



# **Pacific & Western**

*Credit Corp.*

## **First Quarter Report January 31, 2006**

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**PACIFIC & WESTERN CREDIT CORP. ANNOUNCES TOTAL ASSETS GROWING TO \$1.2 BILLION AT THE END OF ITS FIRST QUARTER AND NET EARNINGS FOR THE THREE MONTHS ENDED JANUARY 31, 2006 OF \$1.7 MILLION.**

### **FIRST QUARTER FINANCIAL HIGHLIGHTS**

- Total assets increased to \$1.2 billion from \$1.0 billion a year ago.
- Lending assets increased by \$107 million to \$769 million from \$662 million a year ago.
- Net earnings were \$1.7 million or \$0.12 per share (\$0.12 diluted) compared to \$1.9 million or \$0.14 per share (\$0.13 diluted) for the same period a year ago.
- Spread (teb) improved to 1.72% compared to 1.52% for the same period a year ago.
- Other income of \$832,000 compared to \$924,000 for the same period a year ago.
- Total revenue (teb) of \$5.8 million for the quarter compared to \$5.2 million for the same period a year ago.
- Gross impaired loans equal to 0.03% of total assets compared to 0.13% a year ago.

### **PRESIDENT'S COMMENTS**

I am pleased to advise that our company is tracking ahead of our performance targets and making significant progress towards achieving its two primary goals for 2006. These goals are the successful launch of the Automated Receivable Purchase Program and the listing of Discovery Air Inc. (DA) on the TSX Venture Exchange.

This quarter we booked \$87 million in new loans and leases, however, as in the past, we continue to experience unusually rapid loan repayments in our residential construction loan portfolio that dampened the increase in our lending assets to \$20 million.

Our lending assets increased to \$769 million from last quarter's \$749 million, which resulted in spread improving to 1.72%. While this net increase in lending assets was less than our target of \$50 million, due to the spread on new loans being more than anticipated and other income also being more than anticipated, total revenue achieved was considerably better than target. Net earnings, however, were reduced this quarter by our share of the seasonal operating loss of DA of \$300,000 (after income taxes). DA is involved in aerial forest fire fighting and generates the majority of its revenues between May and October. As was the case last year, we expect DA to contribute positively to our overall bottom line next quarter and during the summer months.

This quarter we entered into discussions with a number of corporations that we feel are ideally suited for our Receivable Purchase Program and are anticipating setting up a benchmark program with at least one of these corporations prior to next quarter end.

With respect to DA, we are anticipating filing a preliminary prospectus soon, a significant step towards our goal in listing this company on the TSX Venture Exchange.

(unaudited)

	January 31 2006	October 31 2005	January 31 2005
(\$ thousands, except per share amounts)			
<b>Results of operations (teb)</b>			
Net interest income before provisions per financial statements	\$ 4,547	\$ 3,999	\$ 3,496
Teb adjustment	427	484	422
Net interest income before provisions (teb)	4,974	4,483	3,918
Spread	1.72%	1.63%	1.52%
Provisions (recoveries) for credit losses	49	147	(337)
Net interest income	4,925	4,336	4,255
Other income	832	2,592	924
Total revenue	5,757	6,928	5,179
Non-interest expenses	3,284	3,904	2,121
Net income before income taxes	2,473	3,024	3,058
Provision for income taxes	1,051	1,196	1,191
Net earnings	1,659	1,745	1,882
Earnings per common share:			
Basic	\$ 0.12	\$ 0.13	\$ 0.14
Diluted	\$ 0.12	\$ 0.13	\$ 0.13
Efficiency ratio	\$ 0.57	\$ 0.55	\$ 0.44
Return on average common shareholders' equity	12.63%	13.91%	16.76%
Return on average total assets	0.58%	0.64%	0.73%
Gross impaired loans to total assets	0.03%	0.03%	0.13%
Number of full time equivalent staff	50	48	44

