



# Pacific & Western

Credit Corp.

## Fourth Quarter Report October 31, 2007

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### PACIFIC & WESTERN CREDIT CORP. ANNOUNCES RESULTS FOR ITS FOURTH QUARTER ENDED OCTOBER 31, 2007

#### FOURTH QUARTER HIGHLIGHTS

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

- Lending assets increased by 13% to \$978 million from \$923 million at the end of the previous quarter and from \$864 million a year ago.
- Total assets increased to \$1.5 billion from \$1.2 billion at the end of the previous quarter and from \$1.3 billion a year ago.
- Spread (teb) for the quarter improved to 1.33% from 1.16% for the previous quarter and compared to 1.42% for the same period a year ago.
- Credit quality remains strong with gross impaired loans as a percentage of total assets equal to 0.10% at the end of the year compared to 0.23% a year ago.
- Net income for the quarter was \$638,000 or \$0.04 per share (\$0.04 diluted) compared to \$1.5 million or \$0.11 per share (\$0.10 diluted) for the same period last year.
- For the year, net income was \$2.2 million or \$0.14 per share (\$0.14 diluted) compared to \$17.0 million or \$1.25 per share (\$1.22 diluted) a year ago. Net income in 2006 included a dilution gain from Discovery Air Inc. of \$13.8 million or \$1.03 per share, after income taxes.

#### PRESIDENT'S COMMENTS

This quarter's net interest income increased by 19% over the previous quarter due to improved spreads and continued loan growth. We funded \$127 million of new loans and leases during the quarter, bringing the total for the year to \$500 million compared to \$444 million last year. Taking into consideration scheduled loan repayments for the year, lending assets increased by 13% to \$978 million from \$864 million a year ago.

Over the past two years we witnessed spreads decline to a level where, in many cases, we did not feel that we were being adequately compensated for the risk that the loans presented. This had a significant negative impact on our spread income and the volume of loans that we booked. However, this situation has reversed as a result of the recent liquidity crisis and we are now able to book new loans and leases with attractive spreads. At the end of this quarter we had record commitments to fund loans and leases of \$281 million. We are continuing to work closely with our partner, EllisDon Corporation to provide infrastructure financing for numerous Ontario hospital projects. In addition, our Visa card initiative is proceeding on schedule as is our Versabanq Innovations software initiative. We are very excited about both of these as we believe they have excellent potential to add significantly to our bottom line.

## FINANCIAL HIGHLIGHTS

(unaudited)

	for the three months ended		for the year ended	
	October 31 2007	October 31 2006	October 31 2007	October 31 2006
(\$ thousands, except per share amounts)				
<b>Results of operations (teb)</b>				
Net interest income per financial statements	\$ 3,777	\$ 4,262	\$ 15,503	\$ 17,571
Teb adjustment	715	432	2,209	1,650
Net interest income	4,492	4,694	17,712	19,221
Spread	1.33%	1.42%	1.27%	1.56%
Provision for credit losses	198	339	841	787
Net interest income after provision for credit losses	4,294	4,355	16,871	18,434
Other income	114	1,116	1,626	16,162
Total revenue	4,408	5,471	18,497	34,596
Non-interest expenses	3,049	3,252	13,897	12,855
Net income	638	1,482	2,200	16,986
Earnings per common share:				
Basic	\$ 0.04	\$ 0.11	\$ 0.14	\$ 1.25
Diluted	\$ 0.04	\$ 0.10	\$ 0.14	\$ 1.22
Efficiency ratio	66%	56%	72%	36%
Return on average common shareholders' equity	4.13%	8.54%	3.25%	28.75%
Return on average total assets	0.19%	0.45%	0.16%	1.38%
Gross impaired loans to total assets	0.10%	0.23%	0.10%	0.23%
Provision for credit losses as a % of average loans	0.02%	0.04%	0.09%	0.10%
Number of full time equivalent staff	57	61	57	61

### Balance Sheet Summary

Cash and securities	\$ 441,727	\$ 425,418	\$ 441,727	\$ 425,418
Total loans	977,727	863,830	977,727	863,830
Average loans	950,556	841,865	920,779	806,569
Total assets	1,458,656	1,329,729	1,458,656	1,329,729
Average assets	1,342,120	1,308,594	1,394,193	1,230,478
Deposits	1,282,756	1,210,555	1,282,756	1,210,555
Notes payable	35,660	36,184	35,660	36,184
Shareholders' equity	57,054	70,650	57,054	70,650

