



---

---

## **PACIFIC & WESTERN CREDIT CORP. ANNOUNCES RECORD NET EARNINGS FOR ITS 2005 FISCAL YEAR OF \$7 MILLION, AN INCREASE OF 35% OVER THE PREVIOUS YEAR**

**LONDON, ONTARIO, December 5, 2005** – Pacific & Western Credit Corp. (TSX:PWC) today announced record net earnings for its 2005 fiscal year of \$7 million and net earnings of \$1.8 million for its fourth quarter of 2005.

### **Fourth Quarter Highlights:**

- Net earnings for 2005 increased by 35% to \$7.0 million or \$0.51 per share (\$0.50 diluted) from \$5.2 million or \$0.38 (\$0.37 diluted) per share a year ago.
- Net earnings for the fourth quarter of 2005 of \$1.8 million or \$0.13 per share (\$0.13 diluted) compared to \$1.6 million or \$0.12 (\$0.12 diluted) per share for the same quarter a year ago.
- Return on average common shareholders' equity for 2005 improved to 14.8% from 12.5% a year ago. Prior to the drawdown of our future income tax asset, the return on average common shareholders' equity for 2005 was 19.7% and 14% for the previous year.
- Strong loan fundings in the fourth quarter led to lending assets increasing by 13% to \$749 million compared to \$664 million a year ago.
- Credit quality remained strong with gross impaired loans at the end of the year equal to 0.03% of total assets compared to 0.12% at the end of the previous year.
- Total assets reached a record \$1.1 billion compared to \$1 billion a year ago, an increase of 11%.
- Net interest income (teb) before provision for credit losses for 2005 was \$16 million compared to \$15.5 million for the previous year.
- Net interest income (teb) before provision for credit losses for the fourth quarter was \$4.5 million compared to \$4.1 million for the same quarter a year ago.
- Total revenue (teb) for 2005 of \$25 million compared to \$16.3 million a year ago.
- Total revenue (teb) for the fourth quarter improved to \$6.9 million from \$4.9 million for the same quarter a year ago.
- Efficiency ratio (teb) for 2005 improved to 49.9% from 54.7% a year ago.

### **PRESIDENT'S COMMENTS**

I am pleased with the overall results for the 2005 fiscal year. Net earnings were up 35% over the previous year to \$7 million and return on common equity prior to the drawdown of our future income tax asset was 19.7%. Earnings per share also showed a significant increase from \$0.38 to \$0.51 and prior to the drawdown of the tax asset increased from \$0.42 to \$0.68 per share. The results for our fourth quarter were particularly encouraging in that we funded a record amount of new loans and leases totaling \$123 million bringing the total advances for the year to \$375 million. This did not give rise to the increase in lending assets that we had anticipated as residential development loans in Southwestern Ontario repaid at an abnormally high rate. However, we benefited by achieving a better spread of 2.18% than our target of 2.00% so that net interest income achieved from our lending portfolio was very close to the target. The compression in spreads on high quality securities had a negative impact on our overall net interest income and served to reduce our spread. However this reduction was off-set by fee income and earnings derived from our Structured Finance activities with Discovery Air Inc. During the last quarter, we were successful in recruiting additional lending staff and launched a new automated product, the Receivable Purchasing Program. I am confident that the momentum developing in the last quarter of fiscal 2005 will continue into 2006.

