



Pacific & Western

Credit Corp.

First Quarter Report January 31, 2007

PACIFIC & WESTERN CREDIT CORP. ANNOUNCES NET EARNINGS OF \$1.1 MILLION FOR ITS FIRST QUARTER ENDED JANUARY 31, 2007, AND GROWTH IN LENDING ASSETS OF 16% FROM A YEAR AGO.

FIRST QUARTER FINANCIAL HIGHLIGHTS

(three months ended January 31, 2007 compared to three months ended January 31, 2006 unless otherwise noted)

- Net earnings of \$1.1 million or \$0.08 per share (\$0.07 diluted) compared to \$1.7 million or \$0.12 per share (\$0.12 diluted) last year.
- Net interest income (teb) of \$4.9 million compared to \$5.0 million a year ago.
- Total revenue (teb) of \$5.4 million compared to \$5.8 million last year.
- Return on average common shareholders' equity of 6.37% compared to 12.63% last year.
- Return on average assets of 0.32% compared to 0.58% last year.
- Lending assets increased by 16% to \$895 million from \$769 million a year ago and from \$864 million at the end of the previous quarter.

PRESIDENT'S COMMENTS

This quarter our lending assets continued to show steady growth, exceeding our target and increasing to \$895 million with loan fundings of \$111 million. This represents a 28% increase over loan fundings for the same period last year. Spread, on a teb basis, also exceeded our target for the quarter and increasing to 1.45% from the previous quarter as a result of the growth in lending assets. Our strategy of providing financing to low risk public sector entities and investment grade corporations continues to provide positive results with these lending niches providing the greatest areas of growth over the past year and giving us positive spreads with minimal risk. Recently we have been successful in entering into significant new loan commitments with public sector entities, which will allow this growth to continue. In addition to these new commitments, loans in our pipeline totalled \$127 million at the end of the quarter.

In January, we were pleased to announce that your Board of Directors declared a special dividend to holders of the Corporation's common shares. This special dividend will be comprised of Class A common shares of Discovery Air Inc. (DA) and will be payable based on .53 of a DA share for every one common share of the Corporation held. Considering the success of the Corporation's investment in DA, the Board of Directors decided to provide you, the shareholders, with the opportunity to benefit directly in DA by way of this dividend. This reduced our Bank's holdings in DA to only 1.3 million shares. However, we continue to be bullish on DA and have acquired a 5 year option to purchase approximately 9.3 million common shares at \$2.00 per share so that we will still be able to enjoy any benefit that these shares may provide.

While net earnings for the quarter were less than a year ago due primarily to increases in provisions on two loan facilities previously classified as impaired, our target for the quarter was still exceeded, and with growth in lending assets and spread continuing, we look forward to improving profitability in the months to come.

FINANCIAL HIGHLIGHTS

for the three months ended

(unaudited)

	January 31 2007	October 31 2006	January 31 2006
(\$ thousands, except per share amounts)			
Results of operations (teb)			
Net interest income per financial statements	\$ 4,462	\$ 4,262	\$ 4,547
Teb adjustment	444	432	427
Net interest income	4,906	4,694	4,974
Spread	1.45%	1.42%	1.72%
Provision for credit losses	429	339	49
Net interest income after provision for credit losses	4,477	4,355	4,925
Other income	959	1,116	832
Total revenue	5,436	5,471	5,757
Non-interest expenses	3,658	3,252	3,284
Net earnings	1,091	1,482	1,659
Earnings per common share:			
Basic	\$ 0.08	\$ 0.11	\$ 0.12
Diluted	\$ 0.07	\$ 0.10	\$ 0.12
Efficiency ratio	\$ 0.62	\$ 0.56	\$ 0.57
Return on average common shareholders' equity	6.36%	8.54%	12.63%
Return on average total assets	0.32%	0.45%	0.58%
Gross impaired loans to total assets	0.19%	0.23%	0.03%
Number of full time equivalent staff	65	61	50

Balance Sheet Summary

Cash and securities	\$ 414,315	\$ 425,418	\$ 362,869
Total loans	895,158	863,830	768,850
Total assets	1,358,729	1,329,729	1,157,631
Average assets	1,344,229	1,308,594	1,144,429
Deposits	1,174,237	1,210,555	966,395
Notes payable	36,184	36,184	36,186
Shareholders' equity	65,087	70,650	54,599