### Capital ratios

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

Total regulatory capital	\$ 91,820	\$ 104,163	\$ 91,820	\$ 104,163
Risk weighted assets	800,582	786,005	800,582	786,005
Assets to capital ratio	16.19	12.96	16.19	12.96
Tier 1 risk-based capital ratio	8.34%	8.93%	8.34%	8.93%
Total risk-based capital ratio	11.47%	13.25%	11.47%	13.25%

### 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 fourth quarter of fiscal 2007 should be read in conjunction with the unaudited interim consolidated financial statements for the period ended October 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](http://www.sedar.com). Except as discussed below, all other factors discussed and referred to in the MD&A for the year ended October 31, 2006, remain substantially unchanged.

### Overview

Net income for the quarter increased to \$638,000 or \$0.04 per share (\$0.04 diluted) compared to \$127,000 or \$0.01 per share (\$nil diluted) for the previous quarter and compared to \$1.5 million or \$0.11 per share (\$0.10 diluted) for the same period a year ago. For the year, net income was \$2.2 million or \$0.14 per share (\$0.14 diluted) compared to \$17.0 million or \$1.25 per share (\$1.22 diluted) last year with the change due primarily to a decrease in dilution gains and equity earnings from our investment in Discovery Air Inc. (DA). Effective November 1, 2006, our investment is accounted for as an available-for-sale asset and the Corporation no longer records dilution gains or equity earnings from DA.

Net interest income (teb) for the quarter was \$4.5 million compared to \$3.8 million for the previous quarter and \$4.7 million for the same period a year ago and \$17.7 million for the year compared to \$19.2 million last year. Net interest income decreased from last year primarily as a result of a compression in spreads in our securities portfolio. Despite this, the Corporation maintained its focus on low risk lending opportunities and maintained a strong discipline in its management of its lending portfolios. The Corporation does not have any direct exposure to the North American subprime lending market or to asset backed commercial paper, and is now benefiting from the recent liquidity crisis as it is seeing spreads widen in both its securities and lending portfolios. Spread (teb) for the fourth quarter increased to 1.33% compared to 1.16% for the previous quarter.

At October 31, 2007, total assets increased to \$1.5 billion from \$1.3 billion a year ago. The largest increase was in lending assets which grew to \$978 million at the end of the quarter from \$864 million a year ago and from \$923 million at the end of the previous quarter. Credit quality remains strong with gross impaired loans at the end of the year of only \$1.5 million or 0.10% of total assets compared to \$3.1 million or 0.23% of total assets a year ago. As well, the provision for credit losses as a percentage of average loans for the year remained steady at 0.09% compared to 0.10% for the previous year.

### Total Revenue (teb)

Total revenue (teb), which is comprised of net interest income after provision for credit losses and other income, was \$4.4 million for the quarter compared to \$5.5 million a year ago and for the year was \$18.5 million compared to \$34.6 million a year ago.

### Net Interest Income

Net interest income (teb) was \$4.5 million for the quarter, compared to \$4.7 million a year ago and for the year was \$17.7 million compared to \$19.2 million a year ago. Net interest margin or spread (teb), which is net interest income as a percentage of average assets, was 1.33% for the quarter compared to 1.42% a year ago and for the year was 1.27% compared to 1.56%. The decrease from a year ago in net interest income and spread was due primarily to a compression of spreads, particularly in our securities portfolio. As well, spread in our loan portfolio decreased as a result of a change in the mix of our loan portfolio, and competitive market conditions. However, as a result of the recent liquidity crisis, we have seen spreads widen in both our securities and lending portfolios resulting in our spread (teb) in the fourth quarter increasing from the previous quarter's spread of 1.16%.

### Other Income

Other income for the quarter was \$114,000 compared to \$1.1 million for the same period a year ago with the decrease being a result of equity earnings from DA being recorded in the fourth quarter last year. For the year, other income was \$1.6 million compared to \$16.2 million a year ago with the decrease due to other income in the prior year including dilution gains of \$16.9 million resulting from the issue of shares by DA, equity earnings of DA totalling \$1.7 million and reduced by impairment writedowns totalling \$3.8 million. As our investment in DA is now accounted for as an available-for-sale asset, the Corporation no longer records dilution gains or equity earnings from DA.