## FINANCIAL HIGHLIGHTS

(unaudited)	for the three months ended		for the year ended	
	October 31 2005	October 31 2004	October 31 2005	October 31 2004
(\$ thousands, except per share amounts)				
<b>Results of operations (teb)</b>				
Net interest income before provisions per financial statements	\$ 3,999	\$ 3,551	\$ 14,244	\$ 13,764
Teb adjustment	484	553	1,775	1,784
Net interest income before provisions (teb)	4,483	4,104	16,019	15,548
Spread	1.63%	1.61%	1.49%	1.76%
Provisions (recoveries) for credit losses	147	(749)	(61)	(471)
Other income	2,592	67	8,869	281
Total revenue	6,928	4,920	24,949	16,300
Non-interest expenses	3,904	2,481	12,423	8,652
Net income before income taxes	3,024	2,439	12,526	7,648
Provision for income taxes	1,196	830	4,734	2,447
Net earnings	1,756	1,609	7,016	5,201
Earnings per common share:				
Basic	\$0.13	\$0.12	\$0.51	\$0.38
Diluted	\$0.13	\$0.12	\$0.50	\$0.37
Return on average common shareholders' equity	13.91%	14.83%	14.79%	12.48%
Return on average total assets	0.64%	0.63%	0.65%	0.59%
Gross impaired loans to total assets	0.03%	0.12%	0.03%	0.12%
Efficiency ratio	55.18%	59.47%	49.92%	54.66%
Number of full time equivalent staff	48	44	48	44
<b>Balance Sheet Summary</b>				
Cash and securities	\$ 352,383	\$ 327,446	\$ 352,383	\$ 327,446
Total loans	749,307	663,637	749,307	663,637
Total assets	1,131,227	1,015,588	1,131,227	1,015,588
Average assets	1,089,231	1,017,844	1,073,408	884,828
Deposits	935,758	887,245	935,758	887,245
Notes payable	36,186	34,186	36,186	34,186
Shareholders' equity	52,923	45,818	52,923	45,818
<b>Capital ratios</b>				
(Based on the subsidiary Pacific & Western Bank of Canada)				
Assets to capital ratio	13.60	14.07	13.60	14.07
Tier 1 risk based capital ratio	7.43%	7.29%	7.43%	7.29%
Total risk based capital ratio	11.12%	10.77%	11.12%	10.77%

### 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 fourth quarter of 2005 should be read in conjunction with the unaudited interim consolidated financial statements for the period ended October 31, 2005, included herein, and the audited consolidated financial statements and MD&A for the year ended October 31, 2004, which are available on SEDAR at [www.sedar.com](http://www.sedar.com) or 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

Net earnings for the quarter were \$1.8 million or \$0.13 per share compared to \$1.6 million or \$0.12 per share for the same quarter a year ago. For the year, net earnings were \$7 million or \$0.51 per share, compared to \$5.2 million or \$0.38 per share for the previous year, an increase of 35%. Net earnings were positively impacted by the operating results of Discovery Air Inc. (Discovery), which were \$348,000 after income taxes and minority interest for the year and \$17,000 after income taxes and minority interest for the fourth quarter. The contribution from Discovery in the fourth quarter decreased due to a decline in revenues as the forest fire fighting season ended in late September. The Corporation also earned dilution gains during the year totalling \$655,000 (\$530,000 after income taxes) resulting from the issue of common shares by Discovery. Net earnings for the year also included fees from loan placement services totalling \$3 million (\$1.9 million after income taxes) of which \$900,000 (\$558,000 after income taxes) was earned in the fourth quarter.

Return on average total assets for the quarter was 0.64% compared to 0.63% for the same quarter a year ago. For the year, return on average total assets improved to 0.65% from 0.59% a year ago. Return on average common shareholders' equity for the quarter was 13.9% compared to 14.8% for the same quarter a year ago, however for the year, improved to 14.79% from 12.48% a year ago. Adjusted for the drawdown of our future income tax asset, the return on average common shareholders' equity for the year was 19.7% and 14% a year ago.

Non-interest expenses for the quarter were \$3.9 million compared to \$2.5 million for the same quarter a year ago. For the year, non-interest expenses were \$12.4 million compared to \$8.7 million for the previous year. Non-interest expenses increased over the previous year mainly as a result of the consolidation of the non-interest expenses of Discovery which totalled approximately \$2.5 million. However, our efficiency ratio (teb) for the year improved to 49.9% from 54.7% for the previous year and at the end of 2005, our ratio of assets per full time employee was \$23.4 million compared to \$23.1 million a year ago.

At October 31, 2005, total assets were \$1.1 billion increasing from \$1.02 billion a year ago. Strong lending results in the fourth quarter resulted in lending assets growing to \$749 million from \$690 million at the end of the previous quarter and increased from \$664 million a year ago. Credit quality remains strong with gross impaired loans at the end of the year totalling \$362,000 or 0.03% of total assets, improving from \$1.2 million or 0.12% of total assets at the end of the previous year.

### Net Interest Income

For the fourth quarter, net interest income (teb) before provision for credit losses was \$4.5 million compared to \$4.1 million for the same quarter a year ago and was \$16 million for the year compared to \$15.6 million for the previous year. Spread (teb) for the year was 1.49% compared to 1.76% for the previous year and for the quarter was 1.63% compared to 1.61% for the same quarter a year ago. Overall spread decreased in 2005 as a result of a compression of spreads earned on our treasury investments, particularly on high quality short-dated corporate securities. This compression was offset however by achieving a spread of 2.18% on our average lending assets for the year of \$688 million, exceeding our targeted spread of 2.00%. In 2006, we expect that with the increase in our lending assets at the end of fiscal 2005, our spread will improve from the current levels.

