



Pacific & Western

Credit Corp.

Second Quarter Report April 30, 2007

PACIFIC & WESTERN CREDIT CORP. ANNOUNCES RESULTS FOR ITS SECOND QUARTER ENDED APRIL 30, 2007

SECOND QUARTER FINANCIAL HIGHLIGHTS

(three months ended April 30, 2007 compared to three months ended April 30, 2006 unless otherwise noted)

- Lending assets increased by 13% to \$900 million from \$797 million a year ago and from \$895 million at the end of the previous quarter.
- New loans and leases for the six months ended April 30, 2007, totalled \$248 million compared to \$210 million for the same period a year ago.
- Net interest income from lending for the six months ended April 30, 2007, totalled \$9.3 million compared to \$8.8 million for the same period a year ago.
- Total assets increased to \$1.37 billion from \$1.20 billion a year ago and from \$1.36 billion at the end of the previous quarter.
- Net earnings of \$344,000 or \$0.02 per share (\$0.02 diluted) compared to \$2.0 million or \$0.15 per share (\$0.14 diluted) last year.
- On a year-to-date basis, net earnings of \$1.4 million or \$0.10 per share (\$0.09 diluted) compared to \$3.7 million or \$0.27 per share (\$0.26 diluted) for the same period last year.

PRESIDENT'S COMMENTS

This quarter we paid a special dividend of 0.53 of a Discovery Air Inc. (DA) share for every share of Pacific & Western Credit Corp. held. Considering the DA share price at the time of the payment was \$1.80, this amounted to \$13.0 million of dividends or approximately \$0.95 per Pacific & Western Credit Corp. share. For income tax purposes this gave rise to a gain of \$2.3 million and a one time income tax provision for this quarter of \$420,000. However for accounting purposes, the gain is not recognized in our earnings.

Lending operations continued to make good progress in booking new loans and leases. This quarter we were successful in booking \$137 million of new loans and leases, and on a year-to-date basis \$248 million in new loans and leases. This is an 18% increase over loans and leases booked last year during the same six month period. However, as we have discussed in previous releases, the buoyant economic conditions particularly in our Southwestern Ontario real estate market continue to give rise to rapid pay downs. Pay downs for the six month period ending April 30, 2007 totalled \$210 million, which included the repayment of a \$40 million facility towards the end of April granted to London Health Sciences. This gave rise to a slight increase in our lending portfolio which grew from the previous quarter by only \$5 million to \$900 million. Spread on our lending portfolio on a year-to-date basis decreased slightly from 2.30% last year during the same period to 2.11% producing net interest income of \$9.3 million for the six month period. This represented a 5% increase over that achieved during the same period last year.

We expect our loan fundings to grow quite rapidly during this quarter, as this is the quarter that we normally see accelerated draw downs in our real estate construction loans. Secondly, some large lending transactions we have been working on for some time are expected to close during this quarter. As you know our bank targets a low risk segment of the lending market and has faced considerable compression of spreads in this market with the persistence of our strong economy. Indeed, corporate spreads over Government Canada Bonds are now at historic lows. This has resulted in spreads in our lending portfolio declining somewhat from 2.30% to 2.11% but has had a very significant negative effect on our securities portfolio's spread. The spread realized on our securities portfolio for the six month period ending April 30 was only 11 basis points versus a normal spread of about 80 basis points. This has resulted in an overall weighted average spread reducing from historic levels of approximately 175 basis points to 136 basis points for this quarter. We view this as a relatively temporary situation, but in the meantime are working on transactions that will allow us to deploy our excess lending capacity and securities of approximately \$600 million in high volume, low risk assets such as CMHC insured mortgages and hospital project financing.

Last quarter we announced that we had formed a new subsidiary company, which is a sister company to our Bank, called Versabanq Innovations. Versabanq Innovations' web site is www.versabanq.com. Pacific & Western Bank of Canada is unique amongst the small financial institutions in that it was conceived to apply new information technology to the banking industry and indeed for many years we had more people involved in IT development than we've had lenders. We believe we have created the very best banking software available and as the name Versabanq denotes we believe it is the most versatile software in the industry. It is able to accommodate any kind of lending transaction from personal loans and home mortgages to loans and leases with unusual repayment schedules. It also accommodates the new regulatory requirements under Basel II, and its greatest strength is that it enables small financial institutions to achieve Basel II compliance. We plan to market this software to small financial institutions throughout North America, which should provide a new revenue stream for our company.

