



Pacific & Western

Credit Corp.

Third Quarter Report July 31, 2010

PACIFIC & WESTERN CREDIT CORP. ANNOUNCES RESULTS FOR ITS THIRD QUARTER ENDED JULY 31, 2010

THIRD QUARTER SUMMARY

(three months ended July 31, 2010, compared to three months ended July 31, 2009, unless otherwise noted):

- Total revenue (teb) of the Corporation's subsidiary Pacific & Western Bank of Canada (the "Bank") for the three months ended July 31, 2010 was \$4.2 million compared to \$1.8 million for the same period last year and for the nine months ended July 31, 2010 was \$13.5 million compared to \$5.7 million last year.
- Net interest margin or spread (teb) for the Bank improved to 1.21% for the quarter compared to 0.36% for the same period last year and for the nine months ended July 31, 2010, improved to 1.17% from 0.55% last year.
- Net income (loss) for the Bank for the three months ended July 31, 2010 was (\$490,000) compared to (\$1.4 million) for the same period last year and for the nine months ended July 31, 2010 was (\$455,000) compared to (\$3.8 million) last year.
- Credit quality remains strong with gross impaired loans decreasing to \$3.2 million or 0.21% of total assets at July 31, 2010 from \$11.3 million or 0.70% of total assets a year ago.
- Net income (loss) of the Corporation for the three months ended July 31, 2010 was (\$2.5 million) or (\$0.18) per share ((\$0.18) diluted) compared to (\$3.0 million) or (\$0.22) per share ((\$0.22) 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 (\$1.3 million) compared to (\$3.0 million) last year.
- Net income (loss) of the Corporation for the nine months ended July 31, 2010 was (\$6.7 million) or (\$0.49) per share ((\$0.49) diluted) compared to (\$7.8 million) or (\$0.59) per share ((\$0.59) 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 nine month period was (\$3.4 million) compared to (\$7.8 million) last year.

PRESIDENT'S COMMENTS

This quarter we made good progress in returning our corporation back to its former profitable state. Our lending operations continued to gather momentum with spread on loans and leases increasing to 2.06% from the previous quarter's 1.67% and the same quarter a year ago of only .37%. While we are very pleased with the improving spread on our lending assets, we believe there is still room for considerable improvement. We believe a spread of 2.50% in line with that of our peers is achievable in the next few quarters. The improvement in spread earned on our lending assets, however, was dampened by the large amount of liquid securities we maintained over this quarter. We have an unusually large number of GICs maturing in August and early September and in order to spread these maturities out we issued a large number of GICs during the quarter to provide for the upcoming GIC redemptions. We have now reached our goal of having relatively uniform GIC maturities going forward and will be able to reduce our costly liquid securities portfolio. Overall, spread for the Bank in the third quarter was 1.21%, an improvement over the previous quarter's .94% and spread for the nine month period ending July 31st was 1.17%, a considerable improvement over the previous nine month period of .55%. This improvement in spread gave rise to a significant improvement in the Bank's total revenue which for the nine month period ending July 31st 2010 was \$13.5 million, more than double that achieved in the same period last year. In addition, our loan and lease portfolio increased by 3.0% over the previous quarter to \$956 million. We expect this growth to continue as we presently have loan commitments outstanding of \$182 million. Loan growth is the key to our increased profitability and there continues to be many opportunities for growth in our niche markets.

FINANCIAL HIGHLIGHTS

(unaudited)

	for the three months ended		for the nine months ended	
	July 31 2010	July 31 2009	July 31 2010	July 31 2009

(\$ thousands, except per share amounts)

Pacific & Western Bank of Canada

Balance Sheet Summary

Cash and securities	\$ 575,740	\$ 590,947	\$ 575,740	\$ 590,947
Total loans	956,000	995,802	956,000	995,802
Average loans	940,717	1,020,179	942,916	1,053,305
Total assets	1,566,094	1,617,996	1,566,094	1,617,996
Deposits	1,409,799	1,462,488	1,409,799	1,462,488
Subordinated notes payable	41,500	41,500	41,500	41,500
Shareholder's equity	81,842	82,943	81,842	82,943

Capital ratios

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

Total regulatory capital	\$ 123,691	\$ 120,487	\$ 123,691	\$ 120,487
Risk weighted assets	1,004,497	957,219	1,004,497	957,219
Assets-to-capital ratio	12.89	13.66	12.89	13.66
Tier 1 risk-based capital ratio	8.21%	8.39%	8.21%	8.39%
Total risk-based capital ratio	12.31%	12.59%	12.31%	12.59%

Results of operations (teb)

Net interest income per financial statements	\$ 3,807	\$ 833	\$ 11,078	\$ 4,335
Teb adjustment	643	621	1,936	2,067
Net interest income (teb)	4,450	1,454	13,014	6,402
Spread	1.21%	0.36%	1.17%	0.55%
Provision for (recovery of) credit losses	19	148	(690)	266
Other income (charges)	(245)	507	(165)	(438)
Total revenue	4,186	1,813	13,539	5,698
Non-interest expenses	4,371	3,715	12,629	10,361
Net loss	(490)	(1,367)	(455)	(3,798)
Return on average total assets	-0.13%	-0.34%	-0.04%	-0.32%
Gross impaired loans to total assets	0.21%	0.70%	0.21%	0.70%
Provision for (recovery of) credit losses as a % of average loans	0.00%	0.06%	-0.07%	0.03%
Number of full time equivalent staff	57	54	57	54

