



Pacific & Western

Credit Corp.

Second Quarter Report

April 30, 2010

PACIFIC & WESTERN CREDIT CORP. ANNOUNCES RESULTS FOR ITS SECOND QUARTER ENDED APRIL 30, 2010

SECOND QUARTER SUMMARY

(three months ended April 30, 2010, compared to three months ended April 30, 2009, unless otherwise noted):

- Total revenue (teb) of the Corporation's subsidiary Pacific & Western Bank of Canada (the "Bank") for the quarter ended April 30, 2010 was \$4.0 million compared to \$2.4 million for the same period last year and for the six months ended April 30, 2010 was \$9.4 million compared to \$3.9 million last year.
- Net income (loss) for the Bank for the quarter ended April 30, 2010 was (\$643,000) compared to (\$934,000) for the same period last year and for the six months ended April 30, 2010 was \$35,000 compared to (\$2.4 million) last year.
- Net interest margin or spread (teb) for the Bank improved to 0.92% for the quarter compared to 0.71% for the same period last year and for the six months, improved to 1.26% from 0.65% a year ago.
- Net income (loss) of the Corporation for the quarter ended April 30, 2010 was (\$2.8 million) or (\$0.21) per share ((\$0.21) diluted) compared to (\$2.2 million) or (\$0.16) per share ((\$0.16) diluted) for the same period last year. Prior to the deduction of interest expense relating to dividends on Class B Preferred Shares, net income (loss) of the Corporation for the current quarter was (\$1.6 million).
- Net income (loss) of the Corporation for the six months ended April 30, 2010 was (\$4.2 million) or (\$0.30) per share ((\$0.30) diluted) compared to (\$4.9 million) or (\$0.37) per share ((\$0.37) diluted) for the same period last year. Prior to the deduction of interest expense relating to dividends on Class B Preferred Shares, net income (loss) of the Corporation for the current six month period was (\$2.1 million).
- Credit quality remains strong with gross impaired loans decreasing to \$5.2 million at April 30, 2010 from \$7.8 million a year ago and from \$6.7 million at January 31, 2010.

PRESIDENT'S COMMENTS

Total revenue for our wholly owned subsidiary Pacific & Western Bank of Canada (the "Bank") showed a substantial improvement in the current period over that achieved during the same period last year. Total revenue (teb) for the Bank for the six months ended April 30, 2010 increased to \$9.4 million from \$3.9 million last year. In addition, the Bank's net interest margin or spread (teb) improved in the first six months to 1.26% from 0.65% last year. Net interest income from our lending portfolio continued to increase in the first six months exceeding our half year target, and net interest margin or spread improved to 1.74% for the first six months compared to 1.09% last year. In addition to these net interest income earnings, our lending operations also contributed \$890,000 in gains from securitization activities in the second quarter. The substantial improvement in total revenue and spread from lending operations in the first six months enabled the Bank to earn a modest profit in the period. We expect this increasing spread trend to continue as thinly priced loans (booked prior to the liquidity crisis) repay and are replaced at today's wider spreads.

For the first six months of 2010, results for the Corporation showed a net loss of \$4.2 million, however, before deducting interest expense relating to the dividends on our Class B Preferred Shares which totalled \$2.1 million for the period, net loss for the six months was \$2.1 million compared to \$4.9 million for the same period last year. Other items that impacted the results for the current period were an impairment write-down of \$326,000 on a security and a tax provision of \$503,000 relating to the valuation of our future income tax asset.

With the increasing spreads and net interest income from our lending operations increasing, we expect the profitability of the Bank to increase sufficiently to offset the additional interest expense in the parent company making the way for overall profitability in the coming months.

FINANCIAL HIGHLIGHTS

(unaudited)

	for the three months ended		for the six months ended	
	April 30 2010	April 30 2009	April 30 2010	April 30 2009

(\$ thousands, except per share amounts)

Pacific & Western Bank of Canada

Balance Sheet Summary

Cash and securities	\$ 382,684	\$ 500,676	\$ 382,684	\$ 500,676
Total loans	925,434	1,044,556	925,434	1,044,556
Average loans	935,367	1,080,045	927,633	987,194
Total assets	1,340,650	1,577,736	1,340,650	1,580,541
Deposits	1,192,779	1,417,663	1,192,779	1,417,663
Subordinated notes payable	41,500	40,000	41,500	40,000
Shareholder's equity	79,424	76,775	79,424	76,775

Capital ratios

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

Total regulatory capital	\$ 122,043	\$ 113,838	\$ 122,043	\$ 113,838
Risk weighted assets	923,444	960,424	923,444	960,424
Assets-to-capital ratio	11.23	14.11	11.23	14.11
Tier 1 risk-based capital ratio	8.81%	7.90%	8.81%	7.90%
Total risk-based capital ratio	13.22%	11.85%	13.22%	11.85%

Results of operations (teb)

Net interest income per financial statements	\$ 2,571	\$ 1,951	\$ 7,271	\$ 3,504
Teb adjustment	623	701	1,293	1,446
Net interest income (teb)	3,194	2,652	8,564	4,949
Spread	0.92%	0.71%	1.26%	0.65%
Provision for (recovery of) credit losses	-735	8	-709	118
Other income (charges)	49	-275	80	-845
Total revenue	3,978	2,369	9,353	3,886
Non-interest expenses	4,158	3,255	8,258	6,646
Net income (loss)	-643	-934	35	-2,431
Efficiency ratio	128.1%	136.9%	95.5%	166.0%
Return on average total assets	-0.18%	-0.24%	0.10%	-0.31%
Gross impaired loans to total assets	0.39%	0.49%	0.39%	0.49%
Provision for (recovery of) credit losses as a % of average loans	-0.08%	0.00%	-0.08%	0.01%
Number of full time equivalent staff	55	54	55	54

Pacific & Western Credit Corp., (consolidated)

Results of operations

Net income (loss) for the Bank	\$ (643)	\$ (934)	\$ 35	\$ (2,431)
Deduct interest expense relating to Class B Preferred Shares	(1,187)	-	(2,112)	-
Deduct additional interest expense on notes	(927)	(1,176)	(1,903)	(2,347)
Deduct additional non-interest expenses of the parent	(73)	(69)	(190)	(91)
Net income (loss) for the Corporation	\$ (2,830)	\$ (2,179)	\$ (4,170)	\$ (4,869)
Earnings (loss) per common share:				
Basic	\$ (0.21)	\$ (0.16)	\$ (0.30)	\$ (0.37)
Diluted	\$ (0.21)	\$ (0.16)	\$ (0.30)	\$ (0.37)
Return on average common shareholders' equity	-127.26%	-90.61%	-101.64%	-60.40%

Non-GAAP measures

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

MANAGEMENT'S DISCUSSION AND ANALYSIS OF OPERATIONS AND FINANCIAL CONDITION

This management's discussion and analysis (MD&A) of operations and financial condition for the second quarter of fiscal 2010 should be read in conjunction with the unaudited interim consolidated financial statements for the period ended April 30, 2010, included herein, and the audited consolidated financial statements and MD&A for the year ended October 31, 2009, 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, 2009, remain substantially unchanged.