## ***Non-Interest Expenses***

Non-interest expenses for the quarter were \$3.0 million compared to \$3.3 million for the same period a year ago and for the year were \$13.9 million compared to \$12.9 million. Non-interest expenses for the quarter and for the year increased from last year primarily as a result of higher salaries and benefits due to annual salary adjustments and costs of the office in Calgary which opened in August, 2006. The increase in salaries and benefits expense in 2007 was offset by a reduction in the fourth quarter of the accrual for staff incentive awards as a result of actual results being less than targeted.

Our efficiency ratio (teb), which measures the cost of the Corporation to earn a dollar of revenue, was 66% for the quarter compared to 56% for the same period last year and for the year was 72% compared to 36% last year. The change in the efficiency ratio was due primarily to the decrease in revenues from DA in the current quarter and for the year. At October 31, 2007, our ratio of assets per full time employee was \$25.6 million compared to \$21.8 million a year ago and at this level, the Corporation continues to lead the other domestic banks.

## ***Income Taxes***

For the fourth quarter and for the year, 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 rate was affected by non-taxable income earned on preferred shares in our securities portfolio and expenses such as stock-based compensation which are not deductible for income tax purposes. This resulted in an effective rate of 8% for the year.

## ***Balance Sheet***

Total assets at October 31, 2007, were \$1.5 billion compared to \$1.3 billion a year ago and \$1.2 billion at the end of the previous quarter with the increase from a year ago as a result of lending assets which grew by 13%.

## ***Cash and Securities***

Cash and securities, which are held for liquidity management purposes and to earn investment income, were \$442 million compared to \$425 million a year ago and \$267 million at the end of the previous quarter. Securities consist of government bonds and investment grade corporate debt and preferred shares. Corporate preferred shares are held for the preferential tax treatment their dividends receive. 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. The increase in cash and securities from the previous quarter was due to an increase in securities that were sold under repurchase agreements.

As a result of new accounting standards for financial instruments, commencing November 1, 2006, all of the Corporation's securities have been designated as available-for-sale and are recorded on the balance sheet at fair value with changes in value recognized, net of taxes, in other comprehensive income (loss).

At October 31, 2007, the net unrealized loss in our securities portfolio, which is included in accumulated other comprehensive income (loss), was \$11.7 million which compares to \$6.0 million at the end of the previous quarter and \$1.1 million a year ago. The increase in unrealized losses from the previous quarter was generally due to the impact of the markets' increases in the pricing for credit risk in securities as a result of the recent liquidity crisis.

## ***Mortgages and Loans***

Lending assets grew to \$978 million at the end of the quarter from \$864 million a year ago and from \$923 million at the end of the previous quarter. New lending in the quarter totalled \$127 million bringing loan fundings for the year to \$500 million in comparison to \$444 million in the prior year. The outlook for new loan funding continues to be promising with total loans committed to at October 31, 2007 exceeding \$281 million.

Loan categories which saw increases from a year ago were loans to public sector entities, insured residential mortgages and commercial loans and mortgages to investment grade corporations. These increases were offset by decreases in personal loans which consist of immigrant investor loans. The changes in our loan portfolio have resulted in lower overall spreads, however, the composition reflects our continued focus on low risk lending opportunities. At October 31, 2007, the Corporation does not have any exposure to the subprime lending market and therefore is not exposed to any direct losses from this sector.

### ***Other Assets***

Other assets totalled \$39.2 million at the end of the quarter compared to \$35.6 million at the end of the previous quarter and \$40.5 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. At October 31, 2007, the investment in DA had a fair value of \$16.6 million including an unrealized gain of \$1.8 million which is included, net of 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 \$1.3 billion compared to \$1.1 billion at the end of the previous quarter and \$1.2 billion a year ago. Our deposits consist primarily of fixed term guaranteed investment certificates with a nominal amount of demand deposits.

A second source of financing growth in assets is the use of margin lines and securities sold under repurchase agreements. From time to time, the Corporation uses these sources of financing when the cost of borrowing is less than the interest rates that would have to be paid on new deposits. At the end of the quarter, the Corporation had approximately \$50 million outstanding in securities sold under repurchase agreements which compares to \$nil at the end of the previous year.

Notes payable at October 31, 2007, were \$35.7 million compared to \$36.2 million a year ago with the decrease due to the reclassification of deferred financing charges as required under the new accounting standard on financial instruments. These notes bear interest at rates ranging from 9.0% to 9.25% per annum with \$22.7 million maturing in 2008.

