



Pacific & Western

Credit Corp.

Second Quarter Report April 30, 2008

PACIFIC & WESTERN CREDIT CORP. ANNOUNCES RESULTS FOR ITS SECOND QUARTER ENDED APRIL 30, 2008

SECOND QUARTER SUMMARY

(three months ended April 30, 2008, compared to three months ended April 30, 2007, unless otherwise noted)

- Total loans increased to \$990 million from \$900 million a year ago.
- Credit quality remained strong with gross impaired loans to total assets of 0.10% compared to 0.19% a year ago.
- Total assets were \$1.33 billion compared to \$1.37 billion a year ago.
- Spread (teb) for the quarter was 0.85% compared to 1.36% for the same quarter a year ago and on a year-to-date basis was 1.15% compared to 1.41% a year ago.
- Net interest income (teb) for the quarter was \$2.9 million compared to \$4.5 million a year ago and on a year-to-date basis was \$8.0 million compared to \$9.4 million a year ago.
- Net income (loss) for the quarter was (\$601,000) or (\$0.05) per share ((\$0.05) diluted) compared to \$344,000 or \$0.02 per share (\$0.02 diluted) for the same period last year and on a year-to-date basis was (\$65,000) or (\$0.01) per share ((\$0.01 diluted)) compared to \$1.4 million or \$0.10 per share (\$0.09 per share diluted) for the same period a year ago.

PRESIDENT'S COMMENTS

The recent liquidity crisis has presented some unique challenges and opportunities for our risk averse bank. This quarter, a rapid drop in the prime lending rate served to temporarily compress the spread income we earn on our prime based loan portfolio, which is funded by short term GIC deposits. As these short term GICs mature, they are replaced with lower rate GICs, resulting in a widening of spreads and net income recovering to normal levels. We anticipate this process to take approximately three more months.

The other reason for a decrease in our spread is that prior to August 2007 the loans we were booking in our low risk public sector market had very thin spreads. As these thinly priced loans mature, they are being replaced with higher spread loans that will, over time, result in an increase in net interest income.

Although I am disappointed that this quarter's results were not more positive, we are now operating in a very different market than we were prior to the liquidity crisis. Competition for loans has reduced considerably and spreads we are able to earn are now much wider. In order to take full advantage of these conducive market conditions, we plan to raise additional capital by way of our Series C 9% ten year Notes. On June 12, 2008, we will be asking our Series C Note holders to extend the maturity date of the existing Notes for another ten year period, and to increase the maximum size for this series of notes. This will allow our Bank to take full advantage of the very favourable market conditions by booking high quality loans with wider spreads. We expect a large portion of this growth to be in Western Canada and the Arctic, where we have well established relationships.

The loan portfolio of our Bank continues to have strong credit quality, including no direct exposure to any subprime loans or asset-backed securities. I am confident that we are well positioned to take advantage of the new market conditions as we have well established relationships in high growth areas of Canada, an excellent low cost funding network, state of the

art software to provide for rapid growth, and dedicated and experienced staff eager to build Pacific & Western Bank of Canada into a much larger and profitable Bank.

FINANCIAL HIGHLIGHTS

(unaudited)

	for the three months ended		for the six months ended	
	April 30 2008	April 30 2007	April 30 2008	April 30 2007
(\$ thousands, except per share amounts)				
Results of operations (teb)				
Net interest income per financial statements	\$ 2,285	\$ 4,043	\$ 6,497	\$ 8,505
Teb adjustment	659	492	1,504	935
Net interest income	2,944	4,535	8,001	9,440
Spread	0.85%	1.36%	1.15%	1.41%
Provision for credit losses	64	72	72	501
Net interest income after provision for credit losses	2,880	4,463	7,929	8,939
Other income	130	294	44	1,253
Total revenue	3,010	4,757	7,973	10,192
Non-interest expenses	3,441	3,548	7,222	7,206
Net income (loss)	-601	344	-65	1,435
Earnings (loss) per common share:				
Basic	\$ (0.05)	\$ 0.02	\$ (0.01)	\$ 0.10
Diluted	\$ (0.05)	\$ 0.02	\$ (0.01)	\$ 0.09
Efficiency ratio	\$ 1.12	\$ 0.73	\$ 0.90	\$ 0.67
Return on average common shareholders' equity	-5.82%	1.91%	-0.76%	4.14%
Return on average total assets	-0.17%	0.10%	-0.01%	0.21%
Gross impaired loans to total assets	0.10%	0.19%	0.10%	0.19%
Provision for credit losses as a % of average loans	0.01%	0.01%	0.01%	0.06%
Number of full time equivalent staff	58	64	58	64
Balance Sheet Summary				
Cash and securities	\$ 309,816	\$ 432,535	\$ 309,816	\$ 432,535
Total loans	989,714	899,971	989,714	899,971
Average loans	982,636	897,565	983,721	881,901
Total assets	1,334,269	1,366,834	1,334,269	1,366,834
Average assets	1,412,476	1,362,781	1,396,463	1,348,281
Deposits	1,214,123	1,155,383	1,214,123	1,155,383
Notes payable	40,805	35,523	40,805	35,523
Shareholders' equity	47,499	64,523	47,499	64,523
Capital ratios				
(Based on the subsidiary Pacific & Western Bank of Canada)				
Total regulatory capital	\$ 89,927	\$ 96,922	\$ 89,927	\$ 96,922
Risk weighted assets	833,103	778,717	833,103	778,717
Assets-to-capital ratio	15.21	14.32	15.21	14.32
Tier 1 risk-based capital ratio	8.39%	8.43%	8.39%	8.43%
Total risk-based capital ratio	10.79%	12.45%	10.79%	12.45%