We feel that the Canadian market particularly is ready for a new type of banking where the interface is solely by way of laptop or personal digital assistant. To be ready for this, Versabanq has developed a prototype BlackBerry application to enable people to do their banking solely over the BlackBerry. In order to provide more banking products and convenience to our 100,000 deposit customers, Visa has approved us to issue a credit card. Our team is working on all the details to bring this card to our customers early in fiscal 2008. This will allow our deposit customers more convenient access to their deposits through banking machines and the ability to do credit card transactions. Additionally we expect this to be a significant new revenue source for our Bank.

As you know, in 2005 we provided a very successful solution for an aviation customer that resulted in the formation of Discovery Air and since then, some very large gains for our Bank allowing us to pay a substantial special dividend. We still have 1.3 million shares of Discovery Air with a book value of \$1.38 per share and we also have a call option expiring October 30, 2011 for 9.4 million shares exercisable at \$2.00 per share. We believe that Discovery Air still has considerable upside and will again provide significant gains for our company. Considering we have huge excess lending capacity we do not intend to sell the Discovery Air shares prematurely.

Despite the compression of spreads in our core lending markets and our treasury portfolio, we have not chosen to chase yield into riskier markets, but rather to stick with "our knitting" and continue to pursue low risk lending opportunities.

I continue to be very excited about the prospects for Pacific & Western's growth and I believe the markets that are now reachable by our state of the art information technology will provide for huge earnings growth.

FINANCIAL HIGHLIGHTS

	for the three months ended		for the six months ended	
(unaudited)				
	April 30	April 30	April 30	April 30
(\$ thousands, except per share amounts)	2007	2006	2007	2006
Results of operations (teb)				
Net interest income per financial statements	\$ 4,043	\$ 4,544	\$ 8,505	\$ 9,091
Teb adjustment	492	352	935	778
Net interest income	4,535	4,896	9,440	9,869
Spread	1.36%	1.70%	1.41%	1.70%
Provision for credit losses	72	78	501	127
Net interest income after provision for credit losses	4,463	4,818	8,939	9,742
Other income	294	1,251	1,253	2,083
Total revenue	4,757	6,069	10,192	11,825
Non-interest expenses	3,548	3,104	7,206	6,388
Net earnings	344	2,042	1,435	3,701
Earnings per common share:				
Basic	\$ 0.02	\$ 0.15	\$ 0.10	\$ 0.27
Diluted	\$ 0.02	\$ 0.14	\$ 0.09	\$ 0.26
Efficiency ratio	\$ 0.73	\$ 0.51	\$ 0.67	\$ 0.53
Return on average common shareholders' equity	1.91%	15.60%	4.14%	14.09%
Return on average total assets	0.10%	0.71%	0.21%	0.64%
Gross impaired loans to total assets	0.19%	0.03%	0.19%	0.03%
Number of full time equivalent staff	64	50	64	50

Balance Sheet Summary

Cash and securities	\$ 432,535	\$ 386,635	\$ 432,535	\$ 386,635
Total loans	899,971	796,866	899,971	796,866
Total assets	1,366,834	1,203,713	1,366,834	1,203,713
Average assets	1,362,781	1,180,672	1,348,281	1,167,470
Deposits	1,155,383	953,912	1,155,383	953,912
Notes payable	35,523	36,186	35,523	36,186
Shareholders' equity	64,523	56,696	64,523	56,696

Capital ratios

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

Assets to capital ratio	14.32	13.61	14.32	13.61
Tier 1 risk-based capital ratio	8.43%	8.34%	8.43%	8.34%
Total risk-based capital ratio	12.45%	12.12%	12.45%	12.12%

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 second quarter of fiscal 2007 should be read in conjunction with the unaudited interim consolidated financial statements for the period ended April 30, 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 \$344,000 or \$0.02 per share (\$0.02 diluted) compared to \$2.0 million or \$0.15 per share (\$0.14 diluted) for the same period a year ago. For the six months ended April 30, 2007, net earnings were \$1.4 million or \$0.10 per share (\$0.09 diluted) compared to \$3.7 million or \$0.27 per share (\$0.26 diluted) a year ago. Net earnings for the quarter and for the six months decreased from the same periods a year ago primarily as a result of a decrease in net interest income from our securities portfolio, an increase in non-interest expenses and a tax provision of \$420,000 relating to a gain for income tax purposes arising from the special dividend distributed in the quarter.