Capital ratios

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

Assets to capital ratio	13.95	12.96	13.55
Tier 1 risk-based capital ratio	8.10%	8.93%	7.75%
Total risk-based capital ratio	12.32%	13.25%	11.46%

Non-GAAP measures:

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

MANAGEMENT'S DISCUSSION AND ANALYSIS OF OPERATIONS AND FINANCIAL CONDITION

This management's discussion and analysis (MD&A) of operations and financial condition for the first quarter of fiscal 2007 should be read in conjunction with the unaudited interim consolidated financial statements for the period ended January 31, 2007, included herein, and the audited consolidated financial statements and MD&A for the year ended October 31, 2006, 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, 2006, remain substantially unchanged.

Overview

Net earnings for the quarter were \$1.1 million or \$0.08 per share (\$0.07 diluted) compared to \$1.7 million or \$0.12 per share (\$0.12 diluted) for the same period a year ago. Net earnings for the quarter decreased from the same period a year ago primarily as a result of increases in the provision for credit losses and non-interest expenses. Net interest income (teb) for the quarter increased to \$4.9 million from \$4.7 million for the previous quarter and in comparison to \$5.0 million a year ago. Total revenue for the quarter was \$5.4 million compared to \$5.5 million in the previous quarter and \$5.8 million a year ago.

On January 24, 2007, the Corporation declared a special dividend to holders of its common shares. This special dividend will consist of .53 of a Discovery Air Inc. (DA) Class A common share for every one common share of the Corporation held and will be paid on March 7, 2007. The declaration of this dividend resulted in a gain of approximately \$888,000, which is included in other income in the interim consolidated financial statements.

At January 31, 2007, total assets increased to \$1.36 billion from \$1.33 billion at the end of the previous quarter and \$1.16 billion a year ago. Lending assets continued to show steady growth, increasing at the end of the quarter to \$895 million from \$864 million at the end of the previous quarter and \$769 million a year ago. Gross impaired loans at the end of the quarter were \$2.5 million or 0.19% of total assets compared to \$3.1 million or 0.23% of total assets at the end of the previous quarter.

Return on average common shareholders' equity for the quarter was 6.36% compared to 8.54% for the previous quarter and 12.63% for the same period a year ago. Return on average assets for the quarter was 0.32% compared to 0.45% for the previous quarter and 0.58% for same period a year ago.

Total Revenue (teb)

Total revenue (teb), which is comprised of net interest income after provision for credit losses and other income, was \$5.4 million for the quarter compared to \$5.5 million for the previous quarter and \$5.8 million for same period a year ago with the difference due primarily to increases in the provision for credit losses.

Net Interest Income

Net interest income (teb) for the quarter was \$4.9 million compared to \$4.7 million for the previous quarter and \$5.0 million last year. The increase in net interest income from the previous quarter was primarily due to an increase in lending assets which grew to \$895 million from \$864 million. Spread (teb), which is net interest income as a percentage of average assets, was 1.45% compared to 1.42% for the previous quarter and 1.72% for the same period last year. Spread (teb) increased from the previous quarter as a result of growth in lending assets, however, it was less than last year as a result of competitive market conditions and decreases in immigrant investor loans and residential development loans which historically had high spreads. These decreases were offset by increases in loans with lower spreads such as public sector loans and loans and leases to investment grade corporations.

Other Income

Other income for the quarter was \$959,000 compared to \$832,000 for the same period last year. Other income for the quarter consisted primarily of a gain of approximately \$888,000 relating to a special dividend declared by the Corporation consisting of DA common shares. Also included in other income are fees relating to financial services the Corporation provides to DA which for the three month period ended January 31, 2007, totalled \$52,000 (2006 - \$nil). Other income for the same period a year ago consisted primarily of fees totalling \$678,000 for providing wind up services to a client.