#### Balance Sheet Summary

Cash and securities	\$ 362,869	\$ 352,383	\$ 339,014
Total loans	768,850	749,307	662,135
Total assets	1,157,631	1,131,227	1,029,573
Average assets	1,144,429	1,089,231	1,022,581
Deposits	966,395	935,758	912,526
Notes payable	36,186	36,186	34,186
Shareholders' equity	54,599	52,923	47,493

#### Capital ratios

(Based on the subsidiary Pacific & Western Bank of Canada)

Assets to capital ratio	13.55	13.60	13.73
Tier 1 risk-based capital ratio	7.75%	7.43%	7.94%
Total risk-based capital ratio	11.46%	11.12%	11.72%

#### Non-GAAP measures:

Like most banks, the Corporation analyzes 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 2006 should be read in conjunction with the unaudited interim consolidated financial statements for the period ended January 31, 2006, included herein, and the audited consolidated financial statements and MD&A for the year ended October 31, 2005, included on pages 12 through 55 of the 2005 Annual Report. Except as discussed below, all other factors discussed and referred to in the MD&A for the year ended October 31, 2005, remain substantially unchanged.

### **Overview**

During the quarter ended January 31, 2006, total assets increased to \$1.2 billion from \$1.1 billion at the end of the previous quarter and from \$1.0 billion a year ago. Lending assets continued to show steady growth, increasing to \$769 million at the end of the quarter from \$749 million at the end of the previous quarter and from \$662 million a year ago. Credit quality remains strong with gross impaired loans at the end of the quarter totalling \$380,000 or 0.03% of total assets, virtually unchanged from the end of the previous quarter where gross impaired loans were \$362,000 or 0.03% of total assets and decreasing from \$1.4 million or 0.13% of total assets a year ago.

The Corporation achieved net earnings for the quarter of \$1.7 million or \$0.12 per share compared to \$1.9 million or \$0.14 per share for the same period a year ago. As a result of the growth in lending assets, spread (teb) for the first quarter increased to 1.72% from 1.52% and total revenue (teb) increased to \$5.8 million from \$5.2 million. Non-interest expenses for the quarter were \$3.3 million compared to \$2.1 million for the same period a year ago. The increase in non-interest expenses was due primarily to the hiring of additional staff, higher costs relating to its 55% owned subsidiary Discovery Air Inc. ("DA"), and a charge during the first quarter totalling \$250,000 for stock-based compensation relating to the granting of stock options, primarily by DA.

### **Net Interest Income**

Net interest income (teb) before provisions for credit losses for the first quarter was \$5.0 million compared to \$3.9 million for the same period a year ago with the increase due primarily to the growth in lending assets. Spread (teb) for the first quarter was 1.72% compared to 1.52% for the same period a year ago with the increase due primarily to the increase in lending assets as well as a decrease in our cost of funds as short term financings such as margin lines and securities sold under repurchase agreements were used as a means of funding growth in assets rather than higher priced GIC's. As 2006 progresses, we anticipate loan growth will continue, particularly in our lending to investment grade corporations, residential development projects and in our public sector financing markets. We expect that as new loans are booked, treasury assets will reduce to more optimal levels allowing the increase in spreads to continue and the targeted spread (teb) for the 2006 fiscal year of 1.88% to be achieved.

### **Other Income**

Other income for the quarter was \$832,000 compared to \$924,000 for the same period a year ago. Other income in the current quarter and the quarter a year ago consisted primarily of income earned by the Corporation providing wind up and loan placement services to a client. As these services are now complete, the amount of income from these sources is expected to decrease. With respect to the operations of DA, there was nominal revenue earned during the quarter as there is no demand for aerial forest fire services in the winter months.