Pacific & Western Credit Corp., (consolidated)

Results of operations

Net loss for the Bank	\$ (490)	\$ (1,367)	\$ (455)	\$ (3,798)
Deduct interest expense relating to Class B Preferred Shares	(1,191)	-	(3,303)	-
Deduct additional interest expense on notes	(811)	(1,502)	(2,766)	(3,839)
Deduct additional non-interest expenses of the parent	(33)	(100)	(171)	(201)
Net loss for the Corporation	\$ (2,525)	\$ (2,969)	\$ (6,695)	\$ (7,838)
Loss per common share:				
Basic	\$ (0.18)	\$ (0.22)	\$ (0.49)	\$ (0.59)
Diluted	\$ (0.18)	\$ (0.22)	\$ (0.49)	\$ (0.59)
Return on average common shareholders' equity	-152.06%	-98.25%	-101.59%	-66.33%

Non-GAAP measures

Tax equivalent basis (teb) - like most banks, the Corporation, and its wholly-owned subsidiary Pacific & Western Bank of Canada 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 third quarter of fiscal 2010 should be read in conjunction with the unaudited interim consolidated financial statements for the period ended July 31, 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

Pacific & Western Credit Corp. is a holding company whose shares trade on the Toronto Stock Exchange. It's wholly-owned and principal subsidiary is Pacific & Western Bank of Canada which operates as a Schedule I bank under the *Bank Act* (Canada).

Pacific & Western Credit Corp.

Net income (loss) for the Corporation for the three months ending July 31, 2010 was (\$2.5 million) or (\$0.18) per share ((\$0.18) diluted) compared to (\$3.0 million) or (\$0.22) per share ((\$0.22) diluted) for the same period last year. On a year-to-date basis net income (loss) was (\$6.7 million) or (\$0.49) per share ((\$0.49) diluted) compared to (\$7.8 million) or (\$0.59) per share ((\$0.59) diluted) for the same period last year. The results of the Corporation for the current periods compared to the prior year were negatively impacted by amounts relating to dividends on Class B preferred shares which are recorded as interest expense in the consolidated financial statements partially offset by improved spreads earned on lending assets. Prior to the deduction of dividends relating to the Class B Preferred Shares, net income (loss) for the three months ending July 31, 2010 was (\$1.3 million) compared to (\$3.0 million) for the same period a year ago and for the nine months ended July 31, 2010 was (\$3.4 million) compared to (\$7.8 million) a year ago.

Pacific & Western Bank of Canada

Net income (loss) for the Bank for the three months ending July 31, 2010 was (\$490,000) compared to (\$1.4 million) for the same period a year ago and for the nine months ending July 31, 2010 was (\$455,000) compared to (\$3.8 million) a year ago.

During the current quarter, net income (loss) for the Bank improved from the same period a year ago and from the previous quarter primarily as a result of an increase in overall net interest income and spread, specifically net interest income and spread from our lending activities. This improvement was due to an increase in lending assets in the current quarter and improved spread when thinly priced loans booked several years ago matured and were replaced by loans with wider spreads. In addition during the current quarter, the Bank realized gains of \$370,000 from it's securitization activities and a gain of \$377,000 was realized on foreclosed real estate. These gains were offset however in the quarter by mark to market adjustments totalling (\$462,000) on interest rate swaps relating to securitization activities and mark to market adjustments totalling (\$538,000) relating to a security in the Bank's treasury portfolio.

At July 31, 2010, total assets of the Bank were \$1.57 billion compared to \$1.62 billion a year ago and lending assets were \$956 million compared to \$996 million a year ago. Credit quality in the Bank remained strong with gross impaired loans decreasing to \$3.2 million at July 31, 2010 from \$11.3 million a year ago and from \$5.3 million at the end of the previous quarter. At July 31, 2010, the ratio of gross impaired loans as a percentage of total assets was 0.21% compared to 0.70% a year ago and 0.39% at the end of the previous quarter. Cash and securities of the Bank at July 31, 2010 were \$576 million compared to \$591 million a year ago and \$383 million at the end of the previous quarter. Cash and securities increased from the previous quarter due to higher levels of liquid assets held as a cushion for a large amount of deposits maturing in August 2010.

Total Revenue (teb)

Pacific & Western Credit Corp.

Consolidated total revenue (teb) of the Corporation, which is comprised of net interest income after the provision for credit losses and other income (charges), was \$2.1 million for the quarter compared to \$579,000 for the same period a year ago and for the nine months ended July 31, 2010 was \$7.5 million compared to \$2.1 million for the same period last year.

Pacific & Western Bank of Canada

Total revenue (teb) of the Bank was \$4.2 million for the quarter and \$13.5 million for the nine months ending July 31, 2010 compared to \$1.8 million for the same quarter last year and \$5.7 million for the nine 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.