### Other Income

Other income for the quarter was \$2.6 million compared to \$67,000 for the same period a year ago and for the year was \$8.9 million compared to \$281,000 in the previous year. As discussed below, other income in the quarter included revenues of \$1.6 million from Discovery and a dilution gain of \$130,000 relating to common shares issued by Discovery. For the year, revenues of Discovery totalled \$5.1 million and dilution gains were \$655,000. Other income also included fees earned by the Corporation under an agreement to provide loan placement services. For the fourth quarter, these

fees totalled \$900,000 and for the year were \$3 million. In the coming year, we expect a decrease in the level of loan placement fees as the services required under the agreement wind down.

### ***Discovery Air Inc.***

During the first quarter of fiscal 2005, the Corporation agreed to assist a client in restructuring its financial affairs and provide on-going management. In return for these services, the Corporation, through Discovery, acquired a temporary 50% interest in the company, Hicks & Lawrence Limited (H&L). In August, 2005, the Corporation through its subsidiary Discovery, purchased the remaining 50% of the outstanding common shares of H&L increasing Discovery's ownership to 100% of H&L's outstanding shares. H&L has been involved in providing aerial forest fire services to government entities since the 1940's and its revenue from these services in 2005 is included in Other Income. Additional information with respect to the inclusion of these operations in the results of the Corporation is included in Note 6 to the attached interim consolidated financial statements. During the year, Discovery issued common shares resulting in the Corporation's investment in the outstanding common shares decreasing from 100% to 57% at the end of 2005.

### ***Non-Interest Expenses***

Non-interest expenses for the quarter were \$3.9 million compared to \$2.5 million for the same period a year ago and for the year were \$12.4 million compared to \$8.7 million for the previous year. Non-interest expenses for the quarter increased over last year due to the inclusion of the non-interest expenses of Discovery which approximated \$1.1 million, increased compensation related amounts due to increased staff levels, annual salary adjustments, increased amounts for capital taxes and increases in business development costs and professional fees. Increases in non-interest expenses for the year were due mainly to the inclusion of non-interest expenses of Discovery which were approximately \$2.5 million with the previously mentioned items making up the remaining difference. However, our efficiency ratio (teb) for the year still showed improvement from 54.7% in 2004 to 49.9% in the current year. At the end of the year, our ratio of assets per full time employee, excluding Discovery, was \$23.4 million compared to \$23.1 million a year ago. At the current levels, the Corporation remains one of the most efficient of the Canadian domestic banks.

### ***Income Taxes***

The provision for income taxes for the quarter was \$712,000 of which \$646,000 represented future income taxes and the remainder represented current income taxes. Of this amount, \$41,000 related to a current income tax provision on the earnings of Discovery. For the year, the provision for income taxes was \$3 million of which \$2.3 million represented a future income tax provision and the remainder represented a current income tax provision on the earnings of Discovery. During 2005, the Corporation's statutory federal and provincial income tax rate was approximately 38%, the same rate that was in effect for 2004. However, primarily due to dividend income from preferred shares in our securities portfolio which is not taxable, the effective income tax rate for the year was approximately 10% less than the combined statutory rates.

### ***Balance Sheet***

Total assets increased during the fourth quarter to \$1.1 billion from \$1.05 billion at the end of the previous quarter and increased from \$1.02 billion from a year ago. Lending assets grew to \$749 million from \$690 million at end of the previous quarter, an increase of 9% and increased 13% from \$664 million a year ago. New lending during the fourth quarter was strong with approximately \$123 million in new loans and leases being booked bringing total loan fundings for the year to approximately \$375 million. The loan portfolios which saw the largest increases in the year were loans and leases to investment grade corporations and lending in our residential development portfolio. Loan repayments during the quarter were approximately \$59 million bringing loan repayments for the year to approximately \$284 million. Loan repayments during the year were higher than anticipated due to the strong housing market in Southwestern Ontario which resulted in the completion and sales of units in residential development projects we finance occurring sooner than expected.

Cash and securities increased during the fourth quarter to \$352 million from \$326 million at the end of the previous quarter and increased from \$327 million at the end of the previous year. Cash and securities are held for liquidity management purposes and to earn investment income. Securities are purchased with the original intention of holding them to maturity or until market conditions render alternative investments more attractive.