### ***Off-Balance Sheet***

Off-balance sheet items include standard industry credit instruments such as letters of credit, loan commitments and other commitments and prior to the first quarter of 2007, derivative financial instruments which are primarily interest rate swaps used for Asset Liability Management purposes.

With the November 1, 2006 adoption of new accounting policies for financial instruments, all derivative financial instruments are recorded on the balance sheet at fair value, with changes in fair value reflected in net income.

### ***Credit Quality***

Gross impaired loans at the end of the year totalled \$1.5 million or 0.10% of total assets, compared to \$2.6 million or 0.21% of total assets at the end of the previous quarter and \$3.1 million or 0.23% of total assets a year ago. The provision for credit losses for the quarter was \$198,000 compared to \$339,000 a year ago and for the year was \$841,000 compared to \$787,000. Total allowances for credit losses, including specific and general allowances, were \$3.2 million at the end of the quarter compared to \$2.6 million a year ago. Provision for credit losses as a percentage of average loans for the year was 0.09% consistent with the previous years figure of 0.10%.

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

At the end of the year, shareholders' equity was \$57.1 million compared to \$70.7 million a year ago with the decrease due primarily to the special dividend of \$10.8 million declared and distributed earlier in the year, shares repurchased and cancelled under the Normal Course Issuer Bid, and accumulated other comprehensive income (loss) in the amount of (\$6.5 million) which was recorded as a result of the new accounting standard on comprehensive income. These decreases were partially offset by the issue of common shares on exercise of stock options and the retention of earnings. Total common shares outstanding at the end of the year were 13,685,552 compared to 13,421,585 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 1,054,345 at the end of the quarter compared to 1,291,160 a year ago. Our book value per common share at the end of the year was \$3.91 compared to \$5.00 a year ago with the decrease due primarily to the payment of the special dividend earlier in the year.

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. To the end of October 31, 2007 the Corporation had repurchased for cancellation 80,200 common shares for a total cost of \$584,000.

### **Updated Share Information**

At November 28, 2007, there were 13,679,852 common shares outstanding with the change since October 31, 2007 due to 5,700 common shares repurchased for cancellation under the Normal Course Issuer Bid. At November 28, 2007, there were 1,254,345 common share options outstanding with the increase due to the granting of 200,000 common share options since October 31, 2007.

### **Capital Management**

Total regulatory capital in the Corporation's principal subsidiary, Pacific & Western Bank of Canada (the "Bank"), totalled \$91.8 million at the end of the year compared to \$93.7 million at the end of the previous quarter and \$104 million a year ago. The decrease in total regulatory capital from a year ago was primarily a result of a dividend of \$11 million paid earlier in the year by the Bank to the Corporation.

The Bank's total risk-based capital ratio, which is the ratio of regulatory capital to risk-weighted assets, was 11.47% at the end of the year compared to 12.45% at the end of the previous quarter and 13.25% 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 8.34% at the end of the year compared to 8.47% at the end of the previous quarter and 8.93% a year ago. The Bank's assets to capital ratio was 16.19 at the end of the year compared to 13.36 at the end of the previous quarter and 12.96 a year ago.

### **Performance Targets**

Performance targets established for the 2007 fiscal year are noted below with actual results.

	2007	
	Annual Target	Actual Results
Earnings per common share	\$0.43	\$0.14
Return on average common shareholders' equity	8.72%	3.25%
Return on average total assets	0.42%	0.16%
Spread (teb)	1.67%	1.27%
Loan growth	33.00%	13.00%
Total asset growth	12.00%	9.70%

Actual results for the year fell short of earnings related targets primarily as a result of a compression of spreads in our securities and loan portfolios for the majority of the 2007 fiscal year. However, we saw spreads widen in the fourth quarter as a result of the recent liquidity crisis. Actual results for loan and asset growth fell short of targets as a result of excess liquidity and competition in the marketplace for the majority of 2007 for loans in our target market of low risk and investment grade borrowers.

