



Pacific & Western

Credit Corp.

First Quarter Report January 31, 2005

FIRST QUARTER FINANCIAL HIGHLIGHTS

- Net earnings of \$1.9 million or \$0.14 per share (\$0.13 diluted) compared to \$1.6 million or \$0.12 (\$0.12 diluted) per share for the previous quarter and approximately \$1 million or \$0.07 per share (\$0.07 diluted) for the same period a year ago.
- Total assets increased by \$14 million from the end of the previous quarter to \$1.03 billion and increased by \$228 million from a year ago.
- Lending assets increased to \$662 million, an increase of \$105 million from a year ago and down slightly from the previous quarter's figure of \$664 million.
- Provision for credit losses showed a net recovery of \$337,000 compared to a net recovery of \$749,000 in the previous quarter and a provision of \$36,000 for the same period a year ago.
- Total revenue (teb) increased to \$5.2 million for the quarter compared to \$4.9 million in the previous quarter and \$3.4 million for the same period a year ago.
- Other income of \$924,000 compared to \$67,000 for the previous quarter and \$48,000 for the same period a year ago.
- Efficiency ratio (teb) improved to 43.8% for the quarter compared to 59.5% for the previous quarter and 52.85% for the same period a year ago.
- Return on average common shareholders' equity improved to 16.8% for the first quarter compared to 15.5% for the previous quarter and 10.6% for the same period a year ago.
- Credit quality remained strong with gross impaired loans equal to 0.13% of total assets compared to 0.12% at the end of the previous quarter and 0.27% a year ago.

PRESIDENT'S COMMENTS

This quarter marks the tenth quarter since our wholly owned subsidiary, Pacific & Western Bank of Canada, obtained its Schedule 1 Bank Charter. Since that time our assets have grown as well as our profits. The results for this quarter are particularly strong. Net earnings grew to \$2.6 million (before draw-down of the future income tax asset) and \$1.9 million after draw-down of the future income tax asset. This gave rise to return on average common equity of 23.4% and 16.8% respectively. Our efficiency ratio (teb) for the quarter was 43.8%. Our asset quality ratio (gross impaired loans divided by assets) was 0.13%. Non-interest expenses as a percent of assets was 0.21% and our employee to asset ratio was \$23.4 million. These ratios indicate that we are one of Canada's most profitable and efficient banks. We are continuing to experience high demand for our products and this quarter we booked new loans and leases of \$81 million, just slightly less than our target for the quarter. Scheduled loan and lease repayments, however, for the quarter were \$83 million so that our lending assets decreased slightly from \$664 million to \$662 million. Throughout the remaining quarters, we expect to book new loans and leases in the amount of approximately \$1 million per calendar day and after taking into consideration scheduled loan repayments, we expect lending assets to increase to approximately \$880 million. At the end of this quarter, we had loans and leases offered and accepted by our clients totalling \$137 million. We have also been working on several new, exciting initiatives that take advantage of our Bank's in-house systems capabilities to provide high-volume financing to some of Canada's most credit-worthy corporations. We look forward to expanding our high quality service to niche markets in Canada and continued growth in earnings and returns to our shareholders.

FINANCIAL HIGHLIGHTS

for the three months ended

(unaudited)

(\\$ thousands, except per share amounts)

Results of operations (teb)

	January 31 2005	October 31 2004	January 31 2004
Net interest income per financial statements	\$ 3,496	\$ 3,551	\$ 3,113
Add teb adjustment	422	554	360
Net interest income (teb)	3,918	4,105	3,473
Spread	1.52%	1.61%	1.77%
Recovery (provision) for credit losses	337	749	(36)
Other income	924	67	48
Total revenue	5,179	4,921	3,485
Non-interest expenses	2,121	2,481	1,861
Net earnings	1,882	1,609	993
Earnings per common share:			
Basic	\$ 0.14	\$ 0.12	\$ 0.07
Diluted	\$ 0.13	\$ 0.12	\$ 0.07
Return on average common shareholders' equity	16.76%	15.53%	10.56%
Return on average total assets	0.73%	0.63%	0.51%
Gross impaired loans to total assets	0.13%	0.12%	0.27%
Efficiency ratio	43.80%	59.47%	52.85%
Number of full-time employees	44	44	42