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 second quarter of fiscal 2008 should be read in conjunction with the unaudited interim consolidated financial statements for the period ended April 30, 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. 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 (loss) for the quarter was (\$601,000) or (\$0.05) per share ((\$0.05) diluted) compared to \$344,000 or \$0.02 per share (\$0.02 diluted) for the same period a year ago with the decrease due primarily to a decrease in net interest income earned in the current period. On a year-to-date basis, net income (loss) was (\$65,000) or (\$0.01) per share ((\$0.01) diluted) compared to \$1.4 million or \$0.10 per share (\$0.09 diluted) for the same period a year ago with the change due primarily to decreases in net interest income and other income, partially offset by a decrease in the provision for credit losses. Other income for the same period last year 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 current period.

Net interest income (teb) for the quarter was \$2.9 million compared to \$4.5 million for the same period a year ago. On a year-to-date basis net interest income was \$8.0 million compared to \$9.4 million last year. The decrease in net interest income from the previous quarter and the year-to-date was due primarily to an increase in our cost of funds and a compression of spreads as the yield on prime based loans in our portfolio decreased as a result of recent decreases in the prime lending rate. Despite this, 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 April 30, 2008, total assets were \$1.33 billion compared to \$1.37 billion a year ago while lending assets increased to \$990 million from \$900 million a year ago. Credit quality remains strong with gross impaired loans at the end of the quarter of only \$1.4 million or 0.10% 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 nominal, similar to the same period a year ago and on a year-to-date basis, the provision for credit losses as a percentage of average loans was nominal compared to 0.06% for the same period last year.

Total Revenue (teb)

Total revenue (teb), which is comprised of net interest income after the provision for credit losses and other income, was \$3.0 million for the quarter compared to \$4.8 million a year ago. On a year-to-date basis total revenue (teb) was \$8.0 million compared to \$10.2 million last year.

Net Interest Income

Net interest income (teb) was \$2.9 million for the quarter compared to \$4.5 million a year ago, and on a year-to-date basis was \$8.0 million compared to \$9.4 million a year ago. Net interest margin or spread (teb), which is net interest income as a percentage of average assets, was 0.85% for the quarter compared to 1.36% for the same quarter a year ago. On a year-to-date basis, spread (teb) was 1.15% compared to 1.41% a year ago. The decrease in spread was primarily due to an increase in our cost of funds and a compression of spreads, as discussed above.

Other Income

Other income for the quarter was \$130,000 compared to \$294,000 for the same period a year ago and on a year-to-date basis was \$44,000 compared to \$1.3 million a year ago with the decrease for the year-to-date resulting from a gain of \$888,000 recorded last year when DA shares were disposed of through a dividend of DA shares declared by the Corporation and charges recorded in the current year relating to mark-to-market adjustments on interest rate swaps.

Non-Interest Expenses

Non-interest expenses for the quarter were \$3.4 million compared to \$3.5 million a year ago and on a year-to-date basis were \$7.2 million, similar to the amount a year ago. Non-interest expenses were lower in the current quarter compared to a year ago due to a reduction in discretionary spending based on the Corporation's review of its overhead costs.