## Summary of Quarterly Results

(thousands of dollars except per share amounts)

	2007				2006			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2*	Q1*
<b>Results of operations:</b>								
Total interest income								
per financial statements	\$ 18,795	\$ 16,978	\$ 17,538	\$ 18,163	\$ 18,677	\$ 16,418	\$ 15,104	\$ 15,138
Teb adjustment	715	559	492	444	432	440	352	427
Total interest income	19,510	17,537	18,030	18,607	19,109	16,858	15,456	15,565
Yield on assets (%)	5.77%	5.37%	5.42%	5.49%	5.79%	5.37%	5.37%	5.40%
Interest expense	15,018	13,757	13,495	13,701	14,415	12,200	10,560	10,591
Cost of funds (%)	4.44%	4.21%	4.06%	4.04%	4.37%	3.89%	3.67%	3.68%
Net interest income	4,492	3,780	4,535	4,906	4,694	4,658	4,896	4,974
Net interest margin (%)	1.33%	1.16%	1.36%	1.45%	1.42%	1.48%	1.70%	1.72%
Provision for credit losses	198	142	72	429	339	321	78	49
Other income	114	260	294	959	1,116	12,963	1,251	832
Total revenue	4,408	3,898	4,757	5,436	5,471	17,300	6,069	5,757
Non-interest expenses	3,049	3,643	3,548	3,658	3,252	3,215	3,104	3,284
Income before income taxes	1,359	255	1,209	1,778	2,219	14,085	2,965	2,473
Income tax provision	721	128	865	687	737	2,282	1,040	1,051
Non-controlling interest	-	-	-	-	-	-	117	237
Net income	638	127	344	1,091	1,482	11,803	2,042	1,659
Earnings per share								
-basic	\$ 0.04	\$ 0.01	\$ 0.02	\$ 0.08	\$ 0.11	\$ 0.88	\$ 0.15	\$ 0.12
-diluted	\$ 0.04	\$ -	\$ 0.02	\$ 0.07	\$ 0.10	\$ 0.85	\$ 0.14	\$ 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 fourth quarter increased from the previous quarter as a result of increased lending which resulted in increased loan fees. In addition, the Corporation experienced a widening of spreads in the securities and lending portfolios due to the recent liquidity crisis. Until the fourth quarter, spreads decreased as a result of competitive pricing for new loans, a compression of spreads primarily in our securities portfolio and increased competition for new deposits which resulted in an increase in our cost of funds.

Other income was less in the year compared to the prior year as there were no dilution gains or equity earnings from DA in the current year. Non-interest expenses in the fourth quarter decreased due to a reduction of the accrual for staff incentive awards when actual results were less than target and staff attrition during the year. These were offset by costs of the office in Calgary which opened in August 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 that 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 (loss), forms part of Shareholders' Equity and unrealized gains or losses on available-for-sale financial instruments are reported in accumulated other comprehensive income until realization.

At October 31, 2007, accumulated other comprehensive loss totalled \$6.5 million and consisted of unrealized losses of \$11.7 million related to securities held as available-for-sale, unrealized gains of \$1.8 million related to our investment in DA which has been designated as available-for-sale and deferred losses of \$289,000 related to previously closed cash flow hedges no longer included in other assets. These amounts were before future income tax recoveries totalling \$3.6 million which are also included in accumulated other comprehensive income (loss).

The new accounting standard relating to hedges requires the Corporation to record the hedging item and the hedged item at fair value with the changes recorded through net income. As a result of this standard, at October 31, 2007, loans and other liabilities include fair value adjustments totalling \$883,000 however, there was minimal impact on net income as the fair value adjustment to loans and other liabilities offset each other.

### ***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: November 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)

	<b>October 31 2007</b>	<b>October 31 2006</b>
	(unaudited)	
<b>Assets</b>		
Cash resources	\$ 113,421	\$ 207,720
Securities	328,306	217,698
Mortgages and loans	977,727	863,830
Other assets	39,202	40,481
	<u>\$ 1,458,656</u>	<u>\$ 1,329,729</u>
<b>Liabilities and Shareholders' Equity</b>		
Deposits	\$ 1,282,756	\$ 1,210,555
Notes payable	35,660	36,184
Other liabilities	83,186	12,340
	<u>1,401,602</u>	<u>1,259,079</u>
<b>Shareholders' equity</b>		
Share capital	39,470	37,775
Retained earnings	24,125	32,875
Accumulated other comprehensive income (loss) (note 1)	(6,541)	-
	<u>57,054</u>	<u>70,650</u>
	<u>\$ 1,458,656</u>	<u>\$ 1,329,729</u>