Non-Interest Expenses

Non-interest expenses for the quarter were \$3.7 million compared to \$3.3 million for the previous quarter and for the same period last year. Non-interest expenses for the quarter increased from last year primarily as a result of higher salaries and benefits due to increased staff levels and higher depreciation charges and premises costs, including the office in Calgary which opened during the summer of 2006. Non-interest expenses increased from the previous quarter as a result of higher salaries and benefits due to increased staff levels and charges for stock-based compensation.

Our efficiency ratio (teb), which measures the cost of the Corporation to earn \$1 of revenue, was \$0.62 for the quarter compared to \$0.57 for the same period last year and \$0.56 for the previous quarter. The change in the efficiency ratio was due primarily to increased non-interest expenses in the quarter. At January 31, 2007, our ratio of assets per full time employee was \$20.9 million compared to \$23.1 million a year ago. At the current levels, the Corporation remains one of the most efficient of the domestic banks.

Income Taxes

The income tax provision for the quarter was \$243,000 compared to \$624,000 last year with the difference due to the gain from the disposition of the DA shares in the quarter being taxed at a lower effective rate. In the first quarter of 2007, the Corporation's statutory federal and provincial income tax rate was approximately 36%, the same rate that was in effect for 2006. However, the effective income tax rate for the quarter was 18% compared to 30% for the same period last year with the difference due to a lower level of tax on gains and the impact of non-taxable income from securities earned in the period.

The Corporation's effective income tax rate in the second quarter of fiscal 2007 may increase as a result of income for tax purposes which may arise as a result of the disposition of the DA shares comprising the special dividend payable on March 7, 2007. Any taxable income which may arise will be taxed at an effective rate of 18%.

Balance Sheet

Total assets at January 31, 2007 were \$1.36 billion compared to \$1.16 billion a year ago and \$1.33 billion at the end of the previous quarter with the largest increase from a year ago being in lending assets which grew from \$769 million to \$895 million.

Cash and Securities

Cash and securities, which are held for liquidity management purposes and to earn investment income, increased to \$414 million from \$363 million a year ago compared to \$425 million at the end of the previous quarter. The decrease from the end of the previous quarter was due to short term securities being used to fund loan growth and deposit maturities.

At January 31, 2007, net unrealized losses in our securities portfolio and under the new accounting standard included in accumulated other comprehensive income totalled \$326,000 compared to \$1.1 million at the end of the previous quarter and \$8.5 million a year ago. The change in unrealized losses from a year ago was a result of changes in general market conditions and the impact of recording an impairment writedown during 2006 of \$3.2 million relating to an investment included in our securities portfolio which had been trading below our book value and determined to be an other than temporary decline.

Mortgages and Loans

Lending assets grew to \$895 million at the end of the quarter from \$769 million a year ago and from \$864 million at the end of the previous quarter. New lending in the quarter totalled \$111 million and was offset by loan repayments of \$79 million. In comparison to a year ago, lending categories which saw increases were our public sector and commercial loan categories. These increases were offset by decreases in personal loans which consist of immigrant investor loans and residential development loans. Decreases in residential development loans were due to loan repayments in 2006 which were higher than anticipated due to a strong housing market in Southwestern Ontario.

Other Assets

Other assets totalled \$49.3 million at the end of the quarter compared to \$40.5 million at the end of the previous quarter and \$25.9 million a year ago. Included in other assets is the Corporation's investment in DA which at January 31, 2007, had a carrying value of \$30.8 million including an unrealized gain of \$5.2 million included in accumulated other comprehensive income.

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 decreased to \$1.17 billion from \$1.21 billion at the end of the previous quarter but increased from \$966,000 a year ago. The decrease in deposits from the end of the previous quarter was due to excess treasury assets being used as a source to fund maturing deposits rather than depending solely on new deposits to fund maturities.

A second source of financing for asset growth is the use of margin lines and securities sold under repurchase agreements which totalled \$60 million at the end of the quarter compared to \$89 million a year ago and \$nil at the end of the previous quarter.

Credit Quality

Gross impaired loans at the end of the quarter totalled \$2.5 million or 0.19% of total assets compared to \$3.1 million at the end of the previous quarter. The provision for credit losses for the quarter was \$429,000 compared to \$49,000 for the same period a year ago with the increase due to specific provisions and additions to our general allowance for credit losses. During the quarter, specific provisions totalling \$294,000 were recorded, increasing the provisions against two loans which had been previously classified as impaired. Total allowances for credit losses, including specific and general allowances, were \$3.0 million at the end of the quarter compared to \$2.6 million at the end of 2006.