### **Non-Interest Expenses**

Non-interest expenses for the quarter were \$3.3 million compared to \$2.1 million for the same period a year ago. Salaries and benefits increased as a result of the hiring of additional staff, primarily in the lending area, the effect of annual salary adjustments and salaries from DA being higher in 2006 compared to the same period a year ago. In addition, salaries and benefits included a charge of \$224,000 for stock-based compensation as a result of stock options granted by DA and \$26,000 for stock-based compensation as a result of stock options granted by the Corporation. General and administrative expenses increased from a year ago due to volume related expenses and operating expenses of DA which were nominal a year ago but totalled \$169,000 in the current period.

Our efficiency ratio (teb) for the first quarter was \$0.57 compared to \$0.44 a year ago with the difference due to the factors described above. At the end of the first quarter, our ratio of assets per full time employee, excluding the aerial forest fire operations of DA, was \$23.1 million compared to \$23.4 million a year ago. At the current levels, the Corporation remains one of the most efficient of the domestic banks.

## ***Income Taxes***

The income tax provision for the quarter was \$624,000 of which \$15,000 represents a current tax provision. The remaining amount of \$609,000 represents a net 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 2006, the Corporation's statutory federal and provincial income tax rate remains approximately 38%, the same rate that was in effect for 2005. However, the effective income tax rate for the first quarter was 30% compared to 29% for the same period a year ago. We anticipate that during 2006, the effective income tax rate will approximate 26%.

## ***Balance Sheet***

Total assets during the first quarter grew to \$1.2 billion from \$1.1 billion at the end of the previous quarter and from \$1.0 billion a year ago. Lending assets grew to \$769 million from \$749 million at the end of the previous quarter and from \$662 million a year ago. Total new lending during the current quarter was approximately \$83 million but was offset by scheduled repayments of \$63 million. The loan categories which showed the greatest amount of growth from the end of the previous quarter was in lending to public sector entities, loans to investment grade corporations and in our residential development portfolio. Cash and securities, which are held for liquidity management purposes and to earn investment income, increased to \$363 million from \$352 million at the end of the previous quarter and from \$339 million a year ago. As the year progresses, we anticipate that new lending activity will continue, particularly to our lending to public sector entities, investment grade corporations and our residential development clients, allowing the level of cash and securities to reduce to more optimal levels. Total lending assets are anticipated to increase to approximately \$1 billion by the end of fiscal 2006, funded primarily by the redeployment of lower yielding treasury assets and new deposits.

Deposits in the quarter grew to \$966 million from \$936 million at the end of the previous quarter and from \$913 million a year ago. Deposits are used as a primary source of financing the growth in assets and continue to be raised entirely through an agent network throughout Canada. A second source of financing for growth in assets is the utilization of the Corporation's margin lines and securities sold under repurchase agreements. These short term financings totalled \$89 million at the end of the current quarter compared to \$98 million at the end of the previous quarter and \$30 million a year ago.

## ***Credit Quality***

Credit quality remains strong with gross impaired loans at the end of the quarter totalling \$380,000 or 0.03% of total assets compared to \$1.4 million or 0.13% of total assets a year ago. The provision for credit losses in the first quarter was \$49,000 compared to a net recovery of \$337,000 for the same period a year ago, with the recovery in 2005 due to a reversal of a provision recorded previously in 2004. Total allowances for credit losses, including specific and general allowances, were \$1.9 million at the end of the quarter, virtually unchanged from the end of the previous quarter and compared to \$1.7 million a year ago.

## ***Shareholders' Equity***

Shareholders' equity at the end of the quarter was \$54.6 million compared to \$52.9 million at the end of the previous quarter and \$47.5 million a year ago. Total common shares outstanding at the end of the quarter increased to 13,336,928 from 13,308,778 at the end of the previous quarter due to the exercise of common share options. Common share options totalled 1,401,700 at the end of the quarter compared to 1,421,600 at the end of the previous quarter. Book value per common share at January 31, 2006, was \$3.83 per share, increasing from \$3.71 per share at the end of the previous quarter and \$3.32 a year ago.

## ***Updated Share Information***

As at March 2, 2006, there were 13,337,595 common shares outstanding with the increase from October 31, 2005, due to the exercise of common share options. At March 2, 2006, there were 1,400,700 stock options outstanding which are exercisable into 1,400,700 common shares.

