



Pacific & Western

Credit Corp.

Fourth Quarter Report October 31, 2011

PACIFIC & WESTERN CREDIT CORP. ANNOUNCES RESULTS FOR ITS FOURTH QUARTER ENDED OCTOBER 31, 2011

FOURTH QUARTER SUMMARY

(three months ended October 31, 2011, compared to three months ended October 31, 2010, unless otherwise noted):

Pacific & Western Bank of Canada

- Lending, at October 31, 2011 increased to \$1.09 billion from \$965 million a year ago, an increase of 13%.
- Credit quality remains very good with gross impaired loans at October 31, 2011 decreasing to \$923,000 or 0.08% of total loans from \$3.3 million or 0.34% of total loans a year ago.
- Spread for the three months ended October 31, 2011 was 1.34% compared to 1.44% for the same period last year and for the year ended October 31, 2011 increased to 1.38% from 1.34% last year.
- Net income for the three months ended October 31, 2011 was (\$519,000) compared to \$922,000 for the same period a year ago.
- For the year ended October 31, 2011, net income for the Bank was \$29,000 compared to \$467,000 last year.

Pacific & Western Credit Corp.

- Net income (loss) of Pacific & Western Credit Corp. (the "Corporation") for the three months ended October 31, 2011 was (\$8.1 million) or (\$0.32) per share ((\$0.32) diluted) compared to (\$1.4 million) or (\$0.10) per share ((\$0.10) diluted) for the same period last year.
- Net income (loss) of the Corporation for the year ended October 31, 2011 was (\$15.8 million) or (\$0.83) per share ((\$0.83) diluted) compared to (\$8.1 million) or (\$0.58) per share ((\$0.58) diluted) last year.

PRESIDENT'S COMMENTS

We set out in 2011 to continue to grow and diversify our commercial lending business, to strengthen our capital position and to advance several very attractive initiatives. I am pleased to tell you that these objectives were met. During 2011 our loan and lease portfolio grew by 13% from \$965 million to \$1.1 billion. About half of this growth can be attributed to our new bulk lease financing program. During the year we established relationships with six lease vendors and began accepting leases from them. We expect to continue to expand this network of lease vendors and significantly increase this business in 2012. Net revenue from lending operations again set a record increasing by 15% to \$21.9 million. Although we are pleased with the significant increase in net revenue, our Bank's net interest income figures were depressed by two large hospital construction loans that were priced prior to the liquidity crisis with thin spreads. The first hospital loan repaid during the last few weeks of fiscal 2011 and the second is due to repay at the end of 2012's second quarter. We expect net interest income to improve significantly in 2012 as we are able to redeploy the proceeds of the hospital loans' repayments into higher spread loans and leases.

The quality of our loans and leases throughout the year has remained outstanding with not a single loan being in arrears for most of the year. Gross impaired loans at the end of the year were a mere \$923,000 or 6 basis points of total assets. Presently we have loan commitments for \$227 million which bodes well for the continued growth of the lending portfolio. We estimate that our loan and lease balances will grow by about 13% per year however, as mentioned above, due to the repayment of the thinly priced hospital loans net interest income from our commercial lending operations should grow quite significantly.

We are now in the final stages of preparation for the launch of our Home Hardware Credit Card Program. We plan to launch this card on January 2, 2012 and are very encouraged by the tremendous response we have received from Home Hardware's dealer network. Home Hardware has approximately 1,100 dealers throughout Canada and we are looking forward to working with these dealers to provide a high quality credit card financing service. This opportunity of course did not come without the requirement for a significant investment, most of which was made during 2011. The Bank absorbed some of these costs, however, the majority of the costs were borne by the Bank's sister company, Versabanq. We are very excited not only by the additional profits this card brings, but also by the diversity that it adds to our revenue streams, which have up until now been reliant upon our commercial lending business.