The increase in total assets was funded by way of deposits and the use of short term margin lines and securities sold under repurchase agreements. Deposits increased during the fourth quarter to \$936 million from \$904 million at the end of the previous quarter and from \$887 million at the end of the previous year. Virtually all of our deposits continue to be raised through an agent network throughout Canada. The second source of financing of growth in total assets was the utilization of the Corporation's margin lines and securities sold under repurchase agreements. These financings totalled

\$98 million at the end of the fourth quarter compared to \$49 million at the end of previous quarter and \$40 million at the end of the previous year.

### **Credit Quality**

Credit quality remains strong with gross impaired loans at the end of the quarter totalling \$362,000 or 0.03% of total assets, decreasing from \$1.2 million or 0.12% of total assets at the end of the previous year. The provision for credit losses in the quarter was \$147,000 compared to a net recovery of \$749,000 for the same quarter a year ago. For the year a net recovery of \$61,000 was recorded compared to a net recovery of \$471,000 for the previous year. Total allowances for credit losses (including specific and general allowances) were \$1.9 million at the end of the year compared to \$1.7 million at the end of the previous year.

### **Capital Adequacy**

Shareholders' equity at the end of the year was \$52.9 million compared to \$45.8 million a year ago. Total common shares outstanding at the end of the year increased to 13,308,778 from 13,227,078 at the end of the previous year with the increase due to the exercise of common share options. Common share options totalled 1,421,600 at the end of the year compared to 1,515,050 at the end of the previous year. Book value per common share at the end of the year increased to \$3.71 per share compared to \$3.20 a year ago.

Total regulatory capital in the Corporation's principal subsidiary, Pacific & Western Bank of Canada, totalled \$84.5 million at the end of the year compared to \$72.7 million a year ago. At the end of fiscal 2005, regulatory capital consisted of \$56.5 million in Tier 1 capital and \$28 million in Tier 2 capital. During the year, the Corporation invested an additional \$4.5 million of Tier 2 capital and \$2.5 million of Tier 1 capital into the Bank thereby increasing its regulatory capital. The Bank's total risk-based capital ratio, which is the ratio of total regulatory capital to risk weighted assets, was 11.11% at the end of the year compared to 10.77% at the end of the previous year. Near the end of fiscal 2004, the Bank raised its minimum internal target for its risk-based capital ratio to 11% and manages its risk weighted capital to ensure this target is always exceeded. The Bank's assets to capital ratio was 13.62 at the end of the year compared to 14.07 at the end of the previous year.

### **Updated Share Information**

At December 1, 2005, there were 13,332,928 common shares outstanding with the increase from October 31, 2005 due to the exercise of common share options. At December 1, 2005, there were 1,422,200 common share options outstanding which are exercisable into an equivalent number of common shares.

### **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 year ended October 31, 2005.

	<b>Actual 2004 Results</b>	<b>2005 Target</b>	<b>Actual 2005 Results</b>
Earnings per common share	\$0.38	\$0.43	\$0.51
Spread (teb)	1.76%	1.79%	1.49%
Return on average common shareholders' equity	12.48%	12.35%	14.79%
Return on average total assets	0.59%	0.57%	0.65%
Lending assets	\$664 million	\$879 million	\$749 million
Total assets	\$1.02 billion	\$1.19 billion	\$1.13 billion

## Summary of Quarterly Results

(thousands of dollars except per share amounts)

