



# Pacific & Western

*Credit Corp.*

## First Quarter Report January 31, 2008

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### **PACIFIC & WESTERN CREDIT CORP. ANNOUNCES RESULTS FOR ITS FIRST QUARTER ENDED JANUARY 31, 2008**

#### **FIRST QUARTER HIGHLIGHTS**

(three months ended January 31, 2008, compared to three months ended January 31, 2007, unless otherwise noted)

- Total assets increased to \$1.49 billion from \$1.36 billion a year ago.
- Total loans increased to \$976 million from \$895 million a year ago.
- Credit quality remained strong with gross impaired loans to total assets of 0.09% compared to 0.19% a year ago.
- Spread (teb) for the quarter improved to 1.36% from 1.33% for the previous quarter and compared to 1.45% for the same period a year ago.
- Net interest income (teb) improved to \$5.0 million from \$4.5 million for the previous quarter and from \$4.9 million a year ago.
- Net income for the quarter was \$536,000 or \$0.03 per share (\$0.03 diluted) compared to \$1.1 million or \$0.08 per share (\$0.07 diluted) for the same period last year, which included a pre-tax gain of approximately \$888,000 related to the disposition of shares of Discovery Air Inc.

#### **PRESIDENT'S COMMENTS**

Net income for the first quarter totalled \$536,000 or \$0.03 per share (\$0.03 diluted) with net interest income (teb) increasing to \$5 million from \$4.5 million for the previous quarter and spread (teb) improving to 1.36% from 1.33% for the last quarter. The increase in net interest income and spread were a result of an increase in average loans for the quarter, growing from \$951 million to \$977 million, and an increase in spreads primarily in our securities portfolio. Loans funded during the quarter totalled \$46 million but were offset by repayments totalling \$48 million. Credit quality continues to be strong with gross impaired loans as a percentage of total assets of 0.09%, a result of our continuing focus on low risk lending and investing opportunities.

We continue our discussions with potential partners for our Visa card program and our Versabanq software initiative and remain confident that these initiatives, alongside continued growth in our lending portfolios and overall improved spreads, will lead to increasing profitability in the future.

## FINANCIAL HIGHLIGHTS

(unaudited)

for the three months ended

	January 31 2008	October 31 2007	January 31 2007
(\$ thousands, except per share amounts)			
<b>Results of operations (teb)</b>			
Net interest income per financial statements	\$ 4,212	\$ 3,777	\$ 4,462
Teb adjustment	832	715	444
Net interest income	5,044	4,492	4,906
Spread	1.36%	1.33%	1.45%
Provision for credit losses	8	198	429
Net interest income after provision for credit losses	5,036	4,294	4,477
Other income (charges)	(86)	114	959
Total revenue	4,950	4,408	5,436
Non-interest expenses	3,781	3,049	3,658
Net income	536	638	1,091
Earnings per common share:			
Basic	\$ 0.03	\$ 0.04	\$ 0.08
Diluted	\$ 0.03	\$ 0.04	\$ 0.07
Efficiency ratio	\$ 0.76	\$ 0.66	\$ 0.62
Return on average common shareholders' equity	3.71%	4.13%	6.36%
Return on average total assets	0.14%	0.19%	0.32%
Gross impaired loans to total assets	0.09%	0.10%	0.19%
Provision for credit losses as a % of average loans	0.00%	0.02%	0.05%
Number of full time equivalent staff	60	57	65

### Balance Sheet Summary

Cash and securities	\$ 478,175	\$ 441,727	\$ 414,315
Total loans	975,558	977,727	895,158
Average loans	976,643	950,556	879,494
Total assets	1,490,682	1,458,656	1,358,729
Average assets	1,474,669	1,342,120	1,344,229
Deposits	1,363,050	1,282,756	1,174,237
Notes payable	40,732	35,660	35,456
Shareholders' equity	51,712	57,054	65,087

### Capital ratios

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

Total regulatory capital	\$ 93,630	\$ 91,820	\$ 98,244
Risk weighted assets	810,767	800,582	797,169
Assets-to-capital ratio	16.26	16.19	13.95
Tier 1 risk-based capital ratio	7.85%	7.72%	8.10%
Total risk-based capital ratio	11.55%	11.47%	12.32%

### Non-GAAP measures:

Like most banks, Pacific & Western Credit Corp. (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 2008 should be read in conjunction with the unaudited interim consolidated financial statements for the period ended January 31, 2008, included herein, and the audited consolidated financial statements and MD&A for the year ended October 31, 2007, which are available on SEDAR at [www.sedar.com](http://www.sedar.com). Except as discussed below, all other factors discussed and referred to in the MD&A for the year ended October 31, 2007, remain substantially unchanged.

### **Overview**

Net income for the quarter was \$536,000 or \$0.03 per share (\$0.03 diluted) compared to \$1.1 million or \$0.08 per share (\$0.07 diluted) for the same period a year ago with the change due primarily to a decrease in other income earned in the current period. Other income for the same period a year ago included a gain of \$888,000 resulting from the disposition of shares of Discovery Air Inc. (DA). There was no similar gain earned in the period ended January 31, 2008.