Net interest income (teb) for the quarter was \$4.5 million compared to \$4.9 million for the same period a year ago and for the six months was \$9.4 million compared to \$9.9 million. Other income for the quarter was \$294,000 compared to \$1.3 million a year ago and for the six months was \$1.3 million compared to \$2.1 million for the same period a year ago.

At April 30, 2007, total assets increased to \$1.37 billion from \$1.20 billion a year ago and from \$1.36 billion at the end of the previous quarter. Lending assets increased to \$900 million at the end of the quarter from \$797 million a year ago and showed modest growth from \$895 million at the end of the previous quarter. Credit quality remains strong with gross impaired loans at the end of the quarter of \$2.5 million or 0.19% of total assets, unchanged from the previous quarter and compared to \$380,000 or 0.03% of total assets 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 \$4.8 million for the quarter compared to \$6.1 million a year ago and for the six months was \$10.2 million compared to \$11.8 million for the same period a year ago.

Net Interest Income

Net interest income (teb) was \$4.5 million for the quarter, compared to \$4.9 million a year ago and for the six months was \$9.4 million compared to \$9.9 million a year ago. The decrease in net interest income from a year ago was primarily due to a compression of spreads, particularly in our securities portfolio. Our cost of funds for the quarter has increased over the past year to 4.06% from 3.67%, in line with increases in the interest rate environment and as a result of increased competition for new deposits. However, due to excess liquidity and competitive pricing in the market, we have not seen a comparable increase in yields on new loans or securities with our total yield (teb) decreasing over the past several quarters. As a result, spread (teb), which is net interest income as a percentage of average assets, was 1.36% for the quarter compared to 1.70% a year ago and for the six months was 1.41% compared to 1.70% a year ago. For the six months ended April 30, 2007, spread on our loan portfolio was 2.11% compared to 2.30% a year ago and on our securities was 0.42% compared to 0.91% for the same period.

Other Income

Other income for the quarter was \$294,000 consisting primarily of business advisory fees earned from Discovery Air Inc. (DA) compared to \$1.3 million for the same period a year ago which related to a dilution gain resulting from the issue of shares by DA. As the Corporation no longer accounts for its investment in DA on an equity basis, it no longer recognizes dilution gains on any shares which DA may issue. For the six months ended April 30, 2007, other income was \$1.3 million and included a gain of \$888,000 relating to the disposition of DA shares when a special dividend was declared by the Corporation. Other income for the six months a year ago was \$2.1 million and included fees of \$678,000 for providing wind up services to a client.

Non-Interest Expenses

Non-interest expenses for the quarter were \$3.5 million compared to \$3.1 million for the same period a year ago and for the six months ended April 30, 2007, non-interest expenses were \$7.2 million compared to \$6.4 million for the same period last year. Non-interest expenses for the quarter and on a year-to-date basis increased from last year primarily as a result of higher salaries and benefits due to increased staff levels and costs of approximately \$350,000 for the six months related to the office in Calgary which opened in the summer of 2006.

Our efficiency ratio (teb), which measures the cost of the Corporation to earn \$1 of revenue, was \$0.73 for the quarter compared to \$0.51 for the same period last year and for the six months was \$0.67 compared to \$0.53 for the same period a year ago. The change in the efficiency ratio was due primarily to increased non-interest expenses in the quarter and year-to-date and the decrease in other income for the same periods. At April 30, 2007, our ratio of assets per full time employee was \$21.4 million compared to \$24.1 million a year ago. At this level, the Corporation continues to lead the other domestic banks.

Income Taxes

The income tax provision for the quarter was \$373,000 compared to \$688,000 last year and for the six months was \$616,000 compared to \$1.3 million for same period a year ago. In the current quarter the actual effective income tax rate increased over our expected effective income tax rate as a result of an income tax provision of \$420,000 relating to a gain of \$2.3 million for income tax purposes which resulted from the disposition of DA shares when they were distributed as a special dividend in the quarter. For income tax purposes, this gain was measured at the distribution date versus the declaration date for accounting purposes. On a year-to-date basis, the difference in the effective rate from our statutory rate was also impacted by non-taxable income from securities earned in the period.

