties hereto, this Agreement constitutes a valid and binding obligation of NPL and NPL Shareholders, enforceable against them in accordance with its terms.

3.4 No Violation. Except as listed on Disclosure Schedule 3.4, neither the execution and delivery of this Agreement nor the consummation by NPL or NPL Shareholders of the transactions contemplated hereby, nor compliance by NPL or NPL Shareholders with any of the terms or provisions hereof, will (i) violate any provision of the Articles or Bylaws of NPL, (ii) assuming the consents and approvals referred to in Section 3.5 hereof are duly obtained, violate any statute, code, ordinance, rule, regulation, judgment, order, writ, decree or injunction applicable to NPL, or any of its respective properties or assets, or (iii) violate, conflict with, result in a breach of any provisions of, constitute a default (or an event which, with notice or lapse of time, or both, would constitute a default) under, result in the termination of, accelerate the performance required by, or result in the creation of any lien, security interest, charge or other encumbrance upon any of the properties or assets of NPL, under any of the terms, conditions or provisions of any note, bond, mortgage indenture, deed of trust, license, lease, agreement or other instrument or obligation to which NPL is a party, or by which it or any of its properties or assets may be bound or affected, except with respect to (iii) above, for such violations, conflicts, breaches, defaults, terminations, accelerations and encumbrances which would not prevent consummation of the transactions contemplated hereby and would not have a Material Adverse Effect. Prior to Closing, NPL and NPL Shareholders shall provide written evidence to Southwest that NPL has obtained approvals or waivers for all restrictions listed on Disclosure Schedule 3.4.

3.5 Consents and Approvals. Except for (i) consents and approvals of, deliveries to, or filings or registrations with the Securities and Exchange Commission (the "SEC"), the Federal Trade Commission (the "FTC"), the United States Department of Justice (the "Justice Department"), or other applicable federal and state governmental authorities and (ii) the consents, approvals, filings or registrations set forth on Disclosure Schedule 3.4, no consents or approvals of or filings or registrations with any third party or public body or authority, except for consents, approvals, filings or registrations where the failure to obtain such consents or approvals or to make such filings or registrations would not prevent or delay the Merger or have a Material Adverse Effect, are necessary in connection with the execution and delivery by NPL and NPL Shareholders of this Agreement and the consummation of the Merger.

3.6 Financial Statements.

(a) NPL has previously delivered or made available to Southwest copies of (i) the balance sheets of NPL as of December 31, 1992, 1993 and 1994 respectively, and the related statements of income and retained earnings and statements of cash flows for each of the three years ended, respectively, on December 31, 1992, 1993 and 1994, in each case accompanied by the NPL audit reports of Deloitte & Touche LLP, independent public accountants, with respect to NPL (the "NPL 1992, 1993 and 1994 Financial Statements" respectively), and (ii) the unaudited balance sheet of NPL as of July 30, 1995 and the related unaudited income statement for the seven-month period then ended (the "July 1995 Financial Statements"). The NPL 1992, 1993 and 1994 Financial Statements referred to herein (including the related notes) present fairly the financial position of NPL, as of the respective dates set forth therein, and present fairly the results of the operations and changes in stockholders' equity and cash flows of NPL for the respective fiscal periods or as of the respective dates set forth therein.

(b) The NPL 1992, 1993 and 1994 Financial Statements (including the related notes) have been prepared in accordance with generally accepted accounting principles consistently applied during the periods involved. The July 1995 Financial Statements present fairly the financial position of NPL as of the respective dates set forth therein, and present fairly the results of the operations of NPL for the seven months then ended.

(c) The books and records of NPL have been, and are being, maintained in accordance with applicable legal and accounting requirements.

3.7 Brokerage. There are no claims for investment banking fees, brokerage commissions, finder's fees or similar compensation payable by NPL in connection with the transactions contemplated by this Agreement.

3.8 Absence of Certain Changes or Events. As of the date of this Agreement, there has not been any material adverse change in the business, operations, properties, assets or financial condition of NPL, taken as a whole, from that described in the audited NPL 1994 Financial Statements and, to the best of NPL's knowledge, no fact or condition existed as of the date hereof that NPL believes will cause such a material adverse change prior to the Closing Date. The parties hereto agree that none of the information disclosed in the July 1995 Financial Statements shall constitute a material adverse change for purposes of this Agreement.

3.9 Litigation, Etc. As of the date of this Agreement, (a) there are no actions, suits, claims, inquiries, proceedings or investigations before any court, commission, bureau, regulatory, administrative or governmental agency, arbitrator, body or authority known to NPL Shareholders or management to be pending or threatened against NPL which will result in liabilities, including defense costs, in excess of $1,000 in the aggregate except those listed on Disclosure Schedule 3.9 and (b) NPL is not subject to any order, judgment or decree and is not in default with respect to any such order, judgment or decree.

3.10 Taxes and Tax Returns.

(a) The amounts recorded as provisions for taxes in the NPL July 1995 Financial Statements are sufficient for all material accrued and unpaid federal, state, county and local taxes, interest and penalties of NPL, whether or not disputed, for the period ended July 30, 1995, and for all fiscal periods prior thereto. Except as set forth on Disclosure Schedule 3.10(b), NPL has not been notified of an Internal Revenue Service examination or of an examination by any state tax authority. NPL has not granted any waiver of any statute of limitations with respect to, or any extension of a period for the assessment of, any Tax (as hereinafter defined). Complete and correct copies of the income tax returns of NPL for the four years ended December 31, 1994, as filed with the Internal Revenue Service and all state and local taxing authorities, together with all related correspondence and notices, have previously been made available to Southwest.

(b) Except as set forth on Disclosure Schedule 3.10(b), NPL has timely and correctly filed all federal, state, county and local tax and other returns and reports (collectively, "Returns") required by applicable law to be filed (including without limitation, estimated tax returns, income tax returns, excise tax returns, sales tax returns, use tax returns, property tax returns, franchise tax returns, information returns and withholding, employment and payroll tax returns), and has paid all taxes, levies, license and registration fees, charges or withholdings of any nature whatsoever shown by such Returns to be owed, or which are otherwise due and payable (hereinafter called "Taxes"), and to the extent any material liabilities for Taxes as of July 30, 1995 have not been fully discharged, full and complete reserves have been established in the July 1995 Financial Statements. NPL is not in default in the payment of any Taxes due or payable or any assessments received in respect thereof except for Taxes which are being contested in good faith. Except as listed on Disclosure Schedule 3.10(b), no additional assessments of Taxes which might be payable by NPL are known to NPL to be proposed, pending or threatened, other than Taxes for periods for which returns are not yet filed and which have been accrued.

(c) There are no intercompany tax-sharing agreements to which NPL is a party.

3.11 Employees; Employee Benefit Plans.

(a) Except as listed on Disclosure Schedule 3.11(a), other than union contracts, as of the date hereof NPL is not a party to or bound by or in any manner liable under any contract, arrangement or understanding (whether written or oral) with respect to the employment or compensation of any officers, employees or consultants, and consummation of the transactions contemplated by this Agreement will not (either alone or upon the occurrence of any additional acts or events) result in payments (whether of severance pay or otherwise) becoming due from NPL to any officer or employee other than the existing employment contracts with Mr. William L. Johnson and Mr. Michael J. Kemper which they each hereby agree will automatically cancel on December 31, 1996 by mutual agreement without any penalty or additional compensation, except the bonuses earned thereunder in 1996 will be paid in 1997 when the audited 1996 financial statements are available to determine NPL's pretax income. NPL agrees to accrue all costs to be incurred for severance payments and the Pete Middents award listed on Disclosure Statement 3.11(a) in its 1995 Financial Statements.

(b) Except as listed in Disclosure Schedule 3.11(b), as of the date hereof, there are not, and there have not been at any time in the past three years, any actions, suits, claims or proceedings (which have been served on NPL) before any court, commission, bureau, regulatory, administrative or governmental agency, arbitrator, body or authority pending or, to the best of NPL Shareholders' or management's knowledge, threatened by any employees, former employees or other persons relating to the employment practices or activities of NPL (except for threatened actions which have subsequently been resolved).

(c) With respect to all employee benefit plans, NPL represents and warrants as follows:

(i) All employee benefit plans, as defined in Section 3(3) of the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), and any other pension, bonus, deferred hospitalization, health and other employee benefit plan, program or arrangement, whether formal or informal, under which NPL has any obligation or liability, or under which any employee or former employee of NPL has any rights to benefits (the "Benefit Plans") are set forth on Disclosure Schedules 3.11(a) and 3.11(c)(i). All Benefit Plans that are subject to the funding requirements in Title I, Subtitle B, Part 3 of ERISA or Section 412 of the Internal Revenue Code of 1986, as amended (the "Code"), are in compliance with such funding standards, and no waiver or variance from such funding requirements has been obtained or applied for under Section 412(d) of the Code. None of the Benefit Plans is subject to Title IV of ERISA or is a "multi-employer plan," as such term is defined in Section 3(37) and 4001(a)(3) of ERISA and Section 414(f) of the Code.

(ii) Except as listed on Disclosure Schedule 3.11(c)(ii), the terms of the Benefit Plans are, and the Benefit Plans have been administered, in accordance with the requirements of ERISA, the Code, applicable law and the respective plan documents. None of the Benefit Plans is under audit or is the subject of an investigation by the Internal Revenue Service, the U.S. Department of Labor or any other federal or state governmental agency. All material reports and information required to be filed with, or provided to, the

United States Department of Labor, Internal Revenue Service, the Pension Benefit Guaranty Corporation (the "PBGC") and plan participants and beneficiaries with respect to each Benefit Plan have been timely filed or provided. With respect to each Benefit Plan for which an annual report has been filed, no material change has occurred with respect to the matters covered by the most recent annual report since the date thereof.

(iii) NPL is not aware of any facts regarding any Benefit Plan which is an "employee pension benefit plan" as defined in Section 3(2) of ERISA (collectively, the "Employee Pension Benefit Plans") that would present a significant risk that any Employee Pension Benefit Plan would not be determined by the appropriate District Director of the Internal Revenue Service to be "qualified" within the meaning of Section 401(a) of the Code, or with respect to which any trust maintained pursuant thereto is not exempt from federal income taxation pursuant to Section 501 of the Code, or with respect to which a favorable determination letter could not be issued by the Internal Revenue Service with respect to each such Employee Pension Benefit Plan.

(iv) With respect to each Benefit Plan, all contributions, premiums or other payments due or required to be made to such plans as of the Effective Time have been or will be made or accrued as required by the respective plan documents.