Net interest income (teb) for the quarter was \$5.0 million compared to \$4.5 million for the previous quarter and \$4.9 million for the same period a year ago. Net interest income increased from the previous quarter primarily due to an improvement in spreads earned during the quarter in our securities portfolio. As a result of the liquidity crisis, the Corporation is seeing spreads widen in both its securities and in new lending. Furthermore, the Corporation has maintained its focus on low risk lending and investing opportunities and does not have any direct exposure to the North American subprime lending market or to asset backed commercial paper.

At January 31, 2008, total assets increased to \$1.49 billion from \$1.36 billion a year ago. The largest increase was in lending assets which grew to \$976 million at the end of the quarter from \$895 million a year ago. Credit quality remains strong with gross impaired loans at the end of the quarter of only \$1.4 million or 0.09% of total assets compared to \$2.5 million or 0.19% of total assets a year ago. As well, the provision for credit losses as a percentage of average loans for the quarter was virtually nil compared to 0.05% for the previous year.

### **Total Revenue (teb)**

Total revenue (teb), which is comprised of net interest income after provision for credit losses and other income (charges), was \$5.0 million for the quarter compared to \$5.4 million a year ago.

### **Net Interest Income**

Net interest income (teb) was \$5.0 million for the quarter compared to \$4.5 million for the previous quarter and \$4.9 million a year ago. Net interest margin or spread (teb), which is net interest income as a percentage of average assets, was 1.36% for the quarter compared to 1.33% for the previous quarter and 1.45% a year ago. The increase from the previous quarter was primarily due to improved spreads in our securities portfolio as a result of the liquidity crisis.

### **Other Income**

Other income (charges) for the quarter was (\$86,000) compared to \$959,000 for the same period a year ago with the decrease resulting from a gain of \$888,000 recorded last year when DA shares were disposed of. In addition, during the current quarter, the Corporation recorded charges totalling \$197,000 relating to mark-to-market adjustments on interest rate swaps. These charges were partially offset by administrative fee income of \$124,000 earned from DA.

### **Non-Interest Expenses**

Non-interest expenses for the quarter were \$3.8 million compared to \$3.1 million for the previous quarter and \$3.7 million a year ago. Non-interest expenses were lower in the previous quarter as a result of a reduction in the accrual for staff incentive awards when actual results were less than targeted. The increase in this quarter was also a result of an expense of \$263,000 being recorded for employee stock options compared to \$153,000 a year ago. In addition, during the current quarter, the Corporation incurred approximately \$90,000 in expenses related to its Versabanq Innovations Inc. subsidiary, expenses which had not been incurred during the same quarter last year.

## ***Income Taxes***

For the current quarter the Corporation's statutory federal and provincial income tax rate was approximately 34% compared to 36% in 2007 with the difference being due to a rate reduction which was substantively enacted during the current quarter. However, the effective rate was reduced by non-taxable income earned on preferred shares in our securities portfolio and impacted by expenses such as stock-based compensation which are not deductible for income tax purposes. These items resulted in an income tax recovery of \$199,000 being recorded in the quarter.

## ***Balance Sheet***

Total assets at January 31, 2008, were \$1.49 billion compared to \$1.36 billion a year ago with the increase being primarily a result of the increase in lending assets which grew by 9%.

## ***Cash and Securities***

Cash and securities, which are held for liquidity management purposes and to earn investment income, were \$478 million compared to \$414 million a year ago. Securities consist of government bonds and investment grade corporate debt and preferred shares. Corporate preferred shares are held for the preferential tax treatment their dividends receive. As indicated previously, the Corporation does not own any asset backed commercial paper and therefore is not exposed to any direct losses from this type of security as a result of recent market instabilities.

At January 31, 2008, the net unrealized loss in our securities portfolio was \$15.5 million compared to a net unrealized loss of \$326,000 a year ago which is recorded after income taxes in accumulated other comprehensive income (loss). The decrease from the previous year is primarily related to the Corporation's holdings of corporate preferred shares and is a result of changes in market interest rates and the impact of the market's increases in the pricing for credit risk in securities as a result of the liquidity crisis. Since the Corporation has the ability and intent to hold these securities until there is a recovery of fair value, these unrealized losses are considered temporary in nature.

## ***Mortgages and Loans***

Lending assets grew to \$976 million at the end of the quarter from \$895 million a year ago. Loan categories which saw increases from a year ago were primarily in loans to public sector entities and in insured residential mortgages. As noted previously, at January 31, 2008, the Corporation does not have any exposure to the subprime lending market and therefore is not exposed to any direct losses from this sector.

New lending in the quarter totalled \$45.9 million offset by \$48.1 million in repayments. The outlook for new loan funding continues to be promising with total loans committed to at January 31, 2008 exceeding \$453 million.