Net Interest Income

Pacific & Western Credit Corp.

Consolidated net interest income (teb) of the Corporation was \$2.4 million for the quarter and \$6.9 million for the nine months ended July 31, 2010 compared to \$220,000 for the same quarter last year and \$2.8 million for the nine month period last year. Prior to deducting amounts for interest expense relating to the dividends on the Class B Preferred Shares, net interest income (teb) for the current quarter was \$3.5 million and \$10.2 million for the nine months ended July 31, 2010. 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 interest expense in the Corporation's bank subsidiary.

Pacific & Western Bank of Canada

Net interest income (teb) of the Bank increased to \$4.5 million for the quarter and \$13.0 million for the nine months ended July 31, 2010 from \$1.5 million and \$6.4 million respectively for the same periods last year. Net interest margin or spread (teb) for the Bank, which is net interest income as a percentage of average assets, increased to 1.21% for the quarter from 0.36% for the same period a year ago and for the nine months ending July 31, 2010 was 1.17% compared to 0.55% a year ago. The improvement in the current quarter and nine months from the same periods last year 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 which totalled \$1.1 million for the current quarter and \$3.2 million for the nine months ending July 31, 2010 compared to \$511,000 and \$1.3 million respectively for the same periods a year ago. The increase in loan fees reflects increasing lending activity and new loan commitments in the first three quarters which should result in increased loan fundings in the coming months. Interest expense on deposits decreased in the current quarter from a year ago 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.

Other Income (charges)

Other income (charges) for the three months ended July 31, 2010 totalled (\$215,000) and for the nine months totalled (\$124,000). This is in comparison to other income (charges) of \$507,000 for the three months ended July 31, 2009 and (\$438,000) for the nine months ended July 31, 2009. Other income (charges) for the current quarter included gains totalling \$370,000 resulting from securitization activities and a gain of \$377,000 resulting from the sale of foreclosed real estate. However these amounts were reduced by mark-to-market adjustments totalling (\$462,000) on interest rate swaps relating to securitized mortgages and mark-to-market adjustments totalling (\$538,000) relating to a security in the Corporation's treasury portfolio. On a year-to-date basis, other income (charges) included gains totalling \$1.2 million resulting from securitization activities and a gain of \$377,000 resulting from the sale of foreclosed real estate. These amounts were reduced by mark-to-market adjustments totalling (\$569,000) on interest rate swaps relating to securitized mortgages, mark-to-market adjustments totalling (\$782,000) and an impairment writedown of (\$326,000) relating to securities in the Corporation's treasury portfolio.

Non-Interest Expenses

Non-interest expenses for the Corporation on a consolidated basis were \$4.3 million for the third quarter and \$12.8 million for the nine months ended July 31, 2010. This is in comparison to \$3.8 million and \$10.6 million respectively for the same periods a year ago. The increase in non-interest expenses for the quarter and nine months compared to a year ago was in salaries and benefits which increased due to salary adjustments over the past year and new hires, and general and administrative expenses which increased due to volume related expenses and higher amounts for capital taxes and consulting and professional fees. Non-interest expenses of the Corporation on a consolidated basis were not significantly different from those of the Bank.

Income Taxes

The Corporation's statutory federal and provincial income tax rate and that of the Bank is approximately 31% compared to 32% last year with the difference due to changes in enacted statutory income tax rates. The effective rate is impacted by non-taxable dividend income earned on preferred shares held in its treasury 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 11.8% for the current quarter and 7.9% for the nine months ending July 31, 2010. For the current quarter and nine months ending July 31, 2010, the Corporation and the Bank's provision for income taxes was a recovery of \$338,000 and \$571,000 respectively.

At July 31, 2010, the future income tax asset of the Bank was \$12.4 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 \$13.5 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 tax 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 July 31, 2010, these preferred shares traded at a value of \$13.2 million below their amortized cost compared to \$16.4 million below their amortized cost at October 31, 2009 and \$17.6 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

As the difference between the consolidated total assets and liabilities of the Corporation and the total assets and liabilities of the Bank is not significant, the discussion below with respect to the balance sheet will be carried out with respect to that of the Corporation on a consolidated basis.

Total assets of the Corporation at July 31, 2010, were \$1.57 billion compared to \$1.62 billion a year ago. Mortgages and loans were \$956 million at July 31, 2010 compared to \$996 million 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 partially offset by new loan fundings over the past year.

Cash and Securities

Cash and securities, which are held for liquidity management purposes and to earn investment income, totalled \$584 million at July 31, 2010 compared to \$594 million a year ago. Securities in the Corporation's treasury portfolio consist typically of Government of Canada and Canadian provincial and municipal bonds and corporate debt and preferred shares.