Overview

Net income (loss) for the Corporation for the quarter ending April 30, 2010 was (\$2.8 million) or (\$0.21) per share ((\$0.21) diluted) and on a year-to-date basis was (\$4.2 million) or (\$0.30) ((\$0.30) diluted). Net income (loss) for the quarter and for the six months was impacted by increased spread on loans and gains totalling \$884,000 from the securitization of mortgages. The results compared to the prior year were negatively impacted by increased amounts relating to dividends on Class B preferred shares which are recorded as interest expense in the consolidated financial statements. Prior to the deduction of dividends relating to the Class B Preferred Shares, net income (loss) for the quarter ending April 30, 2010 was (\$1.6 million) compared to (\$2.2 million) for the same period a year ago and for the six months ended April 30, 2010 was (\$2.1 million) compared to (\$4.9 million) a year ago.

For the Bank, net income (loss) for the quarter was (\$643,000) compared to (\$934,000) for the same period a year ago and for the six months was \$35,000 compared to (\$2.4 million) a year ago. Net income (loss) of the Bank improved from a year ago primarily as a result of an increase in net interest income and spread earned on its lending assets and a reduction in its cost of deposits.

At April 30, 2010, total assets of the Corporation were \$1.35 billion compared to \$1.58 billion a year ago. Lending assets were \$925 million compared to \$1.04 billion a year ago and credit quality remained strong with gross impaired loans decreasing to \$5.2 million at April 30, 2010 from \$7.8 million a year ago. At the end of the quarter, the ratio of gross impaired loans as a percentage of total assets was 0.39% compared to 0.49% a year ago.

Total Revenue (teb)

Total revenue (teb) of the Corporation, which is comprised of net interest income after the provision for credit losses and other income (charges), was \$1.9 million for the quarter compared to \$1.2 million for the same period a year ago and for the six months was \$5.4 million compared to \$1.5 million for the same period last year.

For the Bank, total revenue (teb), was \$4.0 million for the quarter and \$9.4 million for the six months compared to \$2.4 million for the same quarter last year and \$3.9 million for the six month period in the previous year. The increase in total revenue (teb) was due to improvements in the spread earned on lending assets and a decrease in the Bank's cost of deposits. In addition, total revenue during the quarter ended April 30, 2010, was positively impacted by gains totalling \$884,000 from the securitization of mortgages. This item is included in Other Income (charges) in the Consolidated Statement of Operations.

Net Interest Income

Net interest income (teb) of the Corporation was \$1.1 million for the quarter and \$4.6 million for the six months ended April 30, 2010. Prior to deducting the interest expense relating to the dividends on the Class B Preferred Shares, net interest income for the quarter was \$2.3 million and \$6.7 million for the six months. This is in comparison to net interest income of \$1.5 million and \$2.6 million respectively for the same periods last year. As noted above, the improvement from the previous year was a result of improvements in the spread earned on lending assets and a decrease in the cost of deposits.

Net interest margin or spread (teb) for the Bank, which is net interest income as a percentage of average assets, increased to 0.92% for the quarter from 0.71% for the same period a year ago and for the six months was 1.26% compared to 0.65% a year ago. The improvement in the current quarter and six months from the same periods a year ago was due primarily to an increase in interest income from loans and a decrease in the Bank's cost of deposits. Income from loans includes loan fees totalled \$856,000 for the quarter and \$2.1 million for the six months compared to \$197,000 and \$774,000 for the same periods a year ago. The increase in loan fees reflects increasing lending activity and new loan commitments in the first two quarters which should result in increased loan fundings in the coming months. Interest expense on deposits decreased in the current quarter as a result of a large amount of deposits which matured over the past year that were replaced with deposits with lower interest rates. The maturing deposits had been booked during 2008 when interest rates on deposits were significantly higher.

Non-Interest Expenses

Non-interest expenses for the Corporation were \$4.3 million for the second quarter and \$8.5 million for the six months. This is in comparison to \$3.3 million and \$6.7 million respectively for the same periods a year ago. The increase in non-interest expenses for the quarter and six months compared to a year ago was in salaries and benefits which increased due to salary adjustments over the past year, as well as 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 31% compared to 32% last year with the difference due to changes in enacted statutory income tax rates. The Corporation's effective rate is impacted by non-taxable dividend income earned on preferred shares held in its securities portfolio and the tax benefit on operating losses in the parent company not being recorded for accounting purposes. These items resulted in an effective tax rate of 5.4% for the quarter and 5.3% for the six months. For the quarter and six months, the Corporation's provision for income taxes was a recovery of \$160,000 and \$233,000 respectively. Included in the income tax recovery in the current quarter was a provision of \$503,000 which was required as a result of changes in corporate income tax rates and the expected timing of when the Bank expects to realize on the future income tax asset.

At April 30, 2010, the future income tax asset of the Bank was \$13.8 million and is primarily a result of income tax losses from previous periods, the benefit of which was recorded in those periods. This amount compares to \$15.2 million a year ago with the decrease due to changes in the market value of preferred shares which are deducted for income tax purposes, partially offset by operating losses of the Bank over the past year. The income tax loss carry forwards in the Bank are not scheduled to begin expiring until 2027 if unutilized.

The income tax losses in the Bank which gave rise to the future income tax asset were 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. 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 April 30, 2010, these preferred shares traded at a value of \$16.7 million below their amortized cost compared to \$16.4 million below their amortized cost at October 31, 2009 and \$25.3 million below their amortized cost a year ago, reflecting improvements in market conditions in the financial services industry and in the global economy.

Balance Sheet

Total assets at April 30, 2010, were \$1.35 billion compared to \$1.58 billion a year ago. Mortgages and loans were \$925 million at April 30, 2010 compared to \$1.04 billion a year ago. The decrease in mortgages and loans from a year ago was due primarily to the sale of insured mortgages and scheduled repayments of loans. Cash and securities at April 30, 2010 were \$394 million compared to \$503 million a year ago.

Cash and Securities

Cash and securities, which are held for liquidity management purposes and to earn investment income, totalled \$394 million at the end of the quarter compared to \$503 million a year ago with the decrease due to lower levels of cash being held at the end of the current quarter as deposit maturities in the coming months are less than what they were at this time last year. At this time last year, the high levels of deposits scheduled to mature in the following months resulted in the Corporation taking the prudent action of increasing its level of liquid assets to act as a buffer in the event of potential market disruptions affecting its deposit taking activities. Securities in the Corporation's treasury portfolio typically consist of Government of Canada and Canadian provincial bonds and corporate debt and preferred shares.