The other project that we have invested considerable time and money in 2011 is also near completion. Once operational it should result in a significant reduction to our cost of funds and greatly increases the diversity of our deposit gathering network. We have been working with two of Canada's largest trustees in bankruptcy, their administrative software provider and a large Canadian bank to develop custom banking software for this industry. There are approximately 900 trustees in bankruptcy operating throughout Canada with about \$2 billion in deposits. We believe our custom banking software will prove to be an attractive alternative to the trustee's present banking arrangements and we are hopeful that this will result in a new source of low cost deposits for our Bank.

In total during 2011 we invested approximately \$3.1 million to bring these projects to successful launches. The cost of these investments served to depress our Bank's earnings to little more than breakeven and increase the loss for the corporate group. As a large majority of these costs are now behind us, we expect our Bank's profitability to increase significantly, which will have a very positive effect on the consolidated groups' earnings.

During the year we completed a public offering and private placement of units which resulted in additional capital of \$23 million. Some of this capital was utilized to repay expensive debt and the rest to increase our Bank's regulatory capital. The Bank's regulatory capital increased to \$149 million, a 16% increase over the previous year. Our Bank is well positioned to meet Basel III Capital requirements.

We obviously incurred considerable expenses in 2011 to diversify our lending and deposit gathering activities and to provide for significant profitable growth, we think this investment will prove to be well justified as we begin to receive the dividend in 2012 and beyond.

FINANCIAL HIGHLIGHTS

(unaudited)

	for the three months ended		for the year ended	
	October 31 2011	October 31 2010	October 31 2011	October 31 2010
(\$ thousands, except per share amounts)				
Pacific & Western Bank of Canada				
Balance Sheet Summary				
Cash and securities	\$ 324,131	\$ 323,652	\$ 324,131	\$ 323,652
Total loans	1,090,932	964,862	1,090,932	964,862
Average loans	1,082,409	960,431	1,027,897	947,347
Total assets	1,444,239	1,315,888	1,444,239	1,315,888
Deposits	1,269,730	1,150,903	1,269,730	1,150,903
Subordinated notes payable	49,651	40,025	49,651	40,025
Shareholder's equity	96,994	88,092	96,994	88,092
Capital ratios				
Total regulatory capital	\$ 149,066	\$ 129,182	\$ 149,066	\$ 129,182
Risk-weighted assets	1,118,036	965,716	1,118,036	965,716
Assets-to-capital ratio	9.87	10.39	9.87	10.39
Tier 1 risk-based capital ratio	8.89%	9.08%	8.89%	9.08%
Total risk-based capital ratio	13.33%	13.38%	13.33%	13.38%
Results of operations (teb) *				
Net interest income per financial statements	\$ 4,485	\$ 4,609	\$ 17,154	\$ 15,687
Teb adjustment	378	626	1,942	2,562
Net interest income (teb)	4,863	5,235	19,096	18,249
Spread	1.34%	1.44%	1.38%	1.34%
Provision for (recovery of) credit losses	83	(473)	165	(1,163)
Other income (charges)	(185)	451	644	286
Total revenue	4,595	6,159	19,575	19,698
Non-interest expenses	4,378	4,221	17,604	16,850
Net income (loss)	(519)	922	29	467
Return on average total assets	-0.14%	0.26%	0.00%	0.03%
Gross impaired loans to total loans	0.08%	0.34%	0.08%	0.34%
Provision for (recovery of) credit losses as a % of average loans	0.01%	-0.05%	0.02%	-0.12%
Pacific & Western Credit Corp., (consolidated)				
Results of operations				
Net income (loss) for the Bank	\$ (519)	\$ 922	\$ 29	\$ 467
Deduct interest expense on notes of the parent	(1,213)	(840)	(4,586)	(3,606)
Non-interest expenses of the parent	(2,384)	(265)	(3,463)	(436)
Provision for income taxes	(2,763)	-	(2,998)	-
Net loss before interest expense relating to Class B				
Preferred Share dividends	(6,879)	(183)	(11,018)	(3,575)
Interest expense relating to Class B				
Preferred Share dividends	(1,208)	(1,196)	(4,812)	(4,499)
Net loss for the Corporation	\$ (8,087)	\$ (1,379)	\$ (15,830)	\$ (8,074)
Loss per common share:				
Basic	\$ (0.32)	\$ (0.10)	\$ (0.83)	\$ (0.58)
Diluted	\$ (0.32)	\$ (0.10)	\$ (0.83)	\$ (0.58)

*Non-GAAP measures

Tax equivalent basis (teb) - like most banks, the Corporation's 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 fourth quarter of fiscal 2011 should be read in conjunction with the unaudited interim consolidated financial statements for the period ended October 31, 2011, included herein, and the audited consolidated financial statements and MD&A for the year ended October 31, 2010, 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, 2010, remain substantially unchanged.