At July 31, 2010, the net unrealized loss in the Corporation's securities portfolio was \$14.4 million compared to a net unrealized loss of \$14.8 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 the Corporation's treasury portfolio are based on market values as all of the securities the Corporation owns are publicly traded. During the previous 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 \$13.2 million below their amortized cost at July 31, 2010 compared to \$16.4 million below their amortized cost at October 31, 2009 and \$17.6 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 issuers 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 \$956 million at July 31, 2010 compared to \$996 million a year ago with the decrease being primarily in insured residential mortgages which were securitized during the year and in public sector loans and leases, partially offset by increases in high quality commercial mortgages. New lending in the third quarter totalled \$123 million bringing total new lending for the first nine months to \$312 million compared to \$350 million for the first nine months last year. Loan repayments for the third quarter totalled \$101 million bringing total loan repayments to \$285 million for the first nine 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 July 31, 2010 totalled \$3.2 million or 0.21% of total assets compared to \$11.3 million or 0.70% 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 and foreclosed real estate which was classified as an impaired loan being sold in the third quarter. This resulted in a gain of approximately \$377,000 and is included in other income. Gross impaired loans at July 31, 2010 consist primarily of loans totalling \$2.2 million to individuals who invested in provincially sponsored immigrant investor funds.

Provisions for (recovery of) credit losses in the third quarter totalled \$19,000 compared to \$148,000 a year ago and for the nine months ended July 31, 2010 were (\$682,000) compared to \$266,000 for the same period a year ago. The recovery of credit losses recorded in the current year 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. The Corporation's general allowance totalled \$4.3 million at July 31, 2010 and 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 \$33.1 million at July 31, 2010 compared to \$31.6 million a year ago. Included in other assets is the future income tax asset of the Bank totalling \$12.4 million 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 July 31, 2010, the investment in DA had a carrying value of \$2.2 million compared to \$2.4 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 third quarter were \$1.41 billion compared to \$1.46 billion a year ago, and consist primarily of guaranteed investment certificates. Of these amounts, \$46.8 million or approximately 3.3% of total deposits at the end of the quarter were in the form of demand deposits compared to \$41.0 million or approximately 2.8% 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 third 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 \$75.4 million at July 31, 2010 compared to \$107.9 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 2012. Notes payable bear interest at rates ranging from 4.0% 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 July 31, 2010 the Corporation had 1,909,458 Class B Preferred Shares outstanding with a total value of \$44.9 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 \$40.6 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 \$40.6 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 July 31, 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 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 cash on hand in the Corporation, the issuance of securities and from the Bank.

Shareholders' Equity

At July 31, 2010, shareholders' equity was \$12.5 million compared to \$18.1 million a year ago with the decrease due primarily to the net loss incurred since last year. Accumulated Other Comprehensive Income (Loss) which is included in shareholder's equity was (\$11.7 million) compared to (\$11.2 million) a year ago.

Common shares outstanding at July 31, 2010 totalled 14,209,410 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 930,433 at the end of the quarter compared to 869,533 a year ago with the change due to additional common share options granted in the period, net of the expiry of common share options. The Corporation's book value per common share at the end of the quarter was \$0.50 compared to \$1.07 a year ago. Assuming the outstanding Class B Preferred Shares are converted into common shares on the basis of \$5.00 per share, the Corporation's book value per common share at July 31, 2010 would be \$2.21 per share.

At July 31, 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 July 31, 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 during the nine months ended July 31, 2010.

Updated Share Information

As at September 1, 2010, there were no changes in the number of outstanding common shares, common share options, Class A or Class B Preferred Shares since July 31, 2010.

Amendment of Financial Statements

Opening retained earnings (deficit) for the nine months ending July 31, 2010 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 nine months ended July 31, 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 the interim consolidated financial statements.

Capital Management

Total regulatory capital in the Corporation's principal subsidiary, the Bank, was \$123.7 million at the end of the quarter compared to \$120.5 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 partially 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 12.31% at the end of the quarter compared to 12.59% 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 8.21% at the end of the quarter compared to 8.39% a year ago. The Bank's assets-to-capital ratio was 12.89 at the end of the quarter compared to 13.66 a year ago.

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

Summary of Quarterly Results for the Corporation

(thousands of dollars except per share amounts)	2010				2009				2008
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4*	
Results of operations:									
Total interest income									
per financial statements	\$ 15,805	\$ 13,976	\$ 17,047	\$ 21,783	\$ 19,476	\$ 19,338	\$ 18,401	\$ 17,702	
Teb adjustment	643	623	669	667	621	701	745	675	
Total interest income	16,448	14,599	17,716	22,450	20,097	20,039	19,146	18,377	
Interest expense	14,096	13,512	14,244	17,698	19,877	18,560	18,013	16,587	
Net interest income	2,352	1,087	3,472	4,752	220	1,479	1,133	1,790	
Provision for (recovery of) credit losses	19	(735)	34	3,183	148	8	110	2,502	
Impairment writedowns	-	(326)	-	-	-	-	-	(11,341)	
Other income (charges)	(215)	388	29	1,887	507	(275)	(670)	(3,912)	
Total revenue	2,118	1,884	3,467	3,456	579	1,196	353	(15,965)	
Non-interest expenses	4,338	4,251	4,211	4,405	3,816	3,328	3,418	3,280	
Income (loss) before income taxes	(2,220)	(2,367)	(744)	(949)	(3,237)	(2,132)	(3,065)	(19,245)	
Income tax provision (recovery)	305	463	596	1,108	(268)	47	(375)	(728)	
Net income (loss) *	\$ (2,525)	\$ (2,830)	\$ (1,340)	\$ (2,057)	\$ (2,969)	\$ (2,179)	\$ (2,690)	\$ (18,517)	
Earnings (loss) per share									
-basic	\$ (0.18)	\$ (0.21)	\$ (0.10)	\$ (0.15)	\$ (0.22)	\$ (0.16)	\$ (0.20)	\$ (1.36)	
-diluted	\$ (0.18)	\$ (0.21)	\$ (0.10)	\$ (0.15)	\$ (0.22)	\$ (0.16)	\$ (0.20)	\$ (1.36)	