## ***Capital Adequacy***

Total regulatory capital in the Corporation's principal subsidiary, Pacific & Western Bank of Canada, totalled \$86.4 million at the end of the quarter compared to \$84.5 million at the end of the previous quarter and \$76 million a year ago. As at January 31, 2006, regulatory capital consisted of \$58.4 million in shareholder's equity or Tier 1 capital and \$28 million in subordinated debentures of the Bank or Tier 2 capital.

The Bank's total risk-based capital ratio, which is the ratio of regulatory capital to risk-weighted assets, was 11.46% at the end of the quarter compared to 11.12% at the end of the previous quarter and 11.72% a year ago. The Bank has an

internal target for its risk-based capital ratio of 11% and manages its regulatory capital and risk-weighted assets so this target is exceeded. The Bank's Tier 1 risk-based capital ratio, which is the ratio of Tier 1 capital to risk-weighted assets, was 7.75% at the end of the quarter compared to 7.43% at the end of the previous quarter and 7.94% a year ago. The Bank's assets to capital ratio was 13.55 at the end of the quarter compared to 13.60 at the end of the previous quarter and 13.73 a year ago.

### **Discovery Air inc.**

Due to the seasonal nature of the operations of DA, there was nominal revenue earned during the quarter. Non-interest expenses of DA for the quarter totalled \$635,000 of which \$224,000 related to the recording of stock-based compensation. For additional information relating to the first quarter results of DA, see Note 6 of the unaudited interim consolidated financial statements.

### **Performance Targets**

Performance targets established for the 2006 fiscal year and 2006 year-to-date, approved by the Corporation's Board of Directors, are noted below with actual results for the period ended January 31, 2006.

	<b>2006</b>		
	<b>Annual Target</b>	<b>Year-to-Date Target</b>	<b>Year-to-Date Results</b>
Earnings per common share	\$0.55	\$0.10	\$0.12
Spread (teb)	1.88%	1.61%	1.72%
Loan growth	35.00%	6.58%	2.61%
Total asset growth	15.00%	0.00%	2.33%
Return on average common shareholders' equity	13.79%	10.89%	12.63%
Return on average total assets	0.62%	0.50%	0.58%

All year-to-date performance targets were exceeded in the first quarter with the exception of loan growth. However, while growth in loans did not meet expectations, the loans that were funded resulted in spread (teb) exceeding the amount targeted for the first quarter.

## Summary of Quarterly Results

(thousands of dollars except per share amounts)	2006		2005				2004		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2	
<b>Results of operations:</b>									
Total interest income									
per financial statements	\$ 15,138	\$ 13,845	\$ 13,117	\$ 13,298	\$ 13,692	\$ 13,807	\$ 13,531	\$ 12,721	
Teb adjustment	427	484	423	446	422	553	519	352	
Total interest income	15,565	14,329	13,540	13,744	14,114	14,360	15,050	13,073	
Yield on assets (%)	5.40%	5.21%	5.11%	5.41%	5.48%	5.64%	6.00%	6.22%	
Interest expense	10,591	9,846	10,000	9,666	10,196	10,256	9,977	9,175	
Cost of funds (%)	3.68%	3.58%	3.77%	3.80%	3.96%	4.03%	4.26%	4.36%	
Net interest income before provisions	4,974	4,483	3,540	4,078	3,918	4,104	4,073	3,898	
Spread (%)	1.72%	1.63%	1.34%	1.61%	1.52%	1.61%	1.74%	1.86%	
Provisions (recoveries) for credit losses	49	147	91	38	(337)	(749)	150	92	
Other income	832	2,592	4,275	1,078	924	66	93	73	
Total revenue	5,757	6,928	7,724	5,118	5,179	4,920	4,016	3,879	
Non-interest expenses	3,284	3,904	3,652	2,746	2,121	2,481	2,164	2,146	
Income before income taxes	2,473	3,024	4,072	2,372	3,058	2,439	1,852	1,733	
Income tax provision	1,051	1,196	1,507	840	1,191	830	712	274	
Non-controlling interest	237	(72)	(826)	107	15	-	-	-	
Net earnings	1,659	1,756	1,739	1,639	1,882	1,609	1,140	1,459	
Earnings per share									
-basic	\$ 0.12	\$ 0.13	\$ 0.12	\$ 0.12	\$ 0.14	\$ 0.12	\$ 0.08	\$ 0.11	
-diluted	\$ 0.12	\$ 0.13	\$ 0.12	\$ 0.12	\$ 0.13	\$ 0.12	\$ 0.08	\$ 0.10	