Shareholders' Equity

Shareholders' equity at the end of the quarter was \$65.1 million compared to \$54.6 million a year ago with the increase due primarily to the retention of earnings and offset by the special dividend of \$10.7 million. Total common shares outstanding at the end of the quarter were 13,520,460 compared to 13,421,585 at the end of the previous quarter with the increase due to the exercise of common share options. Outstanding common share options totalled 1,309,320 at the end of the previous quarter compared to 1,401,700 a year ago. Our book value per common share at the end of the quarter was \$4.55 compared to \$3.83 a year ago.

Updated Share Information

At February 28, 2007, there were 13,751,752 common shares outstanding and 1,078,028 common share options outstanding with the changes due to the exercise of common share options.

Capital Adequacy

The Bank's total risk-based capital ratio, which is the ratio of regulatory capital to risk-weighted assets, was 12.32% at the end of the quarter compared to 13.25% at the end of the previous quarter and 11.46% a year ago. The Bank has an internal target for its risk-based capital ratio of 11% and manages its regulatory capital and risk-weighted assets so this target is exceeded. The Bank's Tier 1 risk-based capital ratio, which is the ratio of Tier 1 capital to risk-weighted assets, was 8.10% at the end of the quarter compared to 8.93% at the end of the previous quarter and 7.75% a year ago. The Bank's assets to capital ratio was 13.95 at the end of the quarter compared to 12.96 at the end of the previous quarter and 13.55 a year ago.

Performance Targets

Performance targets established for the 2007 fiscal year and 2007 year-to-date are noted below with actual results for the period ended January 31, 2007.

	2007		
	Annual Target	Year-to-Date Target	Year-to-Date Results
Spread (teb)	1.67%	1.40%	1.45%
Loan growth	33.00%	2.00%	3.60%
Total asset growth	12.00%	2.00%	2.20%

Changes in Accounting Policies

Newly issued accounting standards by The Canadian Institute of Chartered Accountants relating to comprehensive income, equity, financial instruments and hedges were adopted by the Corporation effective November 1, 2006. As a result of these new standards, a new category, accumulated other comprehensive income, forms part of Shareholders' Equity and certain unrealized gains or losses on available-for-sale financial instruments are reported in accumulated other comprehensive income until realization.

At January 31, 2007, accumulated other comprehensive income totalled \$3,674,000 and consisted of unrealized losses of \$326,000 related to securities held as available-for-sale, unrealized gains of \$5,152,000 related to our investment in DA which has been designated as available-for-sale and deferred losses of \$535,000 related to previously closed cash flow hedges no longer included in other assets. In addition, accumulated other comprehensive income included \$617,000 relating to the future income taxes on the above items.

The new accounting standard relating to hedges requires the Corporation to fair value the hedging item and the hedged item with the changes recorded through net earnings. As a result of this standard, at January 31, 2007, mortgages and loans and other liabilities include fair value adjustments totalling \$2,429,000 however, there was no impact on net earnings as the fair value adjustment to mortgages and loans was offset by the increase in the fair value adjustment of the corresponding hedges recorded in other liabilities.

Changes in Internal Control Over Financial Reporting

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.