* Restated for 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 and net interest income (teb) increased in the third quarter of 2010 compared to the previous quarter as a result of an improvement in the spreads earned on the lending portfolio as lower priced loans matured and were replaced with loans with wider spreads and as a result of an increase in loan fees for the quarter. Interest expense for the third quarter was comparable to the previous quarters in 2010 and less than interest expense in 2009 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 provision for credit losses in the second quarter showed a net recovery of \$735,000 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 third quarter of 2010 included gains of \$370,000 resulting from securitization activities, and a gain of \$377,000 resulting from the sale of foreclosed real estate. However these amounts were reduced by mark-to-market adjustments totalling (\$462,000) on interest rate swaps relating to securitized mortgages and mark-to-market adjustments totalling (\$538,000) relating to a security in the Corporation's treasury portfolio.

Non-interest expenses in the third quarter 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 and new hires. General and administrative expenses increased from a year ago due to volume related expenses and higher amounts for capital taxes, consulting and professional fees.

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 nine months ended July 31, 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). During the current quarter, management made a presentation on IFRS, including reporting on its

implementation status, to the Audit Committee of the Board of Directors. In addition, IFRS training for the Board of Directors has been scheduled and will take place prior to the end of the 2010 fiscal year.

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 dependent 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 could 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: September 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)

	July 31 2010	October 31 2009	July 31 2009
	(unaudited)	(restated-note 2)	(unaudited) (restated-note 2)
Assets			
Cash resources	\$ 218,401	\$ 172,297	\$ 215,602
Securities	365,919	271,660	378,343
Mortgages and loans	956,000	929,831	995,802
Other assets	33,091	35,132	31,562
	<u>\$ 1,573,411</u>	<u>\$ 1,408,920</u>	<u>\$ 1,621,309</u>
Liabilities and Shareholders' Equity			
Deposits	\$ 1,409,799	\$ 1,217,136	\$ 1,462,488
Notes payable	75,394	77,933	107,903
Other liabilities	35,102	71,293	32,832
	<u>1,520,295</u>	<u>1,366,362</u>	<u>1,603,223</u>
Preferred share liabilities	40,623	27,892	-
Shareholders' equity			
Share capital	43,365	40,226	39,506
Deficit	(19,169)	(12,407)	(10,235)
Accumulated other comprehensive income (loss)	(11,703)	(13,153)	(11,185)
	<u>12,493</u>	<u>14,666</u>	<u>18,086</u>
	<u>\$ 1,573,411</u>	<u>\$ 1,408,920</u>	<u>\$ 1,621,309</u>

PACIFIC & WESTERN CREDIT CORP.

Consolidated Statement of Operations

(thousands of dollars)

	<i>for the three months ended</i>		<i>for the nine months ended</i>	
	July 31	July 31	July 31	July 31
	2010	2009	2010	2009
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Interest income				
Interest income on loans	\$ 11,048	\$ 12,168	\$ 32,877	\$ 42,798
Interest and income from securities	3,670	6,797	10,756	13,132
Loan fee income	1,087	511	3,195	1,285
	<u>15,805</u>	<u>19,476</u>	<u>46,828</u>	<u>57,215</u>
Interest expense				
Deposits and other	10,814	17,215	32,263	49,988
Notes payable	2,091	2,662	6,286	6,462
Preferred share liabilities	1,191	-	3,303	-
	<u>14,096</u>	<u>19,877</u>	<u>41,852</u>	<u>56,450</u>
Net interest income	1,709	(401)	4,976	765
Provision for (recovery of) credit losses	19	148	(682)	266
Net interest income after provision for credit losses	1,690	(549)	5,658	499
Other income (charges)	(215)	507	(124)	(438)
	<u>1,475</u>	<u>(42)</u>	<u>5,534</u>	<u>61</u>
Non-interest expenses				
Salaries and benefits	1,927	1,743	5,596	5,084
General and administrative	1,893	1,583	5,682	3,906
Premises and equipment	518	490	1,522	1,572
	<u>4,338</u>	<u>3,816</u>	<u>12,800</u>	<u>10,562</u>
Loss before income taxes	(2,863)	(3,858)	(7,266)	(10,501)
Income tax recovery	(338)	(889)	(571)	(2,663)
Net loss	\$ (2,525)	\$ (2,969)	\$ (6,695)	\$ (7,838)
Basic loss per share	\$ (0.18)	\$ (0.22)	\$ (0.49)	\$ (0.59)
Diluted loss per share	\$ (0.18)	\$ (0.22)	\$ (0.49)	\$ (0.59)
Weighted average number of common shares	<u>14,060,000</u>	<u>13,642,000</u>	<u>13,886,000</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 nine months ended</i>	
	July 31	July 31	July 31	July 31
	2010	2009	2010	2009
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Total net loss	\$ (2,525)	\$ (2,969)	\$ (6,695)	\$ (7,838)
Other comprehensive income (loss), net of tax:				
Net unrealized gains on assets held as available-for-sale ⁽¹⁾	3,103	7,350	2,905	4,111
Amount transferred to net loss for available-for-sale assets ⁽²⁾	(196)	184	(1,686)	608
Amount transferred to net loss for impairment writedown on available-for-sale assets ⁽³⁾	-	-	231	-
Total other comprehensive income	<u>2,907</u>	<u>7,534</u>	<u>1,450</u>	<u>4,719</u>
Total comprehensive income (loss)	<u>\$ 382</u>	<u>\$ 4,565</u>	<u>\$ (5,245)</u>	<u>\$ (3,119)</u>