Overview

Pacific & Western Credit Corp. is a holding company whose shares trade on the Toronto Stock Exchange. Its wholly-owned and principal subsidiary is Pacific & Western Bank of Canada which provides lending services to selected niche markets and operates as a Schedule I bank under the *Bank Act* (Canada).

Pacific & Western Credit Corp.

Net income (loss) of the Corporation for the three months ending October 31, 2011 was (\$8.1 million) or (\$0.32) per share ((\$0.32) diluted) compared to (\$1.4 million) or (\$0.10) per share ((\$0.10) diluted) for the same period last year. Prior to the deduction of dividends on Class B Preferred Shares, net income (loss) for the three months ending October 31, 2011 was (\$6.9 million) compared to (\$183,000) last year. These dividends are recorded as interest expense in the consolidated financial statements as the preferred shares carry certain redemption features and are classified as preferred share liabilities on the Consolidated Balance Sheet. Net income (loss) of the Corporation for the year ending October 31, 2011 was (\$15.8 million) or (\$0.83) per share ((\$0.83) diluted) compared to (\$8.1 million) or (\$0.58) per share ((\$0.58) diluted) last year. Prior to the deduction of dividends on Class B Preferred Shares, net income (loss) for the year ending October 31, 2011 was (\$11.0 million) compared to (\$3.6 million) a year ago.

The results of the Corporation for the current quarter and for the year were impacted by consulting and professional fees relating to implementation of its private label credit card initiative which for the current quarter totalled \$1.3 million and for the year totalled \$1.9 million and by income tax adjustments in the parent company which for the current quarter totalled \$2.8 million and for the year totalled \$3.0 million. While the implementation costs were incurred in the current periods, this investment will provide future benefits to the Corporation when the credit card program is launched in early 2012.

Pacific & Western Bank of Canada

Net income (loss) of the Bank for the three months ending October 31, 2011 was (\$519,000) compared to \$922,000 for the same period a year ago and for the year ending October 31, 2011 was \$29,000 compared to \$467,000 last year. The results of the Bank in the current quarter were less than the same period a year ago due primarily to a recovery of credit losses of \$473,000 and higher levels of other income last year. While the Bank saw growth in net interest income for the current year compared to last year, the overall results of the Bank for the year ending October 31, 2011 were less than the same period a year ago due primarily to a recovery of credit losses last year of \$1.2 million and increased non-interest expenses in the current year.

Net interest income (teb) for the Bank for the three months ended October 31, 2011 was \$4.9 million compared to \$5.2 million for the same period last year and for the year ended October 31, 2011, net interest income (teb) increased to \$19.1 million compared to \$18.3 million last year. Net interest margin or spread (teb) for the Bank for the three months ended October 31, 2011 was 1.34% compared to 1.44% last year and for the year ended October 31, 2011 increased to 1.38% from 1.34%. Spread (teb) for the current quarter was less than the same period a year ago due primarily to a lower level of income from securities in the current quarter and a lower teb adjustment in the current quarter as a result of sales of preferred shares during the quarter. Spread for the year increased from last year due to an increase in lending assets and increased spreads on new and renewed loans.