Balance sheet summary

Cash and securities	\$ 339,014	\$ 327,446	\$ 223,433
Total loans	662,135	663,637	556,859
Total assets	1,029,573	1,015,588	801,465
Average assets	1,022,581	1,017,844	777,767
Deposits	912,526	887,245	718,970
Notes payable	34,186	34,186	34,186
Shareholders' equity	47,493	45,818	41,541

Capital ratios

(Pacific & Western Bank of Canada)

Assets to capital ratio	13.73	14.07	12.29
Risk-based capital ratio	11.72%	10.77%	11.89%

Taxable Equivalent Basis (teb):

Most banks analyze revenue on a taxable equivalent basis (teb) to permit uniform measurement and comparison of net interest income. Net interest income includes tax-exempt income on certain securities. Since this income is not taxable, the rate of interest or dividends received is lower than would apply to a loan or taxable security of the same amount. The taxable equivalent basis includes an adjustment that increases interest income and the provision for income taxes by the same amount that adjusts the income on the tax-exempt securities to what income would have been had it been taxed at the statutory rate.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF OPERATIONS AND FINANCIAL CONDITION

This management's discussion and analysis (MD&A) of operations and financial condition for the first quarter of fiscal 2005 should be read in conjunction with the unaudited interim consolidated financial statements for the period ended January 31, 2005, included herein, and the audited consolidated financial statements and MD&A for the year ended October 31, 2004, included on pages 10 through 44 of the 2004 Annual Report. Except as discussed below, all other factors discussed and referred to in the MD&A for the year ended October 31, 2004, remain substantially unchanged.

Overview

At January 31, 2005, total assets increased to \$1.03 billion from \$1.02 billion at the end of the previous quarter and from \$802 million from a year ago. Lending assets of \$662 million at the end of the quarter remained virtually unchanged from the end of the previous quarter but increased by \$105 million from a year ago. Cash and securities increased to \$339 million from \$327 million at the end of the previous quarter and increased by \$116 million from a year ago. Credit quality remains strong with gross impaired loans at the end of the quarter totalling \$1.4 million or 0.13% of total assets, virtually unchanged from the end of the previous quarter where gross impaired assets as a percentage of total assets was 0.12%, and \$823,000 less than a year ago where gross impaired loans were \$2.2 million or 0.27% of total assets.

The Corporation achieved record quarterly net earnings of \$1.9 million or \$0.14 per share for the first quarter compared to net earnings of \$1.6 million or \$0.12 per share for the previous quarter and approximately \$1 million or \$0.07 per share for the same period a year ago. Spread (teb) for the first quarter decreased slightly to 1.52% from 1.61% for the previous quarter. The provision for credit losses in the first quarter showed a net recovery of \$337,000 mainly on account of a reversal of a provision recorded in 2004. Other income for the first quarter was \$924,000 compared to \$67,000 for the previous quarter and \$48,000 for the same period a year ago. The increase in other income was on account of the Corporation providing loan placement services to a client during the quarter. Return on average total assets for the first quarter improved to 0.73% from 0.63% for the previous quarter and 0.51% for the same period a year ago. Return on average common shareholders' equity for the first quarter improved to 16.76% from 15.53% for the previous quarter and from 10.56% for the same period a year ago.

Non-interest expenses for the quarter were \$2.1 million compared to \$2.5 million for the previous quarter and \$1.9 million for the same period a year ago. Our efficiency ratio (teb) for the first quarter improved to 43.8% from 59.5% in the previous quarter and from 52.85% for the same period a year ago. Our assets per full time employee ratio was \$23.4 million at January 31, 2005, improving slightly from the end of the previous quarter's ratio of \$23.1 million and improving considerably from the ratio of \$19.1 million a year ago.

During the first quarter, the Corporation's new Structured Finance lending team agreed to assist a client in restructuring its financial affairs and on-going management. In return for these services, the Corporation acquired a temporary 50% interest in the company, Hicks & Lawrence Ltd. (H&L) for cash consideration of \$535,000 including costs of acquisition. The estimated fair value of the assets acquired and liabilities assumed is summarized in Note 1 to the consolidated financial statements.