(1) Net of income tax benefit (expense) for the three months of (\$1,147) (2009-(\$2,913)) and nine months of (\$1,074) (2009-\$1,679) .

(2) Net of income tax benefit (expense) for the three months of \$73 (2009-(\$79)) and nine months \$606 (2009-(\$256)).

(3) Net of income tax benefit (expense) for the three months of \$nil (2009-\$nil) and nine months of (\$95) (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 nine months ended</i>	
	July 31 2010	July 31 2009	July 31 2010	July 31 2009
	(unaudited)	(unaudited) (restated-note 2)	(unaudited)	(unaudited) (restated-note 2)
Common shares				
Balance, beginning of period	\$ 36,947	\$ 35,663	\$ 35,817	\$ 35,663
Issued on payment of Class B preferred share dividend	674	-	1,804	-
Balance, end of period	<u>\$ 37,621</u>	<u>\$ 35,663</u>	<u>\$ 37,621</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	\$ 4,262	\$ -	\$ 3,022	\$ -
Shares issued, net of costs	-	-	1,240	-
Balance, end of period	<u>\$ 4,262</u>	<u>\$ -</u>	<u>\$ 4,262</u>	<u>\$ -</u>
Contributed surplus				
Balance, beginning of period	\$ 402	\$ 243	\$ 326	\$ 179
Fair value of stock option transactions (note 7)	19	55	95	119
Balance, end of period	<u>\$ 421</u>	<u>\$ 298</u>	<u>\$ 421</u>	<u>\$ 298</u>
Deficit				
Balance, beginning of period	\$ (16,644)	\$ (7,266)	\$ (12,407)	\$ (2,157)
Net loss	(2,525)	(2,969)	(6,695)	(7,838)
Dividends on Class A preferred shares	-	-	(67)	(240)
Balance, end of period	<u>\$ (19,169)</u>	<u>\$ (10,235)</u>	<u>\$ (19,169)</u>	<u>\$ (10,235)</u>
Accumulated other comprehensive income (loss), net of taxes				
Balance, beginning of period	\$ (14,610)	\$ (18,719)	\$ (13,153)	\$ (15,904)
Other comprehensive income	2,907	7,534	1,450	4,719
Balance, end of period	<u>\$ (11,703)</u>	<u>\$ (11,185)</u>	<u>\$ (11,703)</u>	<u>\$ (11,185)</u>
Total shareholders' equity	<u>\$ 12,493</u>	<u>\$ 18,086</u>	<u>\$ 12,493</u>	<u>\$ 18,086</u>

PACIFIC & WESTERN CREDIT CORP.

Consolidated Statement of Cash Flows (thousands of dollars)