At April 30, 2010, the net unrealized loss in the Corporation's securities portfolio was \$19.3 million compared to a net unrealized loss of \$23.9 million a year ago. These amounts are recorded net of income taxes in Accumulated Other Comprehensive Income (Loss). The fair values of securities held in our treasury portfolio are based on market values as all of the securities the Corporation owns are publicly traded. During the current quarter, the Corporation recorded an impairment charge of \$326,000 relating to a security in its treasury portfolio as its market value had traded below the Corporation's amortized cost for an extended period of time. The Corporation is of the view that the unrealized losses in the

other securities it owns do not represent other than temporary declines in value and impairment writedowns are not required at this time.

The Corporation's holdings of equity securities, consisting primarily of major Canadian banks and insurance companies' preferred shares, traded at a value of \$16.7 million below their amortized cost at April 30, 2010 compared to \$16.4 million below their amortized cost at October 31, 2009 and \$25.3 million below their 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 \$925 million at April 30, 2010 compared to \$1.04 billion a year ago with the decrease being primarily in insured residential mortgages which were securitized in the quarter and public sector loans, partially offset by increases in high quality commercial mortgages. New lending in the second quarter totalled \$95 million bringing total new lending for the first six months to approximately \$189 million compared to \$294 million for the first six months last year. Loan repayments for the second quarter totalled \$110 million bringing total loan repayments to \$184 million for the first six months. As noted previously and as evidenced by the increase in loan fee income compared to a year ago, the Corporation is 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 quarter totalled \$5.2 million or 0.39% of total assets compared to \$7.8 million or 0.49% of total assets a year ago. Gross impaired loans decreased as a result of impaired loans totalling \$3.3 million being written off in the second quarter against allowances in the same amount. Gross impaired loans at April 30, 2010 consist primarily of loans totalling \$2.6 million to individuals who invested in provincially sponsored immigrant investor funds.

Provisions for (recovery of) credit losses in the second quarter totalled (\$735,000) compared to \$8,000 a year ago and for the first six months were (\$701,000) compared to \$118,000 a year ago. The recovery of credit losses recorded in the second quarter relates to a reduction in the amount of the Corporation's total general allowance based on the level of loans and the results of the Corporation's general allowance model at April 30, 2010. The Corporation's general allowance totalled \$4.3 million and 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 \$31.0 million at April 30, 2010 compared to \$32.8 million a year ago. Included in other assets is the future income tax asset of the Bank totalling \$13.8 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 April 30, 2010, the investment in DA had a carrying value of \$2.7 million compared to \$2.0 million a year ago. Other items classified in other assets include capital assets and prepaid expenses.

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 second quarter were \$1.2 billion compared to \$1.4 billion a year ago, and consist primarily of guaranteed investment certificates. Of these amounts, \$46.4 million or approximately 3.9% of total deposits at the end of the quarter were in the form of demand deposits compared to \$38.5 million or approximately 2.7% 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 second quarter, the Corporation did not have any amounts outstanding relating to securities sold under repurchase agreements or margin lines nor were any amounts outstanding at the same date last year.

Notes Payable

Notes payable, net of issue costs, totalled \$75.6 million at April 30, 2010 compared to \$103.7 million a year ago with the decrease due to notes converted into Class B Preferred Shares in August 2009 and the repayment of the Corporation's Series A Notes which matured in April 2010, offset slightly by new notes issued over the past year. Excluding issue costs, notes payable consist of Series C Notes totalling \$55.3 million maturing in 2018 and short term notes totalling \$5.2 million maturing in 2010. Notes payable bear interest at rates ranging from 7.0% to 9.00% 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%, are callable by the Bank, and mature in 2019.

Preferred Share Liabilities

At April 30, 2010 the Corporation had 1,909,458 Class B Preferred Shares outstanding with a total value of \$44.8 million, net of issue costs of \$2.8 million. As these Class B Preferred Shares carry certain redemption features and are convertible into common shares of the Corporation, an amount of \$40.5 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 \$4.3 million, representing the equity portion 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 may be redeemed by the Corporation in 2019 for \$47.7 million, the preferred share liability amount of \$40.5 million will be adjusted over the remaining term to redemption, until the amount is equal to the estimated redemption amount with the increase included in interest expense in the Consolidated Statement of Operations calculated using an effective interest rate of 11.8%.

Liquidity

At April 30, 2010, Pacific & Western Credit Corp., on a non-consolidated basis, has sufficient funds on hand to meet its cash obligations due in the coming year. These obligations relate primarily to notes coming due in 2010, payments of interest on notes payable and the expected cash portion of dividends on outstanding Class B Preferred Shares. The funding for the obligations of the Corporation beyond 2010 is expected to come primarily from the sale of additional Class B Preferred Shares or common shares and from the Bank.

Shareholders' Equity

At April 30, 2010, shareholders' equity was \$11.4 million compared to \$13.5 million a year ago with the decrease due primarily to the net loss incurred since last year. Accumulated Other Comprehensive Income (Loss) was (\$14.6 million) compared to (\$18.7 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 April 30, 2010 totalled 13,983,972 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 931,933 at the end of the quarter compared to 895,401 a year ago with the change due to additional common share options granted in the quarter and common share options which expired during 2009. The Corporation's book value per common share at the end of the quarter was \$0.44 compared to \$0.93 a year ago.

At April 30, 2010, there were 314,572 Class A Preferred Shares outstanding compared to 1,142,556 a year ago with the change due to Class A Preferred Shares that were converted to Class B Preferred Shares. At April 30, 2010, there were 1,909,458 Class B Preferred Shares outstanding compared to 1,326,558 outstanding at October 31, 2009 with the increase due to 582,900 Class B Preferred Shares being issued with 128,400 of these being issued in the second quarter.

Updated Share Information

As at June 1, 2010, there were no changes in the number of outstanding common shares, common share options, Class A or Class B Preferred Shares since April 30, 2010.

Amendment of Financial Statements

Opening retained earnings (deficit) for the quarter ending April 30, 2010 and for the six months then ended have been restated to reflect an amendment to the Corporation's earnings for the year ended October 31, 2008 as a result of a change in accounting policy with respect to the separation of an embedded derivative contained in a collateral debt obligation (CDO), an investment in the Corporation's securities portfolio. This change in accounting policy has been applied retrospectively to November 1, 2006 and was a result of a commentary issued by the CICA Accounting Standards Board Staff in February of 2009 clarifying application of Section 3855 - *Financial Instruments* of the CICA Handbook and reflecting the conclusions of the commentary.

As a result of the above, opening Retained Earnings (deficit) of the Corporation for the six months ended April 30, 2010 has been adjusted from (\$6.5 million) to (\$12.4 million) and Accumulated Other Comprehensive Income (Loss) has been adjusted from (\$16.3 million) to (\$13.2 million). The overall impact to total Shareholders' Equity as a result of the above was a decrease of approximately \$2.8 million.

For more information on the amendment of the financial statements, see Note 2 to consolidated financial statements.

Subsequent Event

On May 17, 2010, the Corporation announced that it plans to raise up to \$15 million through the issuance of additional Class B Preferred Shares, Common Shares, or a combination of both, by way of a short form prospectus. A decision as to what securities to offer under the prospectus will be made by the Corporation prior to filing the preliminary prospectus.