Net Interest Income

Net interest income (teb) for the first quarter was \$3.9 million compared to \$4.1 million for the previous quarter and \$3.5 million for the same period a year ago. The reason for the slight decrease in net interest income from the previous quarter was a decline in the yield earned from our treasury portfolio as lower yielding treasury assets were booked in the first quarter to meet new internal targets set for our Bank subsidiary's total risk-based capital ratio. Net interest income for the first quarter was higher than that recorded for the same period a year ago as total assets increased over the past year. Spread (teb) for the first quarter was 1.52% compared to 1.61% for the previous quarter and 1.77% for the same period a year ago. Spread decreased from the previous quarter on account of a decline in spread earned from our treasury portfolio as discussed above. Spread (teb) decreased from the same period a year ago as the mix of lending assets to total assets decreased in the current period and higher spreads were earned in our treasury portfolio last year. As 2005 progresses, we anticipate that new lending activity will increase, particularly in our lending to investment grade corporations and to our residential construction clients. This will allow treasury assets to reduce to more optimal levels being replaced by higher spread lending assets and allowing us to achieve our targeted spread (teb) for the 2005 fiscal year of 1.79%.

Other Income

Other income for the first quarter was \$924,000 compared to \$67,000 for the previous quarter and \$48,000 for the same period a year ago. The increase in other income was on account of fee income totalling \$886,000 relating to fees earned by the Corporation providing loan placement services to a client during the quarter.

Non-Interest Expenses

Non-interest expenses for the quarter were \$2.1 million compared to \$2.5 million for the previous quarter and \$1.9 million for the same period a year ago. Non-interest expenses were higher in the previous quarter due to year end adjustments including accruals for incentive-based compensation for employees when better than targeted results were achieved as well as accruals for higher capital taxes and professional fees. The increase in non-interest expenses in the first quarter over the same period a year ago was due to increased staff to deal with increased lending assets, annual salary adjustments, higher capital taxes and increases in general and administrative expenses due to higher volumes of deposits. Our efficiency ratio (teb) for the first quarter improved to 43.8% from 59.5% in the previous quarter and from 52.85% for the same period a year ago. At the end of the first quarter, our assets per full time employee ratio was \$23.4 million, improving slightly from the end of the previous quarter's ratio of \$23.1 million and improving considerably from the ratio of \$19.1 million a year ago. At the current levels, the Corporation remains one of the most efficient of the domestic banks. We anticipate that the current level of non-interest expenses will increase moderately as the year progresses as hiring of additional staff takes place to deal with anticipated increases in lending assets.

Income Taxes

The income tax provision recorded in the consolidated statement of earnings in the current quarter was \$769,000. Of this amount, \$15,000 represented a current tax provision. The balance of \$754,000 represented a future income tax provision as the Corporation has income tax loss carry-forwards from prior years and the related benefit was recorded in those years. In 2005, the Corporation's statutory federal and provincial income tax rate remains approximately 38%, the same rate that was in effect for 2004. However, the effective income tax rate for the first quarter was 29% compared to an effective tax rate of 15% for the previous quarter and 21% for the same period a year ago. The effective tax rate in the current period increased from the previous quarter primarily as a result of a lower level of non-taxable preferred share income as the Corporation decreased the level of preferred shares in its treasury portfolio. We anticipate that during 2005, the effective income tax rate will approximate 30%.