	2005				2004			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
<b>Results of operations:</b>								
Total interest income								
per financial statements	\$ 13,845	\$ 13,117	\$ 13,298	\$ 13,692	\$ 13,807	\$ 13,531	\$ 12,721	\$ 12,730
Teb adjustment	484	423	446	422	553	519	352	360
Total interest income	14,329	13,540	13,744	14,114	14,360	15,050	13,073	13,090
Yield on assets (%)	5.21%	5.11%	5.41%	5.48%	5.64%	6.00%	6.22%	6.68%
Interest expense	9,846	10,000	9,666	10,196	10,256	9,977	9,175	9,617
Cost of funds (%)	3.58%	3.77%	3.80%	3.96%	4.03%	4.26%	4.36%	4.91%
Net interest income before provisions	4,483	3,540	4,078	3,918	4,104	4,073	3,898	3,473
Spread (%)	1.63%	1.34%	1.61%	1.52%	1.61%	1.74%	1.86%	1.77%
Provisions (recoveries) for credit losses	147	91	38	(337)	(749)	150	92	36
Other income	2,592	4,275	1,078	924	66	93	73	48
Total revenue	6,928	7,724	5,118	5,179	4,920	4,016	3,879	3,485
Non-interest expenses	3,904	3,652	2,746	2,121	2,481	2,164	2,146	1,861
Income before income taxes	3,024	4,072	2,372	3,058	2,439	1,852	1,733	1,624
Income tax provision	1,196	1,507	840	1,191	830	712	274	631
Non-controlling interest	(72)	(826)	107	15	-	-	-	-
Net earnings	1,756	1,739	1,639	1,882	1,609	1,140	1,459	993
Earnings per share								
-basic	\$ 0.13	\$ 0.12	\$ 0.12	\$ 0.14	\$ 0.12	\$ 0.08	\$ 0.11	\$ 0.07
-diluted	\$ 0.13	\$ 0.12	\$ 0.12	\$ 0.13	\$ 0.12	\$ 0.08	\$ 0.10	\$ 0.07

**Dated: December 5, 2005**

## Forward-Looking Statements

The statements in this management's discussion and analysis which relate to the future are forward-looking statements. By their very nature, forward-looking statements involve inherent risks and uncertainties, both general and specific, and risks exist that predictions, forecasts, projections and other forward-looking statements will not be achieved. Readers are cautioned not to place undue reliance on these forward-looking statements as a number of important factors could cause actual results to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward-looking statements. These factors include, but are not limited to, the strength of the Canadian economy in general and the strength of the local economies within Canada in which we conduct operations; the effects of changes in monetary and fiscal policy, including changes in interest rate policies of the Bank of Canada; the effects of competition in the markets in which we operate; inflation; capital market fluctuations; the timely development and introduction of new products in receptive markets; the impact of changes in the laws and regulations regulating financial services; changes in tax laws; technological changes; unexpected judicial or regulatory proceedings; unexpected changes in consumer spending and savings habits; and our anticipation of and success in managing the risks implicated by the foregoing.

The foregoing list of important factors is not exhaustive. When relying on forward-looking statements to make decisions, investors and others should carefully consider the foregoing factors and other uncertainties and potential events. There is no undertaking to update any forward-looking statement that is contained in this management's discussion and analysis or made from time to time by the Corporation.

# **PACIFIC & WESTERN CREDIT CORP.**

## **Consolidated Balance Sheet**

(thousands of dollars)

	<u>October 31</u> <u>2005</u>	<u>July 31</u> <u>2005</u> (unaudited)	<u>October 31</u> <u>2004</u>
<b>Assets</b>			
Cash resources	\$ 72,532	\$ 77,122	\$ 43,728
Securities	279,851	248,897	283,718
Mortgages and loans	749,307	690,091	663,637
Other assets	29,537	31,126	24,505
	<u>\$ 1,131,227</u>	<u>\$ 1,047,236</u>	<u>\$ 1,015,588</u>
<b>Liabilities and Shareholders' Equity</b>			
Deposits	\$ 935,758	\$ 903,675	\$ 887,245
Notes payable	36,186	36,186	34,186
Other liabilities	105,606	55,045	48,339
	<u>1,077,550</u>	<u>994,906</u>	<u>969,770</u>
Non-controlling interest in subsidiary	754	1,411	-
<b>Shareholders' equity</b>			
Share capital	36,794	36,546	36,465
Retained earnings	16,129	14,373	9,353
	<u>52,923</u>	<u>50,919</u>	<u>45,818</u>
	<u>\$ 1,131,227</u>	<u>\$ 1,047,236</u>	<u>\$ 1,015,588</u>
<i>Amount of convertible notes payable</i>	\$ -	\$ -	\$ 34,184
<i>Number of common shares outstanding</i>	13,308,778	13,241,778	13,227,078
<i>Number of Class A preferred shares outstanding</i>	1,142,556	1,142,556	1,142,556
<i>Number of common share options outstanding</i>	1,421,600	1,488,600	1,515,050
<i>Number of warrants outstanding</i>	12,000	17,000	17,000

## PACIFIC & WESTERN CREDIT CORP.

### Consolidated Statement of Earnings

(thousands of dollars)