Capital Management

Total regulatory capital in the Corporation's principal subsidiary, the Bank, was \$122.0 million at the end of the quarter compared to \$113.8 million a year ago with the change due primarily to increases in the market value of preferred shares of Canadian banks and insurance companies which the Bank holds in its securities portfolio and subordinated notes issued in 2009 offset by operating results of the Bank since last year. 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 13.22% at the end of the quarter compared to 11.85% 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 8.81% at the end of the quarter compared to 7.90% a year ago. The Bank's assets-to-capital ratio was 11.23 at the end of the quarter compared to 14.11 a year ago.

See note 11 to the interim consolidated financial statements for more information regarding capital management.

Summary of Quarterly Results

(thousands of dollars except per share amounts)

	2010				2009		2008	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4*	Q3*
Results of operations:								
Total interest income								
per financial statements	\$ 13,976	\$ 17,047	\$ 21,783	\$ 19,476	\$ 19,338	\$ 18,401	\$ 17,702	\$ 16,022
Teb adjustment	623	669	667	621	701	745	675	679
Total interest income	14,599	17,716	22,450	20,097	20,039	19,146	18,377	16,701
Yield on assets (%)	4.27%	4.91%	5.87%	4.97%	5.38%	5.09%	5.01%	4.79%
Interest expense	13,512	14,244	17,698	19,877	18,560	18,013	16,587	15,078
Cost of funds (%)	3.96%	3.95%	4.63%	4.92%	4.98%	4.79%	4.52%	4.33%
Net interest income	1,087	3,472	4,752	220	1,479	1,133	1,790	1,623
Net interest margin (%)	0.31%	0.96%	1.24%	0.05%	0.40%	0.30%	0.49%	0.46%
Provision for (recovery of) credit losses	(735)	34	3,183	148	8	110	2,502	242
Impairment writedowns	(326)	-	-	-	-	-	(11,341)	(3,703)
Other income (charges)	388	29	1,887	507	(275)	(670)	(3,912)	(8,408)
Total revenue	1,884	3,467	3,456	579	1,196	353	(15,965)	(7,027)
Non-interest expenses	4,251	4,211	4,405	3,816	3,328	3,418	3,280	3,523
Income (loss) before income taxes	(2,367)	(744)	(949)	(3,237)	(2,132)	(3,065)	(19,245)	(10,550)
Income tax provision (recovery)	463	596	1,108	(268)	47	(375)	(728)	3,090
Net income (loss) *	\$ (2,830)	\$ (1,340)	\$ (2,057)	\$ (2,969)	\$ (2,179)	\$ (2,690)	\$ (18,517)	\$ (7,460)
Earnings (loss) per share								
-basic	\$ (0.21)	\$ (0.10)	\$ (0.15)	\$ (0.22)	\$ (0.16)	\$ (0.20)	\$ (1.36)	\$ (0.55)
-diluted	\$ (0.21)	\$ (0.10)	\$ (0.15)	\$ (0.22)	\$ (0.16)	\$ (0.20)	\$ (1.36)	\$ (0.55)

* Restated for Q3 and Q4 of 2008; see Note 2 to consolidated financial statements "Amendment to Financial Statements"

The financial results of the Corporation for each of the last eight quarters are summarized above. Total interest income (teb) decreased in the second quarter of 2010 compared to the previous quarter and the quarters in 2009. In the previous quarters the Corporation earned higher levels of income from loans and securities primarily due to increased levels of loans fees and securities being sold for liquidity purposes resulting in gains on sale. The cost of funds for the second quarter was comparable to the first quarter of 2010 and decreased from the previous quarters in 2009 as a result of a decrease in interest expense on deposits when high interest rate deposits booked in the previous year matured and were replaced by deposits with lower interest rates.

The provision for credit losses showed a net recovery of \$735,000 in the second quarter of 2010 due primarily to a recovery in the Corporation's total general allowance based on the level of loans and the results of the Corporation's general allowance model at April 30, 2010. 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) in the second quarter of 2010 included a gain of \$884,000 on securitization of insured mortgages which were sold in the quarter. In previous quarters, other income (charges) 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 of 2009 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 of 2009 included a gain of \$626,000 being recorded on real estate held for sale.

Non-interest expenses in the first and second quarters of 2010 were comparable with previous quarters and increased from a year ago primarily in the categories of salaries and benefits and general and administrative expenses. Salaries and benefits increased over last year as a result of annual salary adjustments. General and administrative expenses increased from a year ago due to volume related expenses and higher amounts for capital taxes, consulting and professional fees.

The income tax provision (recovery) in the second quarter of 2010 included a provision of \$503,000 related to the future income tax asset of the Bank. The provision (recovery) for income taxes is reflective of the Corporation's statutory income tax rate of 31%, 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 58 to 61 of the Corporation's 2009 Annual Report. An additional accounting policy for the six months ended April 30, 2010 relating to securitizations is as follows:

Securitization transactions

For each securitization transaction, where the Corporation retains the servicing rights, an asset is recognized as securitization retained interests on the Consolidated Balance Sheet. Securitization retained interests are investments classified as available-for-sale securities and are carried at fair value with changes in fair value reported in other comprehensive income, net of income taxes.

When mortgages are sold in a securitization transaction under terms that transfer control to third parties, the transaction is recorded as a sale and related mortgage assets are removed from the Consolidated Balance Sheet. In the securitization transaction, certain interests are retained, including the right to receive the future excess interest spread and the mortgage servicing obligation. The servicing liability is included in other liabilities. A gain or loss on the sale of mortgages is recognized immediately in the Consolidated Statement of Operations. The amount of the gain or loss recognized depends in part on the previous carrying amount of the mortgages involved in the transfer, allocated between the assets sold and the retained interests based on their relative fair values at the date of transfer. To obtain fair values, the Corporation uses estimates based on estimates of key assumptions including prepayment rates and discount rates commensurate with the risks involved.

Future Change in Accounting Policies

International Financial Reporting Standards

The Canadian Institute of Chartered Accountants has announced that public companies will be required to transition from Canadian Generally Accepted Accounting Principles (GAAP) to International Financial Accounting Standards (IFRS). For the Corporation, this will take place with its fiscal period commencing November 1, 2011. This transition date will require the restatement for comparative purposes of amounts reported by the Corporation for the interim periods and for the year ending October 31, 2011.

The Corporation continues its process of transition from current Canadian GAAP to IFRS. It has a project team assigned to plan for and achieve a smooth transition to IFRS. Regular process reporting to the Audit Committee of the Board of Directors on the status of the IFRS implementation continues to take place. The Corporation also provides frequent updates of its IFRS implementation status to its external auditors and to the Office of the Superintendent of Financial Institutions (OSFI).