Balance Sheet

Total assets during the first quarter grew to \$1.03 billion from \$1.02 billion at the end of the previous quarter and from \$802 million a year ago. Lending assets of \$662 million declined slightly from the end of the previous quarter and increased from \$557 million a year ago. Total new lending during the current quarter was approximately \$81 million but was offset by pay-downs of \$83 million. The primary area of increase in our lending assets from the previous year was in lending to businesses, primarily loans to investment grade corporations. The slight decrease in lending assets from the previous quarter was due to the normally slow season for lending, particularly in the residential construction portfolio. Cash and securities increased slightly to \$339 million from \$327 million at the end of the previous quarter and increased from \$223 a year ago. Cash and securities are held for liquidity management purposes and to earn investment income. Securities are held with the original intention of holding them to maturity or until market conditions render alternative investments more attractive. As the 2005 fiscal year progresses, we anticipate that new lending activity will increase, particularly in our lending to investment grade corporations and to our residential construction clients. This will allow the level of cash and securities to reduce to more optimal levels. Total lending assets are anticipated to increase to approximately \$880 million funded primarily by the redeployment of low yielding treasury assets.

Deposits in the quarter grew slightly to \$913 million from \$887 million at the end of the previous quarter and from \$719 million over the past year. Deposits are raised through an agent network throughout Canada with virtually all deposits raised through this network. The other source of financing for growth in total assets is the utilization of the Corporation's margin lines and securities sold under repurchase agreements. These short term financings totalled \$30 million at the end of the current quarter compared to \$40.3 million at the end of the previous quarter and \$nil a year ago.

During the first quarter, our new Structured Finance lending team agreed to assist a client in restructuring its financial affairs and on-going management. In return for these services, the Corporation acquired a temporary 50% interest in the company, Hicks & Lawrence Ltd. (H&L). This company has been involved in providing aerial forest fire services to government entities since the 1940's. By virtue of the Corporation's 50% interest in H&L, and the ability to control the decisions of the shareholders, the Corporation's consolidated balance sheet as at January 31, 2005, includes the assets and liabilities of H&L. As the business of H&L is seasonal and the company is waiting for the commencement of the forest fire fighting season, revenues and expenses in the quarter were not significant. However, management expects

positive results from the operations of H&L as the year progresses. The assistance the Corporation has been able to provide H&L exemplifies the significant value the new Structured Finance team is able to afford its clients over and above simple financing.

Credit Quality

Credit quality remains strong with gross impaired loans at the end of the quarter totalling \$1.4 million or 0.13% of total assets, increasing slightly from the end of the previous quarter where gross impaired loans were \$1.2 million or 0.12% of total assets, and \$823,000 less than a year ago where gross impaired loans were \$2.2 million or 0.27% of total assets. The provision for credit losses in the first quarter showed a net recovery of \$337,000 primarily on account of a reversal of a provision recorded in 2004 when the related facility was repaid in the current quarter. Total allowances for credit losses (including specific and general allowances) were \$1.7 million at the end of the quarter, virtually unchanged from the end of the previous quarter and slightly increasing from \$1.5 million a year ago. As a percentage of gross impaired loans, total allowances for credit losses were 128% at the end of the quarter compared to 141% at the end of the previous quarter and 69% a year ago.

Capital Adequacy

Shareholders' equity at the end of the quarter was \$47.5 million compared to \$45.8 million at the end of the previous quarter and \$41.5 million a year ago. Total common shares outstanding at the end of the quarter increased slightly to 13,234,078 from 13,227,078 at the end of the previous quarter with the increase due to the exercise of common share options. Common share options totalled 1,504,300 at the end of the quarter compared to 1,515,050 at the end of the previous quarter. Book value per common share at January 31, 2005, was \$3.32 per share, up from \$3.20 per share at the end of the previous quarter.

Total regulatory capital in the Corporation's principal subsidiary, Pacific & Western Bank of Canada, totalled \$76 million at the end of the quarter compared to \$72.7 million at the end of the previous quarter and \$64.8 million a year ago. At January 31, 2005, regulatory capital consisted of \$51.5 million in Tier 1 capital and \$24.5 million in Tier 2 capital. Subsequent to January 31, 2005, the Corporation invested an additional \$2 million into the Bank increasing its regulatory capital to over \$78 million.

The Bank's risk-based capital ratio, which is the ratio of regulatory capital to risk weighted assets, was 11.72% at the end of the quarter compared to 10.77% at the end of the previous quarter and 11.89% a year ago. In the previous quarter, the Bank raised its minimum internal target for its risk-based capital ratio to 11%. This new target was met in the current quarter and the Bank intends to manage its risk weighted capital so this target is always exceeded. The Bank's assets to capital ratio was 13.73 at the end of the quarter compared to 14.07 at the end of the previous quarter and 12.29 a year ago.

