



Pacific & Western

Credit Corp.

Fourth Quarter Report October 31, 2009

PACIFIC & WESTERN CREDIT CORP. ANNOUNCES RESULTS FOR ITS FOURTH QUARTER ENDED OCTOBER 31, 2009

FOURTH QUARTER SUMMARY

(three months ended October 31, 2009, compared to three months ended October 31, 2008, unless otherwise noted)

- Prior to recording general provisions for credit losses totalling \$3.1 million in the quarter, net income was approximately \$168,000 or \$0.01 per share (\$0.01 diluted). For the year ended October 31, 2009, prior to recording general provisions for credit losses totaling \$3.2 million, net income (loss) was (\$7.6 million) or (\$0.57) per share ((\$0.57) diluted).
- Net income (loss) for the quarter ended October 31, 2009 was (\$2.1 million) or (\$0.15) per share ((\$0.15) diluted), after recording general provisions for credit losses, compared to (\$15.8 million) or (\$1.16) per share ((\$1.16) diluted) for the same period last year.
- For the year ended October 31, 2009, net income (loss) was (\$9.9 million) or (\$0.74) per share ((\$0.74) diluted) after recording general provisions for credit losses, compared to (\$20.1 million) or (\$1.49) per share ((\$1.49) diluted) for the same period a year ago.
- Net interest income (teb) for the quarter increased to \$4.8 million from \$220,000 in the previous quarter and from \$1.8 million for the same period a year ago. Net interest income (teb) for the year was \$7.6 million compared to \$11.4 million a year ago.
- Credit quality remains strong with gross impaired loans decreasing to \$6.4 million at October 31, 2009 from \$11.3 million at the end of the previous quarter.

PRESIDENT'S COMMENTS

During this quarter we completed the roll-over of the majority of our higher priced GICs. Last year, to guard against a possible prolonged liquidity crisis, we had issued a large number of one year GICs while the prevailing interest rates were much higher than they are today. As a result of the roll-over of these deposits, we are now saving approximately \$2 million per month in interest expense. These interest savings began to be reflected in our fourth quarter's net interest income of \$4.8 million, which increased from \$220,000 in the previous quarter. Net income for the quarter, excluding a one time general provision for credit losses of \$3.1 million, was approximately \$168,000.

Throughout the year we continued to expand our deposit broker network by adding 11 more deposit brokers. We now have 115 brokers located across Canada selling our GICs and other deposit products. This large diversified deposit broker network provides us with a stable source of deposits to fund the growth of our loan and lease portfolio.

We are starting the new fiscal year in very good shape. We have a record high level of regulatory capital, considerable capacity for growth, a very low cost of funds and a relatively trouble free loan and lease portfolio. The liquidity crisis has reduced competition and increased profit margins significantly. The opportunity for growth in profitability of our specialized bank has never been better.

FINANCIAL HIGHLIGHTS

(unaudited)

	for the three months ended		for the year ended	
	Oct 31 2009	Oct 31 2008	Oct 31 2009	Oct 31 2008
(\$ thousands, except per share amounts)				
Results of operations (teb)				
Net interest income per financial statements	\$ 4,085	\$ 1,115	\$ 4,850	\$ 8,555
Teb adjustment	667	675	2,734	2,859
Net interest income	4,752	1,790	7,584	11,414
Spread	1.24%	0.49%	0.52%	0.77%
Provision for credit losses	3,183	2,502	3,449	2,815
Net interest income (loss) after provision for credit losses	1,569	(712)	4,135	8,599
Impairment writedowns	-	(11,341)	-	(15,044)
Other income	1,887	129	1,449	312
Total revenue	3,456	(11,924)	5,584	(6,133)
Non-interest expenses	4,405	3,280	14,967	14,025
Net income (loss)	(2,057)	(15,809)	(9,895)	(20,089)
Earnings (loss) per common share:				
Basic	\$ (0.15)	\$ (1.16)	\$ (0.74)	\$ (1.49)
Diluted	\$ (0.15)	\$ (1.16)	\$ (0.74)	\$ (1.49)
Efficiency ratio	66%	n/m	n/m	n/m
Return on average common shareholders' equity	-53.55%	-223.39%	-59.41%	-54.87%
Return on average total assets	-0.54%	-4.31%	-0.68%	-1.35%
Gross impaired loans to total assets	0.45%	0.52%	0.45%	0.52%
Provision for credit losses as a % of average loans	0.33%	0.24%	0.34%	0.27%
Number of full time equivalent staff	55	57	55	57

Balance Sheet Summary

Cash and securities	\$ 448,144	\$ 370,993	\$ 448,144	\$ 370,993
Total loans	929,831	1,110,807	929,831	1,110,807
Average loans	962,817	1,029,702	1,020,319	1,044,267
Total assets	1,411,725	1,512,467	1,411,725	1,512,467
Average assets	1,517,920	1,471,431	1,462,096	1,485,562
Deposits	1,217,136	1,389,455	1,217,136	1,389,455
Notes payable	77,933	70,405	77,933	70,405
Shareholders' equity	17,471	24,131	17,471	24,131

Capital ratios

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

Total regulatory capital	\$ 128,632	\$ 100,705	\$ 128,632	\$ 100,705
Risk weighted assets	929,099	907,151	929,099	907,151
Assets-to-capital ratio	11.20	15.35	11.20	15.35
Tier 1 risk-based capital ratio	9.38%	8.90%	9.38%	8.90%
Total risk-based capital ratio	13.84%	11.10%	13.84%	11.10%

Non-GAAP measures:

Like most banks, Pacific & Western Credit Corp. (the "Corporation") through its wholly-owned subsidiary Pacific & Western Bank of Canada (the "Bank") 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 2009 should be read in conjunction with the unaudited interim consolidated financial statements for the period ended October 31, 2009, included herein, and the audited consolidated financial statements and MD&A for the year ended October 31, 2008, 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, 2008, remain substantially unchanged.

Overview

Net income (loss) for the quarter ending October 31, 2009 was (\$2.1 million) or (\$0.15) per share ((\$0.15) diluted) after recording general provisions for credit losses totalling \$3.1 million, compared to (\$15.8 million) or (\$1.16) per share ((\$1.16) diluted) for the same period last year. For the year ended October 31, 2009, after recording general provisions for credit losses totalling \$3.2 million, net income (loss) was (\$9.9 million) or (\$0.74) per share ((\$0.74) diluted) compared to (\$20.1 million) or (\$1.49) per share ((\$1.49) diluted) for the same period a year ago. Prior to recording these general provisions, net income was approximately \$168,000 or \$0.01 per share (\$0.01 diluted) for the quarter and approximately (\$7.6 million) or (\$0.57) per share ((\$0.57) diluted). Although management views the quality of the Corporation's loan portfolio as strong and has seen a decrease in impaired loans during the fourth quarter, like other financial institutions in the industry, the Corporation reviewed its assumptions and methodology for estimating its loan allowance and as a result of this review and after taking into account other industry factors, a decision was made to increase its general allowance. At the current level, the Corporation is of the view that any credit losses which exist in its loan portfolio but cannot be specifically identified at this time are adequately provided for.