Summary of Quarterly Results

(thousands of dollars except per share amounts)	2007		2006				2005		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2	
Results of operations:									
Total interest income									
per financial statements	\$ 18,163	\$ 18,677	\$ 16,418	\$ 15,104	\$ 15,138	\$ 13,845	\$ 13,117	\$ 13,298	
Teb adjustment	444	432	440	352	427	484	423	446	
Total interest income	18,607	19,109	16,858	15,456	15,565	14,329	13,540	13,744	
Yield on assets (%)	5.49%	5.79%	5.37%	5.37%	5.40%	5.21%	5.11%	5.41%	
Interest expense	13,701	14,415	12,200	10,560	10,591	9,846	10,000	9,666	
Cost of funds (%)	4.04%	4.37%	3.89%	3.67%	3.68%	3.58%	3.77%	3.80%	
Net interest income	4,906	4,694	4,658	4,896	4,974	4,483	3,540	4,078	
Spread (%)	1.45%	1.42%	1.48%	1.70%	1.72%	1.63%	1.34%	1.61%	
Provision for credit losses	429	339	321	78	49	147	91	38	
Other income	959	1,116	12,963	1,251	832	2,592	4,275	1,078	
Total revenue	5,436	5,471	17,300	6,069	5,757	6,928	7,724	5,118	
Non-interest expenses	3,658	3,252	3,215	3,104	3,284	3,904	3,652	2,746	
Income before income taxes	1,778	2,219	14,085	2,965	2,473	3,024	4,072	2,372	
Income tax provision	687	737	2,282	1,040	1,051	1,196	1,507	840	
Non-controlling interest	-	-	-	117	237	(72)	(826)	107	
Net earnings	1,091	1,482	11,803	2,042	1,659	1,756	1,739	1,639	
Earnings per share									
-basic	\$ 0.08	\$ 0.11	\$ 0.88	\$ 0.15	\$ 0.12	\$ 0.13	\$ 0.12	\$ 0.12	
-diluted	\$ 0.07	\$ 0.10	\$ 0.85	\$ 0.14	\$ 0.12	\$ 0.13	\$ 0.12	\$ 0.12	

Dated: February 28, 2007

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)

	January 31 2007	October 31 2006	January 31 2006
	(unaudited)		(unaudited)
Assets			
Cash resources	\$ 142,656	\$ 207,720	\$ 84,348
Securities	271,659	217,698	278,521
Mortgages and loans	895,158	863,830	768,850
Other assets	49,256	40,481	25,912
	<u>\$ 1,358,729</u>	<u>\$ 1,329,729</u>	<u>\$ 1,157,631</u>
Liabilities and Shareholders' Equity			
Deposits	\$ 1,174,237	\$ 1,210,555	\$ 966,395
Notes payable	36,184	36,184	36,186
Other liabilities	83,221	12,340	99,804
	<u>1,293,642</u>	<u>1,259,079</u>	<u>1,102,385</u>
Non-controlling interest	-	-	647
Shareholders' equity			
Share capital	38,282	37,775	37,051
Retained earnings	23,131	32,875	17,548
Accumulated other comprehensive income (note 1)	3,674	-	-
	<u>65,087</u>	<u>70,650</u>	<u>54,599</u>
	<u>\$ 1,358,729</u>	<u>\$ 1,329,729</u>	<u>\$ 1,157,631</u>

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

	<i>for the three months ended</i>	
	January 31	January 31
	2007	2006
	(unaudited)	(unaudited)
Interest income		
Interest income on loans	\$ 13,094	\$ 11,494
Interest and income from securities	4,469	3,125
Loan fee income	600	519
	<u>18,163</u>	<u>15,138</u>
Interest expense		
Deposits and other	12,831	9,733
Notes payable	870	858
	<u>13,701</u>	<u>10,591</u>
Net interest income	4,462	4,547
Provision for credit losses	<u>429</u>	<u>49</u>
Net interest income after provision for credit losses	4,033	4,498
Other income (note 4)	<u>959</u>	<u>832</u>
	<u>4,992</u>	<u>5,330</u>
Non-interest expenses		
Salaries and benefits	2,120	1,861
General and administrative	1,137	1,140
Premises and equipment	401	283
	<u>3,658</u>	<u>3,284</u>
Earnings before income taxes and other	1,334	2,046
Income tax provision	243	624
Non-controlling interest	<u>-</u>	<u>(237)</u>
Net earnings	<u>\$ 1,091</u>	<u>\$ 1,659</u>
Basic earnings per share	<u>\$ 0.08</u>	<u>\$ 0.12</u>
Diluted earnings per share	<u>\$ 0.07</u>	<u>\$ 0.12</u>
Weighted average number of common shares	<u>13,471,000</u>	<u>13,319,000</u>

PACIFIC & WESTERN CREDIT CORP.**Consolidated Statement of Changes in Shareholders' Equity**

(thousands of dollars)