**Dated: March 2, 2006**

## 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)

	<b>January 31 2006</b>	<b>October 31 2005</b>	<b>January 31 2005</b>
	(unaudited)		(unaudited)
<b>Assets</b>			
Cash resources	\$ 84,348	\$ 72,532	\$ 48,375
Securities	278,521	279,851	290,639
Mortgages and loans	768,850	749,307	662,135
Other assets	<u>25,912</u>	<u>29,537</u>	<u>28,424</u>
	<u>\$ 1,157,631</u>	<u>\$ 1,131,227</u>	<u>\$ 1,029,573</u>
<b>Liabilities and Shareholders' Equity</b>			
Deposits	\$ 966,395	\$ 935,758	\$ 912,526
Notes payable	36,186	36,186	34,186
Other liabilities	<u>99,804</u>	<u>105,606</u>	<u>34,905</u>
	<u>1,102,385</u>	<u>1,077,550</u>	<u>981,617</u>
Non-controlling interest in subsidiary	647	754	463
<b>Shareholders' equity</b>			
Share capital	37,051	36,794	36,498
Retained earnings	<u>17,548</u>	<u>16,129</u>	<u>10,995</u>
	<u>54,599</u>	<u>52,923</u>	<u>47,493</u>
	<u>\$ 1,157,631</u>	<u>\$ 1,131,227</u>	<u>\$ 1,029,573</u>
<i>Amount of convertible notes payable</i>	\$ -	\$ -	\$ 34,184
<i>Number of common shares outstanding</i>	13,336,928	13,308,778	13,234,078
<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>	1,401,700	1,421,600	1,504,300
<i>Number of warrants outstanding</i>	12,000	12,000	17,000

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

	<i>for the three months ended</i>	
	<b>January 31</b>	<b>January 31</b>
	<b>2006</b>	<b>2005</b>
	(unaudited)	(unaudited)
<b>Interest income</b>		
Interest income on loans	\$ 11,494	\$ 9,882
Interest and income from securities	3,125	3,329
Loan fee income	519	481
	<u>15,138</u>	<u>13,692</u>
<b>Interest expense</b>		
Deposits and other	9,733	9,369
Notes payable	858	827
	<u>10,591</u>	<u>10,196</u>
Net interest income before provision (recovery) for credit losses	4,547	3,496
Provision (recovery) for credit losses	49	(337)
Net interest income	4,498	3,833
Other income	832	924
	<u>5,330</u>	<u>4,757</u>
<b>Non-interest expenses</b>		
Salaries and benefits	1,861	1,060
General and administrative	1,140	845
Premises and equipment	283	216
	<u>3,284</u>	<u>2,121</u>
Earnings before income taxes and other	2,046	2,636
Income tax provision	624	769
Non-controlling interest	237	15
<b>Net earnings</b>	<u><b>\$ 1,659</b></u>	<u><b>\$ 1,882</b></u>
<b>Basic earnings per share</b>	<u><b>\$ 0.12</b></u>	<u><b>\$ 0.14</b></u>
<b>Diluted earnings per share</b>	<u><b>\$ 0.12</b></u>	<u><b>\$ 0.13</b></u>
<b>Weighted average number of common shares</b>	<u><b>13,319,000</b></u>	<u><b>13,234,000</b></u>