## ***Other Assets***

Other assets totalled \$36.9 million at the end of the quarter compared to \$39.2 million at the end of the previous quarter and \$49.3 million a year ago. Included in other assets is the Corporation's investment in DA which is accounted for as an available-for-sale asset and carried at market value. The decrease in other assets from a year ago was due primarily to the disposition of DA shares as a special dividend valued at \$10.8 million as well as a decrease of \$6.8 million from a year ago in the market value of the DA investment. At January 31, 2008, the investment in DA had an unrealized loss of \$1.7 million which is recorded after income taxes in accumulated other comprehensive income (loss).

## ***Deposits and Financing***

Deposits are used as a primary source of financing growth in assets and are raised entirely through an agent network across Canada. Deposits at the end of the quarter were \$1.36 billion compared to \$1.17 billion a year ago. Our deposits consist primarily of fixed term guaranteed investment certificates and a nominal amount of demand deposits.

A second source of financing growth in assets is the use of margin lines and securities sold under repurchase agreements. From time to time, the Corporation uses these sources of financing when the cost of borrowing is less than the interest rates that would have to be paid on new deposits. At the end of the quarter, the Corporation did not have any amounts outstanding related to securities sold under repurchase agreements compared to \$60 million a year ago.

Notes payable at January 31, 2008, were \$40.7 million compared to \$35.7 million at the end of the previous quarter and \$35.5 million a year ago. The increase was a result of notes totalling \$5.0 million being issued in the quarter with the proceeds invested in common shares of its subsidiary Pacific & Western Bank of Canada. Notes payable, including the new notes, bear interest at rates ranging from 9.0% to 9.25% per annum.

### ***Credit Quality***

Gross impaired loans at the end of the quarter totalled \$1.4 million or 0.09% of total assets, compared to \$2.5 million or 0.19% of total assets a year ago. The provision for credit losses for the quarter was \$8,000 compared to \$429,000 a year ago. Total allowances for credit losses, including specific and general allowances, were \$3.2 million at the end of the quarter compared to \$3.0 million a year ago. The provision for credit losses as a percentage of average loans for the quarter was virtually nil compared to 0.05% a year ago.

### ***Shareholders' Equity***

At the end of the quarter, shareholders' equity was \$51.7 million compared to \$65.1 million a year ago with the decrease due primarily to the special dividend of \$10.8 million declared and distributed in the previous year, shares repurchased and cancelled under the Normal Course Issuer Bid, and the change in accumulated other comprehensive income (loss). These decreases were partially offset by the issue of common shares on exercise of stock options and the retention of earnings. Total common shares outstanding at the end of the quarter were 13,604,652 compared to 13,685,552 at the end of the previous quarter with the change due to the exercise of common share options offset by shares repurchased for cancellation. Outstanding common share options totalled 1,298,577 at the end of the quarter compared to 1,054,345 at the end of the previous quarter. Our book value per common share at the end of the quarter was \$3.54 compared to \$3.91 at the end of the previous quarter and \$4.55 a year ago.

On July 17, 2007, the Corporation announced that it had filed a Notice of Intention to make a Normal Course Issuer Bid, pursuant to which the Corporation may purchase for cancellation up to 1 million of its common shares. The Bid will terminate on July 18, 2008. The price that the Corporation pays for any common shares is the market price at the time of purchase. The Corporation believes that the market price of its common shares is unusually low and does not fully reflect the value of its business and future business prospects. As a result, the Corporation believes that purchasing its common shares represents an attractive investment opportunity and an appropriate and desirable use of available funds. During the three months ended January 31, 2008, the Corporation had repurchased for cancellation 82,900 common shares for a total cost of \$679,000. To date, the Corporation has repurchased for cancellation 163,100 common shares for a total cost of \$1.26 million.

### ***Updated Share Information***

At February 27, 2008, there were 13,597,452 common shares outstanding with the change since January 31, 2008 due to 7,200 common shares repurchased for cancellation under the Normal Course Issuer Bid. At February 27, 2008, there was no change in the number of common share options outstanding.

### ***Capital Management***

Total regulatory capital in the Corporation's principal subsidiary, Pacific & Western Bank of Canada (the "Bank"), totalled \$93.6 million at January 31, 2008 compared to \$98.2 million a year ago and \$91.8 million at the end of the previous quarter. The decrease in total regulatory capital from a year ago was primarily a result of a dividend of \$11.0 million paid last year by the Bank to the Corporation and the change in accumulated other comprehensive income (loss). These were partially offset by earnings retained in the Bank and the issue of \$5 million in common shares by the Bank to the Corporation.

The Bank's total risk-based capital ratio, which is the ratio of regulatory capital to risk-weighted assets, was 11.55% at January 31, 2008. 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 7.85% at the end of the quarter. The Bank's assets-to-capital ratio was 16.26 at the end of the quarter. See note 6 to the interim consolidated financial statements for more information regarding capital management.