In the current quarter and for the six months ended April 30, 2007, the Corporation's statutory federal and provincial income tax rate was approximately 36%, the same rate that was in effect for 2006. We anticipate that in the remaining quarters of 2007, our effective rate will approximate 18%.

Balance Sheet

Total assets at April 30, 2007, were \$1.37 billion compared to \$1.20 billion a year ago and \$1.36 billion at the end of the previous quarter with the largest increase from a year ago being in lending assets which grew 13% from \$797 million to \$900 million.

Cash and Securities

Cash and securities, which are held for liquidity management purposes and to earn investment income, increased to \$433 million from \$387 million a year ago and from \$414 million at the end of the previous quarter. The increase in cash and securities from a year ago was primarily in cash and short term investments which were held for liquidity purposes and to earn spread income, as well as corporate preferred shares which are held for the preferential tax treatment their dividends receive.

At April 30, 2007, the net unrealized loss in our securities portfolio totalled \$210,000 compared to \$326,000 at the end of the previous quarter and \$5.2 million a year ago. The change in unrealized losses from a year ago was a result of changes in market conditions and the impact of recording an impairment writedown of \$3.2 million in the third quarter of 2006. This writedown related to an investment included in our securities portfolio which had been trading below our book value and was determined to be an other than temporary decline.

Mortgages and Loans

Lending assets grew to \$900 million at the end of the quarter from \$797 million a year ago and from \$895 million at the end of the previous quarter. New lending in the quarter totalled \$137 million bringing new loan fundings for the six months to \$248 million compared to \$210 million for the same period a year ago. However, new lending was offset by loan repayments of \$132 million in the quarter and \$212 million for the six months. Loan categories which saw increases from a year ago were insured residential mortgages and loans and leases to public sector entities and investment grade corporations. These increases were offset by decreases in personal loans which consist of immigrant investor loans.

Other Assets

Other assets totalled \$34.3 million at the end of the quarter compared to \$49.3 million at the end of the previous quarter and \$20.2 million a year ago. Included in other assets is the Corporation's investment in DA, which at April 30, 2007, had a fair value of \$16.9 million including an unrealized gain of \$2.0 million which is included in accumulated other comprehensive income. The decrease in other assets from the previous quarter was due primarily to the disposition of DA shares when they were distributed as a special dividend.

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 slightly to \$1.16 billion from \$1.17 billion at the end of the previous quarter but increased from \$954,000 a year ago. A second source of financing asset growth is the use of margin lines and securities sold under repurchase agreements, the total of which was \$103 million at the end of the quarter, compared to \$150 million a year ago and \$60 million at the end of the previous quarter. From time to time, the Corporation uses this source of financing when the cost of borrowing is less than the interest rates that would have to be paid on new deposits.

Notes payable at April 30, 2007, were \$35.5 million compared to \$36.2 million a year ago with the decrease due to the reclassification of deferred financing charges totalling \$700,000 as required under the new accounting standard on Financial Instruments.

Credit Quality

Gross impaired loans at the end of the quarter totalled \$2.5 million or 0.19% of total assets, unchanged from the end of the previous quarter and compared to \$380,000 or 0.03% of total assets a year ago. The provision for credit losses for the quarter was \$72,000 compared to \$78,000 a year ago and for the six months ended April 30, 2007, were \$501,000 compared to \$127,000. During the previous 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 \$3.1 million at the end of the quarter compared to \$2.0 million a year ago.

Shareholders' Equity

Shareholders' equity at the end of the quarter was \$64.5 million compared to \$56.7 million a year ago with the increase due primarily to the retention of earnings, offset by the special dividend valued at \$10.8 million. Total common shares outstanding at the end of the quarter were 13,756,752 compared to 13,344,595 a year ago with the increase due to the exercise of common share options. Outstanding common share options totalled 1,073,078 at the end of the quarter compared to 1,365,700 a year ago. Our book value per common share at the end of the quarter was \$4.43 compared to \$3.98 a year ago.

Updated Share Information

At May 30, 2007, there were no changes in common shares outstanding or common share options since April 30, 2007.