Subsequent Event

Subsequent to January 31, 2005, the Corporation issued a short term note payable in the amount of \$2 million. The note is for a one year term and bears interest at 6% per annum.

Performance Targets

Performance targets established for the 2005 fiscal year and approved by the Corporation's Board of Directors are noted below with actual results for the period ended January 31, 2005.

	2005		
	Annual Target	Year to Date Target	Year to Date Results
Earnings per common share	\$0.43	\$0.09	\$0.14
Spread (teb)	1.79%	1.63%	1.52%
Loan growth	32.00%	1.33%	-0.23%
Total asset growth	17.00%	1.41%	1.40%
Return on average common shareholders' equity	12.35%	10.32%	16.76%
Return on average total assets	0.57%	0.48%	0.73%

PACIFIC & WESTERN CREDIT CORP.

Consolidated Balance Sheet (thousands of dollars)

	January 31	October 31	January 31
	2005	2004	2004
	(unaudited)	(audited)	(unaudited)
Assets			
Cash resources	\$ 48,375	\$ 43,728	\$ 71,970
Securities	290,639	283,718	151,463
Mortgages and loans	662,135	663,637	556,859
Equity investments and loans	1,401	1,404	2,501
Other assets	27,023	23,101	18,672
	<u>\$ 1,029,573</u>	<u>\$ 1,015,588</u>	<u>\$ 801,465</u>
Liabilities and Shareholders' Equity			
Deposits	\$912,526	\$887,245	\$718,970
Notes payable	34,186	34,186	34,186
Other liabilities	34,905	48,339	6,768
	<u>981,617</u>	<u>969,770</u>	<u>759,924</u>
Non-controlling interest in subsidiary	463	-	-
Shareholders' equity			
Share capital	36,498	36,465	36,396
Retained earnings	10,995	9,353	5,145
	<u>47,493</u>	<u>45,818</u>	<u>41,541</u>
	<u>\$ 1,029,573</u>	<u>\$ 1,015,588</u>	<u>\$ 801,465</u>
<i>Amount of convertible notes payable</i>	<i>\$34,184,000</i>	<i>\$34,184,000</i>	<i>\$34,184,000</i>
<i>Number of common shares outstanding</i>	<i>13,234,078</i>	<i>13,227,078</i>	<i>13,204,078</i>
<i>Number of Class A preferred shares outstanding</i>	<i>1,142,556</i>	<i>1,142,556</i>	<i>1,142,556</i>
<i>Number of common share options outstanding</i>	<i>1,504,300</i>	<i>1,515,050</i>	<i>1,537,550</i>
<i>Number of warrants outstanding</i>	<i>17,000</i>	<i>17,000</i>	<i>17,000</i>

PACIFIC & WESTERN CREDIT CORP.
Consolidated Statement of Operations
(thousands of dollars)

	<i>for the three months ended</i>	
	January 31	January 31
	2005	2004
	(unaudited)	(unaudited)
Interest income		
Interest income on loans	\$ 9,882	\$ 8,867
Interest and income from securities	3,329	3,560
Loan fee income	481	303
	<u>13,692</u>	<u>12,730</u>
Interest expense		
Deposits and other	9,369	8,790
Notes payable	827	827
	<u>10,196</u>	<u>9,617</u>
Net interest income before recovery (provision) for credit losses	3,496	3,113
Recovery (provision) for credit losses	<u>337</u>	<u>(36)</u>
Net interest income	3,833	3,077
Other income	<u>924</u>	<u>48</u>
	<u>4,757</u>	<u>3,125</u>
Non-interest expenses		
Salaries and benefits	1,060	877
General and administrative	845	795
Premises and equipment	216	189
	<u>2,121</u>	<u>1,861</u>
Earnings before income taxes and other	2,636	1,264
Income tax provision	769	271
Non-controlling interest	<u>15</u>	<u>-</u>
Net earnings	\$ 1,882	\$ 993
Basic earnings per share	\$ 0.14	\$ 0.07
Diluted earnings per share	\$ 0.13	\$ 0.07
Weighted average number of common shares	<u>13,234,000</u>	<u>13,204,000</u>

PACIFIC & WESTERN CREDIT CORP.