For the fourth quarter, net interest income (teb) increased to \$4.8 million from \$220,000 for the previous quarter and from \$1.8 million for the same period a year ago. For the year ending October 31, 2009, net interest income (teb) was \$7.6 million compared to \$11.4 million a year ago. The increase in net interest income for the quarter from a year ago and from the previous quarter was due primarily to an increase in interest income earned on securities and a decrease in the cost of our deposits. The decrease in net interest income for the year from a year ago was primarily a result of a compression of spreads earlier in the year caused by a rapid decline in interest rates associated with our interest earning assets that was not equalled by a similar decline in the interest rates on our deposits. In addition, net interest income for the year was impacted by higher interest charges incurred on interest rate swap agreements used to hedge longer term lending assets. The Corporation believes that interest rates have bottomed out and has seen market spreads normalizing with deposit costs decreasing from a year ago. Despite the compression of spreads experienced by the Corporation over the past year, it has maintained its focus on low risk lending and investing opportunities and does not have any direct exposure to the North American subprime lending market or to asset-backed commercial paper.

At October 31, 2009, total assets were \$1.4 billion compared to \$1.5 billion a year ago with the decrease due to a lower level of loans which totalled \$930 million at the end of the year compared to \$1.1 billion a year ago. Credit quality remains strong with a ratio of gross impaired loans as a percentage of total assets of 0.45% at the end of the year compared to 0.70% at the end of the previous quarter and 0.52% a year ago.

Total Revenue (teb)

Total revenue (teb), which is comprised of net interest income after the provision for credit losses and other income (charges), was \$3.5 million for the quarter compared to (\$11.9 million) a year ago with the difference being due to an improvement in net interest income for the current quarter partially offset by the impact of the current quarter's general provision for credit losses and an impairment charge of \$11.3 million recorded last year. For the year, total revenue (teb) was \$5.6 million compared to (\$6.1 million) a year ago with the increase due primarily to the factors described above.

Net Interest Income

Net interest income (teb) increased to \$4.8 million for the quarter from \$220,000 for the previous quarter and from \$1.8 million a year ago. For the year net interest income (teb) was \$7.6 million compared to \$11.4 million last year. Net interest margin or spread (teb), which is net interest income as a percentage of average assets, improved to 1.24% for the quarter from 0.05% for the previous quarter and from 0.49% for the same period a year ago. For the year, spread (teb) was 0.52% compared to 0.77% last year.

The improvement in the current quarter's net interest income and spread from the previous quarter and from the same period a year ago was due primarily to an increase in interest income from securities and a decrease in the Corporation's cost of deposits. Interest expense on deposits decreased in the current quarter as a result of a large amount of deposits

which matured in the period being replaced by deposits with lower interest rates. The maturing deposits were booked a year ago when interest rates on deposits had risen significantly.

The decrease in spread for the year compared to last year was due primarily to the rapid decline in interest rates earlier in the year associated with our interest earning assets that was not equalled by a similar decline in the interest rates on our deposits. The large majority of our deposits are fixed term deposits versus demand deposits and therefore interest rates on our deposits reset more slowly than on our interest earning assets. This situation was rectified during the year as we were able to reprice our floating rate loans and replace the high interest rate deposits in the fourth quarter as noted above. Additional factors in the reduced spread were additional liquidity held during the year due to market conditions and increased interest expense on account of the new Series C and short term notes payable issued during the year.

Non-Interest Expenses

Non-interest expenses for the quarter were \$4.4 million compared to \$3.3 million a year ago and for the year ending October 31, 2009 were \$15.0 million compared to \$14.0 million last year. The increase in non-interest expenses for the quarter compared to a year ago was in salaries and benefits which increased due to additional staff being hired and annual salary adjustments and in general and administrative expenses which increased due to volume related expenses and higher amounts for capital taxes and consulting and professional fees. The increase in non-interest expenses for the year was primarily in general and administrative expenses which increased due to volume related expenses and higher amounts for capital taxes and consulting and professional fees.

Income Taxes

The Corporation's statutory federal and provincial income tax rate is approximately 32% compared to 33% last year with the difference due to reductions in future years' rates which were substantively enacted in the previous year. However, the Corporation's effective rate was impacted by non-taxable dividend income earned on preferred shares in our securities portfolio and the tax benefit on losses in the parent company not being recorded for accounting purposes. In addition during the fourth quarter the effective income tax rate was negatively impacted when the Corporation recorded in the income tax provision an adjustment of \$606,000 relating to the future income tax asset in the Bank. These items resulted in an effective tax rate of 18% for the year and an income tax recovery of \$2.2 million compared to an effective tax rate of 13% and an income tax recovery of \$2.9 million last year.

At October 31, 2009, the Corporation had a future income tax asset of \$11.3 million which is primarily a result of income tax losses in the Bank from the current and previous periods, the benefit of which was recorded at the time. This amount compares to \$11.0 million a year ago with the increase due to operating losses of the Bank over the past year and the impact of the general provision for credit losses, partially offset by changes in the market value of preferred shares which are deducted for income tax purposes. The income tax loss carryforwards in the Bank are not scheduled to begin expiring until 2027 if unutilized.

As noted, a significant portion of the future income tax asset relates to income tax losses in the Bank caused primarily by declines in the market value of preferred shares, being primarily those of Canadian banks and insurance companies and operating losses of the Bank over the last two years. The ultimate realization of the future income tax asset cannot be determined with certainty, however management is of the opinion that it is more likely than not that the Bank will be able to realize the future income tax asset in future years. The realization of the future income tax asset is dependent upon the Bank being able to generate taxable income sufficient to offset these income tax losses. The ability to generate sufficient taxable income may be dependent upon the Bank generating income from operations or on converting non-taxable income sources to taxable income sources during the carry-forward period. It is also dependent upon the market value of the preferred shares recovering in value as they are carried at market value for income tax purposes with mark-to-market adjustments being added to or deducted from taxable income. At October 31, 2009, these preferred shares traded at a value approximately \$16.4 million below their amortized cost, increasing from a value of \$17.6 million below their amortized cost at July 31, 2009 and a value of \$21.1 million below their amortized cost at October 31, 2008, reflecting improvements in market conditions in the financial services industry.