**PACIFIC & WESTERN CREDIT CORP.****Consolidated Statement of Changes in Shareholders' Equity**  
(thousands of dollars)

	<i>for the three months ended</i>	
	<b>January 31</b>	<b>January 31</b>
	<b>2006</b>	<b>2005</b>
	(unaudited)	(unaudited)
<b>Common shares</b>		
Balance, beginning of period	\$ 33,191	\$ 32,877
Proceeds of shares issued	107	21
Balance, end of period	<u>\$ 33,298</u>	<u>\$ 32,898</u>
<b>Class A preferred shares</b>		
Balance, beginning and end of period	<u>\$ 3,545</u>	<u>\$ 3,545</u>
<b>Stock-based compensation</b>		
Balance, beginning of period	\$ 58	\$ 43
Fair value of stock options granted (note 5)	26	12
Fair value of stock options granted by subsidiary (note 5)	124	-
Balance, end of period	<u>\$ 208</u>	<u>\$ 55</u>
<b>Retained earnings</b>		
Balance, beginning of period	\$ 16,129	\$ 9,353
Net earnings	1,659	1,882
Dividends paid	(240)	(240)
Balance, end of period	<u>\$ 17,548</u>	<u>\$ 10,995</u>
<b>Total shareholders' equity</b>	<u>\$ 54,599</u>	<u>\$ 47,493</u>

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

(thousands of dollars)

	<i>for the three months ended</i>	
	<b>January 31</b>	<b>January 31</b>
	<b>2006</b>	<b>2005</b>
	(unaudited)	(unaudited)
<b>Cash provided by (used in):</b>		
<b>Operations:</b>		
Net earnings	\$ 1,659	\$ 1,882
Items not involving cash:		
Provision (recovery) for credit losses	49	(337)
Future income tax provision	744	754
Stock-based compensation (note 5)	250	12
Non-controlling interest in subsidiary	(237)	(15)
Change in other assets and liabilities	5,900	(6,592)
	<u>8,365</u>	<u>(4,296)</u>
<b>Investing:</b>		
Securities	1,330	(6,921)
Mortgages and loans	(19,592)	1,839
Acquisition of subsidiary operations	-	(535)
	<u>(18,262)</u>	<u>(5,617)</u>
<b>Financing:</b>		
Deposits	30,637	25,281
Short term financings	(8,791)	(10,502)
Proceeds of common shares issued	107	21
Dividends paid	(240)	(240)
	<u>21,713</u>	<u>14,560</u>
Increase in cash resources	11,816	4,647
Cash resources, beginning of period	<u>72,532</u>	<u>43,728</u>
Cash resources, end of period	<u>\$ 84,348</u>	<u>\$ 48,375</u>
<b>Supplementary cash flow information:</b>		
Interest paid during the period	\$ 8,527	\$ 8,061
Income taxes paid during the period	\$ 820	\$ 38

**PACIFIC & WESTERN CREDIT CORP.**  
**Notes to the interim consolidated financial statements (unaudited)**  
**For the three months ended January 31, 2006**

**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, 2005 as set out in pages 34 to 55 of our 2005 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, 2005.

**2 Allowance for Credit Losses**

	<u>for the three months ended</u>			<u>for the three months ended</u>		
	January 31, 2006			January 31, 2005		
(thousands of dollars)	General allowance	Specific allowance	Total allowance	General allowance	Specific allowance	Total allowance
Balance, beginning of the period	\$ 1,889	\$ -	\$ 1,889	\$ 1,648	\$ 75	\$ 1,723
Provision (recovery) for credit losses	42	7	49	16	(353)	(337)
Write-offs (recoveries)	-	(2)	(2)	-	353	353
Balance, end of period	\$ 1,931	\$ 9	\$ 1,940	\$ 1,664	\$ 75	\$ 1,739

Impaired loans at January 31, 2006 totalled \$380,000 (January 31, 2005 - \$1,356,000).