## Summary of Quarterly Results

(thousands of dollars except per share amounts)

	2008		2007				2006		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2*	
<b>Results of operations:</b>									
Total interest income									
per financial statements	\$ 20,377	\$ 18,795	\$ 16,978	\$ 17,538	\$ 18,163	\$ 18,677	\$ 16,418	\$ 15,104	
Teb adjustment	832	715	559	492	444	432	440	352	
Total interest income	21,209	19,510	17,537	18,030	18,607	19,109	16,858	15,456	
Yield on assets (%)	5.71%	5.77%	5.37%	5.42%	5.49%	5.79%	5.37%	5.37%	
Interest expense	16,165	15,018	13,757	13,495	13,701	14,415	12,200	10,560	
Cost of funds (%)	4.35%	4.44%	4.21%	4.06%	4.04%	4.37%	3.89%	3.67%	
Net interest income	5,044	4,492	3,780	4,535	4,906	4,694	4,658	4,896	
Net interest margin (%)	1.36%	1.33%	1.16%	1.36%	1.45%	1.42%	1.48%	1.70%	
Provision for credit losses	8	198	142	72	429	339	321	78	
Other income (charges)	(86)	114	260	294	959	1,116	12,963	1,251	
Total revenue	4,950	4,408	3,898	4,757	5,436	5,471	17,300	6,069	
Non-interest expenses	3,781	3,049	3,643	3,548	3,658	3,252	3,215	3,104	
Income before income taxes	1,169	1,359	255	1,209	1,778	2,219	14,085	2,965	
Income tax provision	633	721	128	865	687	737	2,282	1,040	
Non-controlling interest	-	-	-	-	-	-	-	117	
Net income	536	638	127	344	1,091	1,482	11,803	2,042	
Earnings per share									
-basic	\$ 0.03	\$ 0.04	\$ 0.01	\$ 0.02	\$ 0.08	\$ 0.11	\$ 0.88	\$ 0.15	
-diluted	\$ 0.03	\$ 0.04	\$ -	\$ 0.02	\$ 0.07	\$ 0.10	\$ 0.85	\$ 0.14	

\*Results for this quarter include the results of the operations for DA accounted for on the consolidation basis. DA was subsequently accounted for on the equity basis until October 31, 2006 and as an available-for-sale asset thereafter.

Net interest income and spread (teb) for the current quarter increased from the previous quarter primarily as a result of increased spreads in our securities portfolio and a decrease in our cost of funds. Until the fourth quarter of 2007, spreads decreased as a result of competitive pricing for new loans, a compression of spreads primarily in our securities portfolio and increased competition for new deposits which resulted in an increase in our cost of funds.

Other income (charges) was less in the current quarter as there were no gains or equity earnings from DA. Non-interest expenses in the current quarter increased from the previous quarter as a result of a reduction of the accrual for staff incentive awards when actual results were less than target. In addition, salaries and benefits in the current quarter increased as a result of employee stock options granted during the quarter.

## Controls and Procedures

During the most recent interim period, there have been no changes in the Corporation's policies and procedures and other processes that comprise its internal control over financial reporting, that have materially affected, or are reasonably likely to materially affect, the Corporation's internal control over financial reporting.

**Dated: February 27, 2008**

## ***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 2008</b>	<b>October 31 2007</b>	<b>January 31 2007</b>
	(unaudited)		(unaudited)
<b>Assets</b>			
Cash resources	\$ 185,463	\$ 113,421	\$ 142,656
Securities	292,712	328,306	271,659
Mortgages and loans	975,558	977,727	895,158
Other assets	36,949	39,202	49,256
	<u>\$ 1,490,682</u>	<u>\$ 1,458,656</u>	<u>\$ 1,358,729</u>
<b>Liabilities and Shareholders' Equity</b>			
Deposits	\$ 1,363,050	\$ 1,282,756	\$ 1,174,237
Notes payable	40,732	35,660	35,456
Other liabilities	35,188	83,186	83,949
	<u>1,438,970</u>	<u>1,401,602</u>	<u>1,293,642</u>
<b>Shareholders' equity</b>			
Share capital	39,077	39,470	38,282
Retained earnings	24,404	24,125	23,131
Accumulated other comprehensive income (loss)	(11,769)	(6,541)	3,674
	<u>51,712</u>	<u>57,054</u>	<u>65,087</u>
	<u>\$ 1,490,682</u>	<u>\$ 1,458,656</u>	<u>\$ 1,358,729</u>