Consolidated Statement of Changes in Shareholders' Equity
(thousands of dollars)

	<i>for the three months ended</i>	
	January 31	January 31
	2005	2004
	(unaudited)	(unaudited)
Common shares		
Balance, beginning of period	\$ 32,877	\$ 32,808
Proceeds of shares issued	21	-
Balance, end of period	<u>\$ 32,898</u>	<u>\$ 32,808</u>
Class A preferred shares		
Balance, beginning and end of period	<u>\$ 3,545</u>	<u>\$ 3,545</u>
Stock-based compensation		
Balance, beginning of period	\$ 43	\$ 43
Fair value of stock options granted	12	-
Balance, end of period	<u>\$ 55</u>	<u>\$ 43</u>
Retained Earnings		
Balance, beginning of period	\$ 9,353	\$ 4,392
Net earnings	1,882	993
Dividends paid	(240)	(240)
Balance, end of period	<u>\$ 10,995</u>	<u>\$ 5,145</u>
Total Shareholders' Equity	<u>\$ 47,493</u>	<u>\$ 41,541</u>

PACIFIC & WESTERN CREDIT CORP.**Consolidated Statement of Cash Flows**

(thousands of dollars)

	<i>for the three months ended</i>	
	January 31	January 31
	2005	2004
	(unaudited)	(unaudited)
Cash provided by (used in):		
Operations:		
Net earnings	\$ 1,882	\$ 993
Items not involving cash:		
Provision (recovery) for credit losses	(337)	36
Future income tax provision	754	265
Stock-based compensation	12	-
Non-controlling interest	(15)	-
Change in other assets and liabilities	(17,097)	331
	<u>(14,801)</u>	<u>1,625</u>
Investing:		
Securities	(6,921)	(9,160)
Mortgages and loans	1,839	(4,490)
Equity investments and loans	3	172
Acquisition of subsidiary operations	(535)	-
	<u>(5,614)</u>	<u>(13,478)</u>
Financing:		
Deposits	25,281	45,741
Proceeds of common shares issued	21	-
Dividends paid	(240)	(240)
	<u>25,062</u>	<u>45,501</u>
Increase in cash resources	4,647	33,648
Cash resources, beginning of period	<u>43,728</u>	<u>38,322</u>
Cash resources, end of period	<u>\$ 48,375</u>	<u>\$ 71,970</u>
Supplementary cash flow information:		
Interest paid during the period	\$ 8,834	\$ 7,825
Income taxes paid during the period	\$ 38	\$ 29

PACIFIC & WESTERN CREDIT CORP.
Notes to the interim consolidated financial statements (unaudited)
For the three months ended January 31, 2005

1. Basis of presentation

The interim consolidated financial statements of Pacific & Western Credit Corp. (the Corporation) should be read in conjunction with our consolidated financial statements for the year ended October 31, 2004 as set out in pages 27-44 of our 2004 Annual Report. These consolidated financial statements have been prepared in accordance with Canadian accepted accounting principles using the same accounting policies and methods as were used for the Corporation's financial statements for the year ended October 31, 2004 with the addition of the accounting for the investment described below.

During the quarter ended January 31, 2005, as part of its lending activities, the Corporation provided financing to and acquired 50% of the outstanding common shares of Hicks & Lawrence Limited (H&L) for total cash consideration of \$535,000, including costs of acquisition. By virtue of the Corporation's 50% interest in H&L and the ability to control the decisions of the shareholders, the results of operations have been included in the Corporation's consolidated financial statements since the date of acquisition. There was no significant impact on the revenue and expenses of the Corporation in the period as H&L's activities are seasonal. The estimated fair value of the assets acquired and liabilities assumed are summarized in the table below:

(thousands of dollars)	
Net assets acquired:	
Capital assets	\$ 5,484
Other assets	457
Other liabilities	(3,493)
Future income tax liability	(1,435)
Non-controlling interest	(478)
Total	\$ 535

The Corporation is completing valuations of certain of the acquired assets; therefore the allocation of the purchase price has not been finalized and may change.