Capital Management

The Bank's total risk-based capital ratio, which is the ratio of regulatory capital to risk-weighted assets, was 12.45% at the end of the quarter compared to 12.32% at the end of the previous quarter and 12.12% 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 8.43% at the end of the quarter compared to 8.10% at the end of the previous quarter and 8.34% a year ago. The Bank's assets to capital ratio was 14.32 at the end of the quarter compared to 13.95 at the end of the previous quarter and 13.61 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 six months ended April 30, 2007.

	2007		
	Annual Target	Year-to-Date Target	Year-to-Date Results
Earnings per common share	\$0.43	\$0.17	\$0.10
Spread (teb)	1.67%	1.60%	1.41%
Loan growth	33.00%	15.00%	4.20%
Total asset growth	12.00%	6.00%	2.80%
Return on average common shareholders' equity	8.72%	6.89%	4.14%
Return on average total assets	0.42%	0.34%	0.21%

As noted earlier, actual results for the six month period ended April 30, 2007, fell short of year-to-date targets due to the short fall in lending assets and a compression of spreads primarily in our securities portfolio. In addition, net earnings were negatively impacted by a tax provision of \$420,000 on a gain of \$2.3 million for income tax purposes which resulted from the disposition of DA shares distributed as a special dividend.

Summary of Quarterly Results

(thousands of dollars except per share amounts)	2007		2006				2005	
	Q2	Q1	Q4	Q3	Q2*	Q1*	Q4*	Q3*
Results of operations:								
Total interest income								
per financial statements	\$ 17,538	\$ 18,163	\$ 18,677	\$ 16,418	\$ 15,104	\$ 15,138	\$ 13,845	\$ 13,117
Teb adjustment	492	444	432	440	352	427	484	423
Total interest income	18,030	18,607	19,109	16,858	15,456	15,565	14,329	13,540
Yield on assets (%)	5.42%	5.49%	5.79%	5.37%	5.37%	5.40%	5.21%	5.11%
Interest expense	13,495	13,701	14,415	12,200	10,560	10,591	9,846	10,000
Cost of funds (%)	4.06%	4.04%	4.37%	3.89%	3.67%	3.68%	3.58%	3.77%
Net interest income	4,535	4,906	4,694	4,658	4,896	4,974	4,483	3,540
Spread (%)	1.36%	1.45%	1.42%	1.48%	1.70%	1.72%	1.63%	1.34%
Provision for credit losses	72	429	339	321	78	49	147	91
Other income	294	959	1,116	12,963	1,251	832	2,592	4,275
Total revenue	4,757	5,436	5,471	17,300	6,069	5,757	6,928	7,724
Non-interest expenses	3,548	3,658	3,252	3,215	3,104	3,284	3,904	3,652
Income before income taxes	1,209	1,778	2,219	14,085	2,965	2,473	3,024	4,072
Income tax provision	865	687	737	2,282	1,040	1,051	1,196	1,507
Non-controlling interest	-	-	-	-	117	237	(72)	(826)
Net earnings	344	1,091	1,482	11,803	2,042	1,659	1,756	1,739
Earnings per share								
-basis	\$ 0.02	\$ 0.08	\$ 0.11	\$ 0.88	\$ 0.15	\$ 0.12	\$ 0.13	\$ 0.12
-diluted	\$ 0.02	\$ 0.07	\$ 0.10	\$ 0.85	\$ 0.14	\$ 0.12	\$ 0.13	\$ 0.12

*Results for these quarters 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.

Net interest income and spread (teb) for the second quarter decreased from previous quarters and from a year ago as a result of a compression of spreads primarily in our securities portfolio, competitive pricing for new loans and increased competition for new deposits resulting in an increase in our cost of funds. Other income was less in the second quarter compared to previous quarters as there were no gains from DA realized in the period. Non-interest expenses in the second quarter were comparable to the previous quarter but increased from a year ago as a result of higher salaries and benefits due to increased staff levels and the costs of the office in Calgary which opened during the summer of 2006. The income tax provision increased in the second quarter as a result of a tax provision on a gain for income tax purposes which resulted from the disposition of DA shares when they were distributed as a special dividend in the quarter.