Balance Sheet

Total assets at October 31, 2009, were \$1.4 billion compared to \$1.5 billion a year ago. The decrease from a year ago was primarily in mortgages and loans which totalled \$930 million compared to \$1.1 billion a year ago. This decrease was partially offset by an increase in cash and securities which increased to \$448 million from \$371 million a year ago.

Cash and Securities

Cash and securities, which are held for liquidity management purposes and to earn investment income, totalled \$448 million compared to \$371 million a year ago with the increase due to a higher level of liquidity maintained as a result of market conditions. Securities typically consist of Government of Canada and Canadian provincial bonds and corporate debt and preferred shares. Over the past quarter, the Corporation redeployed some of its holdings of excess cash into highly liquid corporate debt in order to earn increased returns on its securities portfolio while still maintaining strong credit quality. The Corporation expects that increased holdings of corporate bonds will result in an overall increase in net interest income and spread in the coming months. 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 market instabilities.

Included in corporate debt is an investment in a collateral debt obligation (CDO) with an amortized cost of \$6.1 million and a fair value based on external valuation models of \$564,000. During the previous year, the Corporation reclassified the CDO from the available-for-sale category to the held-to-maturity category. This reclassification was based on the view that carrying the investment at amortized cost was more appropriate given the lack of verifiable inputs for the valuation model being used to determine fair value and the Corporation's intention to hold the investment to maturity. This CDO was arranged by a major Canadian bank, is secured by corporate credits and matures in 2013.

At October 31, 2009, the net unrealized loss in our securities portfolio was \$17.9 million compared to a net unrealized loss of \$22.0 million a year ago. These amounts are recorded net of income taxes in Accumulated Other Comprehensive Income (Loss). The decrease in the net unrealized loss from the end of the previous year is related primarily to increases in the market value of the Corporation's investments in the preferred shares of major Canadian banks and insurance companies. With the exception of the value of the CDO, the fair values of all securities are based on market values as all of the remaining securities we own are publicly traded.

The Corporation's holdings of equity securities, consisting primarily of major Canadian banks and insurance companies' preferred shares, are subject to market fluctuations and at October 31, 2009, traded at a value approximately \$16.4 million below their amortized cost compared to \$17.6 million below amortized cost at the end of the previous quarter and \$21.1 million below amortized cost a year ago. The Corporation intends to hold these securities until a recovery in value is achieved. The preferred shares have provisions that will allow the issuer to redeem them at various dates commencing over the years 2010 to 2013; however, there is no promise or legal requirement for the issuers to redeem these shares on those dates. Further recovery in their market values is dependent upon future market conditions or the ultimate future redemption of the shares by the issuers. Management is of the opinion that it is likely that these preferred shares will be redeemed by the issuers at their redemption dates.

Mortgages and Loans

Mortgages and loans totalled \$930 million at the end of the year compared to \$1.1 billion a year ago with the decrease being primarily in insured residential mortgages partially offset by increases in high quality commercial mortgages. As noted previously, the Corporation has maintained its focus on low risk lending and investing opportunities, continuing to provide financing to public sector entities and high quality corporate borrowers. New lending in the year totalled \$431 million compared to \$471 million last year and for the year, loan repayments totalled \$613 million compared to \$356 million last year. The amounts for new lending and loan repayments in the current year include the purchase and sale of insured mortgage pools which were sold primarily for liquidity and capital management purposes. As a result of economic conditions over the past year, the Corporation saw a slowdown in new lending particularly in its residential construction portfolio in the geographic areas in which the Corporation operates. However the Corporation is now seeing increases in the demand for financing in its niche markets and expects to see increases in new lending in the coming months.

Credit Quality

Gross impaired loans at the end of the year totalled \$6.4 million or 0.45% of total assets compared to \$11.3 million or 0.70% of total assets at the end of the previous quarter and \$7.8 million or 0.52% of total assets a year ago. Impaired loans at October 31, 2009 decreased from the previous quarter and from a year ago as a result of property foreclosed on settlement of loans, no longer being impaired at year end. The remaining impaired loans consist primarily of loans totalling \$3.5 million to individuals who invested in provincially sponsored immigrant investor funds and which have been classified as impaired.

Specific provisions for credit losses for the year totalled \$260,000 compared to \$336,000 a year ago. In addition, as noted previously, like other financial institutions in the industry, the Corporation reviewed its assumptions and methodology for estimating its loan allowance and as a result of this review, and after taking into account other industry factors, a decision was made to increase its general allowance. As a result, during the fourth quarter, the Corporation recorded an increase of approximately \$3.1 million in its general allowance bringing its total general provision for credit losses to \$3.2 million for the year. At October 31, 2009, the Corporation's general allowance totalled \$8.4 million. At this level the Corporation is of the view that any credit losses which exist in its loan portfolio but cannot be specifically identified at this time are adequately provided for.

Other Assets

Other assets totalled \$33.8 million at the end of the year compared to \$30.7 million a year ago. Included in other assets is the future income tax asset of the Bank totalling \$11.3 million referred to previously and the Corporation's investment in Discovery Air Inc. (DA) which is accounted for as an available-for-sale asset and carried at market value. At October 31, 2009, the investment in DA had a carrying value of \$2.6 million compared to \$3.5 million a year ago with the change due to a decrease in the investment's market value.

Deposits and Other Liabilities

Deposits are used as a primary source of financing growth in assets and are raised entirely through a well established and well diversified deposit broker network across Canada. Deposits at the end of the year were \$1.2 billion compared to \$1.4 billion a year ago and consist primarily of guaranteed investment certificates. Of these amounts, \$41.0 million or approximately 3% of total deposits were in the form of demand deposits at the end of the year compared to \$20.5 million or approximately 1% of total deposits a year ago, with the remaining deposits having fixed terms.

A second source of financing growth in assets and a source of liquidity is the use of margin lines and securities sold under repurchase agreements. From time to time, the Corporation uses these sources of short term 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 year, the Corporation had approximately \$46 million outstanding related to securities sold under repurchase agreements compared to \$nil a year ago. This amount is included in other liabilities on the Consolidated Balance Sheet.

Notes Payable

Notes payable, net of issue costs, totalled \$77.9 million at October 31, 2009 compared to \$70.4 million a year ago with the increase due to new notes issued over the past year, offset by notes converted into the new Class B Preferred Shares described below. At October 31, 2009, excluding issue costs, notes payable consist of Series C Notes totalling \$55.3 million maturing in 2018, Series A Notes totalling \$2.6 million maturing in 2010 and short term notes totalling \$5.2 million maturing in 2010. Notes payable bear interest at rates ranging from 7.0% to 9.25% per annum. In addition, the Corporation has outstanding subordinated notes payable totalling \$21.5 million issued by the Bank to a third party. These subordinated notes bear interest at 11% and mature in 2019.