	<i>for the three months ended</i>		<i>for the nine months ended</i>	
	July 31 2010	July 31 2009	July 31 2010	July 31 2009
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Cash provided by (used in):				
Operations:				
Net loss	\$ (2,525)	\$ (2,969)	\$ (6,695)	\$ (7,838)
Items not involving cash:				
Provision for (recovery of) credit losses	19	148	(682)	266
Stock-based compensation (note 7)	19	55	95	119
Future income tax recovery	(338)	(889)	(571)	(2,663)
Gain on sale of available-for-sale securities	(251)	(4,119)	(2,041)	(5,322)
Gains realized on securitization	(370)	-	(1,153)	-
Impairment write downs on securities	-	-	326	-
Gain on foreclosed real estate	(377)	-	(377)	-
Change in derivative financial instruments	462	741	569	1,527
Unrealized losses on held-for-trading securities	538	-	782	-
Interest expense on preferred share liabilities	790	-	2,340	-
Change in other assets and liabilities	(4,450)	(1,732)	9,102	(1,800)
	<u>(6,483)</u>	<u>(8,765)</u>	<u>1,695</u>	<u>(15,711)</u>
Investing:				
Purchase of securities	(157,222)	(307,714)	(574,762)	(856,219)
Proceeds from sale and maturity of securities	141,826	210,357	488,038	645,751
Mortgages and loans	(25,799)	36,149	(26,776)	117,617
	<u>(41,195)</u>	<u>(61,208)</u>	<u>(113,500)</u>	<u>(92,851)</u>
Financing:				
Deposits	217,020	44,825	192,663	73,033
Notes payable	-	9,652	(2,612)	43,540
Preferred share liabilities	-	-	14,503	-
Short term financings	-	-	(46,578)	-
Dividends paid	-	-	(67)	(240)
	<u>217,020</u>	<u>54,477</u>	<u>157,909</u>	<u>116,333</u>
Increase (decrease) in cash resources	169,342	(15,496)	46,104	7,771
Cash resources, beginning of period	49,059	231,098	172,297	207,831
Cash resources, end of period	<u>\$ 218,401</u>	<u>\$ 215,602</u>	<u>\$ 218,401</u>	<u>\$ 215,602</u>
Supplementary cash flow information:				
Interest paid during the period	\$ 11,981	\$ 19,349	\$ 35,957	\$ 42,921
Income taxes paid during the period	\$ -	\$ -	\$ -	\$ -

PACIFIC & WESTERN CREDIT CORP.
Notes to the interim consolidated financial statements (unaudited)
For the nine months ended July 31, 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 nine months ended July 31, 2010 relating to securitizations is discussed below:

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.

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.

2. Amendment to Financial Statements

Opening retained earnings (deficit) for the nine months ending July 31, 2010 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 previous 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 nine months ended July 31, 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 previous 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

	<i>for the three months ended</i>				<i>for the nine months ended</i>			
	July 31, 2010			July 31, 2009	July 31, 2010			July 31, 2009
	General allowance	Specific allowance	Total allowance	Total allowance	General allowance	Specific allowance	Total allowance	Total allowance
(thousands of dollars)								
Balance, beginning of the period	\$ 4,285	\$ 1,012	\$ 5,297	\$ 6,160	\$ 8,401	\$ 1,133	\$ 9,534	\$ 6,042
Provision for (recovery of) credit losses	-	19	19	148	(786)	104	(682)	266
Recoveries (write-offs)	-	17	17	-	(3,330)	(189)	(3,519)	-
Balance, end of period	\$ 4,285	\$ 1,048	\$ 5,333	\$ 6,308	\$ 4,285	\$ 1,048	\$ 5,333	\$ 6,308

Gross impaired loans at July 31, 2010 totalled \$3,219,000 (July 31, 2009 - \$11,293,000). Loans past due but not impaired at July 31, 2010 totalled \$209,000 (July 31, 2009 - \$849,000). 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 July 31, 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 2012. Notes payable bear interest at rates ranging from 4.0% 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 July 31, 2010 the Corporation had 1,909,458 Class B Preferred Shares outstanding with a total value of \$44.9 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 \$40.6 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 \$40.6 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:

	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	528,998	-	-
Expired	-	(8,600)	14.06
Outstanding, end of period	14,209,410	930,433	\$ 8.29

In addition, at July 31, 2010, there were 314,572 (2009 - 1,142,556) Class A Preferred Shares outstanding and 1,909,458 (2009 - nil) Class B Preferred Shares outstanding.

During the nine months ended July 31, 2010, the Corporation recognized \$95,000 (2009 - \$119,000) 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 45% (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)	July 31 2010	July 31 2009
Net unrealized losses on assets held as available-for-sale *	\$ (11,703)	\$ (11,185)
Balance, end of period	\$ (11,703)	\$ (11,185)

* Net of income tax benefit of \$4,329,000 (2009 - \$4,569,000).

8. Derivative instruments

At July 31, 2010, the Corporation had outstanding contracts for asset liability management purposes to swap between floating and fixed interest rates with notional amounts totalling \$245,532,000 (2009 - \$437,458,000). 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 \$501,000 (2009 - \$1,004,000), a credit equivalent amount of \$3,428,000 (2009 - \$5,268,000) and a risk-weight of \$686,000 (2009 - \$1,054,000). As required under the accounting standard relating to hedges, at July 31, 2010, \$16,529,000 (2009 - \$27,253,000) 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 July 31, 2010 the notional amount of these contracts totalled \$24,705,000 which is included in the total above.

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	\$	181,869
Letters of credit		28,190
	\$	210,059

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)	July 31		July 31	
	2010		2009	
Collateral related to derivative contracts	\$	16,984	\$	28,910
Collateral related to letters of credit		4,758		2,942
	\$	21,742	\$	31,852

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 July 31, 2010, outstanding securitized mortgages totalled \$24,239,000.

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 July 31, 2010, mortgages securitized and sold totalled \$11,828,000 for cash proceeds of \$11,765,000. The retained rights to future excess interest totalled \$906,000 and the servicing liability recorded totalled \$88,000. The key assumptions used in measuring the retained interests at the date of securitization included a discount rate of 2.83% and a rate of 0.62% for the excess spread. Gains on mortgages securitized and sold totalled \$370,000 and are included in other income in the Consolidated Statement of Operations.