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 April 30, 2007, accumulated other comprehensive income totalled \$1.3 million and consisted of unrealized losses of \$210,000 related to securities held as available-for-sale, unrealized gains of \$2.0 million related to our investment in DA which has been designated as available-for-sale and deferred losses of \$450,000 related to previously closed cash flow hedges no longer included in other assets. These amounts were before future income taxes totalling \$134,000 which are also included in accumulated other comprehensive income.

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 April 30, 2007, mortgages and loans and other liabilities include fair value adjustments totalling \$2.1 million however, there was no impact on net earnings as the fair value adjustment to mortgages and loans and other assets was offset by the increase in the fair value adjustment of the corresponding hedges recorded in other liabilities.

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 30, 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)

	April 30 2007	October 31 2006	April 30 2006
	(unaudited)		(unaudited)
Assets			
Cash resources	\$ 136,383	\$ 207,720	\$ 100,719
Securities	296,152	217,698	285,916
Mortgages and loans	899,971	863,830	796,866
Other assets	34,328	40,481	20,212
	<u>\$ 1,366,834</u>	<u>\$ 1,329,729</u>	<u>\$ 1,203,713</u>
Liabilities and Shareholders' Equity			
Deposits	\$ 1,155,383	\$ 1,210,555	\$ 953,912
Notes payable	35,523	36,184	36,186
Other liabilities	111,405	12,340	156,919
	<u>1,302,311</u>	<u>1,259,079</u>	<u>1,147,017</u>
Shareholders' equity			
Share capital	39,884	37,775	37,106
Retained earnings	23,386	32,875	19,590
Accumulated other comprehensive income (note 1)	1,253	-	-
	<u>64,523</u>	<u>70,650</u>	<u>56,696</u>
	<u>\$ 1,366,834</u>	<u>\$ 1,329,729</u>	<u>\$ 1,203,713</u>

PACIFIC & WESTERN CREDIT CORP.

Consolidated Statement of Earnings

(thousands of dollars)

	<i>for the three months ended</i>		<i>for the six months ended</i>	
	April 30 2007	April 30 2006	April 30 2007	April 30 2006
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Interest income				
Interest income on loans	\$ 12,779	\$ 11,095	\$ 25,873	\$ 22,589
Interest and income from securities	4,145	3,425	8,614	6,550
Loan fee income	614	584	1,214	1,103
	<u>17,538</u>	<u>15,104</u>	<u>35,701</u>	<u>30,242</u>
Interest expense				
Deposits and other	12,636	9,711	25,467	19,444
Notes payable	859	849	1,729	1,707
	<u>13,495</u>	<u>10,560</u>	<u>27,196</u>	<u>21,151</u>
Net interest income	4,043	4,544	8,505	9,091
Provision for credit losses	<u>72</u>	<u>78</u>	<u>501</u>	<u>127</u>
Net interest income after provision for credit losses	3,971	4,466	8,004	8,964
Other income	<u>294</u>	<u>1,251</u>	<u>1,253</u>	<u>2,083</u>
	<u>4,265</u>	<u>5,717</u>	<u>9,257</u>	<u>11,047</u>
Non-interest expenses				
Salaries and benefits	2,094	1,763	4,214	3,624
General and administrative	1,003	1,086	2,140	2,226
Premises and equipment	451	255	852	538
	<u>3,548</u>	<u>3,104</u>	<u>7,206</u>	<u>6,388</u>
Earnings before income taxes and other	717	2,613	2,051	4,659
Income tax provision (note 3)	373	688	616	1,312
Non-controlling interest	<u>-</u>	<u>(117)</u>	<u>-</u>	<u>(354)</u>
Net earnings	<u>\$ 344</u>	<u>\$ 2,042</u>	<u>\$ 1,435</u>	<u>\$ 3,701</u>
Basic earnings per share	<u>\$ 0.02</u>	<u>\$ 0.15</u>	<u>\$ 0.10</u>	<u>\$ 0.27</u>
Diluted earnings per share	<u>\$ 0.02</u>	<u>\$ 0.14</u>	<u>\$ 0.09</u>	<u>\$ 0.26</u>
Weighted average number of common shares	<u>13,730,000</u>	<u>13,330,000</u>	<u>13,599,000</u>	<u>13,330,000</u>