Income Taxes

Currently the Corporation's statutory federal and provincial income tax rate is approximately 33% compared to 36% in 2007 with the difference being due to rate reductions which have been substantively enacted during the current year. However, the Corporation's effective rate is 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 \$489,000 being recorded in the quarter and a recovery of \$688,000 recorded for the year-to-date. This is in comparison to a provision of \$373,000 recorded in the same quarter last year and a provision of \$616,000 being recorded for the previous year-to-date.

Balance Sheet

Total assets at April 30, 2008, were \$1.33 billion compared to \$1.37 billion a year ago with lending assets growing to \$990 million from \$900 million a year ago. Total assets decreased from a year ago primarily as a result of a lower level of cash and securities held as an increased cost of funds made the holding of short term securities less attractive.

Cash and Securities

Cash and securities, which are held for liquidity management purposes and to earn investment income, were \$310 million compared to \$433 million a year ago. Securities consist of government treasury bills and bonds and investment grade corporate debt and preferred shares. Corporate preferred shares are held for the preferential tax treatment their dividends receive. Included in corporate debt is an investment in a collateral debt obligation (CDO) with an amortized cost of \$10 million and a fair value of \$5.9 million. The CDO carries a rating of BBB with collateral provided by investment grade corporations. There have been no defaults by any of these corporations. 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 April 30, 2008, the net unrealized loss in our securities portfolio which is recorded after income taxes in accumulated other comprehensive income (loss) was \$17.7 million compared to a net unrealized loss of \$210,000 a year ago. The increase in the net unrealized loss from the previous year is related primarily to a decrease in the market value of the Corporation's holdings of corporate preferred shares and its investment in the CDO. The result of changes in market interest rates and the impact of the market's increases in the pricing for credit risk in securities have negatively impacted the valuation of the preferred shares. 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 \$990 million at the end of the quarter from \$900 million a year ago. Loan categories which saw increases from a year ago were primarily in loans to public sector entities, insured residential mortgages and commercial mortgages. Loan growth during the quarter was slowed by current market conditions which made new lending opportunities less attractive. As a result, new lending in the quarter totalled \$90.1 million offset by \$83.7 million in repayments. For the first six months of fiscal 2008, loan fundings totalled \$136 million with loan repayments totalling \$131.8 million.

Other Assets

Other assets totalled \$34.7 million at the end of the quarter compared to \$34.3 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. At April 30, 2008, the investment in DA had an unrealized loss of \$4.1 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 \$1.21 billion compared to \$1.16 billion a year ago and consist primarily of fixed term guaranteed investment certificates. Of these amounts, \$12.1 million at the end of the quarter was in the form of demand deposits compared to \$11.6 million a year ago.

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 margin lines or securities sold under repurchase agreements compared to \$103 million a year ago.

Notes payable at April 30, 2008, were \$40.8 million compared to \$35.5 million a year ago. The increase was a result of notes totalling \$5.0 million being issued earlier in the year with the proceeds being invested in common shares of the Corporation's subsidiary Pacific & Western Bank of Canada (the Bank). Notes payable, including these new notes, bear interest at rates ranging from 9.0% to 9.25% per annum.

The Corporation has announced that it plans to extend the maturity date of its Series C Notes, which total approximately \$22.7 million, from October 16, 2008 to October 16, 2018. On June 12, 2008, the Corporation will hold a meeting of its Series C Noteholders at which time they will be asked to approve the ten year extension. In addition they will be asked to approve an increase in the number of Series C notes that the Corporation can issue.

Credit Quality

Gross impaired loans at the end of the quarter totalled \$1.4 million or 0.10% of total assets virtually unchanged from the end of the previous quarter and compared to \$2.5 million or 0.19% of total assets a year ago. The provision for credit losses for the quarter was \$64,000 compared to \$72,000 a year ago and on a year-to-date basis was \$72,000 compared to \$501,000 a year ago. Total allowances for credit losses, including specific and general allowances, were \$3.3 million at the end of the quarter compared to \$3.1 million a year ago. The provision for credit losses as a percentage of average loans for the quarter was nominal, similar to a year ago and for the year-to-date was nominal compared to 0.06% a year ago.