The implementation project consists of three phases which include: research, diagnostic and planning phase; impact analysis, evaluation and design phase; and implementation, training and review phase. The Corporation has completed the research, diagnostic and planning phase, including the establishment of a detailed timetable with benchmarks, and has completed several aspects of the impact analysis, evaluation and design phase. The Corporation expects to complete the impact analysis, evaluation and design phase by the end of fiscal 2010. The results thus far of the Corporation's analysis of IFRS and comparison with Canadian GAAP have identified several differences. However the differences identified thus far are not expected to have a material impact on the reporting results and financial position of the Corporation other than those differences relating to derecognition on transfers of certain financial assets as discussed below. The impact of these differences is not known at this time as it is dependant on the value of financial assets transferred.

Certain financial assets that previously qualified for derecognition on transfer are expected to be re-recognized under IFRS. This would result in an adjustment to retained earnings intended to unwind the previously reported impact of all securitization transactions the Corporation has undertaken and retroactively re-recognize the assets that were previously considered to have been sold as amortizing assets that continue to reside on the Corporation's Consolidated Balance Sheet, earning spread income over their term.

As the Corporation prepares for its transition to IFRS, it continues to monitor ongoing changes to IFRS and adjust its transition and implementation plans accordingly. The Corporation's transition remains in line with its implementation schedule and is on track to meet the timelines essential to changeover.

Risk Management

The risk management policies and procedures of the Corporation are provided in its annual MD&A for the year ended October 31, 2009, and are found on pages 40 to 43 of the Corporation's 2009 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: June 1, 2010

Forward-Looking Statements

The statements in this management's discussion and analysis that relate to the future are forward-looking statements. By their very nature, forward-looking statements involve inherent risks and uncertainties, both general and specific, many of which are out of our control. Risks exist that predictions, forecasts, projections and other forward-looking statements will not be achieved. Readers are cautioned not to place undue reliance on these forward-looking statements as a number of important factors could cause actual results to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward-looking statements. These factors include, but are not limited to, the strength of the Canadian economy in general and the strength of the local economies within Canada in which we conduct operations; the effects of changes in monetary and fiscal policy, including changes in interest rate policies of the Bank of Canada; the effects of competition in the markets in which we operate; inflation; capital market fluctuations; the timely development and introduction of new products in receptive markets; the impact of changes in the laws and regulations regulating financial services; changes in tax laws; technological changes; unexpected judicial or regulatory proceedings; unexpected changes in consumer spending and savings habits; and our anticipation of and success in managing the risks implicated by the foregoing. For a detailed discussion of certain key factors that may affect our future results, please see pages 43 and 44 of our 2009 Annual Report.

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

PACIFIC & WESTERN CREDIT CORP.

Consolidated Balance Sheet

(thousands of dollars)

	April 30 2010	October 31 2009	April 30 2009
	(unaudited)	(restated-note 2)	(unaudited) (restated-note 2)
Assets			
Cash resources	\$ 49,059	\$ 172,297	\$ 231,098
Securities	344,683	271,660	272,074
Mortgages and loans	925,434	929,831	1,044,556
Other assets	31,042	35,132	32,788
	<u>\$ 1,350,218</u>	<u>\$ 1,408,920</u>	<u>\$ 1,580,516</u>
Liabilities and Shareholders' Equity			
Deposits	\$ 1,192,779	\$ 1,217,136	\$ 1,417,663
Notes payable	75,567	77,933	103,647
Other liabilities	29,917	71,293	45,740
	<u>1,298,263</u>	<u>1,366,362</u>	<u>1,567,050</u>
Preferred share liabilities	40,537	27,892	-
Shareholders' equity			
Share capital	42,672	40,226	39,451
Retained earnings (deficit)	(16,644)	(12,407)	(7,266)
Accumulated other comprehensive income (loss)	(14,610)	(13,153)	(18,719)
	<u>11,418</u>	<u>14,666</u>	<u>13,466</u>
	<u>\$ 1,350,218</u>	<u>\$ 1,408,920</u>	<u>\$ 1,580,516</u>

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

	<i>for the three months ended</i>		<i>for the six months ended</i>	
	April 30 2010	April 30 2009	April 30 2010	April 30 2009
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Interest income				
Interest income on loans	\$ 10,730	\$ 15,512	\$ 21,829	\$ 30,630
Interest and income from securities	2,390	3,629	7,086	6,335
Loan fee income	856	197	2,108	774
	<u>13,976</u>	<u>19,338</u>	<u>31,023</u>	<u>37,739</u>
Interest expense				
Deposits and other	10,286	16,440	21,449	32,773
Notes payable	2,039	2,120	4,195	3,800
Preferred share liabilities	1,187	-	2,112	-
	<u>13,512</u>	<u>18,560</u>	<u>27,756</u>	<u>36,573</u>
Net interest income	464	778	3,267	1,166
Provision for (recovery of) credit losses	<u>(735)</u>	<u>8</u>	<u>(701)</u>	<u>118</u>
Net interest income after provision for credit losses	1,199	770	3,968	1,048
Other income (charges)	62	(275)	91	(945)
	<u>1,261</u>	<u>495</u>	<u>4,059</u>	<u>103</u>
Non-interest expenses				
Salaries and benefits	1,813	1,685	3,669	3,341
General and administrative	1,932	1,092	3,789	2,323
Premises and equipment	506	551	1,004	1,082
	<u>4,251</u>	<u>3,328</u>	<u>8,462</u>	<u>6,746</u>
Loss before income taxes	(2,990)	(2,833)	(4,403)	(6,643)
Income tax recovery	<u>(160)</u>	<u>(654)</u>	<u>(233)</u>	<u>(1,774)</u>
Net loss	\$ (2,830)	\$ (2,179)	\$ (4,170)	\$ (4,869)
Basic loss per share	<u>\$ (0.21)</u>	<u>\$ (0.16)</u>	<u>\$ (0.30)</u>	<u>\$ (0.37)</u>
Diluted loss per share	<u>\$ (0.21)</u>	<u>\$ (0.16)</u>	<u>\$ (0.30)</u>	<u>\$ (0.37)</u>
Weighted average number of common shares	<u>13,872,000</u>	<u>13,642,000</u>	<u>13,797,000</u>	<u>13,642,000</u>

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

(thousands of dollars)

	<i>for the three months ended</i>		<i>for the six months ended</i>	
	April 30 2010	April 30 2009	April 30 2010	April 30 2009
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Total net loss	\$ (2,830)	\$ (2,179)	\$ (4,170)	\$ (4,869)
Other comprehensive income (loss), net of tax:				
Net unrealized gains (losses) on assets held as available-for-sale ⁽¹⁾	(3,605)	1,636	(198)	(3,238)
Amount transferred to net loss for available-for-sale assets ⁽²⁾	(629)	91	(1,490)	423
Amount transferred to net income for impairment writedown on available-for-sale assets ⁽³⁾	231	-	231	-
Total other comprehensive income (loss)	<u>(4,003)</u>	<u>1,727</u>	<u>(1,457)</u>	<u>(2,815)</u>
Total comprehensive income (loss)	<u>\$ (6,833)</u>	<u>\$ (452)</u>	<u>\$ (5,627)</u>	<u>\$ (7,684)</u>

(1) Net of income tax benefit (expense) for the three months of \$1,333 (2009-\$1,189) and six months of \$73 (2009-\$433) .