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 2007	April 30 2006	April 30 2007	April 30 2006
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Common shares				
Balance, beginning of period	\$ 34,345	\$ 33,298	\$ 33,986	\$ 33,191
Proceeds of shares issued	1,544	55	1,898	162
Amount transferred from contributed surplus	5	-	10	-
Balance, end of period	<u>\$ 35,894</u>	<u>\$ 33,353</u>	<u>\$ 35,894</u>	<u>\$ 33,353</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>
Stock-based compensation				
Balance, beginning of period	\$ 392	\$ 208	\$ 244	\$ 58
Fair value of stock option transactions (note 3)	58	-	211	150
Amount transferred to common shares	(5)	-	(10)	-
Balance, end of period	<u>\$ 445</u>	<u>\$ 208</u>	<u>\$ 445</u>	<u>\$ 208</u>
Retained earnings				
Balance, beginning of period	\$ 23,042	\$ 17,548	\$ 32,875	\$ 16,129
Transitional adjustment (note 1a)	-	-	103	-
Net earnings	344	2,042	1,435	3,701
Dividends in kind	-	-	(10,787)	-
Dividends on preferred shares	-	-	(240)	(240)
Balance, end of period	<u>\$ 23,386</u>	<u>\$ 19,590</u>	<u>\$ 23,386</u>	<u>\$ 19,590</u>
Accumulated other comprehensive income, net of taxes (note 1)				
Balance, beginning of period	\$ 3,674	\$ -	\$ -	\$ -
Transitional adjustment	-	-	3,982	-
Net unrealized losses on assets held as available-for-sale	(2,202)	-	(1,442)	-
Amount transferred to net income for hedges	53	-	106	-
Amount transferred to net income for sale of available-for-sale securities	(272)	-	(1,393)	-
	<u>(2,421)</u>	<u>-</u>	<u>(2,729)</u>	<u>-</u>
Balance, end of period	<u>\$ 1,253</u>	<u>\$ -</u>	<u>\$ 1,253</u>	<u>\$ -</u>
Total shareholders' equity	<u>\$ 64,523</u>	<u>\$ 56,696</u>	<u>\$ 64,523</u>	<u>\$ 56,696</u>

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

(thousands of dollars)

	<i>for the three months ended</i>		<i>for the six months ended</i>	
	April 30	April 30	April 30	April 30
	2007	2006	2007	2006
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Accumulated other comprehensive income , net of taxes				
Balance, end of period, consists of:				
Net unrealized gains on assets held as available-for-sale	\$ 1,543	\$ -	\$ 1,543	\$ -
Deferred losses related to previously closed cash flow hedges	(290)	-	(290)	-
Balance, end of period	<u>\$ 1,253</u>	<u>\$ -</u>	<u>\$ 1,253</u>	<u>\$ -</u>
Comprehensive income				
Total net income	\$ 344	\$ -	\$ 1,435	\$ -
Other comprehensive income (loss)	(2,421)	-	(2,729)	-
Total comprehensive income (loss)	<u>\$ (2,077)</u>	<u>\$ -</u>	<u>\$ (1,294)</u>	<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 2007	April 30 2006	April 30 2007	April 30 2006
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Cash provided by (used in):				
Operations:				
Net earnings	\$ 344	\$ 2,042	\$ 1,435	\$ 3,701
Items not involving cash:				
Provision for credit losses	72	78	501	127
Future income tax provision	732	783	616	1,568
Stock-based compensation (note 3)	58	-	211	250
Gain on disposal of shares	-	-	(888)	-
Non-controlling interest	-	(117)	-	(354)
Dilution gains	-	(1,289)	-	(1,289)
Equity earnings	-	55	-	55
Change in other assets and liabilities	(5,371)	(2,551)	(8,606)	3,308
	<u>(4,165)</u>	<u>(999)</u>	<u>(6,731)</u>	<u>7,366</u>
Investing:				
Securities	(24,377)	(7,395)	(78,664)	(6,065)
Mortgages and loans	(3,692)	(23,899)	(35,449)	(43,491)
	<u>(28,069)</u>	<u>(31,294)</u>	<u>(114,113)</u>	<u>(49,556)</u>
Financing:				
Deposits	(18,854)	(12,483)	(55,172)	18,154
Short term financings	43,271	61,092	103,021	52,301
Proceeds of common shares issued	1,544	55	1,898	162
Dividends paid	-	-	(240)	(240)
	<u>25,961</u>	<u>48,664</u>	<u>49,507</u>	<u>70,377</u>
Increase (decrease) in cash resources	(6,273)	16,371	(71,337)	28,187
Cash resources, beginning of period	<u>142,656</u>	<u>84,348</u>	<u>207,720</u>	<u>72,532</u>
Cash resources, end of period	<u>\$ 136,383</u>	<u>\$ 100,719</u>	<u>\$ 136,383</u>	<u>\$ 100,719</u>
Supplementary cash flow information:				
Interest paid during the period	\$ 11,034	\$ 9,092	\$ 21,024	\$ 17,619
Income taxes paid during the period	\$ 78	\$ 16	\$ 342	\$ 836