	<i>for the three months ended</i>		<i>for the year ended</i>	
	<b>October 2005</b>	<b>October 2004</b>	<b>October 2005</b>	<b>October 2004</b>
	(unaudited)	(unaudited)		
<b>Interest income</b>				
Interest income on loans	\$ 10,761	\$ 9,791	\$ 40,286	\$ 36,793
Interest and income from securities	2,642	3,556	11,987	14,332
Loan fee income	442	459	1,679	1,663
	<u>13,845</u>	<u>13,806</u>	<u>53,952</u>	<u>52,788</u>
<b>Interest expense</b>				
Deposits and other	8,968	9,416	36,289	35,690
Notes payable	878	839	3,419	3,334
	<u>9,846</u>	<u>10,255</u>	<u>39,708</u>	<u>39,024</u>
Net interest income before recovery (provision) for credit losses	3,999	3,551	14,244	13,764
Recovery (provision) for credit losses	<u>(147)</u>	<u>749</u>	<u>61</u>	<u>471</u>
Net interest income	3,852	4,300	14,305	14,235
Other income	2,592	67	8,869	281
	<u>6,444</u>	<u>4,367</u>	<u>23,174</u>	<u>14,516</u>
<b>Non-interest expenses</b>				
Salaries and benefits	1,945	1,341	6,034	4,399
General and administrative	1,453	912	4,889	3,423
Premises and equipment	506	228	1,500	830
	<u>3,904</u>	<u>2,481</u>	<u>12,423</u>	<u>8,652</u>
Earnings before income taxes and other	2,540	1,886	10,751	5,864
Income tax provision	712	277	2,959	663
Non-controlling interest	<u>72</u>	<u>-</u>	<u>776</u>	<u>-</u>
<b>Net earnings</b>	<b>\$ 1,756</b>	<b>\$ 1,609</b>	<b>\$ 7,016</b>	<b>\$ 5,201</b>
<b>Basic earnings per share</b>	<b>\$ 0.13</b>	<b>\$ 0.12</b>	<b>\$ 0.51</b>	<b>\$ 0.38</b>
<b>Diluted earnings per share</b>	<b>\$ 0.13</b>	<b>\$ 0.12</b>	<b>\$ 0.50</b>	<b>\$ 0.37</b>
<b>Weighted average number of common shares</b>	<b>13,275,000</b>	<b>13,206,000</b>	<b>13,249,000</b>	<b>13,206,000</b>

**PACIFIC & WESTERN CREDIT CORP.**

**Consolidated Statement of Changes in Shareholders' Equity**

(thousands of dollars)

	<i>for the three months ended</i>		<i>for the year ended</i>	
	<b>October 31</b>	<b>October 31</b>	<b>October 31</b>	<b>October 31</b>
	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>
	(unaudited)	(unaudited)		
<b>Common shares</b>				
Balance, beginning of period	\$ 32,946	\$ 32,816	\$ 32,877	\$ 32,808
Proceeds of shares issued	245	61	314	69
Balance, end of period	<u>\$ 33,191</u>	<u>\$ 32,877</u>	<u>\$ 33,191</u>	<u>\$ 32,877</u>
<b>Class A preferred shares</b>				
Balance, beginning and end of period	<u>\$ 3,545</u>	<u>\$ 3,545</u>	<u>\$ 3,545</u>	<u>\$ 3,545</u>
<b>Stock-based compensation</b>				
Balance, beginning of period	\$ 55	\$ 43	\$ 43	\$ 43
Fair value of stock options granted	3	-	15	-
Balance, end of period	<u>\$ 58</u>	<u>\$ 43</u>	<u>\$ 58</u>	<u>\$ 43</u>
<b>Retained earnings</b>				
Balance, beginning of period	\$ 14,373	\$ 7,744	\$ 9,353	\$ 4,392
Net earnings	1,756	1,609	7,016	5,201
Dividends paid	-	-	(240)	(240)
Balance, end of period	<u>\$ 16,129</u>	<u>\$ 9,353</u>	<u>\$ 16,129</u>	<u>\$ 9,353</u>
<b>Total shareholders' equity</b>	<u>\$ 52,923</u>	<u>\$ 45,818</u>	<u>\$ 52,923</u>	<u>\$ 45,818</u>

# PACIFIC & WESTERN CREDIT CORP.

## Consolidated Statement of Cash Flows

(thousands of dollars)