Preferred Share Liabilities

On August 31, 2009, the Corporation issued 1,326,558 Class B Preferred Shares with a total value of \$33.2 million less issue costs of \$2.3 million. The issuance of these Class B Preferred Shares was a result of the conversion of Class A Preferred Shares, Series A Notes and Series C Notes. As these Class B Preferred Shares carry certain redemption features and are convertible into common shares of the Corporation, an amount of \$27.9 million, net of issue costs, representing the fair value of the Corporation's obligation to make future payments of principal and interest, and being the most easily measured component, has been classified on the Corporation's Consolidated Balance Sheet as a preferred share liability. In addition, an amount of \$3.0 million, representing the equity element of the Class B Preferred Shares, net of issue costs, has been included in shareholders' equity on the Corporation's Consolidated Balance Sheet.

As the Class B Preferred Shares can be redeemed by the Corporation in 2019 for approximately \$33.2 million, the preferred share liability amount of \$27.9 million will be increased over the remaining term to redemption, until the liability amount is equal to the estimated redemption amount with the increase included in interest expense in the Consolidated Statement of Operations calculated using the effective interest rate of 11.8%.

Liquidity

Pacific & Western Credit Corp., on a non-consolidated basis, is dependant upon the Bank to provide funding for the obligations of the parent company which total approximately \$4.0 million in the coming year. These obligations relate primarily to payments of interest on notes payable and the expected cash portion of dividends on outstanding Class B Preferred Shares. In addition, Pacific & Western Credit Corp. has obligations relating to repayment of notes payable coming due in 2010. The funding for the repayment of these notes is expected to come from the sale of additional Class B Preferred Shares.

Shareholders' Equity

On June 26, 2009, at Special Meetings of the Common Shareholders, Series A Noteholders and Series C Noteholders, a resolution authorizing the creation of Class B Preferred Shares, and resolutions authorizing the conversions of the Series A Notes and Series C Notes into Class B Preferred Shares, were passed. The conversion of Series A Notes into Series C Notes was also authorized. On July 27, 2009, at a Special Meeting of the Class A Preferred Shareholders, a resolution authorizing the conversion of Class A Preferred Shares into Class B Preferred Shares was passed. More information with respect to the amendments described above is available on SEDAR at www.sedar.com.

At the end of the year, shareholders' equity was \$17.5 million compared to \$24.1 million a year ago with the decrease due primarily to the net loss incurred in the year, partially offset by the change in Accumulated Other Comprehensive Income (Loss) and the equity component of the new Class B Preferred Shares. At October 31, 2009, Accumulated Other Comprehensive Income (Loss) was (\$16.3 million) compared to (\$19.1 million) a year ago with the change due primarily to improvements in the market value of preferred shares owned by the Corporation in its securities portfolio.

Common shares outstanding at the end of the year totalled 13,680,412 compared to 13,642,452 a year ago with the change due to common shares issued as part of the dividends on the Class B Preferred Shares. Outstanding common share options totalled 859,033 at the end of the year compared to 1,077,110 a year ago with the decrease due to the expiration of common share options. Our book value per common share at the end of the year was \$0.98 compared to \$1.51 a year ago.

At October 31, 2009, there were 314,572 Class A Preferred Shares outstanding compared to 1,142,556 outstanding a year ago with the decrease due to Class A Preferred Shares converted to the new Class B Preferred Shares. At October 31, 2009, there were 1,326,558 Class B Preferred Shares outstanding.

Updated Share Information

At December 9, 2009, there was no change from October 31, 2009 in the outstanding amount of common shares, Class A Preferred Shares and Class B Preferred Shares. At December 9, 2009 there were 939,033 common share options outstanding with the increase from October 31, 2009 due to additional options being granted.

Capital Management

Total regulatory capital in the Corporation's principal subsidiary, the Bank, was \$128.6 million at the end of the year compared to \$100.7 million at the end of last year with the increase due primarily to additional capital invested in the Bank and increases in the market value of preferred shares of Canadian banks and insurance companies which the Bank holds in its securities portfolio, reduced by operating losses over the past year in the Bank. Regulatory capital includes the after tax effect of unrealized gains and losses of available-for-sale equity securities owned by the Bank.

The Bank's total risk-based capital ratio, which is the ratio of regulatory capital to risk-weighted assets, was 13.84% at the end of the year compared to 11.10% a year ago. The Bank's Tier 1 risk-based capital ratio, which is the ratio of Tier 1 capital to risk-weighted assets, was 9.38% at the end of the year compared to 8.90% a year ago. The Bank's assets-to-capital ratio was 11.20 at the end of the year compared to 15.35 a year ago. See note 9 to the interim consolidated financial statements for more information regarding capital management.

For a period of time during the quarter ended January 31, 2009, the Bank estimated that it had, on a temporary basis, exceeded by a minor amount, the assets-to-capital multiple established by OSFI. This exception took place primarily as a result of a rapid decline in the market value of preferred shares held in the Bank's securities portfolio which are primarily those of major Canadian banks and insurance companies. This decline took place as a result of market volatility versus any credit impairment in the issuers of the securities. In January 2009, the Bank's adherence to this requirement was re-established and has been adhered to since that date.

Summary of Quarterly Results

(thousands of dollars except per share amounts)

	2009				2008			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Results of operations:								
Total interest income								
per financial statements	\$ 21,783	\$ 19,476	\$ 19,338	\$ 18,401	\$ 17,702	\$ 16,022	\$ 18,105	\$ 20,377
Teb adjustment	667	621	701	745	675	679	659	844
Total interest income	22,450	20,097	20,039	19,146	18,377	16,701	18,764	21,221
Yield on assets (%)	5.87%	4.97%	5.38%	5.09%	5.01%	4.79%	5.39%	5.71%
Interest expense	17,698	19,877	18,560	18,013	16,587	15,078	15,820	16,165
Cost of funds (%)	4.63%	4.92%	4.98%	4.79%	4.52%	4.33%	4.54%	4.35%
Net interest income	4,752	220	1,479	1,133	1,790	1,623	2,944	5,056
Net interest margin (%)	1.24%	0.05%	0.40%	0.30%	0.49%	0.46%	0.85%	1.36%
Provision for credit losses	3,183	148	8	110	2,502	242	64	8
Impairment writedowns	-	-	-	-	(11,341)	(3,703)	-	-
Other income (charges)	1,887	507	(275)	(670)	129	139	130	(86)
Total revenue	3,456	579	1,196	353	(11,924)	(2,183)	3,010	4,962
Non-interest expenses	4,405	3,816	3,328	3,418	3,280	3,523	3,441	3,781
Income (loss) before income taxes	(949)	(3,237)	(2,132)	(3,065)	(15,204)	(5,706)	(431)	1,181
Income tax provision (recovery)	1,108	(268)	47	(375)	605	(1,491)	170	645
Net income (loss)	(2,057)	(2,969)	(2,179)	(2,690)	(15,809)	(4,215)	(601)	536
Earnings (loss) per share								
-basic	\$ (0.15)	\$ (0.22)	\$ (0.16)	\$ (0.20)	\$ (1.16)	\$ (0.31)	\$ (0.05)	\$ 0.03
-diluted	\$ (0.15)	\$ (0.22)	\$ (0.16)	\$ (0.20)	\$ (1.16)	\$ (0.31)	\$ (0.05)	\$ 0.03