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

(thousands of dollars)	<i>for the three months ended</i>				<i>for the six months ended</i>			
			April 30,	April 30,			April 30,	April 30,
	General	Specific	2007	2006	General	Specific	2007	2006
	allowance	allowance	Total allowance	Total allowance	allowance	allowance	Total allowance	Total allowance
Balance, beginning of the period	\$ 2,343	\$ 652	\$ 2,995	\$ 1,940	\$ 2,208	\$ 358	\$ 2,566	\$ 1,889
Provision for credit losses	72	-	72	78	207	294	501	127
Recoveries (write-offs)	-	35	35	(1)	-	35	35	1
Balance, end of period	\$ 2,415	\$ 687	\$ 3,102	\$ 2,017	\$ 2,415	\$ 687	\$ 3,102	\$ 2,017

Impaired loans at April 30, 2007 totalled \$2,544,000 (April 30, 2006 - \$380,000).

3. Income taxes

(thousands of dollars)	<i>for the three months ended</i>		<i>for the six months ended</i>	
	April 30,	April 30,	April 30,	April 30,
	2007	2006	2007	2006
Tax provision at basic rate of 36%	\$ 258	\$ 940	\$ 738	\$ 1,677
Changes resulting from:				
Non-taxable income from securities	(276)	(204)	(526)	(452)
Dividend in kind	420	-	420	-
Gains	-	(232)	(160)	(232)
Other permanent differences	(29)	184	144	319
Balance, end of period	\$ 373	\$ 688	\$ 616	\$ 1,312

4. 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	335,167	(335,167)	6.09
Expired	-	(200)	11.70
Outstanding, April 30, 2007	13,756,752	1,073,028	\$ 8.58

In addition, at April 30, 2007, there were 1,142,556 (2006-1,142,556) preferred shares outstanding.

During the six months ended April 30, 2007, the Corporation recognized \$211,000 (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% (2006-3.90%), (ii) expected option life of 5 years (2006-5 years), (iii) expected volatility of 30% (2006-45%), and (iv) expected forfeiture rate of 5% (2006-5%). The weighted average fair value of options granted was estimated at \$3.87 (2005-\$4.94) per share.

During the six months ended April 30, 2007, \$10,000 (2006-\$nil) was transferred from contributed surplus to common shares relating to the exercise of options that had previously been expensed.

5. Special dividend

On March 7, 2007, the Corporation distributed a special dividend to the holders of its common shares, to shareholders of record at the close of business on February 16, 2007. The dividend was comprised of Class A common shares of DA and was 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 \$10,787,000, which resulted in a gain of \$888,000 being transferred from other comprehensive income to net income in the period.

6. Derivative instruments

At April 30, 2007, the Corporation had outstanding contracts for asset liability management purposes to swap between floating and fixed interest rates with notional amounts totalling \$68,742,000 (2006-\$48,007,000). 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 (2006-\$nil), a credit equivalent amount of \$981,000 (2006-\$680,000) and a risk weighted balance of \$196,000 (2006-\$136,000). At April 30, 2007, these contracts were in an unfavorable position of \$2,118,000 (2006-\$282,000). 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 April 30, 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 April 30, 2007, the counterparties to these contracts which totalled \$20.6 million (2006-\$44.3 million) consisted of Canadian chartered banks. The contracts have a nominal fair value and mature within three years.

7. 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	\$ 120,321,000
Letters of credit	<u>24,537,000</u>
	<u>\$ 144,858,000</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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**Honourable Thomas A. Hockin, P.C., Hons.B.A.
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