(v) To the best of NPL's knowledge, there are not now, nor have there been, any "prohibited transactions", as such term is defined in Section 4975 of the Code or Section 406 of ERISA, involving NPL or any officer, director or employee of NPL with respect to the Benefit Plans that could subject NPL or any other party in interest to the penalty or tax imposed under Section 502(I) of ERISA and Section 4975 of the Code.

(vi) As of the date hereof, no claim, lawsuit, arbitration or other action (which has been served on NPL) has been instituted, asserted or, to the best of NPL Shareholders' or management's knowledge, threatened by or on behalf of any Benefit Plan or by any employee alleging a breach or breaches of fiduciary duty or violations of other applicable state or federal law with respect to such Benefit Plan, which could result in liability on the part of NPL or any Benefit Plan under ERISA or any other law, nor is there any basis known to NPL Shareholders or management for successful prosecution of such a claim, and Southwest will be notified promptly in writing of any such threatened or pending claim arising between the date hereof and the Closing.

(vii) Except as may be required by the Consolidated Omnibus Budget and Reconciliation Act of 1985, as amended ("COBRA"), no Benefit Plan which is an employee welfare benefit plan (within the meaning of Section 3(1) of ERISA) provides for continuing benefits or coverage for any participant or beneficiary of a participant after such participant's termination of employment nor does NPL have any current or projected liability under any such plans.

(viii) NPL has not maintained or contributed to, and does not currently maintain or contribute to, any severance pay plan under which any employees of NPL, other than union employees, are entitled to any benefits. All payments (other than regular wages and vacation pay) made to employees of NPL coincident with or in connection with termination of employment from January 1, 1993 to the date hereof, are disclosed on Disclosure Schedule 3.11(c)(viii).

(ix) Except as otherwise provided in this Agreement, no individual will accrue or receive any additional benefits, service, or accelerated rights to payment or vesting of benefits under any Benefit Plan as a result of the transactions contemplated by this Agreement.

(x) NPL has to the extent relevant complied in all material respects with all of the requirements of COBRA.

(xi) All amendments required to bring all Benefit Plans into conformity with any of the applicable provisions of ERISA and the Code have been duly adopted or will be duly adopted as of the Closing Date, subject to further revisions that may be required by the Internal Revenue Service.

(xii) No individual will accrue or receive from NPL any payments, benefits, services or accelerated rights to payment or vesting of benefits, or otherwise receive any other rights, which would constitute a "parachute payment" as defined in Section 280G(b)(2) of the Code as a result of or in connection with the transactions contemplated by this Agreement.

3.12 Compliance With Applicable Law.

(a) NPL holds all licenses, certificates, franchises, permits and other governmental authorizations ("Permits") necessary for the lawful conduct of its business and such Permits are in full force and effect, and NPL is in all respects complying therewith, except where the failure to possess or comply with such Permits would not have a Material Adverse Effect on NPL.

(b) Except as set forth on Disclosure Schedule 3.12(b), NPL is and for the past three years has been in compliance with all foreign, federal, state and local laws, statutes, ordinances, rules, regulations and orders applicable to the operation, conduct or ownership of its business or properties except for any noncompliance which is not reasonably likely to have in the aggregate a Material Adverse Effect on NPL.

3.13 Contracts and Agreements. Except as listed on Disclosure Schedule 3.13, as of the date hereof, and except with respect to existing lease agreements and borrowings in the ordinary course: (a) NPL is not a party to or bound by any commitment, contract, agreement or other instrument which involves or could involve aggregate future payments by NPL of more than $50,000; and (b) no commitment, contract, agreement or other instrument, other than NPL's charter documents, to which NPL is a party or by which it is bound, limits the freedom of NPL to compete in any line of business or with any person.

3.14 Disclosure. To the knowledge of NPL, no representation or warranty regarding NPL contained in this Agreement, and no statement contained in the Disclosure Schedules delivered by NPL hereunder, contains any untrue statement of a material fact or omits to state a material fact necessary in order to make a statement herein or therein, in light of the circumstances under which it was made, not misleading.

3.15 Title to Property.

(a) Real Property. Disclosure Schedule 3.15(a) contains a description of all interests in real property, whether owned, leased or otherwise claimed, including a list of all leases of real property, in which NPL has or claims an interest as of the date hereof and any guarantees of any such leases by NPL. Each such lease is legal, valid and binding as between NPL and the other party or parties thereto, and the occupant is a tenant or possessor in good standing thereunder, free of any material default or breach whatsoever and quietly enjoys the premises provided for therein. NPL does not own any real property on the date hereof. All real property and fixtures material to the business, operations or financial condition of NPL are in good condition and repair, ordinary wear and tear excepted.

(b) Environmental Matters. Except as listed on Disclosure Schedule 3.15(b), the real property leased by NPL on the date hereof did not contain any underground storage tanks, asbestos, ureaformaldehyde, uncontained polychlorinated biphenyls, or, except for materials which are ordinarily used in office buildings and office equipment such as janitorial supplies and do not give rise to financial liability therefor under the hereafter defined Environmental Laws, releases of hazardous substances as such terms may be defined by all applicable federal, state or local environmental protection laws and regulations ("Environmental Laws"). As of the date hereof, (i) no part of any such real property has been listed or, to the knowledge of NPL, proposed for listing on the National Priorities List pursuant to the Comprehensive Environmental Response, Compensation and Liability Act ("CERCLA") or on a registry or inventory of inactive hazardous waste sites maintained by any state, and (ii) no notices have been received alleging that NPL was a potentially responsible person under CERCLA or any similar statute, rule or regulation. NPL knows of no material violation of law, regulation, ordinance (including, without limitation, laws, regulations and ordinances with respect to hazardous waste, zoning, environmental, city planning or other similar matters) relating to its respective properties. NPL Shareholders agree to reimburse the Surviving Corporation for any reasonable remediation expenses incurred or claims made at all the sites listed in Disclosure Schedule 3.15(b) prior to the first anniversary of the Closing Date in accordance with the deductible and maximum set forth in Section 13.1(d).

3.16 Insurance. Disclosure Schedule 3.16 contains a true and complete list and a brief description (including name of insurer, agent, coverage and expiration date) of all insurance policies in force on the date hereof with respect to the business and assets of NPL (other than insurance policies under which NPL is named as a loss payee or additional insured). NPL is in compliance with all of the material provisions of all insurance policies. Each such policy is outstanding and in full force and effect and, except as set forth on Disclosure Schedule 3.16, NPL is the sole beneficiary of such policies except for additional insureds. All premiums and other payments due under any such policy have been paid or accrued.

3.17 Powers of Attorney. Except as listed on Disclosure Schedule 3.17, NPL has no powers of attorney outstanding other than those issued pursuant to the requirements of regulatory authority.

4. Representations and Warranties of Southwest. Southwest hereby represents and warrants to NPL as follows:

4.1 Corporate Organization.

(a) Southwest is a corporation duly organized, validly existing and in good standing under the laws of the State of California. Southwest has all the requisite power and authority to own, lease and operate all of its properties and assets and to carry on its business as it is currently conducted, and is duly licensed or qualified to do business and is in good standing in each jurisdiction in which the nature of the business conducted by it makes such licensing or qualification necessary and where failure to be so qualified would not, individually or in the aggregate, have a Material Adverse Effect on Southwest.

(b) Merger Sub is a corporation duly organized, validly existing and in good standing under the laws of the State of Nevada and authorized to do business in the State of Arizona.

4.2 Authority.

(a) Southwest has full corporate power and authority to execute and deliver this Agreement and, subject to applicable regulatory approvals, to consummate the transactions contemplated hereby. The execution and delivery of this Agreement and consummation of the transactions contemplated hereby have been duly and validly approved by the Board of Directors of Southwest. This Agreement has been duly and validly executed and delivered by Southwest and, assuming the due authorization, execution and delivery thereof by the other parties hereto, constitutes valid and binding obligations of Southwest, enforceable against it in accordance with the terms of the Agreement.

(b) Southwest as the sole shareholder of Merger Sub will cause it to take any and all action necessary and appropriate to carry out its obligations under this Agreement.

(c) Merger Sub has full corporate power and authority to execute and deliver this Agreement and, subject to applicable regulatory approvals, to consummate the transactions contemplated hereby. The execution and delivery of this Agreement and consummation of the transactions contemplated hereby have been or will be duly and validly approved by the Board of Directors of Merger Sub. This Agreement has been duly and validly executed and delivered by Merger Sub and, assuming the due authorization, execution and delivery thereof, by the other parties hereto, constitutes valid and binding obligations of Merger Sub, enforceable against it in accordance with the terms of the Agreement.

4.3 No Violation. Neither the execution and delivery of this Agreement nor the consummation by Southwest or Merger Sub of the transactions contemplated hereby, nor compliance by Southwest or Merger Sub with any of the terms hereof, will (i) violate any provision of the Articles of Incorporation or Bylaws of Southwest or Merger Sub, or (ii) assuming that the consents and approvals referred to in Section 4.4 are duly obtained, violate any statute, code, ordinance, rule, regulation, judgment, order, writ, decree or injunction applicable to Southwest or Merger Sub or any of their properties or assets, or (iii) violate, conflict with, result in the breach of any provisions of, constitute a default (or an event which, with notice or lapse of time, or both, would constitute a default) under, result in the termination of, accelerate the performance required by, or result in the creation of any lien, security interest, charge or other encumbrance upon any of the respective properties or assets of Southwest or Merger Sub under, any of the terms, conditions or provisions of any note, bond, mortgage, indenture, deed of trust, license, lease, agreement or other instrument or obligation to which Southwest or Merger Sub is a party, or by which they or their respective properties or assets may be bound or affected, except with respect to (iii) above, for such violations, conflicts, breaches, defaults, terminations, accelerations or encumbrances which in the aggregate will not prevent or delay the consummation of the transactions contemplated hereby.

4.4 Consents and Approvals. Except for consents and approvals of or filings or registrations with the SEC, the FTC, the Justice Department and other applicable federal and state governmental authorities, no consents or approvals of or filings or registrations with any third party or any public body or authority are necessary in connection with the execution and delivery by Southwest or Merger Sub of this Agreement.