2. Allowance for Credit Losses

(thousands of dollars)	for the three months ended			for the three months ended		
	January 31, 2005			January 31, 2004		
	General allowance	Specific allowance	Total allowance	General allowance	Specific allowance	Total allowance
Balance, beginning of the period	\$ 1,648	\$ 75	\$ 1,723	\$ 1,353	\$ 123	\$ 1,476
Provision (recovery) for credit losses	16	(353)	(337)	11	25	36
Recoveries	-	353	353	-	-	-
Balance, end of period	\$ 1,664	\$ 75	\$ 1,739	\$ 1,364	\$ 148	\$ 1,512

Impaired loans at January 31, 2005 totalled \$1,356,000 (January 31, 2004 - \$2,179,000).

3. Derivative instruments

At January 31, 2005, the Corporation had outstanding contracts for asset liability management purposes to swap between floating and fixed interest rates with notional amounts totalling \$19,592,000. The Corporation only enters into these interest rate contracts for its own account and does not act as an intermediary in this market. These contracts have

a current replacement cost of \$nil, a credit equivalent amount of \$294,000 and a risk weighted balance of \$59,000. At January 31, 2005, these contracts were in an unfavorable position of \$1,280,000.

4. Commitments and contingencies

The amounts of credit related commitments represents the maximum amount of additional credit that the Corporation could be obligated to extend. The amounts with respect to the letters of credit are not necessarily indicative of credit risk as many of these arrangements are contracted for a limited period of usually less than one year and will expire or terminate without being drawn upon.

Loan commitments	\$84,600,000
Letters of credit	<u>19,059,000</u>
	<u>\$103,659,000</u>

The Corporation has guaranteed the repayment of bank indebtedness of one of its equity investments to the extent of \$1,000,000. The guarantee expires when the related bank indebtedness has been repaid in full. Payments under the guarantee would be required if the investee fails to meet the scheduled repayments. While the Corporation does not expect to be required to make any payments related to the guarantee, any amounts paid may not be recoverable.

5. Stock-based compensation

	Common Shares Outstanding	Employee Stock Options	
		Number	Weighted- Average Exercise Price
Outstanding, beginning of period	13,227,078	1,515,050	\$ 7.56
Granted	-	7,250	8.00
Exercised	7,000	(7,000)	3.00
Expired	-	(11,000)	13.14
<u>Outstanding, end of period</u>	<u>13,234,078</u>	<u>1,504,300</u>	<u>\$ 7.54</u>

During the three months ended January 31, 2005, salary expense of \$12,000 has been recognized relating to the estimated fair value of stock options granted since November 1, 2004. The fair value of options granted during the quarter was estimated using the Black-Scholes option pricing model based on the following assumptions: (i) risk-free interest rate of 3.55%, (ii) expected option life of 5 years, (iii) expected volatility of 86%, and (iv) expected forfeiture rate of 5%. The weighted average fair value of options granted was estimated at \$5.67 per share.

6. Subsequent event

On February 15, 2005, the Corporation issued a note payable in the amount of \$2,000,000. The note is for a one year term and bears interest at 6% per annum.

CORPORATE INFORMATION

PACIFIC & WESTERN CREDIT CORP. and PACIFIC & WESTERN BANK OF CANADA

DIRECTORS

Peter R. Lockyer, LL.B., Q.C.

Director, Chairman of the Board
Pacific & Western Bank of Canada
and Pacific & Western Credit Corp.
Partner, Lockyer Spence LLP, Barristers and Solicitors

David A. Bratton, B.A.(Hons.), M.B.A., C.M.C.

Director - Pacific & Western Bank of Canada
and Pacific & Western Credit Corp.
President, Bratton Consulting Inc.

Dale E. Creighton, B.A., CLU., C.H.F.C., LLIF

Director - Pacific & Western Credit Corp.
Retired, former Deputy Chairman, London Life Insurance
Company

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