(2) Net of income tax benefit (expense) for the three months of \$233 (2009-\$40) and six months \$533 (2009-\$178).

(3) Net of income tax benefit (expense) for the three months of (\$85) (2009-\$nil) and six months (\$85) (2009-\$nil).

PACIFIC & WESTERN CREDIT CORP.

Consolidated Statement of Changes in Shareholders' Equity (thousands of dollars)

	<i>for the three months ended</i>		<i>for the six months ended</i>	
	April 30 2010	April 30 2009	April 30 2010	April 30 2009
	(unaudited)	(unaudited) (restated-note 2)	(unaudited)	(unaudited) (restated-note 2)
Common shares				
Balance, beginning of period	\$ 36,288	\$ 35,663	\$ 35,817	\$ 35,663
Issued on payment of Class B preferred share dividend	659	-	1,130	-
Balance, end of period	<u>\$ 36,947</u>	<u>\$ 35,663</u>	<u>\$ 36,947</u>	<u>\$ 35,663</u>
Class A preferred shares				
Balance, beginning and 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	\$ 4,038	\$ -	\$ 3,022	\$ -
Shares issued, net of costs	224	-	1,240	-
Balance, end of period	<u>\$ 4,262</u>	<u>\$ -</u>	<u>\$ 4,262</u>	<u>\$ -</u>
Contributed surplus				
Balance, beginning of period	\$ 381	\$ 217	\$ 326	\$ 179
Fair value of stock option transactions (note 7)	21	26	76	64
Balance, end of period	<u>\$ 402</u>	<u>\$ 243</u>	<u>\$ 402</u>	<u>\$ 243</u>
Retained earnings (deficit)				
Balance, beginning of period	\$ (13,814)	\$ (5,087)	\$ (12,407)	\$ (2,157)
Net loss	(2,830)	(2,179)	(4,170)	(4,869)
Dividends on preferred shares	-	-	(67)	(240)
Balance, end of period	<u>\$ (16,644)</u>	<u>\$ (7,266)</u>	<u>\$ (16,644)</u>	<u>\$ (7,266)</u>
Accumulated other comprehensive income (loss), net of taxes				
Balance, beginning of period	\$ (10,607)	\$ (20,446)	\$ (13,153)	\$ (15,904)
Other comprehensive income (loss)	(4,003)	1,727	(1,457)	(2,815)
Balance, end of period	<u>\$ (14,610)</u>	<u>\$ (18,719)</u>	<u>\$ (14,610)</u>	<u>\$ (18,719)</u>
Total shareholders' equity	<u>\$ 11,418</u>	<u>\$ 13,466</u>	<u>\$ 11,418</u>	<u>\$ 13,466</u>

PACIFIC & WESTERN CREDIT CORP.

Consolidated Statement of Cash Flows

(thousands of dollars)

	<i>for the three months ended</i>		<i>for the six months ended</i>	
	April 30 2010	April 30 2009	April 30 2010	April 30 2009
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Cash provided by (used in):				
Operations:				
Net loss	\$ (2,830)	\$ (2,179)	\$ (4,170)	\$ (4,869)
Items not involving cash:				
Provision for (recovery of) credit losses	-735	8	-701	118
Stock-based compensation (note 7)	21	26	76	64
Future income tax recovery	-160	-654	-233	-1,774
Gain on sale of available-for-sale securities	(122)	(1,032)	(1,790)	(1,203)
Gains realized on securitization	(884)	-	(884)	-
Change in derivative financial instruments	329	83	329	786
Interest expense on preferred share liabilities	659	-	1,130	-
Change in other assets and liabilities	4,982	1,839	14,615	(68)
	<u>1,260</u>	<u>(1,909)</u>	<u>8,372</u>	<u>(6,946)</u>
Investing:				
Purchase of securities	-143,280	-293,853	-417,540	(548,505)
Proceeds from sale and maturity of securities	64,384	148,496	346,212	435,394
Mortgages and loans	16,270	67,694	-977	81,468
	<u>-62,626</u>	<u>(77,663)</u>	<u>-72,305</u>	<u>(31,643)</u>
Financing:				
Deposits	-71,353	80,398	-24,357	28,208
Notes payable	(2,612)	30,948	(2,612)	33,888
Preferred share liabilities	3,621	-	14,308	-
Short term financings	(20,164)	-	(46,578)	-
Dividends paid	-	-	(66)	(240)
	<u>-90,508</u>	<u>111,346</u>	<u>-59,305</u>	<u>61,856</u>
Increase (decrease) in cash resources	-151,874	31,774	-123,238	23,267
Cash resources, beginning of period	<u>200,933</u>	<u>199,324</u>	<u>172,297</u>	<u>207,831</u>
Cash resources, end of period	<u>\$ 49,059</u>	<u>\$ 231,098</u>	<u>\$ 49,059</u>	<u>\$ 231,098</u>
Supplementary cash flow information:				
Interest paid during the period	\$ 11,733	\$ 10,983	\$ 23,976	\$ 23,556
Income taxes paid during the period	\$ -	\$ -	\$ -	\$ -

PACIFIC & WESTERN CREDIT CORP.
Notes to the interim consolidated financial statements (unaudited)
For the six months ended April 30, 2010

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, 2009, 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, 2009. An additional accounting policy for the six months ended April 30, 2010 relating to securitizations is as follows:

Securitization transactions

For each securitization transaction, where the Corporation retains the servicing rights, an asset is recognized as securitization retained interests on the Consolidated Balance Sheet. Securitization retained interests are investments classified as available-for-sale securities and are carried at fair value with changes in fair value reported in other comprehensive income, net of income taxes.

When mortgages are sold in a securitization transaction under terms that transfer control to third parties, the transaction is recorded as a sale and related mortgage assets are removed from the Consolidated Balance Sheet. In the securitization transaction, certain interests are retained, including the right to receive the future excess interest spread and the mortgage servicing obligation. The servicing liability is included in other liabilities. A gain or loss on the sale of mortgages is recognized immediately in the Consolidated Statement of Operations. The amount of the gain or loss recognized depends in part on the previous carrying amount of the mortgages involved in the transfer, allocated between the assets sold and the retained interests based on their relative fair values at the date of transfer. To obtain fair values, the Corporation uses estimates based on estimates of key assumptions including prepayment rates and discount rates commensurate with the risks involved.

The risk management policies and procedures of the Corporation relating to credit, liquidity, and market risk are included on pages 40 - 43 in the 2009 annual report and are an integral part of the Interim Consolidated Financial Statements.