4.5 Sufficient Resources. Southwest will have available at the Closing sufficient common stock to enable it lawfully to satisfy its payment obligations pursuant to this Agreement subject to approval by the California Public Utilities Commission. Upon issuance as provided in this Agreement, the Southwest Common Stock will be duly and validly issued, fully paid and nonassessable and will be owned by the NPL Shareholders free and clear of any liens or encumbrances. Southwest has and will have sufficient management and financial resources to make reasonable efforts to obtain the required regulatory approvals for the Merger. On the date of this Agreement, there is no pending or, to the knowledge of Southwest, threatened legal or governmental proceeding against Southwest or any subsidiary or affiliate thereof which would affect Southwest's ability to obtain any of the required regulatory approvals or satisfy any of the other conditions required to be satisfied in order to consummate the transactions contemplated by this Agreement. Southwest will promptly notify NPL if any of the representations contained in this Section 4.5 ceases to be true and correct.

4.6 Litigation. No action, suit, counterclaim or other litigation, investigation or proceeding to which Southwest or any of its subsidiaries is a party is pending, or is known by the executive officers of Southwest or any of its subsidiaries to be threatened, against Southwest or any of its subsidiaries before any court or governmental or administrative agency, domestic or foreign which would be reasonably expected to result in any liabilities which would delay or prevent the consummation of the Merger. Except as disclosed herein or the Southwest Reports (as hereinafter defined),

(i) There are no legal, administrative, arbitration or other proceedings or claims pending or, to the best of Southwest's knowledge, threatened against Southwest, nor is Southwest subject to any existing judgment which would materially affect the consolidated financial condition or results of operations of Southwest;

(ii) Southwest has not received any inquiry from an agency of the federal or of any state or local government about the transactions contemplated hereby, or about any violation or possible violation of any law, regulation or ordinance materially affecting its businesses or assets.

4.7 Capitalization. Southwest is authorized to issue thirty million (30,000,000) shares of Southwest Common Stock, $1.00 par value. As of November 1, 1995, there were twenty-four million three hundred twenty thousand two hundred eighty-eight (24,320,288) shares of Southwest Common Stock issued and outstanding, and no other outstanding rights to purchase any common stock of Southwest existed except under the Southwest Dividend Reinvestment and Stock Purchase Plan, Employees' Investment Plan and Management Incentive Plan.

4.8 SEC Filings. Southwest has provided the NPL Shareholders with true and correct copies of (i) Southwest's Annual Report on Form 10-K for the fiscal year ended December 31, 1994; (ii) Southwest's Annual Report to Stockholders for the fiscal year ended December 31, 1994; (iii) Southwest's proxy statement for its 1995 Annual Meeting of Shareholders; (iv) Southwest's Quarterly Reports on Form 10-Q for the fiscal quarters ended March 31, 1995, June 30, 1995 and September 30, 1995; and (v) any other filings made with the SEC pursuant to the Securities Exchange Act of 1934 (the "1934 Act") since January 1, 1995. Between the date hereof and the Closing Date, Southwest will provide to the NPL Shareholders true and correct copies of all further filings made with the SEC pursuant to the 1934 Act, as well as all reports or other communications sent to Southwest's shareholders generally as soon as reasonably available. All of the foregoing reports, filings, statements and communications are hereinafter collectively referred to as the "Southwest Reports." None of the Southwest Reports, when filed or sent, did or will contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements made therein, in light of the circumstances under which they were made, not misleading.

4.9 Business Changes. Except as set forth herein or in the Southwest Reports, since September 30, 1995, there has not been:

(i) Any material adverse change in the consolidated working capital, financial condition, assets, liabilities (whether absolute, accrued, contingent or otherwise), or operating profits, of Southwest or any material adverse change in the business of Southwest taken as a whole;

(ii) Any damage, destruction or loss (whether or not covered by insurance) materially and adversely affecting the business of Southwest taken as a whole; or

(iii) Any termination of any material permit or material license issued to Southwest or to any of its employees or agents upon which a material portion of Southwest's business is dependent.

4.10 Financial Statements.

(a) The consolidated financial statements of Southwest included within the Southwest Reports fairly present the consolidated financial position of

Southwest and the consolidated results of its operations at the dates and for the periods to which they apply; such statements have been prepared in conformity with generally accepted accounting principles, applied on a consistent basis throughout the periods involved, and such financial statements comply with all applicable provisions of Regulation S-X of the SEC. The interim consolidated financial statements presented in such Reports include all adjustments (subject only to normal recurring year-end adjustments) necessary for a fair presentation of Southwest's consolidated financial position and consolidated results of operations as of the dates and for the periods presented therein.

(b) On September 30, 1995, Southwest had no material liabilities (whether absolute, accrued, contingent or otherwise) which were required to be reflected in and disclosed on its balance sheets at that date or in the notes thereto pursuant to Regulation S-X of the SEC or in accordance with generally accepted accounting principles, consistently applied but were not so reflected. Except as set forth herein and/or the Southwest Reports, since September 30, 1995, Southwest has incurred no material liabilities (whether absolute, accrued, contingent or otherwise) in addition to those reflected in or disclosed on such balance sheets or the related notes, except liabilities incurred in the ordinary course of its business.

(c) Southwest's books, records and system of internal accounting controls comply in all material respects with Section 13(b) of the 1934 Act as in effect on the date hereof.

4.11 Disclosure. To the knowledge of Southwest, no representation or warranty made by Southwest in this Agreement and no certification furnished or to be furnished by Southwest to NPL pursuant to this Agreement, contains any untrue statement of a material fact or omits to state a material fact necessary to make the statements contained herein or therein in the light of the circumstances under which it was made, not misleading.

5. Covenants of the Parties.

5.1 Current Information.

(a) No later than ten (10) days after the date of this Agreement, NPL (on the one hand) and Southwest (on the other hand) shall each designate an individual acceptable to the other party (a "Designated Representative" and, together, the "Designated Representatives") to be the primary point of contact between the parties. During the period from the date of their designation to the Closing, the Designated Representatives or their representatives shall confer on a regular basis so that Southwest is kept advised as to the general status of the ongoing operations of NPL. Without limiting the foregoing, NPL agrees to confer with Southwest's Designated Representative regarding any proposed significant changes to NPL's management policies and objectives. NPL will promptly notify Southwest's Designated Representative or his or her representatives of any material change in the normal course of business or in the operation of the properties of NPL or of any governmental complaints, investigations or hearings (or communications indicating that the same may be contemplated) or the institution or the threat of any litigation involving NPL, and will keep Southwest's Designated

Representative or his or her representatives fully informed of such events and the progress of any already existing litigation.

(b) Southwest shall immediately notify NPL's Designated Representative if it appears that there has occurred any change in its financial or other condition or any other event that will or may affect Southwest's ability to complete the Merger.

5.2 NPL Reports. As soon as reasonably available, but in no event more than 20 calendar days after the end of each accounting month, NPL will deliver to Southwest its monthly financial reports. As soon as reasonably available, but in no event more than 120 days after the end of the 1995 fiscal year, NPL will deliver to Southwest its annual audited financial statements.

5.3 Regulatory Matters.

(a) The parties hereto will cooperate with each other and use all reasonable efforts to prepare all necessary documentation, to effect all necessary filings and to obtain all necessary permits, consents, approvals and authorizations of all third parties and governmental bodies necessary to consummate the transactions contemplated by this Agreement including, without limitation, those that may be required from the SEC, the FTC, the Justice Department and other federal and state regulatory authorities. Southwest and NPL will each have the right to review reasonably in advance all information relating to themselves and any of their respective subsidiaries, together with any other information reasonably requested, which appears in any filing made with or written material submitted to any governmental body in connection with the transactions contemplated by this

Agreement. The parties hereto agree to attempt to keep confidential any and all proprietary information which may be of value to their competition.

(b) Southwest and NPL shall furnish each other with all reasonable information concerning themselves, their subsidiaries, directors, officers and stockholders and such other matters as may be necessary or advisable in connection with any statement or application made by or on behalf of Southwest or NPL, or any of Southwest's subsidiaries to any governmental body in connection with the Merger and the other transactions, applications or filings contemplated by this Agreement.

(c) Southwest and NPL will promptly furnish each other with copies of written communications received by or delivered to any governmental body in respect of the transactions contemplated hereby.

5.4 Further Assurances. Subject to the terms and conditions herein provided, each of the parties hereto agrees to use all reasonable efforts to take, or cause to be taken, all action and to do, or cause to be done, all things necessary, proper or advisable under applicable laws and regulations to consummate and make effective the transactions contemplated by this Agreement. In case that at any time after the Closing any further action is necessary or desirable to carry out the purposes of this Agreement, the proper officers and directors of Southwest and NPL shall take all necessary actions, subject to the terms and conditions of this Agreement.

5.5 Public Announcements. The parties will cooperate and consult with each other in the development and distribution of all news releases and other public information disclosures with respect to this Agreement or any of the transactions contemplated hereby, except as may be otherwise limited by law.

5.6 Failure to Fulfill Conditions. In the event that either Southwest or NPL determines that a condition to its obligation to consummate the transactions contemplated hereby cannot be, or is not likely to be, fulfilled on or prior to May 15, 1996, it will promptly notify the other party.

5.7 Tax Matters.

(a) Return Preparation; Tax Payments.

(i) NPL shall prepare, or cause to be prepared, and shall file, or cause to be filed, any required NPL tax returns (including amendments thereto) for all taxable periods prior to and including the Closing Date. NPL shall consult with Southwest regarding the preparation and filing of such returns and Southwest shall be afforded the opportunity to review such returns within a reasonable time prior to the due date for the filing thereof. NPL shall not file any such tax returns without the prior consent of Southwest, which consent shall not be unreasonably withheld or delayed. NPL shall also provide Southwest with copies of such returns in the form actually filed and copies of all backup documentation.

Southwest shall be responsible for the preparation and filing of any tax returns of NPL for all taxable periods beginning after the Closing Date.

(ii) As soon as practicable after the filing of these returns, but in no event later than April 1, 1996, for the 1995 return, and within four months of the Closing Date for the 1996 return, NPL or Surviving Corporation shall pay to NPL Shareholders, in cash, 46 percent of their share of the Subchapter S taxable income for such periods as reflected on the applicable Internal Revenue Service Form 1120S and related Schedule K-1.

(iii) Southwest hereby consents to and approves the change by NPL from the cash to the accrual method for tax reporting purposes, effective with the tax year beginning January 1, 1996, and the filing with the I.R.S. of whatever documents are required for such change.

(b) Tax Audits and Litigation.