Shareholders' Equity

At the end of the quarter, shareholders' equity was \$47.5 million compared to \$64.5 million a year ago with the decrease due primarily to 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. Common shares outstanding at the end of the quarter totalled 13,598,052 compared to 13,756,752 a year ago with the change due to the exercise of common share options offset by shares repurchased for cancellation. Outstanding common share options totalled 1,165,477 at the end of the quarter compared to 1,073,028 a year ago. Our book value per common share at the end of the quarter was \$3.23 compared to \$4.43 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 six months ended April 30, 2008, the Corporation had repurchased for cancellation 99,500 common shares for a total cost of \$792,000. Since July 17, 2007, the Corporation has repurchased for cancellation 179,700 common shares for a total cost of \$1.4 million.

Updated Share Information

At May 28, 2008, there were 13,592,952 common shares outstanding with the change since April 30, 2008 due to common shares repurchased for cancellation under the Normal Course Issuer Bid. At May 28, 2008, there was no change in the number of common share options outstanding.

Capital Management

Total regulatory capital in the Corporation's principal subsidiary, the Bank, totalled \$89.9 million at April 30, 2008 compared to \$96.9 million a year ago. The decrease in total regulatory capital from a year ago was primarily a result of the change in accumulated other comprehensive income (loss) related to equity securities the Bank holds in its securities portfolio and its investment in DA. 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 in the first quarter of 2008.

The Bank's total risk-based capital ratio, which is the ratio of regulatory capital to risk-weighted assets, was 10.79% at April 30, 2008 compared to 12.45% a year ago with the change due to the decrease in regulatory capital as discussed above. The Bank's Tier 1 risk-based capital ratio, which is the ratio of Tier 1 capital to risk-weighted assets, was 8.39% at the end of the quarter compared to 8.43% a year ago. The Bank's assets-to-capital ratio was 15.21 at the end of the quarter compared to 14.32 a year ago. See note 7 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	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Results of operations:								
Total interest income								
per financial statements	\$ 18,105	\$ 20,377	\$ 18,795	\$ 16,978	\$ 17,538	\$ 18,163	\$ 18,677	\$ 16,418
Teb adjustment	659	832	715	559	492	444	432	440
Total interest income	18,764	21,209	19,510	17,537	18,030	18,607	19,109	16,858
Yield on assets (%)	5.39%	5.71%	5.77%	5.37%	5.42%	5.49%	5.79%	5.37%
Interest expense	15,820	16,165	15,018	13,757	13,495	13,701	14,415	12,200
Cost of funds (%)	4.54%	4.35%	4.44%	4.21%	4.06%	4.04%	4.37%	3.89%
Net interest income	2,944	5,044	4,492	3,780	4,535	4,906	4,694	4,658
Net interest margin (%)	0.85%	1.36%	1.33%	1.16%	1.36%	1.45%	1.42%	1.48%
Provision for credit losses	64	8	198	142	72	429	339	321
Other income (charges)	130	(86)	114	260	294	959	1,116	12,963
Total revenue	3,010	4,950	4,408	3,898	4,757	5,436	5,471	17,300
Non-interest expenses	3,441	3,781	3,049	3,643	3,548	3,658	3,252	3,215
Income (loss) before income taxes	(431)	1,169	1,359	255	1,209	1,778	2,219	14,085
Income tax provision	170	633	721	128	865	687	737	2,282
Net income (loss)	(601)	536	638	127	344	1,091	1,482	11,803
Earnings (loss) per share								
-basic	\$ (0.05)	\$ 0.03	\$ 0.04	\$ 0.01	\$ 0.02	\$ 0.08	\$ 0.11	\$ 0.88
-diluted	\$ (0.05)	\$ 0.03	\$ 0.04	\$ -	\$ 0.02	\$ 0.07	\$ 0.10	\$ 0.85

Net interest income (teb) decreased in the second quarter from the previous quarter primarily as a result of fewer days in the quarter and a compression of spreads. Spread (teb) decreased in the quarter as a result of the compression of spreads in our prime based loan portfolio and an increase in our cost of funds resulting from market conditions and increased competition in the deposit broker network where all of the Corporation's deposits are raised.

Other income (charges) increased in the second quarter as the previous quarter saw charges related to mark-to-market adjustments on interest rate swaps. There were no adjustments of this type in the second quarter. Non-interest expenses in the current quarter decreased from the previous quarter as a result of reductions in discretionary costs.

Change in Accounting Policies

Significant accounting policies are detailed on pages 50 to 59 of the Corporation's 2007 Annual Report. Effective November 1, 2007, the Corporation adopted new accounting standards issued by the Canadian Institute of Chartered Accountants (CICA) as follows: Section 1535, Capital Disclosures, Section 3862, Financial Instruments – Disclosures, and Section 3863, Financial Instruments - Presentation.