**3 Derivative instruments**

At January 31, 2006, the Corporation had outstanding contracts for asset liability management purposes to swap between floating and fixed interest rates with notional amounts totalling \$26,374,000. 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 \$396,000 and a risk weighted balance of \$79,000. At January 31, 2006, these contracts were in an unfavorable position of \$816,000.

At January 31, 2006, the Corporation had outstanding credit derivative contracts for credit risk management purposes under which the Corporation would be compensated by the counterparty to the contract for losses on a security in the event a default occurs. At January 31, 2006, the counterparties to these contracts which totalled \$30 million (2005-\$32 million) consisted of Canadian chartered banks. The contracts have a nominal fair value and mature within two years.

**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	\$ 76,425,000
Letters of credit	20,984,000
	<u>\$ 97,409,000</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	13,308,778	1,421,600	\$ 7.71
Granted	-	8,250	10.02
Exercised	28,150	(28,150)	3.80
Expired	-	-	-
<b>Outstanding, end of period</b>	<b>13,336,928</b>	<b>1,401,700</b>	<b>\$ 7.80</b>

During the three months ended January 31, 2006, the Corporation recognized \$250,000 of salaries and benefits expense as described below.

Salary expense of \$26,000 (2005-\$12,000) relating to the estimated fair value of stock options granted by the Corporation 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 3.90% (2005-3.55%), (ii) expected option life of 5 years (2005-5 years), (iii) expected volatility of 45% (2005-86%), and (iv) expected forfeiture rate of 5% (2005-5%). The weighted average fair value of options granted was estimated at \$4.94 (2005-\$5.67) per share.

Salary expense of \$224,000 (2005-\$nil) relating to the estimated fair value of 2,625,000 stock options granted by DA on January 13, 2006, of which 875,000 options vested immediately. 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 3.86%, (ii) expected option life of 4.5 years, (iii) expected volatility of 63%, and (iv) expected forfeiture rate of 5%. The weighted average fair value of options granted was estimated at \$0.27 per share. As the Corporation owns 55% of DA at January 31, 2006, \$124,000 was recognized as an increase in share capital and \$100,000 was charged to non-controlling interest in subsidiary.

## 6 Segmented information

	<i>for the three months ended</i>				<i>for the three months ended</i>			
	January 31, 2006				January 31, 2005			
(thousands of dollars)	Banking	Other	Intercompany eliminations	Total	Banking	Other	Intercompany eliminations	Total
Net interest income	\$ 4,598	\$ (100)	\$ -	\$ 4,498	\$ 3,849	\$ (16)	\$ -	\$ 3,833
Other income	811	22	(1)	832	924	-	-	924
Non-interest expenses	2,650	635	(1)	3,284	2,089	32	-	2,121
Earnings before income taxes and other	2,759	(713)	-	2,046	2,684	(48)	-	2,636
Income tax provision (recovery)	800	(176)	-	624	787	(18)	-	769
Non-controlling interest	-	237	-	237	-	15	-	15
<b>Net earnings</b>	<b>\$ 1,959</b>	<b>\$ (300)</b>	<b>\$ -</b>	<b>\$ 1,659</b>	<b>\$ 1,897</b>	<b>\$ (15)</b>	<b>\$ -</b>	<b>\$ 1,882</b>
<b>Capital assets</b>	<b>\$ 3,610</b>	<b>\$ 6,284</b>	<b>\$ -</b>	<b>\$ 9,894</b>	<b>\$ 3,300</b>	<b>\$ 5,474</b>	<b>\$ -</b>	<b>\$ 8,774</b>
<b>Total assets</b>	<b>\$ 1,154,174</b>	<b>\$ 8,677</b>	<b>\$ (5,220)</b>	<b>\$ 1,157,631</b>	<b>\$ 1,026,693</b>	<b>\$ 5,886</b>	<b>\$ (3,005)</b>	<b>\$ 1,029,574</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>