(i) Representation Prior to Closing Date. Prior to the Closing Date, NPL shall conduct and control the representation of NPL with respect to any audit or administrative or judicial proceeding concerning any tax items or taxable period of NPL, including, without limitation, the sole right to contest or concede any tax item, provided, however, that NPL shall first obtain the consent of Southwest with respect to any settlement or concession, which consent shall not be unreasonably withheld or delayed, and shall afford the opportunity, at Southwest's request, for Southwest to participate fully in all settlement or concession discussions relating to any taxable periods ending on or prior to Closing.

(ii) Representation After Closing Date. For any taxable period ending on or before the Closing, Noel T. Coon shall be entitled, at his option and at his expense, to conduct and exercise sole control over the representation of NPL with respect to any audit or administrative or judicial proceedings, including, without limitation, the sole right to contest or concede any tax items, provided, however, that Noel T. Coon shall first obtain the consent of Southwest with respect to any settlement or concession, which consent shall not be unreasonably withheld or delayed, and shall afford Southwest the opportunity, at its request, to participate fully in all settlement or concession discussions.

(c) Tax Workpapers. At the time of closing, NPL will provide Southwest copies of all tax returns, associated workpapers, documents, memoranda and correspondence prepared by NPL's tax preparers and made available to NPL for the tax period ended September 30, 1987 and for each tax period thereafter through the tax period ending with the closing of this Agreement.

6. Covenants of NPL.

6.1 Conduct of the Business of NPL. During the period from the date hereof to the Closing, except as otherwise permitted or required hereunder, NPL will conduct the business of NPL and will engage in transactions only in the ordinary course and consistent with the past practice and with prudent business practice, except with the written consent of Southwest (which will not be unreasonably withheld, delayed or conditioned). For this purpose the parties shall use the most expeditious means of communication available. During such period, NPL will use its reasonable efforts in accordance with good business practice to preserve the business organization of NPL, to keep available to it and to Southwest the present services of the valued employees of NPL, and to preserve for itself and for Southwest the goodwill of the customers of NPL and others with whom business relationships exist. In addition, without limiting the generality of the foregoing, NPL agrees that from the date hereof to the Closing, except as otherwise consented to or approved by Southwest in writing (which consent or approval shall not be unreasonably withheld, delayed or conditioned) or as permitted or required by this Agreement or as required by law (in which case NPL shall notify Southwest in writing), NPL will not:

(a) Change any provisions of NPL's Articles or Bylaws;

(b) Change the number of shares of authorized or issued capital stock of NPL or issue, or grant any option, warrant, call, commitment, subscription, right to purchase or agreement of any character relating to the authorized or issued capital stock of NPL, or any securities convertible into shares of such stock, or split, combine or reclassify any shares of its capital stock, or declare, set aside or pay any dividend, or other distributions (whether in cash, stock or property or any combination thereof) in respect of the capital stock of NPL, or redeem or otherwise acquire any shares of such capital stock except as permitted by Section 6.1(m) and except for the issuance of additional shares and the declaration and payment of a dividend in the form of a Dividend Note in connection with the exercise of stock options by Messrs. Johnson and Kemper under the Stock Purchase Agreement dated March 7, 1994, as amended by Amendment to Stock Purchase Agreement dated November 12, 1995;

(c) Grant any severance or termination pay to or enter into or amend any employment agreement with, or increase the amount of payments or fees to, any of the employees, officers or directors of NPL except for (i) the payments to Messrs. Sutton and Maple listed on Schedule 3.11(c)(viii), (ii) severance payments under union agreements, (iii) miscellaneous other severance payments not known, but not to exceed a total of $10,000, (iv) normal salary increases, such as merit, promotion, etc., consistent with past practice;

(d) Except as listed on Disclosure Schedule 6.1(d), make any capital expenditures, including any capitalizable lease obligations, in amounts individually in excess of (i) $100,000 or (ii) $250,000 in the aggregate, other than expenditures necessary to maintain existing assets in good repair;

(e) Make or engage in any financing-related transactions other than (i) scheduled principal and interest payments on long-term debt, capital lease obligations, equipment leases, and the note payable to the current stockholder, (ii) transactions necessary to finance, consistent with past practices and with prudent business practices, capital expenditures made in accordance with the provisions of Section 6.1(d) hereof, and (iii) borrowings and payments under the working capital lines of credit, in the ordinary course of business. Scheduled principal and interest payments are listed on Disclosure Schedule 6.1(e).

(f) Make application for the opening of, or open, any new offices involving a lease in excess of one year;

(g) Acquire assets other than those necessary to the conduct of its business in the ordinary course;

(h) Sell, transfer, assign, encumber or otherwise dispose of assets other than has been customary in the ordinary course of business;

(i) Engage or participate in any material transaction or incur or sustain any obligation which would result in a cost to NPL, individually or cumulatively of more than $10,000 (a "Material Obligation") except for transactions which are in the ordinary course of business consistent with past practices and with prudent business practices and which are of similar kinds and involve similar amounts;

(j) Make any contributions to any Benefit Plans except in such amounts and at such times as consistent with past practice; discretionary or excess contributions are not permitted;

(k) Increase the number of full-time equivalent employees of NPL from July 31, 1995 except as consistent with past practice;

(l) Make or grant any safety or other bonuses to any employee or shareholder, except for bonuses payable to Mr. Johnson or Mr. Kemper under their existing respective employment contracts and other bonuses consistent with past practices;

(m) Make or grant any distributions to any shareholder other than customary salary and related benefits except the following:

(i) Bonuses to Mr. Johnson and Mr. Kemper in accordance with their existing respective employment contracts;

(ii) Distributions to NPL Shareholders sufficient for the payment of their 1995 and 1996 federal and state income taxes on the taxable income of NPL;

(iii) A distribution to Noel T. Coon as a bonus for 1995, computed as fifty percent (50%) of the amount by which the 1995 pretax income of NPL determined in accordance with generally accepted accounting principles consistently applied exceeds four million dollars ($4,000,000), said bonus not to exceed six hundred thousand dollars ($600,000); and

(iv) The Dividend Note to Noel T. Coon and the transfer of the Option Notes in payment of the Dividend Note to Noel T. Coon in connection with the exercise of the Johnson and Kemper option exercises as described in Section 3.2.

(n) Agree to do any of the foregoing.

6.2 No Solicitation. During the term hereof, neither NPL nor any of its directors, shareholders, officers, representatives, agents or other persons controlled by any of them, shall, directly or indirectly, encourage or solicit, or hold discussions or negotiations with, or provide any information to, any person, entity or group other than Southwest concerning any merger, sale of substantial assets not in the ordinary course of business, sale of shares of capital stock or similar transactions involving NPL. NPL will promptly communicate to Southwest the terms of any proposal that it may receive in respect of any such transaction.

6.3 Access to Management, Properties and Records; Confidentiality.

(a) NPL shall permit Southwest reasonable access to the properties of NPL, and shall disclose and make available to Southwest all books, papers and records relating to the assets, stock, ownerships, properties, obligations, operations and liabilities of NPL, including but not limited to, all books of account (including the general ledger), tax records, budgets, forecasts, minute books of directors' and stockholders' meetings, organizational documents, bylaws, material contracts and agreements, internal audit reports, filings with any regulatory authority, company work papers and supporting documents, accountants' work papers, litigation files, plans affecting employees, and any other business activities or prospects in which Southwest may have a reasonable interest, in each case during normal business hours and upon reasonable notice. Between the signing of this Agreement and the Closing, the parties shall cooperate in accordance with the Memorandum of Mr. Johnson dated November 3, 1995 which is attached hereto as Exhibit A.

(b) All information furnished by NPL to Southwest or the representatives or affiliates of either pursuant to, or in any negotiation in connection with, this Agreement shall be treated as the sole property of NPL, until consummation of the Merger and, if the Merger shall not occur, Southwest and its affiliates, agents and advisers shall destroy or return to NPL, as appropriate, all documents or other materials containing, reflecting or referring to such information, and shall keep confidential all such information and shall not disclose or use such information for competitive purposes. Any destruction or return shall be certified in writing to the appropriate party. The obligation to keep such information confidential shall not apply to any information which Southwest can establish by convincing evidence was already in its possession (subject to no obligations of confidentiality) prior to the disclosure thereof by NPL; was then generally known to the public; becomes known to the public other than as a result of actions by Southwest or by its directors, officers or employees or agents; or was disclosed to Southwest or to its directors, officers or employees, solely by a third party not bound by any obligation of confidentiality.

6.4 Assignment of Contract Rights. NPL shall obtain any consents, waivers or revisions necessary to allow Merger Sub to accede to all of the rights of NPL under all existing real property and personal property leases, lines of credit, governmental licenses, permits and other contracts. Any costs associated with obtaining such consents, waivers and revisions shall be borne by NPL.

7. Employees; Employee Benefit Plans.

7.1 Covenants of NPL.

(a) Prior to Closing, NPL shall deliver or make available to Southwest complete and correct copies (if any) of (i) the most recent Internal Revenue Service determination letter relating to each Employee Pension Benefit Plan intended to be tax qualified under Sections 401(a) and 501(a) of the Code, (ii) the most recent annual report (Form 5500 Series) and accompanying schedules of each Benefit Plan, filed with the Internal Revenue Service or an explanation of why such annual report is not required, (iii) the most current summary plan description for each Benefit Plan, and (iv) the most recent audited financial statements of each Benefit Plan.

(b) Except as otherwise provided in this Agreement, NPL shall not establish, amend or terminate any Benefit Plan without the prior consultation and approval of Southwest.

8. Closing Conditions.

8.1 Conditions to Each Party's Obligations Under This Agreement. The respective obligations of each party under this Agreement to consummate the Merger shall be subject to the fulfillment at or prior to the Closing of the following conditions:

(a) All necessary regulatory or governmental approvals and consents required to consummate the transactions contemplated hereby shall have been obtained and shall remain in full force and effect and all statutory or regulatory waiting periods in respect thereof shall have expired.

(b) No party hereto shall be subject to any order, decree or injunction of a court or agency of competent jurisdiction which enjoins or prohibits the consummation of the Merger.

(c) Any applicable pre-merger/acquisition notification provisions of Section 7A of the Clayton Act shall have been complied with by the parties hereto, and no other statutory or regulatory requirements with respect to the Clayton Act shall be applicable. There shall be no pending or threatened proceedings with respect to this Agreement or the Merger under any applicable antitrust law.