	<i>for the three months ended</i>	
	January 31	January 31
	2007	2006
	(unaudited)	(unaudited)
Common shares		
Balance, beginning of period	\$ 33,986	\$ 33,191
Proceeds of shares issued	359	107
Balance, end of period	<u>\$ 34,345</u>	<u>\$ 33,298</u>
Class A preferred shares		
Balance, beginning and end of period	<u>\$ 3,545</u>	<u>\$ 3,545</u>
Stock-based compensation		
Balance, beginning of period	\$ 244	\$ 58
Fair value of stock option transactions (note 3)	148	150
Balance, end of period	<u>\$ 392</u>	<u>\$ 208</u>
Retained earnings		
Balance, beginning of period	\$ 32,875	\$ 16,129
Transitional adjustment (note 1a)	103	-
Net earnings	1,091	1,659
Dividends in kind	(10,698)	-
Dividends on preferred shares	(240)	(240)
Balance, end of period	<u>\$ 23,131</u>	<u>\$ 17,548</u>
Accumulated other comprehensive income (note 1)		
Transitional adjustment	\$ 3,982	\$ -
Net unrealized gains on assets held as available-for-sale, net of tax provision of \$468	760	-
Amount transferred to net income for hedges, net of tax provision of \$30	53	-
Amount transferred to net income for sale of available-for-sale securities net of tax benefit of \$379	(1,121)	-
Balance, end of period	<u>\$ 3,674</u>	<u>\$ -</u>
Total shareholders' equity	<u>\$ 65,087</u>	<u>\$ 54,599</u>

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

(thousands of dollars)

	<i>for the three months ended</i>	
	January 31	January 31
	2007	2006
	(unaudited)	(unaudited)
Cash provided by (used in):		
Operations:		
Net earnings	\$ 1,091	\$ 1,659
Items not involving cash:		
Provision for credit losses	429	49
Future income tax (recovery) provision	(116)	744
Stock-based compensation (note 3)	153	250
Gain on disposal of shares	(888)	-
Non-controlling interest	-	(237)
Change in other assets and liabilities	(3,235)	5,900
	<u>(2,566)</u>	<u>8,365</u>
Investing:		
Securities	(54,287)	1,330
Mortgages and loans	(31,757)	(19,592)
	<u>(86,044)</u>	<u>(18,262)</u>
Financing:		
Deposits	(36,318)	30,637
Short term financings	59,750	(8,791)
Proceeds of common shares issued	354	107
Dividends paid	(240)	(240)
	<u>23,546</u>	<u>21,713</u>
Increase (decrease) in cash resources	(65,064)	11,816
Cash resources, beginning of period	207,720	72,532
Cash resources, end of period	<u>\$ 142,656</u>	<u>\$ 84,348</u>
Supplementary cash flow information:		
Interest paid during the period	\$ 9,990	\$ 8,527
Income taxes paid during the period	\$ 264	\$ 820

PACIFIC & WESTERN CREDIT CORP.
Notes to the interim consolidated financial statements (unaudited)
For the three months ended January 31, 2007

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, 2006, 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, 2006, with the exception of accounting policies relating to newly issued accounting standards by The Canadian Institute of Chartered Accountants. These new accounting policies include those relating to financial instruments, hedges and comprehensive income are as follows:

a) Financial instruments:

All financial assets are classified as one of the following: held-to-maturity, loans and receivables, held for trading or available-for-sale. All financial liabilities are classified as held for trading or other liabilities. Financial assets and liabilities held for trading are measured at fair value with gains and losses recognized in net earnings. Financial assets held-to-maturity, loans and receivables and financial liabilities other than those held-for-trading, are measured at amortized cost based on the effective interest method. Available-for-sale instruments are measured at fair value with gains and losses, net of tax, recognized in other comprehensive income.

At November 1, 2006, all of the assets in the Corporation's securities portfolio as well as its investment in Discovery Air Inc. (DA) were designated as available-for-sale.

At November 1, 2006, a transitional adjustment to accumulated other comprehensive income totalled \$3,982,000 and consisted of unrealized losses of \$1,075,000 related to securities held as available-for-sale, unrealized gains of \$6,150,000 related to our investment in DA which is included in other assets and deferred losses of \$618,000 related to previously closed cash flow hedges that are no longer included in other assets. In addition, other liabilities increased by \$475,000 relating to future income taxes on the above items.