The financial results for each of the last eight quarters are summarized above. Total interest income increased in the fourth quarter of 2009 as the Corporation was able to redeploy excess liquid assets into higher yielding and high quality corporate bonds resulting in an increase in interest income from securities. Interest income increased over the past three quarters as a result of an increase in interest income on loans as the Corporation was able to reprice its floating rate loans during the year to take into consideration increases in its costs of funds. The improvement in net interest income in the fourth quarter was a result of the above factors as well as a decrease in interest expense on deposits when high interest rate deposits booked last year matured and were replaced by deposits with lower interest rates.

The provision for credit losses increased during the fourth quarter of 2009 primarily as a result of an increase of \$3.1 million in the general allowance for credit losses resulting from the Corporation's review of its assumptions and methodology for estimating its level of general allowances.

Other income (charges) during the past year included mark-to-market adjustments on interest rate swap contracts entered into for interest rate risk management purposes. These amounts were positive adjustments in the third and fourth quarters as a result of changes in interest rates on bankers' acceptances on which the interest on swap agreements are based and the impact of interest rate contracts unwound during the periods. In addition, other income (charges) in the fourth quarter included a gain of \$626,000 being recorded on real estate held for sale.

Non-interest expenses in the third and fourth quarters increased primarily in the categories of salaries and benefits and general and administrative expenses. Salaries and benefits increased in the last quarter as a result of the hiring of additional staff and annual salary adjustments. General and administrative expenses increased in the last two quarters of 2009 due to volume related expenses and higher amounts for capital taxes, consulting and professional fees.

The provision (recovery) for income taxes increased in the fourth quarter of 2009 due primarily to a negative adjustment of \$606,000 related to the future income tax asset of the Bank. The provision (recovery) for income taxes in 2009 is reflective of the Corporation's statutory income tax rate of 32%, adjusted by factors including non-taxable dividend income earned on preferred shares in the Bank's securities portfolio and the tax benefit on losses in the parent company not being recorded for accounting purposes.

Significant Accounting Policies

Significant accounting policies are detailed on pages 56 to 60 of the Corporation's 2008 Annual Report.

Future Change in Accounting Policies

The CICA has announced that public companies will be required to converge Canadian Generally Accepted Accounting Principles with International Financial Reporting Standards (IFRS). For the Corporation, this will take with its fiscal period commencing November 1, 2011.

The Corporation is carrying out a project to identify and evaluate the impact of the transition to IFRS on its consolidated financial statements and develop a plan to complete the transition. This plan includes the following phases; diagnostics, design and planning, implementation and training. The impact of the transition to IFRS on the Corporation's financial statements is not yet determinable.

Risk Management

The risk management policies and procedures of the Corporation are provided in its annual MD&A for the year ended October 31, 2008, and are found on pages 38 to 41 of the Corporation's 2008 Annual Report.

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: December 9, 2009

Forward-Looking Statements

The statements in this management's discussion and analysis that relate to the future are forward-looking statements. By their very nature, forward-looking statements involve inherent risks and uncertainties, both general and specific, many of which are out of our control. Risks exist that predictions, forecasts, projections and other forward-looking statements will not be achieved. Readers are cautioned not to place undue reliance on these forward-looking statements as a number of important factors could cause actual results to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward-looking statements. These factors include, but are not limited to, the strength of the Canadian economy in general and the strength of the local economies within Canada in which we conduct operations; the effects of changes in monetary and fiscal policy, including changes in interest rate policies of the Bank of Canada; the effects of competition in the markets in which we operate; inflation; capital market fluctuations; the timely development and introduction of new products in receptive markets; the impact of changes in the laws and regulations regulating financial services; changes in tax laws; technological changes; unexpected judicial or regulatory proceedings; unexpected changes in consumer spending and savings habits; and our anticipation of and success in managing the risks implicated by the foregoing. For a detailed discussion of certain key factors that may affect our future results, please see page 42 of our 2008 Annual Report.

The foregoing list of important factors is not exhaustive. When relying on forward-looking statements to make decisions, investors and others should carefully consider the foregoing factors and other uncertainties and potential events. The forward-looking information contained in the management's discussion and analysis is presented to assist our shareholders in understanding our financial position and may not be appropriate for any other purposes. Except as required by securities law, we do not undertake to update any forward-looking statement that is contained in this management's discussion and analysis or made from time to time by the Corporation or on its behalf.

PACIFIC & WESTERN CREDIT CORP.**Consolidated Balance Sheet**

(thousands of dollars)

	October 31 2009	October 31 2008
Assets		
Cash resources	\$ 172,297	\$ 207,831
Securities	275,847	163,162
Mortgages and loans	929,831	1,110,807
Other assets	33,750	30,667
	<u>\$ 1,411,725</u>	<u>\$ 1,512,467</u>
Liabilities and Shareholders' Equity		
Deposits	\$ 1,217,136	\$ 1,389,455
Notes payable	77,933	70,405
Other liabilities	71,293	28,476
	<u>1,366,362</u>	<u>1,488,336</u>
Preferred share liabilities	27,892	-
Shareholders' equity		
Share capital	40,226	39,387
Retained earnings (deficit)	(6,454)	3,796
Accumulated other comprehensive income (loss)	(16,301)	(19,052)
	<u>17,471</u>	<u>24,131</u>
	<u>\$ 1,411,725</u>	<u>\$ 1,512,467</u>

PACIFIC & WESTERN CREDIT CORP.