# PACIFIC & WESTERN CREDIT CORP.

## Consolidated Statement of Income (thousands of dollars)

	<i>for the three months ended</i>		<i>for the year ended</i>	
	<b>October 31 2007</b>	<b>October 31 2006</b>	<b>October 31 2007</b>	<b>October 31 2006</b>
	(unaudited)	(unaudited)	(unaudited)	
<b>Interest income</b>				
Interest income on loans	\$ 14,018	\$ 12,492	\$ 52,814	\$ 47,171
Interest and income from securities	3,942	5,508	16,042	15,908
Loan fee income	835	677	2,618	2,258
	<u>18,795</u>	<u>18,677</u>	<u>71,474</u>	<u>65,337</u>
<b>Interest expense</b>				
Deposits and other	14,132	13,539	52,452	44,294
Notes payable	886	876	3,519	3,472
	<u>15,018</u>	<u>14,415</u>	<u>55,971</u>	<u>47,766</u>
Net interest income	3,777	4,262	15,503	17,571
Provision for credit losses	198	339	841	787
Net interest income after provision for credit losses	3,579	3,923	14,662	16,784
Other income	114	1,116	1,626	16,162
	<u>3,693</u>	<u>5,039</u>	<u>16,288</u>	<u>32,946</u>
<b>Non-interest expenses</b>				
Salaries and benefits	1,552	1,783	7,813	7,208
General and administrative	1,037	1,073	4,311	4,391
Premises and equipment	460	396	1,773	1,256
	<u>3,049</u>	<u>3,252</u>	<u>13,897</u>	<u>12,855</u>
Income (loss) before income taxes and other	644	1,787	2,391	20,091
Income tax (recovery) provision	6	305	191	3,459
Non-controlling interest	-	-	-	354
<b>Net income</b>	<b>\$ 638</b>	<b>\$ 1,482</b>	<b>\$ 2,200</b>	<b>\$ 16,986</b>
Basic earnings per share	\$ 0.04	\$ 0.11	\$ 0.14	\$ 1.25
Diluted earnings per share	\$ 0.04	\$ 0.10	\$ 0.14	\$ 1.22
Weighted average number of common shares	13,739,000	13,366,000	13,674,000	13,343,000

# PACIFIC & WESTERN CREDIT CORP.

## Consolidated Statement of Changes in Shareholders' Equity

(thousands of dollars)