Future Change in Accounting Policies

The CICA has announced that public companies will be required to converge Canadian Generally Accepted Accounting Principles with International Financial Reporting Standards (IFRS). For the Corporation, this will take place over a transition period ending for its 2012 year end. The impact of IFRS convergence on the Corporation's consolidated financial statements is not yet determinable.

Risk Management

The risk management policies and procedures of the Corporation are provided in the annual MD&A for the year ended October 31, 2007, and are found on pages 39 to 41.

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: May 28, 2008

Forward-Looking Statements

The statements in this management's discussion and analysis that relate to the future are forward-looking statements. By their very nature, forward-looking statements involve inherent risks and uncertainties, both general and specific, many of which are out of our control. 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. For a detailed discussion of certain key factors that may affect our future results, please see pages 39-42 of our 2007 Annual Report.

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. The forward-looking information contained in the management's discussion and analysis is presented to assist our shareholders in understanding our financial position and may not be appropriate for any other purposes. Except as required by securities law, we do not undertake 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 or on its behalf.

PACIFIC & WESTERN CREDIT CORP.

Consolidated Balance Sheet

(thousands of dollars)

	April 30 2008	October 31 2007	April 30 2007
	(unaudited)		(unaudited)
Assets			
Cash resources	\$ 160,847	\$ 113,421	\$ 136,383
Securities	148,969	328,306	296,152
Mortgages and loans	989,714	977,727	899,971
Other assets	34,739	39,202	34,328
	<u>\$ 1,334,269</u>	<u>\$ 1,458,656</u>	<u>\$ 1,366,834</u>
Liabilities and Shareholders' Equity			
Deposits	\$ 1,214,123	\$ 1,282,756	\$ 1,155,383
Notes payable	40,805	35,660	35,523
Other liabilities	31,842	83,186	111,405
	<u>1,286,770</u>	<u>1,401,602</u>	<u>1,302,311</u>
Shareholders' equity			
Share capital	39,143	39,470	39,884
Retained earnings	23,820	24,125	23,386
Accumulated other comprehensive income (loss)	(15,464)	(6,541)	1,253
	<u>47,499</u>	<u>57,054</u>	<u>64,523</u>
	<u>\$ 1,334,269</u>	<u>\$ 1,458,656</u>	<u>\$ 1,366,834</u>

PACIFIC & WESTERN CREDIT CORP.

Consolidated Statement of Income (Loss)

(thousands of dollars)

	<i>for the three months ended</i>		<i>for the six months ended</i>	
	April 30 2008	April 30 2007	April 30 2008	April 30 2007
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Interest income				
Interest income on loans	\$ 13,317	\$ 12,779	\$ 27,275	\$ 25,873
Interest and income from securities	3,968	4,145	9,460	8,614
Loan fee income	820	614	1,747	1,214
	<u>18,105</u>	<u>17,538</u>	<u>38,482</u>	<u>35,701</u>
Interest expense				
Deposits and other	14,824	12,636	30,106	25,467
Notes payable	996	859	1,879	1,729
	<u>15,820</u>	<u>13,495</u>	<u>31,985</u>	<u>27,196</u>
Net interest income	2,285	4,043	6,497	8,505
Provision for credit losses	64	72	72	501
Net interest income after provision for credit losses	2,221	3,971	6,425	8,004
Other income	130	294	44	1,253
	<u>2,351</u>	<u>4,265</u>	<u>6,469</u>	<u>9,257</u>
Non-interest expenses				
Salaries and benefits	1,966	2,094	4,112	4,214
General and administrative	989	1,003	2,142	2,140
Premises and equipment	486	451	968	852
	<u>3,441</u>	<u>3,548</u>	<u>7,222</u>	<u>7,206</u>
Income (loss) before income taxes and other	(1,090)	717	(753)	2,051
Income tax (recovery) provision	(489)	373	(688)	616
Net income (loss)	\$ (601)	\$ 344	\$ (65)	\$ 1,435
Basic earnings (loss) per share	<u>\$ (0.05)</u>	<u>\$ 0.02</u>	<u>\$ (0.01)</u>	<u>\$ 0.10</u>
Diluted earnings (loss) per share	<u>\$ (0.05)</u>	<u>\$ 0.02</u>	<u>\$ (0.01)</u>	<u>\$ 0.09</u>
Weighted average number of common shares	<u>13,602,000</u>	<u>13,730,000</u>	<u>13,626,000</u>	<u>13,599,000</u>

PACIFIC & WESTERN CREDIT CORP.