Consolidated Statement of Operations (thousands of dollars)

	<i>for the three months ended</i>		<i>for the year ended</i>	
	October 31 2009	October 31 2008	October 31 2009	October 31 2008
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Interest income				
Interest income on loans	\$ 13,285	\$ 13,582	\$ 56,083	\$ 53,490
Interest and income from securities	8,123	3,225	21,255	15,285
Loan fee income	375	895	1,660	3,431
	<u>21,783</u>	<u>17,702</u>	<u>78,998</u>	<u>72,206</u>
Interest expense				
Deposits and other	14,720	14,973	64,708	59,005
Notes payable	2,430	1,614	8,892	4,646
Preferred share liabilities	548	-	548	-
	<u>17,698</u>	<u>16,587</u>	<u>74,148</u>	<u>63,651</u>
Net interest income	4,085	1,115	4,850	8,555
Provision for credit losses	<u>3,183</u>	<u>2,502</u>	<u>3,449</u>	<u>2,815</u>
Net interest income (loss) after provision for credit losses	902	(1,387)	1,401	5,740
Impairment writedown on securities	-	(11,341)	-	(15,044)
Other income	<u>1,887</u>	<u>129</u>	<u>1,449</u>	<u>312</u>
	<u>2,789</u>	<u>(12,599)</u>	<u>2,850</u>	<u>(8,992)</u>
Non-interest expenses				
Salaries and benefits	1,858	1,552	6,942	7,598
General and administrative	2,030	1,228	5,936	4,475
Premises and equipment	517	500	2,089	1,952
	<u>4,405</u>	<u>3,280</u>	<u>14,967</u>	<u>14,025</u>
Loss before income taxes	(1,616)	(15,879)	(12,117)	(23,017)
Income tax provision (recovery)	<u>441</u>	<u>(70)</u>	<u>(2,222)</u>	<u>(2,928)</u>
Net loss	<u>\$ (2,057)</u>	<u>\$ (15,809)</u>	<u>\$ (9,895)</u>	<u>\$ (20,089)</u>
Basic loss per share	<u>\$ (0.15)</u>	<u>\$ (1.16)</u>	<u>\$ (0.74)</u>	<u>\$ (1.49)</u>
Diluted loss per share	<u>\$ (0.15)</u>	<u>\$ (1.16)</u>	<u>\$ (0.74)</u>	<u>\$ (1.49)</u>
Weighted average number of common shares	<u>13,656,000</u>	<u>13,643,000</u>	<u>13,646,000</u>	<u>13,633,000</u>

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

(thousands of dollars)

	<i>for the three months ended</i>		<i>for the year ended</i>	
	October 31 2009	October 31 2008	October 31 2009	October 31 2008
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Net loss	\$ (2,057)	\$ (15,809)	\$ (9,895)	\$ (20,089)
Other comprehensive income (loss), net of tax:				
Net unrealized gains (losses) on assets held as available-for-sale ⁽¹⁾	(2,345)	(4,960)	1,767	(11,866)
Amount transferred to net loss for hedges ⁽²⁾	-	27	-	190
Amount transferred to net loss for available-for-sale assets ⁽³⁾	377	89	984	(38)
Amount transferred to net loss for impairment writedown on available-for-sale assets ⁽⁴⁾	-	4,782	-	(797)
Other comprehensive income (loss)	(1,968)	(62)	2,751	(12,511)
Total comprehensive income (loss)	<u>\$ (4,025)</u>	<u>\$ (15,871)</u>	<u>\$ (7,144)</u>	<u>\$ (32,600)</u>

(1) Net of income tax benefit (expense) for the three months of \$958 (2008-\$470) and year of (\$721) (2008-\$5,085)

(2) Net of income tax benefit (expense) for the three months of \$nil (2008-(\$21)) and year of \$nil (2008-(\$104))

(3) Net of income tax benefit (expense) for the three months of (\$157) (2008-(\$37)) and year of (\$413) (2008-\$26)

(4) Net of income tax benefit (expense) for the three months of \$nil (2008-(\$362)) and year of \$nil (2008 - \$21)

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>	
	October 31 2009	October 31 2008	October 31 2009	October 31 2008
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Common shares				
Balance, beginning of period	\$ 35,663	\$ 35,704	\$ 35,663	\$ 35,743
Shares issued	-	-	-	288
Shares repurchased	-	(41)	-	(368)
Issued on payment of Class B preferred share dividend	154	-	154	-
Balance, end of period	<u>\$ 35,817</u>	<u>\$ 35,663</u>	<u>\$ 35,817</u>	<u>\$ 35,663</u>
Class A preferred shares				
Balance, beginning of period	\$ 3,545	\$ 3,545	\$ 3,545	\$ 3,545
Converted during the year	(2,484)	-	(2,484)	-
Balance, end of period	<u>\$ 1,061</u>	<u>\$ 3,545</u>	<u>\$ 1,061</u>	<u>\$ 3,545</u>
Class B preferred shares				
Balance, beginning of period	\$ -	\$ -	\$ -	\$ -
Shares issued, net of costs	3,022	-	3,022	-
Balance, end of period	<u>\$ 3,022</u>	<u>\$ -</u>	<u>\$ 3,022</u>	<u>\$ -</u>
Contributed surplus				
Balance, beginning of period	\$ 298	\$ 83	\$ 179	\$ 182
Fair value of stock option transactions (note 6)	28	96	147	622
Repurchase of shares	-	-	-	(625)
Balance, end of period	<u>\$ 326</u>	<u>\$ 179</u>	<u>\$ 326</u>	<u>\$ 179</u>
Retained earnings (deficit)				
Balance, beginning of period	\$ (4,282)	\$ 19,605	\$ 3,796	\$ 24,125
Net loss	(2,057)	(15,809)	(9,895)	(20,089)
Dividends on preferred shares	(115)	-	(355)	(240)
Balance, end of period	<u>\$ (6,454)</u>	<u>\$ 3,796</u>	<u>\$ (6,454)</u>	<u>\$ 3,796</u>
Accumulated other comprehensive income (loss), net of taxes				
Balance, beginning of period	\$ (14,333)	\$ (18,990)	\$ (19,052)	\$ (6,541)
Other comprehensive income (loss)	(1,968)	(62)	2,751	(12,511)
Balance, end of period	<u>\$ (16,301)</u>	<u>\$ (19,052)</u>	<u>\$ (16,301)</u>	<u>\$ (19,052)</u>
Total shareholders' equity	<u>\$ 17,471</u>	<u>\$ 24,131</u>	<u>\$ 17,471</u>	<u>\$ 24,131</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>	
	October 31 2009	October 31 2008	October 31 2009	October 31 2008
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Cash provided by (used in):				
Operations:				
Net loss	\$ (2,057)	\$ (15,809)	\$ (9,895)	\$ (20,089)
Items not involving cash:				
Provision for credit losses	3,183	2,501	3,449	2,815
Impairment writedown on other assets	-	11,341	-	11,341
Stock-based compensation (note 6)	28	96	147	622
Future income tax provision (recovery)	441	(70)	(2,222)	(2,928)
Gain on sale of available-for-sale securities	(4,648)	(3)	(9,970)	(676)
Gain on real estate held for sale	(626)	-	(626)	-
Impairment writedown on securities	-	-	-	3,703
Interest expense on Class B Preferred Shares	154	-	154	-
Change in derivative financial instruments	(1,823)	-	(296)	197
Change in other assets and liabilities	(3,765)	(12,224)	(5,565)	(30,467)
	<u>(9,113)</u>	<u>(14,168)</u>	<u>(24,824)</u>	<u>(35,482)</u>
Investing:				
Purchase of securities	(119,137)	(530,753)	(975,356)	(1,780,775)
Proceeds from sale and maturity of securities	231,055	586,839	876,806	1,935,703
Mortgages and loans	60,426	(155,267)	178,043	(115,316)
	<u>172,344</u>	<u>(99,181)</u>	<u>79,493</u>	<u>39,612</u>
Financing:				
Deposits	(245,352)	215,723	(172,319)	106,699
Notes payable	(7,647)	-	35,893	34,443
Short term financings	46,578	(119,740)	46,578	(49,917)
Proceeds of common shares issued	-	-	-	288
Shares repurchased	-	(40)	-	(993)
Dividends paid	(115)	-	(355)	(240)
	<u>(206,536)</u>	<u>95,943</u>	<u>(90,203)</u>	<u>90,280</u>
Increase (decrease) in cash resources	(43,305)	(17,406)	(35,534)	94,410
Cash resources, beginning of period	<u>215,602</u>	<u>225,237</u>	<u>207,831</u>	<u>113,421</u>
Cash resources, end of period	<u>\$ 172,297</u>	<u>\$ 207,831</u>	<u>\$ 172,297</u>	<u>\$ 207,831</u>
Supplementary cash flow information:				
Interest paid during the period	\$ 33,677	\$ 21,758	\$ 77,598	\$ 65,425
Income taxes paid during the period	\$ -	\$ -	\$ -	\$ 68