	<i>for the three months ended</i>		<i>for the year ended</i>	
	<b>October 31</b>	<b>October 31</b>	<b>October 31</b>	<b>October 31</b>
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
	(unaudited)	(unaudited)	(unaudited)	
<b>Common shares</b>				
Balance, beginning of period	\$ 35,871	\$ 33,381	\$ 33,986	\$ 33,191
Shares issued	57	605	1,956	795
Shares repurchased	(185)	-	(209)	-
Amount transferred from contributed surplus	-	-	10	-
Balance, end of period	<u>\$ 35,743</u>	<u>\$ 33,986</u>	<u>\$ 35,743</u>	<u>\$ 33,986</u>
<b>Class A preferred shares</b>				
Balance, beginning and end of period	<u>\$ 3,545</u>	<u>\$ 3,545</u>	<u>\$ 3,545</u>	<u>\$ 3,545</u>
<b>Contributed surplus</b>				
Balance, beginning of period	\$ 501	\$ 208	\$ 244	\$ 58
Fair value of stock option transactions (note 3)	56	36	323	186
Repurchase of shares	(375)	-	(375)	-
Amount transferred to common shares	-	-	(10)	-
Balance, end of period	<u>\$ 182</u>	<u>\$ 244</u>	<u>\$ 182</u>	<u>\$ 244</u>
<b>Retained earnings</b>				
Balance, beginning of period	\$ 23,487	\$ 31,393	\$ 32,875	\$ 16,129
Transitional adjustment (note 1a)	-	-	77	-
Net income	638	1,482	2,200	16,986
Dividend in kind (note 5)	-	-	(10,787)	-
Dividends on preferred shares	-	-	(240)	(240)
Balance, end of period	<u>\$ 24,125</u>	<u>\$ 32,875</u>	<u>\$ 24,125</u>	<u>\$ 32,875</u>
<b>Accumulated other comprehensive income (loss), net of taxes (note 1)</b>				
Balance, beginning of period	\$ (2,449)	\$ -	\$ -	\$ -
Transitional adjustment	-	-	3,982	-
Net unrealized losses on assets held as available-for-sale	(4,136)	-	(9,377)	-
Amount transferred to net income for hedges	53	-	212	-
Amount transferred to net income for sale of available-for-sale securities	(9)	-	(1,358)	-
	<u>(4,092)</u>	<u>-</u>	<u>(10,523)</u>	<u>-</u>
Balance, end of period	<u>\$ (6,541)</u>	<u>\$ -</u>	<u>\$ (6,541)</u>	<u>\$ -</u>
<b>Total shareholders' equity</b>	<u>\$ 57,054</u>	<u>\$ 70,650</u>	<u>\$ 57,054</u>	<u>\$ 70,650</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 year ended</i>	
	<b>October 31</b>	<b>October 31</b>	<b>October 31</b>	<b>October 31</b>
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
<b>Accumulated other comprehensive income (loss), net of taxes</b>				
Balance, end of period, consists of:				
Net unrealized losses on assets held as				
available-for-sale	\$ (6,356)	\$ -	\$ (6,356)	\$ -
Deferred losses related to previously				
closed cash flow hedges	(185)	-	(185)	-
Balance, end of period	<u>\$ (6,541)</u>	<u>\$ -</u>	<u>\$ (6,541)</u>	<u>\$ -</u>
<b>Comprehensive income (loss)</b>				
Total net income	\$ 638	\$ -	\$ 2,200	\$ -
Other comprehensive income (loss)	(4,092)	-	(10,523)	-
Total comprehensive income (loss)	<u>\$ (3,454)</u>	<u>\$ -</u>	<u>\$ (8,323)</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 year ended</i>	
	<b>October 31</b>	<b>October 31</b>	<b>October 31</b>	<b>October 31</b>
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
	(unaudited)	(unaudited)	(unaudited)	
<b>Cash provided by (used in):</b>				
<b>Operations:</b>				
Net income	\$ 638	\$ 1,482	\$ 2,200	\$ 16,986
Items not involving cash:				
Provision for credit losses	198	339	841	787
Other provisions	100	(136)	100	3,846
Future income tax (recovery) provision	315	(17)	500	3,137
Stock-based compensation (note 3)	56	36	323	186
Gain on disposal of shares	-	-	(888)	-
Gain on sale of available-for-sale securities	(14)	(520)	(978)	(582)
Non-controlling interest	-	-	-	(354)
Dilution gains	-	3	-	(16,933)
Equity earnings	-	(807)	-	(1,721)
Change in derivative financial instruments	(108)	-	(273)	-
Change in other assets and liabilities	17,088	2,436	15,893	7,943
	<u>18,273</u>	<u>2,816</u>	<u>17,718</u>	<u>13,295</u>
<b>Investing:</b>				
Securities	(93,094)	76,928	(121,322)	59,505
Mortgages and loans	(53,325)	(44,270)	(113,945)	(115,310)
	<u>(146,419)</u>	<u>32,658</u>	<u>(235,267)</u>	<u>(55,805)</u>
<b>Financing:</b>				
Deposits	166,439	76,313	72,201	274,797
Short term financings	49,917	(39,680)	49,917	(97,652)
Proceeds of common shares issued	58	605	1,956	795
Shares repurchased	(561)	-	(584)	-
Notes payable	-	(2)	-	(2)
Dividends paid	-	-	(240)	(240)
	<u>215,853</u>	<u>37,236</u>	<u>123,250</u>	<u>177,698</u>
Increase (decrease) in cash resources	87,707	72,710	(94,299)	135,188
Cash resources, beginning of period	<u>25,714</u>	<u>135,010</u>	<u>207,720</u>	<u>72,532</u>
Cash resources, end of period	<u>\$ 113,421</u>	<u>\$ 207,720</u>	<u>\$ 113,421</u>	<u>\$ 207,720</u>
Supplementary cash flow information:				
Interest paid during the period	\$ 11,499	\$ 8,985	\$ 55,072	\$ 40,033
Income taxes paid during the period	\$ 79	\$ -	\$ 500	\$ 853

**PACIFIC & WESTERN CREDIT CORP.**  
**Notes to the interim consolidated financial statements (unaudited)**  
**For the year ended October 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](http://www.sedar.com). These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles using the same accounting policies and methods as were used for the Corporation's financial statements for the year ended October 31, 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 \$77,000 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 year ended</i>			
			Oct 31,	Oct 31,			Oct 31,	Oct 31,
	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	\$ 2,536	\$ 708	\$ 3,244	\$ 2,275	\$ 2,208	\$ 358	\$ 2,566	\$ 1,889
Provision for credit losses	197	1	198	339	525	316	841	787
Recoveries (write-offs)	-	(236)	(236)	(48)	-	(201)	(201)	(110)
Balance, end of period	\$ 2,733	\$ 473	\$ 3,206	\$ 2,566	\$ 2,733	\$ 473	\$ 3,206	\$ 2,566

Gross impaired loans at October 31, 2007 totalled \$1,452,000 (October 31, 2006 - \$3,096,000).