Consolidated Statement of Comprehensive Income (Loss)

(thousands of dollars)

	<i>for the three months ended</i>		<i>for the six months ended</i>	
	April 30 2008	April 30 2007	April 30 2008	April 30 2007
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Total net income (loss)	\$ (601)	\$ 344	\$ (65)	\$ 1,435
Other comprehensive income (loss), net of tax:				
Net unrealized losses on assets held as available-for-sale ¹	(3,716)	(2,202)	(8,876)	(1,442)
Amount transferred to net income for hedges ²	54	53	109	106
Amount transferred to net income for sale of available-for-sale assets ³	(33)	(272)	(156)	(1,393)
Total other comprehensive income (loss)	<u>(3,695)</u>	<u>(2,421)</u>	<u>(8,923)</u>	<u>(2,729)</u>
Total comprehensive income (loss)	<u>\$ (4,296)</u>	<u>\$ (2,077)</u>	<u>\$ (8,988)</u>	<u>\$ (1,294)</u>

¹ Net of income tax benefit (expense) for the three months of \$1,749 (2007-\$1,239) and year-to-date of \$4,177 (2007-\$743)

² Net of income tax benefit (expense) for the three months of (\$28) (2007-(\$30)) and year-to-date of (\$58) (2007-(\$60))

³ Net of income tax benefit (expense) for the three months of \$14 (2007-\$153) and year-to-date of \$77 (2007-\$718)

PACIFIC & WESTERN CREDIT CORP.

Consolidated Statement of Changes in Shareholders' Equity

(thousands of dollars)

	<i>for the three months ended</i>		<i>for the six months ended</i>	
	April 30 2008	April 30 2007	April 30 2008	April 30 2007
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Common shares				
Balance, beginning of period	\$ 35,532	\$ 34,345	\$ 35,743	\$ 33,986
Shares issued	30	1,544	36	1,898
Shares repurchased	(44)	-	(261)	-
Amount transferred from contributed surplus	-	5	-	10
Balance, end of period	<u>\$ 35,518</u>	<u>\$ 35,894</u>	<u>\$ 35,518</u>	<u>\$ 35,894</u>
Class A preferred shares				
Balance, beginning and end of period	<u>\$ 3,545</u>	<u>\$ 3,545</u>	<u>\$ 3,545</u>	<u>\$ 3,545</u>
Contributed surplus				
Balance, beginning of period	\$ -	\$ 392	\$ 182	\$ 244
Fair value of stock option transactions (note 3)	166	58	429	211
Repurchase of shares	(86)	-	(531)	-
Amount transferred to common shares	-	(5)	-	(10)
Balance, end of period	<u>\$ 80</u>	<u>\$ 445</u>	<u>\$ 80</u>	<u>\$ 445</u>
Retained earnings				
Balance, beginning of period	\$ 24,421	\$ 23,042	\$ 24,125	\$ 32,875
Transitional adjustment	-	-	-	103
Net income	(601)	344	(65)	1,435
Dividend in kind	-	-	-	(10,787)
Dividends on preferred shares	-	-	(240)	(240)
Repurchase of shares	-	-	-	-
Balance, end of period	<u>\$ 23,820</u>	<u>\$ 23,386</u>	<u>\$ 23,820</u>	<u>\$ 23,386</u>
Accumulated other comprehensive income (loss), net of taxes				
Balance, beginning of period	\$ (11,769)	\$ 3,674	\$ (6,541)	\$ -
Transitional adjustment	-	-	-	3,982
Other comprehensive income (loss)	(3,695)	(2,421)	(8,923)	(2,729)
Balance, end of period	<u>\$ (15,464)</u>	<u>\$ 1,253</u>	<u>\$ (15,464)</u>	<u>\$ 1,253</u>
Total shareholders' equity	<u><u>\$ 47,499</u></u>	<u><u>\$ 64,523</u></u>	<u><u>\$ 47,499</u></u>	<u><u>\$ 64,523</u></u>

PACIFIC & WESTERN CREDIT CORP.