8.2 Conditions to the Obligations of Southwest under this Agreement. The obligations of Southwest under this Agreement shall be further subject to the satisfaction, at or prior to the Closing, of the following conditions, any one or more of which may be waived by Southwest:

(a) Each of the obligations or covenants of NPL required to be performed by them at or prior to the Closing pursuant to the terms of this Agreement shall have been duly performed and complied with in all material respects and each of the representations and warranties of NPL contained in this Agreement shall be true and correct in all material respects as of the date hereof and as of the Closing as though made at and as of the Effective Time (except as to any representation or warranty that specifically relates to an earlier date, which shall be true and correct as of such earlier date), provided, however, that if any representation or warranty has proved untrue or incorrect in any material respect and the damage or loss resulting from such failure can be reduced to a dollar amount to which Noel T. Coon and Southwest agree, then such representation or warranty shall, for purposes of this closing condition, be deemed to be true and correct in all material respects at Closing, and the total Fair Market Value of the Southwest Common Stock to be delivered hereunder shall be reduced by such agreed amount.

(b) Any consents, waivers, clearances, approvals and authorizations of regulatory or governmental bodies or third parties that are necessary in connection with the consummation of the transactions contemplated hereby shall have been obtained, and none of such consents, waivers, clearances, approvals or authorizations shall contain any term or condition that would have a Material Adverse Effect on NPL or Southwest or the Surviving Corporation. For purposes of Section 8 hereof, any "approval" which contains any of the foregoing unacceptable terms or conditions shall be deemed to be a regulatory "denial."

(c) Southwest shall have received an opinion, dated the date of the Closing, from Squire, Sanders & Dempsey and/or Arnold R. Madigan, counsel to NPL, substantially to the effect set forth in Exhibit B hereto.

(d) Since the date of this Agreement, there shall have been no material adverse change in the overall financial condition, business or results of operations of NPL taken as a whole. Normal seasonal variations are deemed not to be such a material adverse change.

(e) Except as otherwise requested, the directors of NPL shall have resigned effective on or prior to the Closing.

(f) NPL shall have furnished Southwest with such certificates of NPL officers and such other documents to evidence fulfillment of the conditions set forth in this Section 8.2 as Buyer may reasonably request.

8.3 Conditions to the Obligations of NPL Under This Agreement. The obligations of NPL under this Agreement shall be further subject to the satisfaction, at or prior to the Closing, of the following conditions, any one or more of which may be waived by Noel T. Coon on behalf of NPL and NPL Shareholders:

(a) Each of the obligations of Southwest required to be performed by it at or prior to the Closing pursuant to the terms of this Agreement shall have been duly performed and complied with in all material respects.

(b) Each of the representations and warranties of Southwest contained in this Agreement shall be true and correct in all material respects as of the date of this Agreement and as of the Closing as though made at and as of the Closing except as to any representation or warranty which specifically relates to an earlier date, which shall be true and correct as of such earlier date, except in the case of such representations and warranties, where the failure to be true would not have a Material Adverse Effect on Southwest.

(c) NPL shall have received an opinion, dated the date of the Closing, from Thomas J. Trimble, General Counsel to Southwest, substantially to the effect set forth in Exhibit C hereto.

(d) Southwest shall have furnished NPL with such certificates of its officers or others and such other documents to evidence fulfillment of the conditions set forth in this Section 8.3 as NPL may reasonably request.

(e) NPL shall have received the opinion of Deloitte & Touche LLP that the merger qualifies as a tax-free reorganization under Section 368(a)(2)(D) of the Code and the Regulations thereunder.

(f) Since the date of this Agreement, there shall have been no material adverse change in the overall financial condition, business or results of operations of Southwest taken as a whole. Normal seasonal variations are deemed not to be such a material adverse change.

9. Closing.

9.1 Date and Place. The closing of the Merger (the "Closing") shall take place on the last day of the four or five week accounting period of NPL, as applicable, during which all of the conditions to the obligations of the parties hereunder, other than those to be performed at Closing, have been satisfied or waived (the "Closing Date");

provided, however, that if the Closing Date in accordance with the foregoing provisions of Section 9.1 would be less than five trading days prior to the end of such accounting period, the Closing Date shall be the last day of the next succeeding four or five week accounting period of NPL, as applicable. All actions taken at the Closing shall be deemed to have occurred simultaneously at the Effective Time. The Closing shall take place at the offices of Southwest in Las Vegas, Nevada, or at such other place as the parties hereto may mutually agree.

9.2 NPL's Closing Documents. At the Closing, NPL shall deliver to Southwest:

(a) One or more stock certificates registered in the name(s) of NPL Shareholders representing all of the issued and outstanding shares of NPL Capital Stock, duly endorsed on behalf of NPL Shareholders;

(b) Such other documents and instruments as required by Section 8 to be delivered by NPL or NPL Shareholders.

9.3 Southwest's Closing Documents. At the Closing, Southwest and Merger Sub shall deliver to NPL Shareholders:

(a) The Purchase Price of twenty-four million dollars ($24,000,000), payable in Southwest's Common Stock as provided for in this Agreement; and

(b) Such other documents and instruments as required by Section 8 to be delivered by Southwest.

10. Post-Closing Obligations.

10.1 Registration of Southwest Common Stock.

(a) As soon as practicable after the Closing Date, but in no event more than 30 days thereafter, Southwest shall (i) file a Form S-3 registration statement pursuant to the Securities Act of 1933, as amended (the "Securities Act"), under Rule 415 thereunder, that includes all shares of Southwest Common Stock acquired by the NPL Shareholders in the Merger ("Acquired Stock"); (ii) file a request for exemption under Section 359-f(2) of the Fraudulent Practices Act ("Martin Act") with the Bureau of Investor Protection and Securities, Department of Law, State of New York; and (iii) take such other action as may be necessary to register or qualify the offer and sale of the Acquired Stock in any other state in which its Common Stock does not qualify as an "exempt security." Southwest agrees that it will use reasonable efforts to cause the Form S-3 registration statement to be declared effective by the SEC and the request for exemption to be granted by the Department of Law of the State of New York and to complete any other action which may be necessary to register or qualify the offer and sale of the Acquired Stock as provided in clause (iii) above. All expenses (exclusive of underwriting discounts and commissions and expenses for registration or licensing of the NPL Shareholders as a broker-dealer, dealer, salesperson, agent or associated person, if any, and fees and expenses of counsel for the NPL Shareholders) incurred in connection with such registration, request for exemption and actions shall be borne by Southwest. No transferee of the Acquired Stock shall be entitled to the rights and benefits of this Section 10.1, except transferees under Section 10.2(a)(ii).

(b) It shall be a condition precedent to the obligations of Southwest to file a registration statement or to register any securities pursuant to Section 10.1(a) that the NPL Shareholders furnish Southwest such undertakings as may be required by the Securities Act and other applicable law to permit the registration statement to be filed in accordance with Rule 415 under the Securities Act, and such information regarding the NPL Shareholders, the Acquired Stock, the intended method(s) of disposition of such securities and such other information (other than information known to Southwest with respect to contractual arrangements between the NPL Shareholders and Southwest) as, in the reasonable opinion of counsel to Southwest, is necessary to enable Southwest to cause such registration statement to be properly prepared and filed in accordance with applicable laws and to obtain acceleration of the effective date thereof. All underwriting discounts and commissions and expenses for registration or licensing of the NPL Shareholders as a broker-dealer, dealer salesperson, agent or associated person under state blue sky or securities laws, if any, shall be borne by the NPL Shareholders.

(c) Southwest agrees that it will keep each NPL Shareholder advised in writing as to the completion of any registrations or qualifications pursuant to this Section 10.1 and will, at its expense: (i) use reasonable efforts to keep such registrations and qualifications effective under the Securities Laws until such time as the Acquired Stock can be sold by the NPL Shareholders within the applicable volume limitation of Rule 144(e) or without any volume limitation in compliance with Rule 144(k), whichever first occurs (the "Restriction Lapse Date"); and (ii) furnish such number of prospectuses and other documents incident thereto as any NPL

Shareholder from time to time may reasonably request. If, in the opinion of counsel to Southwest, the Form S-3 registration statement filed pursuant to Section 10.1(a) cannot be maintained in effect until the Restriction Lapse Date, then, not later than twenty (20) days prior to the expiration of the effectiveness of such Form S-3 registration statement, Southwest shall file another Form S-3 registration statement covering the remaining Acquired Stock, and shall use reasonable efforts to cause such registration statement to be declared effective and maintained in effect until the Restriction Lapse Date. In connection therewith, Southwest shall take the same actions with respect to such new registration statement and the registration and qualification of the remaining Acquired Stock under the Securities Laws as was required hereunder with respect to the original Form S-3 registration statement and the original registration and qualification of the Acquired Stock.

(d) If, at any time during the effectiveness of a Form S-3 registration statement filed hereunder, Southwest shall notify the NPL Shareholders that the prospectus contained therein contains an untrue statement of material fact or omits to state a material fact necessary to make the statements made therein not misleading, each NPL Shareholder agrees not to sell any of the Acquired Stock pursuant to such Form S-3 registration statement thereafter until such time as Southwest notifies the NPL Shareholders that such material misstatement or omission has been corrected through the filing of an appropriate supplement to such prospectus, the filing and effectiveness of an amendment to such registration statement, or the filing of a document incorporated by reference therein. Southwest shall use its reasonable efforts to file any such required supplement, amendment (and to have any such amendment declared effective) or such document as promptly as practicable; provided, however, that such filing may be delayed during any period of time that the executive officers and directors of Southwest have been asked to refrain from selling, offering to sell or otherwise disposing of any shares of its Common Stock or contracting to sell or otherwise disposing of any securities convertible into or exercisable or exchangeable for Common Stock.

(e) To the extent permitted by law, Southwest will indemnify and hold harmless each NPL Shareholder, any underwriter (as defined in the Securities Act) for any such NPL Shareholder and each person, if any, who controls such NPL Shareholder or underwriter within the meaning of the Securities Act or the 1934 Act (collectively, the "NPL Indemnified Parties") against any losses, claims, damages, or liabilities (joint or several) to which they or any of them may become subject under the Securities Act, the 1934 Act or any other federal or state law (the "Securities Laws"), insofar as such losses, claims, damages, or liabilities (or actions in respect thereof) arise from or are based upon any of the following statements, omissions or violations (collectively, a "Violation"): (i) any untrue statement or alleged untrue statement of a material fact contained in such registration statement, including any preliminary prospectus or final prospectus contained therein or any amendments or supplements thereto; (ii) the omission or alleged omission to state therein a material fact required to be stated therein, or necessary to make the statements therein not misleading; or (iii) any violation or alleged violation by

Southwest of the Securities Laws; and Southwest will reimburse such NPL Indemnified Parties for any legal or other expenses reasonably incurred by them in connection with investigating or defending any such loss, claim, damage, liability or action; provided, however, that the indemnity agreement contained in this Section 10.1(e) shall not apply to amounts paid in settlement of any such loss, claim, damage, liability or action if such settlement is effected without the consent of Southwest (which consent shall not be unreasonably withheld), nor shall Southwest be liable in any case for any such loss, claim, damage, liability, or action to the extent that it arises from or is based upon a Violation which occurs in reliance upon and in conformity with written information furnished expressly for use in connection with such registration by any such NPL Indemnified Parties.