PACIFIC & WESTERN CREDIT CORP.
Notes to the interim consolidated financial statements (unaudited)
For the year ended October 31, 2009

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, 2008, 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, 2008.

The risk management policies and procedures of the Corporation relating to credit, liquidity, and market risk are included on pages 38 - 41 in the 2008 annual report and are an integral part of the Interim Consolidated Financial Statements.

2. Securities

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

Included in cash and securities at October 31, 2009 is an investment in a collateral debt obligation (CDO). This CDO, which is classified as held-to-maturity, and matures in 2013, has an amortized cost of \$6.1 million (2008 - \$5.4 million) and a fair value of \$564,000 (2008 - \$1.1 million). Fair value was determined by the use of external valuation models which incorporate observable market parameters. These include observable interest rates, credit spreads and loss expectations. The fair value amount determined based on the above may not ultimately reflect what the Corporation would receive if it were to sell the CDO in the market. The CDO is secured by corporate credits and does not have any direct residential sub-prime exposure.

3. Allowance for credit losses

	<i>for the three months ended</i>				<i>for the year ended</i>			
			October 31,	October			October 31,	October
	General	Specific	2009	31, 2008	General	Specific	2009	31, 2008
(thousands of dollars)	allowance	allowance	Total allowance	Total allowance	allowance	allowance	Total allowance	Total allowance
Balance, beginning of the period	\$ 5,267	\$ 1,041	\$ 6,308	\$ 3,298	\$ 5,212	\$ 830	\$ 6,042	\$ 3,206
Provision for credit losses	3,134	49	3,183	2,502	3,189	260	3,449	2,815
Recoveries	-	43	43	-	-	43	43	21
Balance, end of period	\$ 8,401	\$ 1,133	\$ 9,534	\$ 5,800	\$ 8,401	\$ 1,133	\$ 9,534	\$ 6,042

Gross impaired loans at October 31, 2009 totalled \$6,395,000 (2008 - \$7,791,000). Loans past due but not impaired at October 31, 2009 totalled \$969,000 (2008 - \$248,000). Loans are secured primarily by collateral mortgages against real estate with respect to real estate lending and specific charges against equipment being financed for other lending activities.

4. Notes payable

At October 31, 2009 notes payable, excluding issue costs, consist of Series C Notes totalling \$55.3 million which mature in 2018, Series A Notes totalling \$2.6 million which mature in 2010 and short term notes totalling \$5.2 million which mature in 2010. Notes payable bear interest at rates ranging from 7.0% to 9.25% per annum. In addition, the Corporation has subordinated notes of the Bank totalling \$21.5 million owing to a third party. These subordinated notes bear interest at 11% and mature in 2019.

5. Preferred share liabilities

On August 31, 2009, the Corporation issued 1,326,558 Class B Preferred Shares with a total value of \$33.2 million less issue costs of \$2.3 million. The issuance of these Class B Preferred Shares was a result of the conversion of Class A Preferred Shares, Series A Notes and Series C Notes. As these Class B Preferred Shares carry certain redemption features and are convertible into common shares of the Corporation, an amount of \$27.9 million, net of issue costs, representing the fair value of the Corporation's obligation to make future payments of principal and interest, and being the most easily measured component, has been classified on the Corporation's Consolidated Balance Sheet as a preferred share liability. In addition, an amount of \$3.0 million, representing the equity element of the Class B Preferred Shares, net of issue costs, has been included in shareholders' equity on the Corporation's Consolidated Balance Sheet. As the Class B Preferred Shares can be redeemed by the Corporation in 2019 for approximately \$33.2 million, the preferred share liability amount of \$27.9 million will be increased over the remaining term to redemption, until the liability amount is equal to the estimated redemption amount with the increase included in interest expense in the Consolidated Statement of Operations calculated using the effective interest rate of 11.8%.

6. Shareholders' equity

a. Share capital and contributed surplus:

	Common shares outstanding	Employee Stock Options	
		Number	Weighted- average exercise price
Outstanding, October 31, 2008	13,642,452	1,077,110	\$ 9.02
Granted	-	50,000	5.00
Issued pursuant to Class B Preferred Share dividend	37,960	-	-
Exercised	-	-	-
Expired	-	(268,077)	9.33
Repurchased	-	-	-
Outstanding, end of period	13,680,412	859,033	\$ 8.69

In addition, at October 31, 2009, there were 314,572 (2008-1,142,556) Class A preferred shares outstanding and 1,326,558 Class B preferred shares issued or outstanding.

During the year ended October 31, 2009, the Corporation recognized \$147,000 (2008-\$622,000) 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 2.41% (2008-4.02%), (ii) expected option life of 5 years (2008-5 years), (iii) expected volatility of 45% (2008-30%), and (iv) expected forfeiture rate of 5% (2008-5%). The weighted average fair value of options granted was estimated at \$1.26 (2008-\$3.87) per share.