Consolidated Statement of Cash Flows

(thousands of dollars)

	<i>for the three months ended</i>		<i>for the six months ended</i>	
	April 30 2008	April 30 2007	April 30 2008	April 30 2007
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Cash provided by (used in):				
Operations:				
Net income (loss)	\$ (601)	\$ 344	\$ (65)	\$ 1,435
Items not involving cash:				
Provision for credit losses	64	72	72	501
Other provisions	-	-	20	-
Stock-based compensation (note 3)	166	58	429	211
Future income tax provision (recovery)	(489)	732	(688)	616
Gain on sale of available-for-sale securities	(165)	(425)	(664)	(1,031)
Gain on disposal of shares	-	-	-	(888)
Change in derivative financial instruments	-	(20)	197	(20)
Change in other assets and liabilities	(6,334)	(4,926)	(9,170)	(7,555)
	<u>(7,359)</u>	<u>(4,165)</u>	<u>(9,869)</u>	<u>(6,731)</u>
Investing:				
Purchase of securities	(396,413)	(136,137)	(736,383)	(398,831)
Proceeds from sale of securities	538,571	111,760	910,373	320,167
Mortgages and loans	(10,405)	(3,692)	(2,149)	(35,449)
	<u>131,753</u>	<u>(28,069)</u>	<u>171,841</u>	<u>(114,113)</u>
Financing:				
Deposits	(148,927)	(18,854)	(68,633)	(55,172)
Notes payable	-	-	5,000	-
Short term financings	-	43,271	(49,917)	103,021
Proceeds of common shares issued	30	1,544	36	1,898
Shares repurchased	(113)	-	(792)	-
Dividends paid	-	-	(240)	(240)
	<u>(149,010)</u>	<u>25,961</u>	<u>(114,546)</u>	<u>49,507</u>
Increase (decrease) in cash resources	(24,616)	(6,273)	47,426	(71,337)
Cash resources, beginning of period	<u>185,463</u>	<u>142,656</u>	<u>113,421</u>	<u>207,720</u>
Cash resources, end of period	<u>\$ 160,847</u>	<u>\$ 136,383</u>	<u>\$ 160,847</u>	<u>\$ 136,383</u>
Supplementary cash flow information:				
Interest paid during the period	\$ 12,151	\$ 11,034	\$ 23,084	\$ 21,024
Income taxes paid during the period	\$ -	\$ 78	\$ 68	\$ 342

PACIFIC & WESTERN CREDIT CORP.
Notes to the interim consolidated financial statements (unaudited)
For the six months ended April 30, 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. 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.

Effective November 1, 2007, the Corporation adopted the following new accounting standards issued by the Canadian Institute of Chartered Accountings ("CICA") relating to disclosures:

- Section 1535, Capital Disclosures specifies the disclosure of i) objectives, policies and processes for managing capital; ii) quantitative data about what is regarded as capital; and iii) compliance or non-compliance with capital requirements and effect thereof.
- Section 3862, Financial Instruments-Disclosures and Section 3863, Financial Instruments-Presentation which set revised and enhanced disclosure and presentation requirements. An increased emphasis is placed on disclosures regarding risks arising from financial instruments and the management thereof.

The risk management policies and procedures of the Corporation relating to credit, liquidity, and market risk are included on pages 39-41 in the annual MD&A and are an integral part of the Interim Consolidated Financial Statements.

2. Securities

The Corporation's cash and securities are comprised of cash, federal government treasury bills, federal and provincial government bonds, government insured mortgage-backed securities, corporate bonds and corporate preferred shares. The Corporation does not have any direct exposure to asset-backed commercial paper in its treasury portfolio.

Included in cash and securities at April 30, 2008 is an investment in collateral debt obligation (CDO) which has an amortized cost of \$10 million (2007 - \$10 million) and a fair value of \$5.9 million (2007 - \$10 million). Fair value was determined by the use of external valuation models which incorporate observable market parameters. These include observable interest rates, credit spreads and loss expectations. The fair value amount determined based on the above may not ultimately reflect what the Corporation would receive if it were to sell the CDO in the market. The CDO currently has an investment rating of BBB and is secured by corporate credits and does not have any residential sub-prime exposure. At April 30, 2008, the CDO had not experienced any defaults in its portfolio.