(f) To the extent permitted by law, each NPL Shareholder will indemnify and hold harmless Southwest, each of its directors, each of its officers who have signed the registration statement, each person, if any, who controls Southwest within the meaning of the Securities Act, any underwriter within the meaning of the Securities Act or the 1934 Act for Southwest, any person who controls such underwriter, and any other person or entity selling securities in such registration statement, if any (the "Other Selling Stockholders") or any of such Other Selling Stockholders' directors, officers, partners, general partners or any person who controls such Other Selling Stockholders (collectively, the "Southwest Indemnified Parties") against any losses, claims, damages or liabilities (joint or several) to which any such Southwest Indemnified Parties may become subject under the Securities

Laws, insofar as such losses, claims, damages or liabilities (or actions in respect thereto) arise from or are based upon any Violation, in each case to the extent (and only to the extent) that such Violation occurs in reliance upon and in conformity with written information furnished by such NPL Shareholder in connection with such registration; and such NPL Shareholder will reimburse any legal or other expenses reasonably incurred by any Southwest Indemnified Parties in connection with investigating or defending any such loss, claim, damage, liability, or action; provided, however, that the indemnity agreement contained in this Section 10.1(f) shall not apply to amounts paid in settlement of any such loss, claim, damage, liability or action if such settlement is effected without the consent of such NPL Shareholder, which consent shall not be unreasonably withheld.

(g) Promptly after receipt by any party entitled to indemnification under this Section 10.1 (an "Indemnified Party") of notice of the commencement of any action (including any governmental action), such Indemnified Party will, if a claim in respect thereof is to be made under this Section 10.1 against any party required to indemnify such Indemnified Party (an "Indemnifying Party"), notify the Indemnifying Party in writing of the commencement thereof and the Indemnifying Party shall have the right to participate in, and, to the extent the Indemnifying Party so desires, jointly with any other Indemnifying Party similarly noticed, to assume the defense thereof with counsel mutually satisfactory to the parties; provided, however, that an Indemnified Party shall have the right to retain its own counsel, with the fees and expenses to be paid by the Indemnifying Party, if representation of such

Indemnified Party by the counsel retained by the Indemnifying Party would be inappropriate due to actual or potential differing interests between such Indemnified Party and any other party represented by such counsel in such proceeding. The failure to notify an Indemnifying Party within a reasonable time of the commencement of any such action, to the extent prejudicial to its ability to defend such action, shall relieve such Indemnifying Party of any liability to the Indemnified Party under this Section 10.1, but the omission to so notify the Indemnifying Party will not relieve it of any liability that it may have to any Indemnified Party otherwise than under this Section 10.1.

10.2 Restrictions on Sale of Acquired Stock.

(a) For a period of two years from the Closing Date, Noel T. Coon agrees that he will not sell, dispose of or otherwise transfer more shares of Acquired Stock than he would be permitted to sell under the volume limitations of Rule 144 of the Securities Act as in effect on the date hereof, assuming that such volume limitation provisions of Rule 144 would be fully applicable to sales of Acquired Stock by Noel T. Coon for the duration of such two-year period. Notwithstanding the foregoing, to the extent permitted by applicable law, (i) Noel T. Coon shall be permitted to sell any amount of Acquired Stock held by him if (A) the most recent closing per share price of Southwest Common Stock prior to such sale as reported by the principal exchange on which such Common Stock is listed shall be less than $10 or (B) if Southwest publicly announces a plan or other agreement or arrangement providing for the merger of Southwest with or into another entity, the acquisition or other sale of all or substantially all of the assets of Southwest (except for PriMerit Bank) by another entity or any other reorganization or business combination in which the Acquired Stock will be converted into cash or the securities of another person (collectively, an "Acquisition"); provided that if any Acquisition is submitted to a vote of the stockholders of Southwest, Noel T. Coon agrees to vote any shares of Acquired Stock he holds on the record date for determining stockholders entitled to vote on the Acquisition on a pro-rata basis with all other shareholders; and (ii) Noel T. Coon shall be permitted to transfer Acquired Stock by donation to any trust, foundation or charitable organization so long as such entity agrees to be bound by the provisions of Sections 10.2(b) and (c) hereof, in which event any sales of Acquired Stock by such entities shall be aggregated with any sales by Noel T. Coon in determining compliance herewith.

(b) Noel T. Coon agrees not to sell, either directly or indirectly, during any three-month period more than 240,000 shares of Acquired Stock to any one person or group, other than a broker-dealer who acquires the Acquired Stock for resale to any other person or group in a transaction which would not violate these provisions. Unless he has actual knowledge to the contrary, Noel T. Coon shall be entitled to rely upon a written representation from a purchaser that it is not acquiring the Acquired Stock in concert with any other person or with a view to resale in violation of these restrictions.

(c) The Acquired Stock acquired by Noel T. Coon shall bear the following legend:

THESE SECURITIES ARE SUBJECT TO RESTRICTIONS ON TRANSFERABILITY AND RESALE AND MAY NOT BE TRANSFERRED OR RESOLD EXCEPT AS PERMITTED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, AND APPLICABLE STATE SECURITIES LAWS, PURSUANT TO REGISTRATION OR EXEMPTION. THESE SECURITIES ARE FURTHER SUBJECT TO RESTRICTIONS ON TRANSFER SET FORTH IN THAT CERTAIN MERGER AGREEMENT DATED AS OF NOVEMBER 13,1995.

(d) The Acquired Stock acquired by William L. Johnson and Michael J. Kemper shall bear the following legend:

THESE SECURITIES ARE SUBJECT TO RESTRICTIONS ON TRANSFERABILITY AND RESALE AND MAY NOT BE TRANSFERRED OR RESOLD EXCEPT AS PERMITTED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, AND APPLICABLE STATE SECURITIES LAWS, PURSUANT TO REGISTRATION OR EXEMPTION THEREFROM.

This legend shall also appear on any Acquired Stock transferred by either Mr. Johnson or Mr. Kemper to a family trust or foundation.

11. Termination, Amendment and Waiver.

11.1 Termination. This Agreement may be terminated at any time prior to the Closing, whether before or after approval of the Merger by the governmental agencies:

(a) By mutual written consent of Southwest and Noel T. Coon (on behalf of NPL and NPL Shareholders);

(b) By either Southwest or Noel T. Coon (on behalf of NPL and NPL Shareholders) if all pre-closing conditions are not satisfied on or prior to May 15, 1996, unless (i) the failure of such occurrence shall be due to the failure of the party seeking to terminate this Agreement to perform or observe its agreements and conditions set forth herein to be performed or observed by such party at or before the Closing; or (ii) Southwest and Noel T. Coon (on behalf of NPL and NPL Shareholders) mutually agree to extend the time;

(c) By Southwest (i) if at the time of such termination there shall have been a material adverse change in the financial condition, business or operations of NPL taken as a whole from that set forth in the audited financial statements for the year ended December 31, 1994, it being understood that any of the matters set forth in NPL's Disclosure Schedules as of the date of this Agreement are not deemed to be a material adverse change for purposes of this paragraph (c); or (ii) if there shall have been any material breach of any covenant of NPL hereunder and such breach shall not have been remedied within 45 days after receipt by NPL of notice in writing from Southwest specifying the nature of such breach and requesting that it be remedied;

(d) By Noel T. Coon (on behalf of NPL and NPL Shareholders) (i) if at the time of such termination there shall have been a material adverse change in the financial condition, business or result of operations of Southwest taken as a whole from that set forth in the audited financial statements for the year ended December 31, 1994; of (ii) if there shall have been any material breach of any covenant of Southwest hereunder and such breach shall have not been remedied within 45 days after receipt by Southwest of notice in writing from NPL specifying the nature of such breach and requesting that it be remedied.

11.2 Amendment, Extension and Waiver. Subject to applicable law, at any time prior to the consummation of the Merger, the parties may (a) amend this Agreement, (b) extend the time for the performance of any of the obligations or other acts of any other party hereto, (c) waive any inaccuracies in the representations and warranties of any other party contained herein or in any document delivered pursuant hereto, or (d) waive compliance with any of the agreements or conditions contained herein. This Agreement may not be amended except by an instrument in writing signed on behalf of each of the parties hereto. Any agreement on the part of a party hereto to any extension or waiver shall be valid only if set forth in an instrument in writing signed on behalf of such party, but such waiver or failure to insist on strict compliance with such obligation, covenant, agreement or condition shall not operate as a waiver of, or estoppel with respect to, any subsequent or other failure.

12. Expenses.

(a) All expenses incurred by or on behalf of NPL in connection with the negotiation, authorization, preparation, execution and consummation of this Agreement (including the costs of complying with any covenants or conditions to Closing) and the transactions contemplated hereby (other than expenses incurred in connection with the operation of NPL in the ordinary course which would have been incurred notwithstanding the transactions contemplated hereby or thereby), including, without limitation, all fees and expenses of agents, representatives, accountants, investment bankers and counsel employed by NPL shall be borne solely by Noel T. Coon, except that NPL may pay up to $240,000 in 1995 and up to $160,000 in 1996 based on services rendered on the basis of the usual and customary hourly rates previously charged by its attorneys and accountants.

(b) All expenses incurred by or on behalf of Southwest in connection with the negotiation, authorization, preparation, execution and consummation of this Agreement and the transactions contemplated hereby and thereby, including, without limitation, all fees and expenses of agents, representatives, accountants, investment bankers and counsel employed by Southwest, shall be borne solely by Southwest.

13. Indemnification.

13.1 Indemnification of Southwest. NPL Shareholders shall indemnify Southwest and its officers, directors and subsidiaries from and against all claims, losses, damages, costs, assessments, judgments, awards, liabilities and expenses (including, without limitation, reasonable costs and expenses of litigation, and, to the extent permitted by law, reasonable attorneys' fees) incurred by Southwest or its officers, directors, agents or subsidiaries by reason of:

(a) The untruthfulness or inaccuracy of any of the representations or warranties of NPL or the breach of any obligations of NPL contained in this Agreement.