At October 31, 2011, total assets of the Bank were \$1.44 billion compared to \$1.32 billion a year ago with the increase due to growth in lending assets which increased to \$1.09 billion at October 31, 2011 from \$965 million last year. The growth in lending assets was due primarily to an increase of \$60 million in leases sourced primarily through the Bank's bulk lease financing program as well as increases in corporate mortgages and loans. Total leases outstanding at October 31, 2011 were \$171 million compared to \$130 million a year ago. Credit quality remains strong, with gross impaired loans decreasing to \$923,000 at October 31, 2011 from \$3.3 million a year ago. At October 31, 2011, the ratio of gross impaired loans as a percentage of total loans was 0.08% compared to 0.34% last year.

Total Revenue (teb)

Total revenue (teb) of the Bank was \$4.6 million for the current quarter compared to \$6.2 million for the same period last year and for the year ending October 31, 2011 total revenue (teb) of the Bank was \$19.6 million compared to \$19.7 million. Total revenue of the Bank for the current quarter was less than the same period a year ago due primarily to a recovery for credit losses of \$473,000 recorded last year compared to a provision for credit losses of (\$83,000) recorded in the current quarter and other income last year of \$451,000 compared to charges totalling (\$185,000) in the current quarter.

Net Interest Income and Net Interest Margin

Net interest income (teb) of the Bank was \$4.9 million for the current quarter compared to \$5.2 million for the same period a year ago and for the year ended October 31, 2011, net interest income (teb) increased to \$19.1 million from \$18.2 million last year. Net interest margin or spread (teb) for the Bank, which is net interest income as a percentage of average assets, was 1.34% for the current quarter compared to 1.44% for the same period a year ago and for the year ending October 31, 2011 spread (teb) increased to 1.38% from 1.34% last year. Net interest income (teb) and spread for the current quarter was less than the same period a year ago primarily as a result of a lower level of income from securities in the current quarter and a lower teb adjustment in the current quarter as a result of preferred shares sold in the quarter. The increase in net interest income and spread for the current year was due to the increase in lending assets and improved spreads earned on new and renewed loans.

Other Income (charges)

Other income (charges) of the Corporation for the three months ended October 31, 2011 were (\$185,000) compared to \$481,000 for the same period last year. Other income (charges) for the current period consisted of impairment and other charges of (\$720,000) and gains, net of related expense, totalling \$535,000 from securitization activities. For the year ending October 31, 2011, other income totalled \$593,000 compared to \$349,000 a year ago. Other income in the current year consisted of impairment and other charges totalling (\$794,000), and gains, net of related expenses, totalling \$1.4 million from securitization activities and other items.

Non-Interest Expenses

Non-interest expenses of the Bank totalled \$4.4 million for the current quarter compared to \$4.2 million for the same period a year ago and for the year ended October 31, 2011 totalled \$17.6 million compared to \$16.9 million last year. The increase in non-interest expenses for the current quarter and for the year was primarily in general and administrative expenses where the Corporation incurred expenses totalling approximately \$403,000 for the quarter and \$482,000 for the year relating to non-recurring consulting and professional fees and increases in salaries and benefits due to new hires primarily in the lending area and annual salary adjustments. These increases however were partially offset by reductions in discretionary expenses.

Non-interest expenses of the Corporation on a consolidated basis were \$6.8 million for the current quarter compared to \$4.5 million for the same period last year and for the year totalled \$21.1 million compared to \$17.3 million last year. In addition to the items referred to above for the Bank, the increase in non-interest expenses for the current quarter and for the year was due primarily to consulting and professional fees in the Corporation totalling \$1.3 million for the quarter and \$1.9 million for the year relating to its private label credit card initiative.

Income Taxes

The Corporation's statutory federal and provincial income tax rate and that of the Bank is approximately 29% compared to 31% 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 the Bank's treasury portfolio, the tax benefit on operating losses in the parent company not being recorded for accounting purposes and other items not being taxable or deductible for income tax purposes. For the current quarter the Corporation's consolidated provision (recovery) for income taxes was \$3.1 million compared to \$390,000 a year ago and for the year ending October 31, 2011 was \$3.0 million compared to (\$181,000) a year ago. During the current quarter the provision for income taxes was impacted by income tax adjustments in the parent totalling \$2.8 million.