# **PACIFIC & WESTERN CREDIT CORP.**

## **Consolidated Statement of Income** (thousands of dollars)

	<i>for the three months ended</i>	
	<b>January 31</b>	<b>January 31</b>
	<b>2008</b>	<b>2007</b>
	(unaudited)	(unaudited)
<b>Interest income</b>		
Interest income on loans	\$ 13,958	\$ 13,094
Interest and income from securities	5,492	4,469
Loan fee income	927	600
	<u>20,377</u>	<u>18,163</u>
<b>Interest expense</b>		
Deposits and other	15,282	12,831
Notes payable	883	870
	<u>16,165</u>	<u>13,701</u>
Net interest income	4,212	4,462
Provision for credit losses	8	429
Net interest income after provision for credit losses	4,204	4,033
Other income (charges)	(86)	959
	<u>4,118</u>	<u>4,992</u>
<b>Non-interest expenses</b>		
Salaries and benefits	2,146	2,120
General and administrative	1,153	1,137
Premises and equipment	482	401
	<u>3,781</u>	<u>3,658</u>
Income before income taxes and other	337	1,334
Income tax (recovery) provision	(199)	243
<b>Net income</b>	<u><b>\$ 536</b></u>	<u><b>\$ 1,091</b></u>
Basic earnings per share	<u>\$ 0.03</u>	<u>\$ 0.08</u>
Diluted earnings per share	<u>\$ 0.03</u>	<u>\$ 0.07</u>
Weighted average number of common shares	<u>13,649,000</u>	<u>13,471,000</u>

**PACIFIC & WESTERN CREDIT CORP.****Consolidated Statement of Comprehensive Income (Loss)**

(thousands of dollars)

	<i>for the three months ended</i>	
	<b>January 31</b>	<b>January 31</b>
	<b>2008</b>	<b>2007</b>
	(unaudited)	(unaudited)
Total net income	\$ 536	\$ 1,091
Other comprehensive income (loss), net of tax:		
Net unrealized gains (losses) on assets held as available-for-sale <sup>1</sup>	(5,158)	760
Amount transferred to net income for hedges <sup>2</sup>	53	53
Amount transferred to net income for sale of available-for-sale assets <sup>3</sup>	(123)	(1,121)
Total other comprehensive income (loss)	(5,228)	(308)
Total comprehensive income (loss)	<u>\$ (4,692)</u>	<u>\$ 783</u>

<sup>1</sup> Net of income tax benefit (expense) of \$1,924 (2007-\$468))

<sup>2</sup> Net of income tax benefit (expense) of (\$30) (2007-\$30))

<sup>3</sup> Net of income tax benefit (expense) of \$63 (2007-\$379)

# **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>2008</b>	<b>2007</b>
	(unaudited)	(unaudited)
<b>Common shares</b>		
Balance, beginning of period	\$ 35,743	\$ 33,986
Shares issued	6	354
Shares repurchased	(217)	-
Amount transferred from contributed surplus	-	5
Balance, end of period	<u>\$ 35,532</u>	<u>\$ 34,345</u>
<b>Class A preferred shares</b>		
Balance, beginning and end of period	<u>\$ 3,545</u>	<u>\$ 3,545</u>
<b>Contributed surplus</b>		
Balance, beginning of period	\$ 182	\$ 244
Fair value of stock option transactions (note 3)	263	153
Repurchase of shares	(445)	-
Amount transferred to common shares	-	(5)
Balance, end of period	<u>\$ -</u>	<u>\$ 392</u>
<b>Retained earnings</b>		
Balance, beginning of period	\$ 24,125	\$ 32,875
Transitional adjustment	-	103
Net income	536	1,091
Dividend in kind	-	(10,698)
Dividends on preferred shares	(240)	(240)
Repurchase of shares	(17)	-
Balance, end of period	<u>\$ 24,404</u>	<u>\$ 23,131</u>
<b>Accumulated other comprehensive income (loss), net of taxes</b>		
Balance, beginning of period	\$ (6,541)	\$ -
Transitional adjustment	-	3,982
Other comprehensive income (loss)	(5,228)	(308)
Balance, end of period	<u>\$ (11,769)</u>	<u>\$ 3,674</u>
<b>Total shareholders' equity</b>	<u><u>\$ 51,712</u></u>	<u><u>\$ 65,087</u></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>2008</b>	<b>2007</b>
	(unaudited)	(unaudited)
<b>Cash provided by (used in):</b>		
<b>Operations:</b>		
Net income	\$ 536	\$ 1,091
Items not involving cash:		
Provision for credit losses	8	429
Other provisions	20	-
Stock-based compensation (note 3)	263	153
Future income tax recovery	(199)	(116)
Gain on sale of available-for-sale securities	(499)	(606)
Gain on disposal of shares	-	(888)
Change in derivative financial instruments	197	-
Change in other assets and liabilities	(2,836)	(2,629)
	<u>(2,510)</u>	<u>(2,566)</u>
<b>Investing:</b>		
Purchase of securities	(339,970)	(262,694)
Proceeds from sale of securities	371,802	208,407
Mortgages and loans	8,256	(31,757)
	<u>40,088</u>	<u>(86,044)</u>
<b>Financing:</b>		
Deposits	80,294	(36,318)
Notes payable	5,000	-
Short term financings	(49,917)	59,750
Proceeds of common shares issued	6	354
Shares repurchased	(679)	-
Dividends paid	(240)	(240)
	<u>34,464</u>	<u>23,546</u>
Increase (decrease) in cash resources	72,042	(65,064)
Cash resources, beginning of period	<u>113,421</u>	<u>207,720</u>
Cash resources, end of period	<u>\$ 185,463</u>	<u>\$ 142,656</u>
<b>Supplementary cash flow information:</b>		
Interest paid during the period	\$ 10,933	\$ 9,990
Income taxes paid during the period	\$ 68	\$ 264