(b) Any judgments, fines, penalties, settlement payments, settlement costs and attorneys' fees and expenses and interest related thereto entered, paid or incurred by NPL after July 31, 1995 in connection with any currently existing but undisclosed actions, suits, claims, inquiries, proceedings or investigations before any court, commission, bureau, regulatory, administrative or governmental agency, arbitrator body or authority in excess of $10,000 in the aggregate and not reimbursed by insurance.

(c) Any liability of NPL, other than liabilities for benefits or contributions payable under or pursuant to Benefit Plans provided the existence of such liabilities does not violate any representation or warranty in Section 4.12(c) which is attributable to facts existing, or actions taken (or omissions occurring) prior to the Closing, which liability arises under ERISA due to (i) the acts or omissions of NPL with respect to the Benefit Plans or (ii) the acts or omissions of fiduciaries of the Benefit Plans to whom NPL is obligated to provide indemnification by contract or otherwise.

(d) The aggregate liability of NPL Shareholders, if any, shall be limited to a maximum of one million two hundred thousand dollars ($1,200,000) and the NPL Shareholders shall only be liable to the extent that indemnifiable amounts hereunder exceed, in the aggregate, two hundred forty thousand dollars ($240,000). The NPL Shareholders' share of any liability shall be in proportion to their respective NPL stock ownership at Closing and may be paid either in cash or in Southwest stock valued at the same price as at the Closing.

13.2 Southwest's Indemnification. Southwest shall indemnify NPL and NPL Shareholders from and against all claims, losses, damages, costs, assessments, judgments, awards, liabilities and expenses (including, without limitation, costs and expenses of litigation and, to the extent permitted by law, reasonable attorneys' fees) incurred by NPL or NPL Shareholders by reason of the untruthfulness or inaccuracy of any of Southwest's representations or warranties or the breach of any Southwest obligations contained in this Agreement.

13.3 Claims for Indemnity.

(a) Making of Claims for Indemnity. A claim for indemnity under this Agreement may be made by the indemnified party any time prior to one year after the Closing. Except for a claim for fraud, a claim for indemnity under this Agreement shall be the exclusive remedy of any indemnified party against any indemnifying party with respect to any claims, losses, damages, costs, assessments, judgments, awards, liabilities and expenses which arise out of or in any way relate to any act or omission in connection with the negotiation, execution, delivery or performance of this Agreement. Notwithstanding the foregoing, an indemnified party may pursue any available legal proceedings to enforce the obligation of an indemnifying party if such indemnifying party refuses or fails to perform such obligation, but the recovery in any such proceedings shall be limited to amounts which the indemnified party would have been entitled to be paid by the indemnifying party hereunder, together with the costs and expenses of such enforcement proceeding as provided in Section 14.10 hereof.

In the event that any such claim is made within such prescribed period, the indemnity relating to such claim shall survive until such claim is resolved. Claims not made within the applicable period shall not be indemnified hereunder. Each written notice of a claim for indemnity shall set forth in reasonable detail the basis upon which such claim for indemnity is made.

(b) Conduct of Lawsuits. In the event that any person or entity not a party to this Agreement shall make any demand or claim or file or threaten to file any lawsuit, which demand, claim or lawsuit may result in any loss, cost or expense subject to indemnification under this Agreement, then the indemnified party shall provide written notice of such demand, claim or lawsuit to the indemnifying party as soon as is reasonably practicable but, in any event, within five (5) days after discovery or receipt of such demand, claim or lawsuit (but failure to notify within such time period shall not rescind or revoke the indemnifying party's obligation to indemnify but shall only reduce the amount of the indemnification to the extent that the indemnifying party is damaged by such delay), and the indemnifying party shall have the option, at its cost and expense, to defend itself or to retain counsel for the indemnified party to defend any such demand, claim or lawsuit. In the event that the indemnifying party shall fail to respond to the indemnified party within five days after receipt of such written notice of any such demand, claim or lawsuit, then the indemnified party may retain counsel and conduct the defense of such demand, claim or lawsuit as it may in its reasonable discretion deem proper, at the reasonable cost and expense of the indemnifying party, subject, however, to the indemnifying party's right to intervene in such defense at any time upon the giving of reasonable notice. The indemnified party shall use its best reasonable efforts to cooperate and assist the indemnifying party in defending any such demand, claim or lawsuit, which shall include, but not be limited to, the pursuit of all cross-claims and counterclaims associated therewith. In effecting the settlement of any such demand, claim or lawsuit, an indemnified party shall act in good faith, shall consult with the indemnifying party, and shall enter into only such settlement as the indemnifying party shall approve, which approval will not be unreasonably withheld and will be implied if the indemnifying party does not respond within 15 days of its receipt of the notice of such settlement offer.

14. Miscellaneous.

14.1 Non-Compete Agreements. Noel T. Coon agrees that he will not, directly or indirectly, engage in competition with NPL or the Surviving Corporation in the states where either is now operating or has current plans to operate at the time of Closing for a period of four years following the Closing. William L. Johnson and Michael J. Kemper each agrees that he will not, directly or indirectly, engage in competition with NPL or the Surviving Corporation in the states where Surviving Corporation is operating at the time William L. Johnson or Michael J. Kemper, respectively, leaves the employment of the Surviving Corporation (except for the state of Michigan as to Mr. Johnson) for a period of two years following termination of his employment. The foregoing provisions shall apply to competition in any manner whatsoever including but not limited to, as an employee, independent contractor, consultant, owner, manager, shareholder, director, officer, principal, agent or trustee of or for any person or entity engaged in a business the same as or similar to that of NPL or Surviving Corporation or for their own account. Each NPL Shareholder further agrees that the foregoing non-competition provisions are reasonable as applied to him, would not impose any undue hardship on him if in force and is no wider in scope than necessary to afford reasonable protection to Southwest and Surviving Corporation. This section becomes effective upon the Closing and at that time supersedes the non-compete agreements contained in the existing Johnson and Kemper employment agreements.

14.2 NPL Promissory Notes to Noel T. Coon. The outstanding promissory notes in the approximate amount of $3.9 million from NPL to Noel T. Coon may be paid off in full by NPL prior to the Closing provided that NPL has adequate cash and credit to continue its operations in its usual and customary manner.

14.3 Survival. Subject to Section 13.3, the respective representations and warranties, covenants and agreements set forth in this Agreement and all Disclosure Schedules shall survive the Closing.

14.4 Notices. All notices, requests, claims, demands or other communica tions hereunder shall be in writing and shall be given (and shall be deemed to have been duly received if so given) by delivery, by registered or certified mail (return receipt requested) or by cable, telecopier, or telex to the respective parties as follows:

(a) If to Southwest, to:

Michael O. Maffie
President and Chief Executive Officer
Southwest Gas Corporation
5241 Spring Mountain Road
P.O. Box 98510
Las Vegas, Nevada 89193-8510
Telephone: (702)876-7250
Telecopier: (702)876-7037

With a copy to:

Thomas J. Trimble
Senior Vice President/General Counsel
and Corporate Secretary
Southwest Gas Corporation
5241 Spring Mountain Road
P.O. Box 98510
Las Vegas, Nevada 89193-8510
Telephone: (702)876-7189
Telecopier: (702)876-7037

(b) If to NPL, to:

Noel T. Coon
10840 East Candlewood Drive
Scottsdale, Arizona 85255
Telephone: (602)585-9803

With a copy to:

William L. Johnson
12500 Summit Street
Kansas City, Missouri 64145
Telephone: (816)942-6069

or such other address as shall be furnished in writing by any party to the others in accordance herewith, except that notices of change of address will only be effective upon receipt.

14.5 Parties in Interest. This Agreement shall be binding upon and shall inure to the benefit of the parties hereto and their respective successors and assigns; provided, however, that neither this Agreement nor any of the rights, interests or obligations hereunder shall be assigned by any party hereto without the prior written consent of the other parties. Nothing in this Agreement is intended to confer, expressly or by implication, upon any other person any rights or remedies under or by reason of this Agreement.

14.6 Entire Agreement. This Agreement, including the documents and other writings referred to herein or delivered pursuant hereto, contains the entire agreement and understanding of the parties with respect to its subject matter. There are no restrictions, agreements, promises, warranties, covenants or undertakings between the parties other than those expressly set forth herein or therein. This Agreement supersedes all prior agreements and understandings between the parties, both written and oral, with respect to its subject matter.

14.7 Counterparts. This Agreement may be executed in one or more counterparts all of which shall be considered one and the same agreement and each of which shall be deemed an original.

14.8 Governing Law. This Agreement, in all respects, including all matters of construction, validity and performance, is governed by the internal laws of the state of Nevada applicable to contracts executed and delivered in Nevada by citizens of such state, to be performed wholly within such state without giving effect to the principles of conflicts of laws thereof. This Agreement is being delivered in Las Vegas, Nevada.

14.9 Headings. The Section headings contained in this Agreement are for reference purposes only and shall not affect in any way the meaning or interpretation of this Agreement.

14.10 Enforcement Costs. In the event of litigation or other proceeding to enforce this Agreement, the prevailing party or parties shall be entitled to recover reasonable costs and attorneys' fees to be set by the court and not by the jury.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement this 13th day of November, 1995.