For the nine months ended July 31, 2010, mortgages securitized and sold totalled \$24,368,000 for cash proceeds of \$24,220,000. The retained rights to future excess interest totalled \$2,604,000 and the servicing liability recorded totalled \$178,000. The weighted-average key assumptions used in measuring the retained interests at the date of securitization included a discount rate of 2.78% and a rate of 0.94% for the excess spread. Gains on mortgages securitized and sold during the nine month period totalled \$1,153,000 and are included in other income in the Consolidated Statement of Operations

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).

Consistent with capital adequacy guidelines issued by OSFI, the Bank has implemented an internal capital adequacy assessment process (ICAAP) aimed at ensuring that capital levels remain adequate in relation to current and future risks. 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)	July 31 2010	July 31 2009
Total assets (on and off-balance sheet)	\$ 1,594,315	\$ 1,645,496
Capital		
Common shares	\$ 95,365	\$ 95,365
Retained earnings	(1,820)	(1,237)
Unrealized loss on available-for-sale equity securities	(11,084)	(13,803)
Subordinated debentures	41,230	40,162
Total regulatory capital	\$ 123,691	\$ 120,487
Assets-to-capital ratio	12.89	13.66

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)	July 31 2010		July 31 2009	
	Notional/ Drawn Amount	Risk Weighted Balance	Notional/ Drawn Amount	Risk Weighted Balance
Balance sheet assets	\$ 1,566,094	\$ 890,255	\$ 1,617,996	\$ 877,890
Off-balance sheet assets	479,830	91,432	612,225	52,710
Charge for operational risk		22,810		26,619
Total risk-weighted assets		\$ 1,004,497		\$ 957,219
Regulatory capital		123,691		120,487
Total risk-based capital ratio		12.31%		12.59%
Tier 1 risk-based capital ratio		8.21%		8.39%

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 after-tax impact of a 100 basis point shift in interest rates on the Bank's shareholder's equity over a 60 month period. The duration difference between assets and liabilities below decreased from a year ago primarily as a result of the large amount of shorter term liquid assets maintained at July 31, 2010.

(thousands of dollars)	July 31 2010		July 31 2009	
	Increase 100 bps	Decrease 100 bps	Increase 100 bps	Decrease 100 bps
Maximum interest exposure during a 12 month period	\$ 2,830	n/m	\$ 369	n/m
Maximum interest exposure during a 60 month period	\$ 1,784	n/m	\$ (4,722)	n/m
Duration difference between assets and liabilities (months)	0.8		8.9	

n/m - not meaningful

13. Subsidiary company information:

The following table presents summary financial information of the Bank:

(thousands of dollars)	July 31 2010	July 31 2009
	(unaudited)	(unaudited) (restated-note 2)
Cash resources	\$ 209,821	\$ 212,774
Securities	365,919	378,173
Mortgages and loans	956,000	995,802
Other assets	34,354	31,247
	<u>\$ 1,566,094</u>	<u>\$ 1,617,996</u>
Deposits	\$ 1,409,799	\$ 1,462,488
Subordinated notes payable	41,500	41,500
Other liabilities	32,953	31,065
	<u>1,484,252</u>	<u>1,535,053</u>
Share capital	95,365	95,365
Retained earnings (deficit)	(1,820)	(1,237)
Accumulated other comprehensive income (loss)	(11,703)	(11,185)
Shareholder's equity	<u>81,842</u>	<u>82,943</u>
	<u>\$ 1,566,094</u>	<u>\$ 1,617,996</u>

(thousands of dollars)	<i>for the three months ended</i>		<i>for the nine months ended</i>	
	July 31 2010	July 31 2009	July 31 2010	July 31 2009
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Interest income	\$ 15,797	\$ 19,207	\$ 46,809	\$ 56,936
Interest expense	11,990	18,374	35,731	52,601
Net interest income	<u>3,807</u>	<u>833</u>	<u>11,078</u>	<u>4,335</u>
Provision for (recovery of) credit losses	19	148	(690)	266
Net interest income after provision for credit losses	<u>3,788</u>	<u>685</u>	<u>11,768</u>	<u>4,069</u>
Other income (charges)	(245)	507	(165)	(438)
Net interest income and other income (charges)	<u>3,543</u>	<u>1,192</u>	<u>11,603</u>	<u>3,631</u>
Non-interest expenses	4,371	3,716	12,629	10,361
Income (loss) before income taxes	<u>(828)</u>	<u>(2,524)</u>	<u>(1,026)</u>	<u>(6,730)</u>
Income taxes	(338)	(1,157)	(571)	(2,932)
Net income (loss)	<u>\$ (490)</u>	<u>\$ (1,367)</u>	<u>\$ (455)</u>	<u>\$ (3,798)</u>

Pacific & Western Bank of Canada (PWBank), a Canadian Schedule I chartered bank, is a branchless financial institution. PWBank specializes in providing financing throughout Canada to well established corporations and government entities, including hospitals, school boards, universities and colleges, municipalities, provinces and territories, 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.

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