	<i>for the three months ended</i>		<i>for the year ended</i>	
	<b>October 31</b>	<b>October 31</b>	<b>October 31</b>	<b>October 31</b>
	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>
	(unaudited)	(unaudited)		
<b>Cash provided by (used in):</b>				
<b>Operations:</b>				
Net earnings	\$ 1,756	\$ 1,609	\$ 7,016	\$ 5,201
Items not involving cash:				
Provision (recovery) for credit losses	147	(749)	(61)	(471)
Future income tax provision	646	245	2,263	614
Stock-based compensation	3	-	15	-
Non-controlling interest in subsidiary	72	-	776	-
Dilution gain on issue of subsidiary common shares	(130)	-	(655)	-
Change in other assets and liabilities	3,266	1,224	(5,631)	(2,568)
	<u>5,760</u>	<u>2,329</u>	<u>3,723</u>	<u>2,776</u>
<b>Investing:</b>				
Securities	(30,954)	26,825	3,867	(141,415)
Mortgages and loans	(59,363)	(37,596)	(85,609)	(110,761)
Acquisition of subsidiary operations	(1,811)	-	(2,346)	-
	<u>(92,128)</u>	<u>(10,771)</u>	<u>(84,088)</u>	<u>(252,176)</u>
<b>Financing:</b>				
Deposits	32,083	21,671	48,513	214,016
Short term financings	48,950	(28,006)	57,356	40,961
Proceeds of common shares issued	245	61	314	69
Net proceeds of common shares issued by subsidiary	500	-	1,226	-
Notes payable	-	-	2,000	-
Dividends paid	-	-	(240)	(240)
	<u>81,778</u>	<u>(6,274)</u>	<u>109,169</u>	<u>254,806</u>
Increase (decrease) in cash resources	(4,590)	(14,716)	28,804	5,406
Cash resources, beginning of period	<u>77,122</u>	<u>58,444</u>	<u>43,728</u>	<u>38,322</u>
Cash resources, end of period	<u>\$ 72,532</u>	<u>\$ 43,728</u>	<u>\$ 72,532</u>	<u>\$ 43,728</u>
<b>Supplementary cash flow information:</b>				
Interest paid during the period	\$ 7,000	\$ 8,000	\$ 37,000	\$ 37,000
Income taxes paid during the period	\$ 12	\$ -	\$ 204	\$ 55

# PACIFIC & WESTERN CREDIT CORP.

## Notes to the Interim Consolidated Financial Statements (unaudited)

For the year ended October 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 interim consolidated financial statements have been prepared in accordance with Canadian generally 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.

In 2005, the Corporation, through a newly formed subsidiary, Discovery Air Inc. (Discovery) provided financing to and acquired 100% of the outstanding common shares of Hicks & Lawrence Limited (H&L) for total consideration of \$2,346,000, including costs of acquisition. The results of its operations have been included in the Corporation's consolidated financial statements since the date of acquisition. The estimated fair value of the assets acquired and liabilities assumed are summarized in the table below:

(thousands of dollars)	
<u>Net assets acquired:</u>	
Capital assets	\$ 6,150
Other assets	3,232
Other liabilities	(5,767)
Future income tax liability	(1,688)
Non-controlling interest	(593)
Goodwill	1,012
	<u>\$ 2,346</u>

During the year, Discovery issued common shares for net proceeds of \$1,226,000 resulting in a reduction of the Corporation's interest from 100% to 57%. The resulting dilution gain of \$655,000 is included in Other Income in the interim Consolidated Statement of Earnings.

### 2 Allowance for credit losses

	<i>for the three months ended</i>				<i>for the year ended</i>			
	October 31,		October 31,		October 31,		October 31,	
(thousands of dollars)	General	Specific	Total	Total	General	Specific	Total	Total
	allowance	allowance	allowance	allowance	allowance	allowance	allowance	allowance
Balance, beginning of the period	\$ 1,742	\$ -	\$ 1,742	\$ 1,566	\$ 1,648	\$ 75	\$ 1,723	\$ 1,476
Recovery (provision) for credit losses	(147)	-	(147)	749	(241)	302	61	471
Write-offs (recoveries)	-	-	-	(906)	-	(227)	(227)	(718)
Balance, end of period	<u>\$ 1,889</u>	<u>\$ -</u>	<u>\$ 1,889</u>	<u>\$ 1,723</u>	<u>\$ 1,889</u>	<u>\$ -</u>	<u>\$ 1,889</u>	<u>\$ 1,723</u>

Impaired loans at October 31, 2005 totalled \$362,000 (October 31, 2004 - \$1,221,000).