**PACIFIC & WESTERN CREDIT CORP.**  
**Notes to the interim consolidated financial statements (unaudited)**  
**For the three months ended January 31, 2008**

**1. Basis of presentation**

The interim consolidated financial statements of Pacific & Western Credit Corp. (the Corporation) should be read in conjunction with the Corporation's consolidated financial statements for the year ended October 31, 2007, which are available on SEDAR at [www.sedar.com](http://www.sedar.com). These 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, 2007.

**2. Allowance for credit losses**

	<i>for the three months ended</i>			<i>for the three months ended</i>		
	January 31, 2008			January 31, 2007		
(thousands of dollars)	General allowance	Specific allowance	Total allowance	General allowance	Specific allowance	Total allowance
Balance, beginning of the period	\$ 2,733	\$ 473	\$ 3,206	\$ 2,208	\$ 358	\$ 2,566
Provision for credit losses	-	8	8	135	294	429
Recoveries (write-offs)	-	-	-	-	-	-
Balance, end of period	\$ 2,733	\$ 481	\$ 3,214	\$ 2,343	\$ 652	\$ 2,995

Gross impaired loans at January 31, 2008 totalled \$1,363,000 (January 31, 2007 - \$2,544,000).

**3. Shareholders' equity**

**a. Share capital and contributed surplus:**

	Common shares outstanding	Employee Stock Options	
		Number	Weighted-average exercise price
Outstanding, October 31, 2007	13,685,552	1,054,345	\$ 8.58
Granted	-	249,398	7.83
Exercised	2,000	(2,000)	3.00
Expired	-	(3,166)	8.31
Repurchased	(82,900)	-	-
Outstanding, end of period	13,604,652	1,298,577	\$ 8.43

In addition, at January 31, 2008, there were 1,142,556 (2007-1,142,556) preferred shares outstanding.

During the quarter ended January 31, 2008, the Corporation recognized \$263,000 (2007-\$153,000) of salaries and benefits expense relating to the estimated fair value of stock options granted. The fair value of options granted during the period was estimated using the Black-Scholes option pricing model based on the following weighted-average assumptions: (i) risk-free interest rate of 4.03% (2007-4.07%), (ii) expected option life of 5 years (2007-5 years), (iii) expected volatility of 30% (2007-30%), and (iv) expected forfeiture rate of 5% (2007-5%). The weighted average fair value of options granted was estimated at \$2.66 (2007-\$3.87) per share.

On July 17, 2007, the Corporation announced that it had filed a Notice of Intention to make a Normal Course Issuer Bid, pursuant to which the Corporation may purchase for cancellation up to 1 million of its common shares. The bid will terminate on July 18, 2008. The price that the Corporation pays for any common shares will be the market price at the time of acquisition. For the three months ended January 31, 2008, the Corporation had repurchased for cancellation 82,900 common shares for a total cost of \$679,000. To date, the Corporation has repurchased for cancellation 163,100 common shares for a total cost of \$1,263,000.

**b. Accumulated other comprehensive income (loss):**

The balance in accumulated comprehensive income (loss) consists of:

	<b>January 31 2008</b>	<b>January 31 2007</b>
Net unrealized losses on assets held as available-for-sale	\$ (11,633)	\$ 4,027
Deferred losses related to previously closed cash flow hedges	(136)	(353)
Balance, end of period	<u>\$ (11,769)</u>	<u>\$ 3,674</u>

**4. Derivative instruments**

At January 31, 2008, the Corporation had outstanding contracts for asset liability management purposes to swap between floating and fixed interest rates with notional amounts totalling \$96,750,000 (2007 - \$81,733,000). 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 \$390,000 (2007 - \$nil), a credit equivalent amount of \$1,660,000 (2007 - \$1,171,000) and a risk weighted balance of \$332,000 (2007 - \$234,000). At January 31, 2008, these contracts were in an unfavorable position of \$6,663,000 (2007 - \$2,429,000). Under the accounting standard relating to hedges, this amount is included in other liabilities on the consolidated balance sheet, however there was nominal impact on net income.

At January 31, 2008, 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 or loan in the event a default occurs. At January 31, 2008, the counterparties to these contracts which totalled \$7.3 million (2007 - \$32.0 million) consisted of Canadian chartered banks. The contracts have a nominal fair value and mature within two years.

**5. Commitments and contingencies**

The amount of credit related commitments represents the maximum amount of additional credit that the Corporation could be obligated to extend. The amount 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	\$ 453,076,000
Letters of credit	<u>33,732,000</u>
	<u>\$ 486,808,000</u>

## 6. Capital Management

### a. Overview:

The Corporation's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is also important and the Corporation recognizes the need to maintain a balance between the higher returns that might be possible with greater leverage and the advantages and security afforded by a sound capital position.