At October 31, 2011, the future income tax asset in the Bank was \$10.8 million compared to \$10.7 million a year ago and is primarily a result of income tax losses from previous periods, the benefit of which was recorded at the time. 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 were caused by declines in previous years in the market value of preferred shares, being mostly 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 in future years sufficient to offset the income tax losses. The ability to generate sufficient taxable income may be dependent upon the Bank generating income from operations or on converting non-taxable income sources to taxable income sources during the carry-forward period. It is also dependent upon the market value of the preferred shares recovering in value as they are carried at market value for income tax purposes with mark-to-market adjustments being added to or deducted from taxable income. At October 31, 2011, the Bank had reduced its holdings of preferred shares and the market value of the remaining preferred shares had increased from a year ago, trading at a value of \$5.2 million below their amortized cost compared to \$8.3 million a year ago.

Comprehensive income (loss)

Total comprehensive income (loss) is comprised of net income (loss) and other comprehensive income (loss). The Corporation's other comprehensive income (loss) consists of the after-tax changes in unrealized gains and losses on available-for-sale securities. Total comprehensive income (loss) for the three months ended October 31, 2011 was (\$10.4 million) compared to \$4.0 million a year ago and for the year ended October 31, 2011, was (\$15.6 million) compared to (\$1.3 million) for the same period last year. The difference in total comprehensive income (loss) in the current quarter and for the year compared to the same periods last year was due to the change in net loss from a year ago and in unrealized gains on available-for-sale assets being greater last year than in the current year. During the current year, the Corporation was able to realize on many of these unrealized gains through disposition of available-for-sale assets, particularly those relating to preferred shares in its treasury portfolio.

Balance Sheet

Total assets of the Corporation at October 31, 2011, were \$1.45 billion compared to \$1.32 billion a year ago with the increase due primarily to growth in lending assets which increased from \$965 million to \$1.09 billion at October 31, 2011, an increase of 13%.

Cash and Securities

Cash and cash equivalents typically consist of deposits with Canadian chartered banks, government treasury bills and bankers acceptances with less than ninety days to maturity from the date of acquisition. Securities in the Corporation's treasury portfolio typically consist of Government of Canada and Canadian provincial and municipal bonds, bankers' acceptances and corporate debt and preferred shares. Cash and securities, which are held primarily for liquidity management purposes, totalled \$330 million or 23% of total assets at October 31, 2011 compared to \$332 million or 25% of total assets a year ago. Cash and cash equivalents were \$195 million of the total amount of cash and securities at October 31, 2011 compared to \$97 million a year ago and increased from a year ago as a result of the Corporation focusing its strategy on holding higher levels of liquid assets compared to holdings of securities to earn investment income. In addition, current market conditions enable the Corporation to earn higher yields on cash and cash equivalents than on longer term government securities.

At October 31, 2011, the net unrealized loss in the Corporation's securities portfolio was \$9.3 million compared to a net unrealized loss of \$9.0 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 primarily on market values as the securities the Corporation owns are publicly traded. While the Corporation recorded impairment charges totaling \$724,000 during the current year, it is of the view that the unrealized losses on the remaining securities it owns do not represent other than temporary declines in value and additional impairment charges are not required at this time.

The Corporation's holdings of equity securities, consisting primarily of preferred shares, traded at a value of \$5.2 million below their amortized cost at October 31, 2011 compared to \$8.3 million below their amortized cost a year ago. The Corporation intends to hold these securities until a recovery in value is achieved and over the past several months has been reducing its investment in these preferred shares. At October 31, 2011, the market value of preferred shares totalled \$29.6 million compared to \$60.9 million at July 31, 2011 and \$65.7 million a year ago. The Corporation intends to continue this strategy of disposing of preferred shares as their market values approach their amortized cost.