### 3 Derivative instruments

At October 31, 2005, the Corporation had outstanding contracts for asset liability management purposes to swap between floating and fixed interest rates with notional amounts totalling \$26,704,000. 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 \$401,000 and a risk weighted balance of \$80,000. At October 31, 2005, these contracts were in an unfavorable position of \$1,216,000.

### 4 Commitments and contingencies

The amounts of credit related commitments represent 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	\$	84,944,000
Letters of credit		22,767,000
		<u>\$ 107,711,000</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, October 31, 2004	13,227,078	1,515,050	\$ 7.56
Granted	-	7,250	8.00
Exercised	81,700	(81,700)	3.85
Expired	-	(19,000)	12.07
Outstanding, October 31, 2005	13,308,778	1,421,600	\$ 7.71

For the year ended October 31, 2005, salary expense of \$15,000 has been recognized relating to the estimated fair value of stock options granted since November 1, 2004. The fair value of options granted this year 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 Segmented information

The operations of the Corporation consist primarily of one business segment providing lending services to commercial, public sector and personal markets (Banking). Its structured finance activities include the investment in H&L, held through Discovery, which carries out operations in the form of aerial forest fire services (Other). The following table summarizes the results of the two business segments:

(thousands of dollars)	<i>for the three months ended</i>				<i>for the year ended</i>			
	<b>Banking</b>	<b>Other</b>	<b>Intercompany eliminations</b>	<b>Total</b>	<b>Banking</b>	<b>Other</b>	<b>Intercompany eliminations</b>	<b>Total</b>
Net interest income	\$ 3,965	\$ (113)	\$ -	\$ 3,852	\$ 14,610	\$ (305)	\$ -	\$ 14,305
Other income	1,214	1,525	(147)	2,592	4,301	5,059	(491)	8,869
Non-interest expenses	2,769	1,282	(147)	3,904	9,909	3,005	(491)	12,423
Earnings before income taxes and other	2,410	130	-	2,540	9,002	1,749	-	10,751
Income tax provision	671	41	-	712	2,334	625	-	2,959
Non-controlling interest	-	(72)	-	(72)	-	(776)	-	(776)
<b>Net earnings</b>	<b>\$ 1,739</b>	<b>\$ 17</b>	<b>\$ -</b>	<b>\$ 1,756</b>	<b>\$ 6,668</b>	<b>\$ 348</b>	<b>\$ -</b>	<b>\$ 7,016</b>
<b>Capital assets</b>	<b>\$ 3,491</b>	<b>\$ 6,302</b>	<b>\$ -</b>	<b>\$ 9,793</b>	<b>\$ 3,491</b>	<b>\$ 6,302</b>	<b>\$ -</b>	<b>\$ 9,793</b>
<b>Total assets</b>	<b>\$ 1,126,621</b>	<b>\$ 8,978</b>	<b>\$ (4,372)</b>	<b>\$ 1,131,227</b>	<b>\$ 1,126,621</b>	<b>\$ 8,978</b>	<b>\$ (4,372)</b>	<b>\$ 1,131,227</b>

Pacific & Western Bank of Canada (PWBank), a Schedule I chartered bank, is a branchless financial institution with over \$1 billion in assets. PWBank specializes in providing innovative financing to large corporate and government entities including hospitals, school boards, universities and colleges, municipalities and provincial and federal government agencies. With no retail operations or store fronts, PWBank is one of the most efficiently operating financial institutions in Canada. These overhead savings translate into very competitive rates for our clients.

Pacific & Western Bank of Canada is wholly owned by Pacific & Western Credit Corp., whose shares trade on the TSX under the symbol PWC.

**FOR FURTHER INFORMATION PLEASE CONTACT:**

Tel Matrundola  
Vice President, Public & Government Relations

Telephone (416) 203-0882  
[telm@pwbank.com](mailto:telm@pwbank.com)

Investor Relations

Toll Free (800) 244-1509  
[InvestorRelations@pwbank.com](mailto:InvestorRelations@pwbank.com)

To receive company news releases via e-mail,  
please contact Karen McConnell

Telephone (519) 675-4204  
[karenm@pwbank.com](mailto:karenm@pwbank.com)

Further information is available through Pacific & Western's corporate web site at <http://www.pwbank.com> and <http://www.pwcorp.com>