3. Allowance for credit losses

	<i>for the three months ended</i>				<i>for the six months ended</i>			
	April 30, 2008		April 30, 2007		April 30, 2008		April 30, 2007	
(thousands of dollars)	General allowance	Specific allowance	Total allowance	Total allowance	General allowance	Specific allowance	Total allowance	Total allowance
Balance, beginning of the period	\$ 2,733	\$ 481	\$ 3,214	\$ 2,995	\$ 2,733	\$ 473	\$ 3,206	\$ 2,566
Provision (recovery) for credit losses	(118)	182	64	72	(118)	190	72	501
Recoveries	-	20	20	35	-	20	20	35
Balance, end of period	\$ 2,615	\$ 683	\$ 3,298	\$ 3,102	\$ 2,615	\$ 683	\$ 3,298	\$ 3,102

Gross impaired loans at April 30, 2008 totalled \$1,366,000 (April 30, 2007 - \$2,544,000). Loans past due but not impaired at April 30, 2008 totalled \$2,755,000 (April 30, 2007 - \$nil). Loans are secured primarily by collateral mortgages against real estate with respect to real estate lending and specific charges against equipment being financed for other lending activities.

4. 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	12,000	(12,000)	3.00
Expired	-	(126,266)	7.57
Repurchased	(99,500)	-	-
Outstanding, end of period	13,598,052	1,165,477	\$ 8.56

In addition, at April 30, 2008, there were 1,142,556 (2007-1,142,556) preferred shares outstanding.

During the six months ended April 30, 2008, the Corporation recognized \$429,000 (2007-\$211,000) 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 six months ended April 30, 2008, the Corporation had repurchased for cancellation 99,500 common shares for a total cost of \$792,000. Since July 17, 2007, the Corporation has repurchased for cancellation 179,700 common shares for a total cost of \$1,376,000.

b. Accumulated other comprehensive income (loss):

The balance in accumulated other comprehensive income (loss), net of income taxes, consists of:

	April 30 2008	April 30 2007
Net unrealized losses on assets held as available-for-sale	\$ (15,382)	\$ 1,543
Deferred losses related to previously closed cash flow hedges	(82)	(290)
Balance, end of period	\$ (15,464)	\$ 1,253

Net of income tax benefit of \$6,477,000 (2007-income tax expense of \$137,000).

5. Derivative instruments

At April 30, 2008, the Corporation had outstanding contracts for asset liability management purposes to swap between floating and fixed interest rates with notional amounts totalling \$124,822,000 (2007 - \$68,742,000). 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 \$283,000 (2007 - \$nil), a credit equivalent amount of \$1,870,000 (2007 - \$981,000) and a risk weighted balance of \$374,000 (2007 - \$196,000). At April 30, 2008, these contracts were in an unfavorable position of \$10,502,000 (2007 - \$2,118,000). 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 (loss).

At April 30, 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 April 30, 2008, the counterparties to these contracts which totalled \$2.2 million (2007 - \$20.6 million) consisted of Canadian chartered banks. The contracts have a nominal fair value and mature within two years.

6. 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	\$ 459,395,000
Letters of credit	35,208,000
	<u>\$ 494,603,000</u>

7. 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 the 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 six month period ended April 30, 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)	April 30 2008	April 30 2007
Total assets (on and off-balance sheet)	\$ 1,368,172	\$ 1,388,172
Capital		
Common shares	\$ 57,117	\$ 42,117
Retained earnings	25,599	23,557
Accumulated other comprehensive income (loss)	(12,789)	1,248
Subordinated debentures	20,000	30,000
Total regulatory capital	\$ 89,927	\$ 96,922
Assets-to-capital ratio	15.21	14.32

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 April 30, 2008 are presented below using the guidelines under Basel II. The Bank's risk-based capital ratios at April 30, 2007 are those determined under the previous capital adequacy guideline.

(thousands of dollars)	April 30 2008		April 30 2007	
	Notional/ Drawn Amount	Risk Weighted Balance	Notional/ Drawn Amount	Risk Weighted Balance
Balance sheet assets	\$ 1,332,964	\$ 729,959	\$ 1,363,635	\$ 762,476
Off-balance sheet assets	619,425	57,984	24,537	16,241
Charge for operational risk		45,160		-
Total risk-weighted assets		\$ 833,103		\$ 778,717
Regulatory capital		89,927		96,922
Total risk-based capital ratio		10.79%		12.45%
Tier 1 risk-based capital ratio		8.39%		8.43%

8. 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
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John W. Asma, B.A. (Hons.), M.B.A.

Senior Vice President, Treasurer,
Public & Corporate Finance
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Jonathan F.P. Taylor, B.B.A.

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

Senior Vice President & Chief Financial Officer
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Brian Conley

Vice President, Western Canada Lending
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Barbara E.M. Hale, LL.B.

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Tel G. Matrundola, M.A., Ph.D.

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

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Chief Information Officer
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