NORTHERN PIPELINE CONSTRUCTION CO.,
a Minnesota corporation

By: /s/ WILLIAM L. JOHNSON

William L. Johnson

Title: Chief Executive Officer

Attest: /s/ ROBERT DIGAN

Robert Digan

Title: Assistant Secretary

NPL SHAREHOLDERS

/s/ NOEL T. COON

Noel T. Coon

/s/ ALEXA S. HIGASHI

Alexa S. Higashi, his wife

/s/ WILLIAM L. JOHNSON

William L. Johnson

/s/ JUDY JOHNSON

Judy Johnson, his wife

/s/ MICHAEL J. KEMPER

Michael J. Kemper

/s/ FRANCES KEMPER

Frances Kemper, his wife

SOUTHWEST GAS CORPORATION, a
California corporation

By /s/ MICHAEL O. MAFFIE

Michael O. Maffie

Title: President and Chief Executive Officer

ATTEST: /s/ THOMAS J. TRIMBLE

Thomas J. Trimble

TITLE: Senior Vice President/General
Counsel and Corporate Secretary

SOUTHWEST GAS CORPORATION
OF ARIZONA, a Nevada corporation

By: /s/ MICHAEL O. MAFFIE

Michael O. Maffie

TITLE: President and Chief Executive
Officer

ATTEST: /s/ THOMAS J. TRIMBLE

Thomas J. Trimble

TITLE: Senior Vice President/General
Counsel and Corporate Secretary

EXHIBIT B

Ladies and Gentlemen:

This firm has acted as counsel for Northern Pipeline Construction Co., a Minnesota corporation ("NPL"), and NPL Shareholders in connection with the proposed acquisition of NPL by Southwest Gas Corporation, a California corporation ("Southwest"), pursuant to the Merger Agreement between Southwest and Southwest Gas Corporation of Arizona, a Nevada corporation (the "Merger Sub"), and NPL and NPL Shareholders dated as of November 13, 1995 (the "Agreement"). This opinion is delivered to you pursuant to Section 8.2 of the Agreement. Unless otherwise defined herein, all capitalized terms used in this opinion shall have the meanings attributed to them in the Agreement.

In our capacity as counsel for NPL and NPL Shareholders and for purposes of this opinion, we have made those examinations and investigations of the local and factual matters we deemed advisable, and have examined the originals, or copies identified to our satisfaction as being true copies of the originals, of the certificates, documents, corporate records, and other instruments which we, in our judgment, have considered necessary or appropriate to enable us to render the opinion expressed below. For these purposes, we have, without independent investigation or confirmation, relied upon certificates provided by public officials and officers of NPL as to certain factual matters including those certificates described below. In the course of our examinations and investigations we have assumed the genuineness of all signatures on original documents, and the due execution and delivery of all documents requiring due execution and delivery for the effectiveness thereof.

Based upon and subject to the foregoing and in reliance thereon, and subject to the assumptions, exceptions and qualifications set forth herein, it is our opinion that:

1. NPL is a corporation duly organized, validly existing and in good standing under the laws of Minnesota, with the corporate powers and authority to own, lease and operate all of its properties and assets and to carry on its business as presently being conducted;

2. NPL is duly licensed and qualified to do business as a foreign corporation and is in good standing in Arizona, Colorado, Illinois, Kansas, Missouri, Montana, Nebraska, Nevada, New Jersey, Pennsylvania, Utah, Washington, and Wisconsin and in any other

jurisdiction in which, to the best of our knowledge after due inquiry, the nature of the business conducted by it makes such licensing or qualification necessary and where the failure to be so qualified would, individually or in the aggregate, have a Material Adverse Effect;

3. NPL has the corporate Power and authority to consummate the transactions contemplated by the Agreement, and NPL has duly taken all requisite corporate action to authorize, execute and deliver the Agreement and perform the transactions contemplated by the Agreement. The Agreement and appropriate Exhibits thereto have been duly executed and delivered by NPL and constitute valid, binding and enforceable obligations of NPL and NPL Shareholders;

4. The authorized capital stock of NPL consists solely of 15,000 shares of Common Stock, par value $10.00 per share, of which ________ shares are issued and outstanding. All shares of the outstanding capital stock of NPL have been duly authorized and validly issued and are fully paid and nonassessable. After due inquiry, other than as described in the Agreement, we are not aware of any reservations for the issuance of NPL Common Stock or any outstanding subscriptions, options, warrants, calls, commitments, or agreements of any character calling for the transfer, purchase, or issuance of any shares of its Common Stock or any securities representing the right to purchase or otherwise receive any shares of its Common Stock or any securities convertible into or representing the right to purchase or subscribe to any such shares;

5. On the Closing Date and prior to the consummation of the transactions contemplated by the Agreement, the NPL Shareholders were the record owners of all of the issued and outstanding shares of NPL's Common Stock;

6. Neither the execution and delivery by NPL of the Agreement, nor the consummation of the transactions contemplated thereby, will (i) constitute a breach or violation of the Articles of Incorporation or Bylaws of NPL, (ii) violate any statute, code, ordinance, rule, regulation, judgment, order, writ, decree or injunction, after due inquiry, known to us to be applicable to NPL, or any of its respective properties or assets, or (iii) to the best of our knowledge after due inquiry, violate, conflict with, result in a breach of any provisions of,

constitute a default (or an event which, with notice or lapse of time, or both, would constitute a default) under, result in the termination of, accelerate the performance required by, or result in the creation of any lien, security interest, charge or other encumbrance upon any of the properties or assets of NPL, under any of the terms, conditions, or provisions of any note, bond, mortgage indenture, deed of trust, license, lease, agreement or other instrument or obligation to which NPL is a party, or by which it or any of its properties or assets may be bound or affected, except where such violations, conflicts, breaches, defaults, termination, accelerations and encumbrances would not have a Material Adverse Effect, nor prevent the consummation of the transactions contemplated by the Agreement.

7. There are no pending or, to the best of our knowledge after due inquiry, threatened actions, suits, claims inquiries, proceedings or investigations involving NPL before any court, commission, bureau, regulatory, administrative or governmental agency, arbitrator, body or authority that could have a Material Adverse Effect or which affect NPL's obligations under or purport to affect the legality, validity or enforceability of the Agreement or the transactions contemplated thereby;

8. Assuming due authorization of the Merger by all necessary corporate proceedings on the part of Southwest and Merger Sub and that Southwest and Merger Sub have taken all action required to be taken by them prior to the Closing Date, in accordance with the provision of the Agreement, the Merger will be validly consummated in accordance with the Agreement and Minnesota law, and each outstanding share of NPL Common Stock, including shares issued upon exercise of options to purchase NPL Common Stock which will have been exercised, prior to the Closing will be converted as provided in the Agreement; and

9. All governmental consents and approvals required to be obtained by NPL in order to permit the consummation by it of the Agreement and transactions contemplated thereby have been obtained, and all filings required to be made by NPL in order to permit such consummation have been made.

We express no opinion with respect to the laws of any jurisdiction, other than the United States and Arizona, the general corporate law of the State of

Minnesota and with respect to the opinion set forth in paragraph 2 only the laws of the States of Colorado, Illinois, Kansas, Missouri, Montana, Nebraska, Nevada, New Jersey, Pennsylvania, Utah, Washington and Wisconsin. The Agreement is governed by Nevada law and we have assumed with your consent that, to the extent applicable to our opinions set forth herein, Nevada law is the same as Arizona law, to the extent Nevada law is controlling.

With respect to our opinion relating to the enforceability of any agreement or contract, our opinion is qualified in that enforceability may be limited by the application of bankruptcy, insolvency, reorganization, moratorium, or similar laws relating to or affecting creditors' rights generally (including, without limitation, fraudulent conveyance laws), and by 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 in equity or at law.

This opinion is being delivered to you for your sole use and benefit in connection with the acquisition of NPL by Southwest pursuant to the Agreement and may not be relied upon by, nor may copies be delivered to, any other person without our prior written consent. This opinion is given as of the date hereof and we assume no obligation to advise you of changes that may hereinafter be brought to our attention.

Very truly yours,

SOUTHWEST GAS CORPORATION
LIST OF SUBSIDIARIES OF THE REGISTRANT
AT DECEMBER 31, 1995

SUBSIDIARY NAME	STATE OF INCORPORATION OR ORGANIZATION TYPE
LNG Energy, Inc.	Nevada
Paiute Pipeline Company	Nevada
PriMerit Bank	Nevada
Southwest Gas Corporation of Arizona	Arizona
Southwest Gas Transmission Company	Partnership between Southwest Gas Corporation and Utility Financial Corp.
Utility Financial Corp.	Nevada

PRIMERIT BANK
SUBSIDIARIES
AT DECEMBER 31, 1995

First Nevada, Ltd.	Nevada
Home Trustee, Inc.	Nevada
Nevada Vistas Corporation	Nevada
Nevada High Country II Corp	Nevada
Trans-Pacific Funding Corp	California
Nevada Karmlco	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 Elsinore Corporation	California
Nevada La Cresta Corporation	California

Exhibit 21.01

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants, we hereby consent to the incorporation of our report dated February 7, 1996 included in this Form 10-K, into Southwest Gas Corporation's previously filed registration statements on Form S-8 (File No. 33-35737), Form S-8 (File No. 33-58135), Form S-3 (File No. 33-58137) and Form S-3 (File No. 33-62143).

ARTHUR ANDERSEN LLP

Las Vegas, Nevada
March 26, 1996

Exhibit 23.01

UT

This schedule contains summary financial information extracted from Southwest Gas Corporation's Form 10-K for the year ended December 31, 1995, and is qualified in its entirety by reference to such financial statements.

1,000

YEAR	YEAR
DEC-31-1995	DEC-31-1994
DEC-31-1995	DEC-31-1994
PER-BOOK	PER-BOOK
1,137,750	1,035,916
35,128	34,195
317,222	339,177
42,427	44,294
0	0
1,532,527	1,453,582
26,097	22,912
312,631	273,217
17,322	52,427
356,050	348,556
0	3,200
0	0
607,945	678,263
37,000	92,000
0	0
0	0
120,000	5,000
0	800
0	0
0	0
411,532	325,763
1,532,527	1,453,582
563,502	599,553
839	14,595
505,090	510,863
505,090	510,863
58,412	88,690
(1,565)	(1,110)
56,847	87,580
53,354	49,461
(14,882)	26,301
307	510
(15,189)	25,791
19,826	17,125
53,354	49,461
97,754	84,074
(0.66)	1.22
(0.66)	1.22

Includes: trust originated preferred securities of $60,000; current liabilities, net of current long-term debt maturities and short-term debt, of $173,211; and deferred income taxes and other deferred credits of $178,321.
Includes: current liabilities, net of current long-term debt maturities and short-term debt, of $157,563; and deferred income taxes and other deferred credits of $168,200.
Includes distributions related to trust originated preferred securities of $913.
Includes income from continuing operations of $2,654 and a loss from discontinued operations of $17,536. This loss is comprised of a loss from discontinued operations of $4,513, net of taxes, and a loss from disposal of discontinued segment of $13,023, including tax expense.
Includes income from continuing operations of $23,524 and income from discontinued operations of $2,777.
Represents interest costs for short and long-term debt net of the cost to finance utility construction (AFUDC).
Earnings per share attributed to continuing operations was $0.10, and EPS attributed to discontinued operations was $(0.76).
Earnings per share attributed to continuing operations was $1.09, and EPS attributed to discontinued operations was $0.13.