The Corporation's primary subsidiary is Pacific & Western Bank of Canada, (the "Bank") and as a result, the following discussion on capital management is with respect to the capital of the Bank. The Bank operates as a bank under the *Bank Act* (Canada) and is regulated by the Office of the Superintendent of Financial Institutions Canada (OSFI). OSFI sets and monitors capital requirements for the Bank.

Capital is managed in accordance with policies and plans that are regularly reviewed and approved by the Board of Directors and take into account forecasted capital needs and markets. The goal is to maintain adequate regulatory capital to be considered well capitalized, protect consumer deposits and provide capacity for internally generated growth and strategic opportunities that do not otherwise require accessing the public capital markets, all while providing a satisfactory return for shareholders. The Bank's regulatory capital is comprised of share capital, retained earnings and accumulated other comprehensive income (loss) (Tier 1 capital) and subordinated notes (Tier 2 capital).

The Bank monitors its capital adequacy and related capital ratios on a daily basis and has policies setting internal maximum and minimum amounts for its capital ratios. These capital ratios consist of the assets-to capital multiple and the risk-based capital ratio.

During the three month period ended January 31, 2008, there have been no material changes in the Bank's management of capital and it has complied with capital requirements as prescribed by OSFI's Guidelines on Capital Adequacy.

### b. Assets-to-Capital Multiple:

The Bank's growth in total assets is limited by a permitted assets-to-capital multiple which is prescribed by OSFI and is defined as the ratio of the total assets of the Bank to its regulatory capital. The Bank's assets-to-capital multiple is calculated as follows:

(thousands of dollars)	January 31 2008	January 31 2007
Total assets (on and off-balance sheet)	\$ 1,522,647	\$ 1,370,251
Capital		
Common shares	\$ 47,117	\$ 42,117
Retained earnings	25,650	22,454
Accumulated other comprehensive income (loss)	(9,137)	3,673
Subordinated debentures	30,000	30,000
Total regulatory capital	\$ 93,630	\$ 98,244
Assets-to-capital ratio	16.26	13.95

**c. Risk-Based Capital Ratio:**

OSFI requires banks to measure capital adequacy in accordance with guidelines for determining risk-adjusted capital and risk-weighted assets including off-balance sheet credit instruments. Based on the deemed credit risk for each type of asset, a weighting of 0% to 150% is assigned to determine the risk-based capital ratio. OSFI requires banks to maintain a minimum total risk-based capital ratio of 10% and a Tier 1 risk-based capital ratio in excess of 7%.

In June 2004, the Basel Committee on Banking Supervision released its report entitled “International Convergence of Capital Measurement and Capital Standards: A Revised Framework” (Basel II). The new framework is designed to more closely align regulatory capital requirements with underlying risks by introducing changes in the treatment of credit risk. An explicit new capital charge for operational risk was introduced, as well as increased supervisory review of capital adequacy and expansion of the related public disclosure. The new Basel II Framework was effective November 1, 2007 for Canadian banks. The Bank’s risk-based capital ratios at January 31, 2008 are presented below using the guidelines under Basel II. The Bank’s risk-based capital ratios at January 31, 2007 are those determined under the previous capital adequacy guideline.

	January 31 2008		January 31 2007	
(thousands of dollars)	Notional/ Drawn Amount	Risk Weighted Balance	Notional/ Drawn Amount	Risk Weighted Balance
Balance sheet assets	\$ 1,488,962	\$ 723,114	\$ 1,344,365	\$ 773,420
Off-balance sheet assets	583,499	56,818	234,475	23,749
Charge for operational risk		30,835		-
Total risk-weighted assets		\$ 810,767		\$ 797,169
Regulatory capital		93,630		98,244
Total risk-based capital ratio		11.55%		12.32%
Tier 1 risk-based capital ratio		7.85%		8.10%

**7. Comparative figures**

Certain comparative figures have been reclassified to conform to the current period’s presentation.

## CORPORATE INFORMATION

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

#### **DIRECTORS**

**Douglas W. Gough, B.B.A. (Hons.), M.B.A.**

Director, Chairman of the Board  
Pacific & Western Bank of Canada  
and Pacific & Western Credit Corp.  
President, Kaldo Investments Corporation

**David A. Bratton, B.A.(Hons.), M.B.A., CHRP, FCMC**

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

**Arnold E. Hillier, B.Comm., C.A.**

Director - Pacific & Western Bank of Canada  
and Pacific & Western Credit Corp.  
Retired, former Chairman, Chief Executive Officer  
and Chief Financial Officer, Claude Resources Inc.