Mortgages and Loans

Mortgages and loans totalled \$1.09 billion at October 31, 2011, compared to \$965 million a year ago with the increase being primarily in commercial leases sourced through the Corporation's bulk lease financing program and in corporate mortgages and loans. At October 31, 2011, the Corporation's total lease portfolio grew to \$171 million from \$130 million a year ago of which approximately \$60 million of the increase relates to our bulk lease financing program. New lending in the current quarter totalled \$130 million compared to \$126 million a year ago and loan repayments for the current quarter totalled \$114 million compared to \$123 million last year. For the current year, new lending totalled \$545 million compared to \$437 million a year ago and loan repayments for the year totalled \$413 million compared to \$407 million last year. Loan commitments at October 31, 2011 were \$227 million. The Corporation is continuing to enter into agreements with vendors for its bulk lease financing program to provide lease financing and expects to see accelerated growth in this niche in the coming year.

Credit Quality

Gross impaired loans at October 31, 2011 totalled \$923,000 or 0.08% of total loans compared to \$3.3 million or 0.34% of total loans a year ago. The Corporation has maintained its high credit quality and requires minimal provisions for credit losses. Provisions for (recovery of) credit losses in the current quarter were \$83,000 compared to a recovery of (\$473,000) a year ago. For the year ended October 31, 2011, the provision for (recovery of) credit losses totalled \$165,000 compared to a recovery of (\$1.2 million) last year. The recovery of credit losses recorded in the previous year was due primarily to a reduction in the amount of the Corporation's general allowance relating to personal loans based on the results of the Corporation's stress testing of its loan portfolio and the winding down of that portfolio.

At October 31, 2011 the Corporation's general allowance totalled \$2.8 million compared to \$3.8 million a year ago with the decrease due primarily to the reduction of the general allowance relating to personal loans noted above. Based on results from ongoing stress testing of the loan portfolio under various scenarios, and the secured nature of the existing loan portfolio, the Corporation is of the view that any credit losses which exist but cannot be specifically identified at this time are adequately provided for.

Other Assets

Other assets totalled \$26.2 million at October 31, 2011 compared to \$26.2 million a year ago. Included in other assets is the future income tax asset of the Bank totalling \$10.8 million compared to \$10.7 million last year and capital assets and prepaid expenses totalling \$13.6 million at October 31, 2011 compared to \$14.7 million last year.

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 October 31, 2011 totalled \$1.27 billion compared to \$1.15 billion a year ago, and consist primarily of guaranteed investment certificates. Of these amounts, \$29.8 million or approximately 2.3% of total deposits at the end of the quarter were in the form of demand deposits compared to \$36.2 million or approximately 3.1% of total deposits a year ago, with the remaining deposits having fixed terms. Total deposits increased from last year in order to fund the growth in lending assets.

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 October 31, 2011, the Corporation did not have any amounts outstanding relating to securities sold under repurchase agreements nor were any amounts outstanding a year ago.

Other liabilities consist primarily of the fair value of derivatives and accounts payable and accruals. At October 31, 2011, other liabilities totalled \$31.2 million compared to \$38.4 million a year ago. The fair value of derivatives at October 31, 2011 totalled \$19.2 million compared to \$19.7 million last year. Under the accounting standard for hedges, the offsetting amount is included in the carrying values of the assets to which they relate.

Notes Payable

Notes payable, net of issue costs, totalled \$77.6 million at October 31, 2011 compared to \$75.6 million a year ago. During the current quarter, the Corporation reduced its consolidated indebtedness by way of the purchase of a \$10.0 million subordinated note bearing an interest rate of 11% which had been issued by the Bank to an external party. In addition, during the quarter, the Corporation repaid a short term note of \$5.6 million. Excluding issue costs, notes payable consist of Series C Notes totalling \$61.7 million maturing in 2018 and a short term note in the amount of \$200,000. The Series C Notes bear interest at 9.00% per annum. In addition, the Corporation has outstanding subordinated notes payable totalling

\$21.5 million issued by the Bank to an external party. These subordinated notes bear interest at rates ranging from 8.00% to 11.00%, are callable by the Bank, and mature between 2019 and 2021.