2. Amendment to Financial Statements

Opening retained earnings (deficit) for the quarter ending April 30, 2010 and for the six months then ended have been restated to reflect an amendment to the Corporation's earnings for the year ended October 31, 2008 as a result of a change in accounting policy with respect to the separation of an embedded derivative contained in a collateral debt obligation (CDO), an investment in the Corporation's securities portfolio. This change in accounting policy has been applied retrospectively to November 1, 2006 and was a result of a commentary issued by the CICA Accounting Standards Board Staff in February of 2009 clarifying application of Section 3855 - *Financial Instruments* of the CICA Handbook and reflecting the conclusions of the commentary.

During the quarter ending April 30, 2010, the Corporation re-examined contractual aspects of the CDO which the Corporation had purchased in 2006 and reclassified to the held-to-maturity category from the available-for-sale category on August 1, 2008. Based on this re-examination, the Corporation concluded that the investment in the CDO contained an embedded derivative which under the CICA commentary issued in 2009, should have been separated retroactively to the adoption of Section 3855 on November 1, 2006. As a result, the Corporation has retrospectively amended its accounting policy with respect to its investment in the CDO. The impact of this change in accounting policy is that the earnings (loss) of the Corporation for the year ended October 31, 2008 have been adjusted to (\$26.0 million) from the previously reported amount of (\$20.1 million). Accordingly, ending retained earnings (deficit) for the Corporation as at October 31, 2008 has been adjusted from \$3.8 million to (\$2.2 million) and Accumulated Other Comprehensive Income (Loss) has been adjusted from (\$19.1 million) to (\$15.9 million). In addition total Shareholders' Equity has been adjusted from \$24.1 million to \$21.3 million. Basic and diluted earnings (loss) per share for the year ended October 31, 2008 have been adjusted to (\$1.93) from the previously reported amount of (\$1.49). The impact on the results of the Corporation for the year ended October 31, 2009 has been determined not to be material.

As a result of the above, opening Retained Earnings (deficit) of the Corporation for the six months ended April 30, 2010 has been adjusted from (\$6.5 million) to (\$12.4 million) and Accumulated Other Comprehensive Income (Loss) has been adjusted from (\$16.3 million) to (\$13.2 million). The overall impact to total Shareholders' Equity as a result of the above was a decrease of approximately \$2.8 million.

3. 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.

During the three months ended April 30, 2010 the Corporation recorded an impairment charge of \$326,000 relating to a security in its treasury portfolio as its market value had traded below the Corporation's amortized cost for an extended period of time. The Corporation is of the view that the unrealized losses in the other securities it owns do not represent other than temporary declines in value and impairment writedowns are not required at this time.

4. Allowance for credit losses

(thousands of dollars)	<i>for the three months ended</i>				<i>for the six months ended</i>			
	April 30, 2010			April 30, 2009	April 30, 2010			April 30, 2009
	General allowance	Specific allowance	Total allowance	Total allowance	General allowance	Specific allowance	Total allowance	Total allowance
Balance, beginning of the period	\$ 8,401	\$ 1,159	\$ 9,560	\$ 6,152	\$ 8,401	\$ 1,133	\$ 6,042	\$ 6,042
Provision for (recovery of) credit losses	(786)	51	(735)	8	(786)	85	(701)	118
Recoveries (write-offs)	(3,330)	(198)	(3,528)	-	(3,330)	(206)	(3,536)	-
Balance, end of period	\$ 4,285	\$ 1,012	\$ 5,297	\$ 6,160	\$ 4,285	\$ 1,012	\$ 1,805	\$ 6,160

Gross impaired loans at April 30, 2010 totalled \$5,246,000 (April 30, 2009 - \$7,794,000). Loans past due but not impaired at April 30, 2010 totalled \$487,000 (April 30, 2009 - \$851,000). 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.

5. Notes payable

At April 30, 2010 notes payable, excluding issue costs, consist of Series C Notes totalling \$55.3 million which mature in 2018, and short term notes totalling \$5.2 million which mature in 2010. Notes payable bear interest at rates ranging from 7.0% to 9.00% 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%, are callable by the Bank and mature in 2019.

6. Preferred share liabilities

At April 30, 2010 the Corporation had 1,909,458 Class B Preferred Shares outstanding with a total value of \$44.8 million less issue costs of \$2.8 million. As these Class B Preferred Shares carry certain redemption features and are convertible into common shares of the Corporation, an amount of \$40.5 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 \$4.3 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 \$47.7 million, the preferred share liability amount of \$40.5 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 an effective interest rate of 11.8%.

7. Shareholders' equity

i. Share capital and contributed surplus:

	Common shares outstanding	Employee Stock Options	
		Number	Weighted- average exercise price
Outstanding, October 31, 2009	13,680,412	859,033	\$ 8.69
Granted	-	80,000	4.56
Issued pursuant to Class B Preferred Share dividend	303,560	-	-
Expired	-	(7,100)	16.02
Outstanding, end of period	13,983,972	931,933	\$ 8.28

In addition, at April 30, 2010, there were 314,572 (2009-1,142,556) Class A Preferred Shares outstanding and 1,909,458 Class B Preferred Shares outstanding.

During the period ended April 30, 2010, the Corporation recognized \$76,000 (2009-\$64,000) 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 2.31% (2009-2.41%), (ii) expected option life of 5 years (2009-5 years), (iii) expected volatility of 30% (2009-45%), and (iv) expected forfeiture rate of 5% (2009-5%). The weighted average fair value of options granted was estimated at \$1.38 (2009-\$1.26) per share.

ii. Accumulated other comprehensive income (loss):

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

(thousands of dollars)	April 30 2010	April 30 2009
Net unrealized losses on assets held as available-for-sale	\$ (14,610)	\$ (21,867)
Balance, end of period	\$ (14,610)	\$ (21,867)

Net of income tax benefit of \$5,404,000 (2009 - \$8,645,000).

8. Derivative instruments

At April 30, 2010, the Corporation had outstanding contracts for asset liability management purposes to swap between floating and fixed interest rates with notional amounts totalling \$281,572,000 (2009 - \$399,841,000). 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 \$1,521,000 (2009 - \$237,000), a credit equivalent amount of \$4,620,000 (2009 - \$4,211,000) and a risk-weight of \$924,000 (2009 - \$842,000). As required under the accounting standard relating to hedges, at April 30, 2010, \$12,591,000 (2009 - \$38,838,000) 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.

In addition, the Corporation enters into interest rate swap arrangements with accredited counterparties in order to transact with the Canada Housing Trust, as it securitizes mortgages under the CMB Program. Changes in the fair values of these arrangements are included in gains on securitization activities and included in other income (charges) in the Consolidated Statement of Operations. Approved counterparties are limited to Canadian chartered banks. At April 30, 2010 the notional amount of these contracts totalled \$12,680,000.