At November 1, 2006 a transitional adjustment to retained earnings of \$103,000 was recorded related to changing the amortization method on financial instruments from the straight-line method to the effective interest rate method.

b) Hedges:

In a fair value hedging relationship, the carrying value of the hedged item is adjusted by gains or losses attributable to the hedged risk and recorded in net earnings. This change in fair value of the hedged item, to the extent the hedging relationship is effective, is offset by changes in the fair value of the derivative also measured at fair value on the balance sheet date, with changes in value recorded through net earnings.

At November 1, 2006, mortgages and loans and other liabilities increased by \$1,915,000 relating to the transitional adjustment for the fair value however, there was no impact on retained earnings.

c) Comprehensive income:

Unrealized gains and losses on financial instruments that are held as available-for-sale, and changes in the fair value of cash flow hedging instruments, are recorded in other comprehensive income, net of tax, until recognized in earnings.

2. Allowance for credit losses

	<i>for the three months ended</i>			<i>for the three months ended</i>		
	January 31, 2007			January 31, 2006		
(thousands of dollars)	General allowance	Specific allowance	Total allowance	General allowance	Specific allowance	Total allowance
Balance, beginning of the period	\$ 2,208	\$ 358	\$ 2,566	\$ 1,889	\$ -	\$ 1,889
Provision for credit losses	135	294	429	42	7	49
Recoveries (write-offs)	-	-	-	-	2	2
Balance, end of period	\$ 2,343	\$ 652	\$ 2,995	\$ 1,931	\$ 9	\$ 1,940

Impaired loans at January 31, 2007 totalled \$2,544,000 (January 31, 2006 - \$380,000).

3. Share capital and stock-based compensation

	Common shares outstanding	Employee Stock Options	
		Number	Weighted-average exercise price
Outstanding, October 31, 2006	13,421,585	1,291,160	\$ 7.65
Granted	-	117,235	11.76
Exercised	98,875	(98,875)	5.02
Expired	-	(200)	11.70
Outstanding, January 31, 2007	13,520,460	1,309,320	\$ 8.21

In addition, at January 31, 2007, there were 1,142,556 (2006-1,142,556) preferred shares outstanding.

During the three months ended January 31, 2007, the Corporation recognized \$153,000 (2006-\$250,000) 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 4.07% (2005-3.89%), (ii) expected option life of 5 years (2005-5 years), (iii) expected volatility of 30% (2005-45%), and (iv) expected forfeiture rate of 5% (2005-5%). The weighted average fair value of options granted was estimated at \$3.87 (2005-\$4.45) per share.

During the quarter ended January 31, 2007, \$5,000 (2006-\$nil) was transferred from contributed surplus to common shares relating to the exercise of options that had previously been expensed.

4. Special dividend

On January 24, 2007, the Corporation declared a special dividend to the holders of its common shares. The dividend is payable on March 7, 2007, to shareholders of record at the close of business on February 16, 2007. The dividend will be comprised of Class A common shares of DA and will be payable based on .53 of a DA share for every one common share of the Corporation held.

The value of the special dividend on the declaration date was determined to be \$10,698,000, which resulted in a gain of \$888,000 being transferred from other comprehensive income to net income in the period.

5. Derivative instruments

At January 31, 2007, the Corporation had outstanding contracts for asset liability management purposes to swap between floating and fixed interest rates with notional amounts totalling \$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 \$nil, a credit equivalent amount of \$1,171,000 and a risk weighted balance of \$234,000. At January 31, 2007, these contracts were in an unfavorable position of \$2,429,000. Under the new accounting standard relating to hedges, this amount is included in other liabilities on the consolidated balance sheet, however there is no impact on net earnings.

At January 31, 2007, 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, 2007, the counterparties to these contracts which totalled \$32 million (2006-\$32 million) consisted of Canadian chartered banks. The contracts have a nominal fair value and mature within three 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	\$ 126,856,000
Letters of credit	<u>25,886,000</u>
	<u>\$ 152,742,000</u>

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

CORPORATE INFORMATION

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President, Kaldo Investments Corporation

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**Honourable Thomas A. Hockin, P.C., Hons.B.A.
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