On June 26, 2009, at Special Meetings of the Common Shareholders, Series A Noteholders and Series C Noteholders, a resolution authorizing the creation of Class B Preferred Shares, and resolutions authorizing the conversions of the Series A Notes and Series C Notes into Class B Preferred Shares, were passed. The conversion of Series A Notes into Series C Notes was also authorized. On July 27, 2009, at a Special Meeting of the Class A Preferred Shareholders, a resolution authorizing the conversion of Class A Preferred Shares into Class B Preferred Shares was passed.

On August 31, 2009, the Corporation issued 1,326,558 Class B Preferred Shares with a total value of \$33.2 million. The issuance of these Class B Preferred Shares was a result of the conversion of Class A Preferred Shares, Series A Notes and Series C Notes. An amount of \$3.0 million, net of issue costs, representing the fair value of the conversion option of the Class B preferred shares has been included in shareholders' equity on the Corporation's consolidated balance sheet.

b. Accumulated other comprehensive income (loss):

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

(thousands of dollars)	October 31 2009	October 31 2008
Net unrealized losses on assets held as available-for-sale	\$ (16,301)	\$ (19,052)
Balance, end of period	\$ (16,301)	\$ (19,052)

Net of income tax benefit of \$6,658,000 (2008 - \$8,165,000).

7. Derivative instruments

At October 31, 2009, the Corporation had outstanding contracts for asset liability management purposes to swap between floating and fixed interest rates with notional amounts totalling \$263,128,000 (2008 - \$241,410,000). 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 \$1,025,000 (2008 - \$18,000), a credit equivalent amount of \$3,799,000 (2008 - \$2,613,000) and a risk-weight of \$760,000 (2008 - \$523,000). As required under the accounting standard relating to hedges, at October 31, 2009, \$17,887,000 (2008 - \$21,327,000) relating to these contracts was included in other liabilities and the offsetting amount included in the carrying values of the assets to which they relate.

8. Commitments and contingencies

The amount of credit related commitments represents the maximum amount of additional credit that the Corporation could be obligated to extend. Under certain circumstances, the Corporation may cancel loan commitments at its option. 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.

(thousands of dollars)		
Loan commitments	\$	109,378
Letters of credit		30,133
	\$	139,511

In the ordinary course of business, the Corporation and its subsidiaries are party to claims or possible claims against it. Management of the Corporation believes that the resolution of any outstanding claims will not be material to the financial position of the Corporation.

In the ordinary course of business, cash and securities are pledged against liabilities and off-balance sheet items. Details of assets pledged are as follows:

(thousands of dollars)	October 31 2009	October 31 2008
Collateral related to derivative contracts	\$ 14,271	\$ 15,867
Collateral related to letters of credit	2,940	2,907
Obligations related to securities sold under repurchase agreements	46,578	-
	<u>\$ 63,789</u>	<u>\$ 18,774</u>

9. Capital Management

a. Overview:

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

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

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

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

b. Assets-to-Capital Multiple:

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

(thousands of dollars)	October 31 2009	October 31 2008
Total assets (on and off-balance sheet)	\$ 1,441,012	\$ 1,545,437
Capital		
Common shares	\$ 95,365	\$ 87,365
Retained earnings	4,588	8,513
Unrealized loss on available-for-sale equity securities	(12,821)	(15,173)
Subordinated debentures	41,500	20,000
Total regulatory capital	<u>\$ 128,632</u>	<u>\$ 100,705</u>
Assets-to-capital ratio	11.20	15.35

For a period of time during the first quarter ended January 31, 2009, the Bank estimated that it had, on a temporary basis, exceeded by a minor amount, the assets-to-capital multiple established by OSFI. This exception took place primarily as a result of a decrease in the market value of preferred shares held in the Bank's securities portfolio and which are primarily those of major Canadian banks and insurance companies. This decrease took place as a result of market volatility versus any credit impairment in the issuers of the securities. In January 2009, the Bank's adherence to this requirement was re-established and has been adhered to since that date.

c. Risk-Based Capital Ratios:

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

In June 2004, the Basel Committee on Banking Supervision released its report entitled "International Convergence of Capital Measurement and Capital Standards: A Revised Framework" (Basel II). The new framework is designed to more closely align regulatory capital requirements with underlying risks by introducing changes in the treatment of credit risk. An explicit new capital charge for operational risk was introduced, as well as increased supervisory review of capital adequacy and expansion of the related public disclosure. The new Basel II Framework was effective November 1, 2007 for Canadian banks.

The Bank's risk-based capital ratios are as follows, using the guidelines under Basel II.

	October 31 2009		October 31 2008	
(thousands of dollars)	Notional/ Drawn Amount	Risk Weighted Balance	Notional/ Drawn Amount	Risk Weighted Balance
Balance sheet assets	\$ 1,410,659	\$ 848,686	\$ 1,513,456	\$ 809,747
Off-balance sheet assets	402,639	63,477	459,977	57,706
Charge for operational risk		16,936		39,698
Total risk-weighted assets		\$ 929,099		\$ 907,151
Regulatory capital		128,632		100,705
Total risk-based capital ratio		13.84%		11.10%
Tier 1 risk-based capital ratio		9.38%		8.90%

10. Subsidiary company information:

The following table presents summary financial information of the Bank:

(thousands of dollars)	October 31 2009	October 31 2008
Cash resources	\$ 170,650	\$ 207,095
Securities	275,847	163,162
Mortgages and loans	929,831	1,110,807
Other assets	34,331	32,392
	<u>\$ 1,410,659</u>	<u>\$ 1,513,456</u>
Deposits	\$ 1,217,136	\$ 1,389,455
Subordinated notes payable	39,946	19,969
Other liabilities	69,925	27,206
	<u>1,327,007</u>	<u>1,436,630</u>
Share capital	95,365	87,365
Retained earnings	4,588	8,513
Accumulated other comprehensive income (loss)	(16,301)	(19,052)
Shareholders equity	<u>83,652</u>	<u>76,826</u>
	<u>\$ 1,410,659</u>	<u>\$ 1,513,456</u>

for the year ended

(thousands of dollars)	October 31 2009	October 31 2008
Interest income	\$ 78,984	\$ 72,176
Interest expense	68,502	61,556
Net interest income	<u>10,482</u>	<u>10,620</u>
Provision for credit losses	3,449	2,836
Net interest income after provision for credit losses	7,033	7,784
Other income (charges)	1,449	(14,769)
Net interest income and other income (charges)	<u>8,482</u>	<u>(6,985)</u>
Non-interest expense	14,630	12,794
Income (loss) before income taxes	(6,148)	(19,779)
Income taxes	(2,223)	(4,838)
Net income (loss)	<u>\$ (3,925)</u>	<u>\$ (14,941)</u>

11. 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 approximately \$1.4 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.

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.

To receive company news releases, please contact:
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