## 3. Income taxes

(thousands of dollars)	<i>for the three months ended</i>		<i>for the year ended</i>	
	Oct 31,	Oct 31,	Oct 31,	Oct 31,
	2007	2006	2007	2006
Tax provision at basic rate of 36%	\$ 232	\$ 764	\$ 861	\$ 7,353
Changes resulting from:				
Non-taxable income from securities	(288)	(267)	(1,152)	(974)
Dividend in kind	-	-	420	-
Gains	-	(262)	(160)	(3,332)
Other permanent differences	62	70	222	412
Income tax (recovery) provision	\$ 6	\$ 305	\$ 191	\$ 3,459

In addition, included in accumulated other comprehensive income (loss) at October 31, 2007, is a future income tax asset of \$3.6 million relating to assets held as available-for-sale and a future income tax asset of \$104,000 relating to deferred losses on previously closed cash flow hedges.

## 4. Share capital and contributed surplus

	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	344,167	(344,167)	6.09
Expired	-	(9,883)	10.97
Repurchased	(80,200)	-	-
Outstanding, end of year	13,685,552	1,054,345	\$ 8.58

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

During the year ended October 31, 2007, the Corporation recognized \$323,000 (2006-\$62,000) 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% (2006-4.02%), (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 (2006-\$4.72) per share.

During the year ended October 31, 2007, \$10,000 (2006-\$nil) was transferred from contributed surplus to common shares relating to the exercise of options that had previously been expensed.

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. To October 31, 2007, the Corporation had repurchased for cancellation 80,200 common shares for a total cost of \$584,000.

## 5. Special dividend

On March 7, 2007, the Corporation distributed a special dividend to common 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.

## 6. Derivative instruments

At October 31, 2007, the Corporation had outstanding contracts for asset liability management purposes to swap between floating and fixed interest rates with notional amounts totalling \$95,772,000 (2006-\$49,308,000). 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 \$976,000 (2006-\$nil), a credit equivalent amount of \$2,350,000 (2006-\$880,000) and a risk weighted balance of \$470,000 (2006-\$176,000). At October 31, 2007, these contracts were in an unfavorable position of \$611,000 (2006-\$1,767,000). Under the new accounting standard relating to hedges, this amount is included in other assets on the consolidated balance sheet, however there is no impact on net earnings.

At October 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 October 31, 2007, the counterparties to these contracts which totalled \$19.3 million (2006-\$43.7 million) consisted of Canadian chartered banks. The contracts have a nominal fair value and mature within two 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	\$ 281,100,000
Letters of credit	30,015,000
	<u>\$ 311,115,000</u>

## 8. Segmented information

The Corporation operates in one business segment which provides lending services to public sector, commercial and personal markets. Its lending activities are to clients in all of the Canadian provinces and territories. The segmented information reported in the prior year as Other Operations related to the Corporation's investment in Discovery Air Inc. (DA), which due to the Corporation's dilution of its interest in 2006, is now accounted for as an available-for-sale asset.

## 9. Comparative figures

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

Pacific & Western Bank of Canada (PWBank), a Schedule I chartered bank, is a branchless financial institution with over \$1.5 billion in assets. PWBank specializes in providing innovative financing to large corporate and government entities including hospitals, school boards, universities and colleges, municipalities and provincial and federal government agencies. With no retail operations or store fronts, PWBank is one of the most efficiently operating financial institutions in Canada. These overhead savings translate into very competitive rates for our clients.

Pacific & Western Bank of Canada is wholly owned by Pacific & Western Credit Corp., whose shares trade on the TSX under the symbol PWC.

On behalf of the Board of Directors: David R. Taylor, President & C.E.O.

**FOR FURTHER INFORMATION PLEASE CONTACT:**

Tel Matrondola, Vice President at [telm@pwbank.com](mailto:telm@pwbank.com) or by phone at 1-866-787-9936.

To receive company news releases via e-mail,  
please contact Camille Malette

Telephone (519) 675-4204  
[camillem@pwbank.com](mailto:camillem@pwbank.com)

Further information is available through Pacific & Western's corporate web site at <http://www.pwbank.com>.