9. 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	\$	103,138
Letters of credit		29,383
	\$	132,521

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)	April 30 2010	April 30 2009
Collateral related to derivative contracts	\$ 11,162	\$ 37,559
Collateral related to letters of credit	4	2,946
Obligations related to securities sold under repurchase agreements	-	-
	\$ 11,166	\$ 40,505

10. Securitization activities

The Corporation securitizes Government of Canada guaranteed residential mortgages through the creation of mortgage backed securities and removes the mortgages from its consolidated balance sheet. As at April 30, 2010, outstanding securitized mortgages totalled \$12,492,000.

Retained interests are accounted for at the settlement date. The fair value of the retained interest is determined with internal valuation models using market data inputs, where possible, by discounting the expected future cash flows at similar Government of Canada bond interest rates plus a spread. The Corporation has assumed no credit risk for purposes of measuring its retained interests since all mortgages securitized to date are Government of Canada guaranteed.

During the three months ended April 30, 2010, mortgages securitized and sold totalled \$12,540,000 for cash proceeds of \$12,455,000. The retained rights to future excess interest totalled \$1,698,000 and the servicing liability recorded totalled \$90,000. The key assumptions used in measuring the retained interests at the date of securitization included a discount rate of 2.73% and a rate of 1.25% for the excess spread. Gains on mortgages securitized and sold totalled \$884,000 and are included in other income in the Consolidated Statement of Operations. There were no securitization activities carried out by the Corporation prior to the current quarter.

11. Capital Management

i. 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.

ii. Assets-to-Capital Multiple:

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

(thousands of dollars)	April 30 2010	April 30 2009
Total assets (on and off-balance sheet)	\$ 1,370,033	\$ 1,606,397
Capital		
Common shares	\$ 95,365	\$ 95,365
Retained earnings	(1,331)	129
Unrealized loss on available-for-sale equity securities	(12,672)	(19,601)
Subordinated debentures	40,681	37,945
Total regulatory capital	\$ 122,043	\$ 113,838
Assets-to-capital ratio	11.23	14.11

iii. 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%. The guidelines also require the inclusion of an explicit capital charge for operational risk in determining the amount of risk-weighted assets.

The Bank's risk-based capital ratios are as follows:

(thousands of dollars)	April 30 2010		April 30 2009	
	Notional/ Drawn Amount	Risk Weighted Balance	Notional/ Drawn Amount	Risk Weighted Balance
Balance sheet assets	\$ 1,340,650	\$ 824,736	\$ 1,577,736	\$ 893,066
Off-balance sheet assets		59,714		22,162
Charge for operational risk		38,994		45,196
Total risk-weighted assets		\$ 923,444		\$ 960,424
Regulatory capital		122,043		113,838
Total risk-based capital ratio		13.22%		11.85%
Tier 1 risk-based capital ratio		8.81%		7.90%

12. Interest Rate Position

The Corporation is subject to interest rate risk which is the risk that a movement in interest rates could negatively impact spread, net interest income and the economic value of assets, liabilities and shareholders' equity. The following table provides the duration difference between the Bank's assets and liabilities and the potential after-tax impact of a 100 basis point shift in interest rates on the Bank's earnings during a 12 month period and the potential impact after-tax impact of a 100 basis point shift in interest rates on the Bank's shareholder's equity over a 60 month period.

(thousands of dollars)	April 30 2010		April 30 2009	
	Increase 100 bps	Decrease 100 bps	Increase 100 bps	Decrease 100 bps
Maximum interest exposure during a 12 month period	\$ 1,417	n/m	\$ 1,523	n/m
Maximum interest exposure during a 60 month period	\$ (548)	n/m	\$ 2,696	n/m
Duration difference between assets and liabilities (months)	4.7		4.8	

n/m - not meaningful

13. Subsidiary company information:

The following table presents summary financial information of the Bank:

(thousands of dollars)	April 30 2010	April 30 2009
	(unaudited)	(unaudited) (restated-note 2)
Cash resources	\$ 38,001	\$ 228,602
Securities	344,683	272,074
Mortgages and loans	925,434	1,044,556
Other assets	32,532	32,504
	<u>\$ 1,340,650</u>	<u>\$ 1,577,736</u>
Deposits	\$ 1,192,779	\$ 1,417,569
Subordinated notes payable	41,500	40,000
Other liabilities	26,947	43,392
	<u>1,261,226</u>	<u>1,500,961</u>
Share capital	95,365	95,365
Retained earnings (deficit)	(1,331)	129
Accumulated other comprehensive income (loss)	(14,610)	(18,719)
Shareholder's equity	79,424	76,775
	<u>\$ 1,340,650</u>	<u>\$ 1,577,736</u>

(thousands of dollars)	<i>for the three months ended</i>		<i>for the six months ended</i>	
	April 30 2010	April 30 2009	April 30 2010	April 30 2009
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Interest income	\$ 13,969	\$ 19,335	\$ 31,012	\$ 37,730
Interest expense	11,398	17,384	23,741	34,226
Net interest income	2,571	1,951	7,271	3,504
Provision for (recovery of) credit losses	(735)	8	(709)	118
Net interest income after provision for credit losses	3,306	1,943	7,980	3,386
Other income (charges)	49	(275)	80	(945)
Net interest income and other income (charges)	3,355	1,668	8,060	2,441
Non-interest expenses	4,158	3,255	8,258	6,646
Income (loss) before income taxes	(803)	(1,587)	(198)	(4,205)
Income taxes	(160)	(653)	(233)	(1,774)
Net income (loss)	<u>\$ (643)</u>	<u>\$ (934)</u>	<u>\$ 35</u>	<u>\$ (2,431)</u>

14. Subsequent event

On May 17, 2010, the Corporation announced that it plans to raise up to \$15 million through the issuance of additional Class B Preferred Shares, Common Shares, or a combination of both, by way of a short form prospectus. A decision as to what securities to offer under the prospectus will be made by the Corporation prior to filing the preliminary prospectus.

CORPORATE INFORMATION

PACIFIC & WESTERN CREDIT CORP. and PACIFIC & WESTERN BANK OF CANADA

DIRECTORS

C. Scott Ritchie, Hons.B.A. (Business), LL.B., Q.C.

Director, Chairman of the Board – Pacific & Western Bank of Canada and Pacific & Western Credit Corp.
Partner, Siskind, Cromarty, Ivey, Dowler LLP,
Barristers and Solicitors

Robbert-Jan Brabander, B.Sc. , M.Sc. (Economics)

Director - Pacific & Western Bank of Canada
Former Chief Financial Officer, General Motors of Canada

David A. Bratton, B.A.(Hons.), M.B.A., CHRP, FCMC

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and Pacific & Western Credit Corp.
President, Bratton Consulting Inc.

Arnold E. Hillier, B.Comm., C.A.

Director - Pacific & Western Bank of Canada
and Pacific & Western Credit Corp.
Retired, former Chairman, Chief Executive Officer
and Chief Financial Officer, Claude Resources Inc.

Colin E. Litton, FCA, ICD.D

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William T. Mitchell, FCA

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Director - Pacific & Western Bank of Canada
and Pacific & Western Credit Corp.
President and Chief Executive Officer, Pacific & Western Bank
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