**Honourable Thomas A. Hockin, P.C., Hons.B.A.  
(Business), M.P.A., Ph.D., ICD.D.**

Director – Pacific & Western Bank of Canada  
and Pacific & Western Credit Corp.  
Retired, former President & C.E.O., The Investment Funds  
Institute of Canada and Canadian Institute of Financial  
Planning

**William T. Mitchell, FCA**

Director – Pacific & Western Bank of Canada  
and Pacific & Western Credit Corp.  
Retired, former Senior Partner, PricewaterhouseCoopers LLP

**Paul G. Oliver, FCA, ICD.D.**

Director – Pacific & Western Bank of Canada  
and Pacific & Western Credit Corp.  
Retired, former Senior Partner, PricewaterhouseCoopers LLP

**C. Scott Ritchie, Hons.B.A. (Business), LL.B., Q.C.**

Director – Pacific & Western Bank of Canada  
and Pacific & Western Credit Corp.  
Partner, Siskind, Cromarty, Ivey, Dowler LLP,  
Barristers and Solicitors

**David R. Taylor, B.Sc. (Hons.), M.B.A., F.I.C.B.**

Director - Pacific & Western Bank of Canada  
and Pacific & Western Credit Corp.  
President and Chief Executive Officer, Pacific & Western Bank  
of Canada and Pacific & Western Credit Corp.

#### **OFFICERS**

**David R. Taylor, B.Sc. (Hons.), M.B.A., F.I.C.B.**

President & Chief Executive Officer  
Pacific & Western Bank of Canada  
and Pacific & Western Credit Corp.

**John W. Asma, B.A. (Hons.), M.B.A.**

Senior Vice President, Treasurer,  
Public & Corporate Finance  
Pacific & Western Bank of Canada  
and Pacific & Western Credit Corp.

**Jonathan F.P. Taylor, B.B.A.**

Senior Vice President, Operations  
Pacific & Western Bank of Canada  
and Pacific & Western Credit Corp.

**Barry D. Walter, B.Comm., C.A.**

Senior Vice President & Chief Financial Officer  
Pacific & Western Bank of Canada  
and Pacific & Western Credit Corp.

**Brian Conley**

Vice President, Western Canada Lending  
Pacific & Western Bank of Canada  
and Pacific & Western Credit Corp.

**Ross P. Duggan**

Vice President, Real Estate Lending  
Pacific & Western Bank of Canada  
and Pacific & Western Credit Corp.

**Barbara E.M. Hale, LL.B.**

Vice President, Compliance,  
General Counsel & Corporate Secretary  
Pacific & Western Bank of Canada  
and Pacific & Western Credit Corp.

**Nick Kristo, B.Comm., M.B.A.**

Vice President, Credit Risk & Administration  
Pacific & Western Bank of Canada  
and Pacific & Western Credit Corp.

**Tel G. Matrondola, M.A., Ph.D.**

Vice President, Public & Strategic Initiatives  
Pacific & Western Bank of Canada  
and Pacific & Western Credit Corp.

**Bruce M. Schruder, B.B.A. (Hons.) F.I.C.B.**

Vice President, Public & Corporate Lending  
Pacific & Western Bank of Canada  
and Pacific & Western Credit Corp.

**Neil Beaton, B.A. (Hons.), M.B.A.**

Chief Information Officer  
Pacific & Western Bank of Canada  
and Pacific & Western Credit Corp.

## **SOLICITORS**

MacPherson Leslie & Tyerman LLP  
1500 – 410 22<sup>nd</sup> Street East  
Saskatoon, Saskatchewan S7K 5T6

## **AUDITORS**

KPMG LLP  
600 - 128 4<sup>th</sup> Avenue South  
Saskatoon, Saskatchewan S7K 1M8

## **BANK**

Royal Bank of Canada  
Main Branch, 154 1<sup>st</sup> Avenue South  
Saskatoon, Saskatchewan S7K 1K2

## **TRANSFER AGENT**

Computershare Investor Services Inc.  
100 University Avenue  
Toronto, Ontario M5J 2Y1

## **STOCK EXCHANGE LISTING**

Toronto Stock Exchange  
Trading Symbol: PWC

## **CORPORATE OFFICES**

### **London Office**

Suite 2002, 140 Fullarton Street  
London, Ontario N6A 5P2  
Telephone: (519) 645-1919  
Fax: (519) 645-2060

### **Saskatoon Office**

950 - 410 22<sup>nd</sup> Street East  
Saskatoon, Saskatchewan S7K 5T6  
Telephone: (306) 244-1868  
Fax: (306) 244-4649

### **Toronto Office**

800-357 Bay Street  
Toronto, Ontario M5H 2T7  
Telephone: (866) 787-9936  
Fax: (416) 848-9938

### **Calgary Office**

441-5th Avenue SW, Suite 250  
Calgary, Alberta T2P 2V1  
Telephone: (403) 265-5913  
Toll-Free: (888) 666-5913  
Fax: (403) 265-5826

## **INVESTOR RELATIONS**

Toll Free Telephone: (800) 244-1509  
Email: [InvestorRelations@pwbank.com](mailto:InvestorRelations@pwbank.com)  
Web site: [www.pwbank.com](http://www.pwbank.com)