Preferred Share Liabilities

At October 31, 2011, the Corporation had 1,909,458 Class B Preferred Shares outstanding with a total value of \$47.7 million, before deducting issue costs of \$2.5 million. As these Class B Preferred Shares carry certain redemption features and are convertible into common shares of the Corporation, an amount of \$41.3 million, net of issue and conversion costs, representing the fair value of the Corporation's obligation to make future payments of principal and interest has been classified on the Corporation's Consolidated Balance Sheet as Preferred Share Liabilities. In addition, an amount of \$4.3 million, net of issue costs, representing the equity portion of the Class B Preferred Shares, 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 \$41.3 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 October 31, 2011, Pacific & Western Credit Corp., on a non-consolidated basis, has sufficient funds on hand to meet its cash obligations due to the end of fiscal 2012. These obligations relate primarily to payments of interest on notes payable and the expected cash portion of dividends on Class B Preferred Shares. The funding for the obligations of the Corporation beyond 2012 is expected to come primarily from cash on hand in the Corporation and interest income earned by the Corporation.

Shareholders' Equity

At October 31, 2011, Shareholders' Equity was \$27.4 million compared to \$17.1 million a year ago with the increase due primarily to the issue of common shares and warrants pursuant to a public offering which closed during the year and net losses incurred from last year. Accumulated Other Comprehensive Income (Loss) which is included in Shareholder's Equity, was (\$6.1 million) at October 31, 2011 compared to (\$6.4 million) a year ago.

Common shares outstanding at October 31, 2011 totalled 26,237,594 compared to 14,434,242 a year ago with the change due to; 7,476,000 common shares issued under a public offering, 3,200,000 common shares issued under private placements and 1,127,352 common shares issued as part of the dividends on the Class B Preferred Shares. Common share options outstanding totalled 1,143,033 at the end of the year compared to 508,333 a year ago with the change due to common share options issued and the expiry of common share options. In addition, the Corporation has 5,398,700 warrants outstanding at October 31, 2011 resulting from a public offering and a private placement which if exercised would result in one common share for \$2.80, as well as 747,600 broker warrants outstanding which if exercised would result in one common share and one-half warrant being issued for \$2.25 each and 56,070 broker warrants which if exercised would result in one warrant being issued for \$0.22 each. The warrants expire in November 2012.

At October 31, 2011, there were 314,572 Class A Preferred Shares outstanding, unchanged from a year ago and 1,909,458 Class B Preferred Shares outstanding, also unchanged from a year ago.

The Corporation's book value per common share at the end of the year was \$0.84 compared to \$0.82 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 October 31, 2011 would be \$1.90 per share.

Updated Share Information

As at December 7, 2011, there were no changes in the number of outstanding common shares, common share options, or Class A or Class B Preferred Shares since October 31, 2011.

Capital Management

Total regulatory capital in the Corporation's principal subsidiary, the Bank, reached a record level of \$149.1 million at the end of the year compared to \$129.2 million a year ago with the increase due primarily to \$8.6 million of additional Tier 1 capital in the form of common shares being issued by the Bank to the Corporation, additional subordinated notes issued by the Bank to an external party, improvements in the market value of preferred shares which the Bank holds in its securities portfolio and operating results of the Bank over the past year. Regulatory capital includes the after-tax effect of unrealized gains and losses on 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 13.33% at the end of the year compared to 13.38% 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 8.89% at the end of the year compared to 9.08% last year. The Bank's assets-to-capital ratio was 9.87 at the end of the year compared to 10.39 a year ago. The changes in the Bank's capital ratios from a year ago were due to the increase in regulatory capital as well as an increase in risk-weighted assets, primarily from the increase in lending assets.

See note 10 to the interim consolidated financial statements for more information regarding capital management.

Summary of Quarterly Results (teb)

(thousands of dollars except per share amounts)

	2011				2010			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Results of operations:								
Total interest income								
per financial statements	\$ 14,105	\$ 14,492	\$ 13,353	\$ 13,163	\$ 13,648	\$ 13,459	\$ 11,417	\$ 14,364
Teb adjustment	378	517	499	548	626	643	623	669
Total interest income	14,483	15,009	13,852	13,711	14,274	14,102	12,040	15,033
Interest expense	12,022	12,637	11,673	10,924	11,105	11,750	10,953	11,561
Net interest income	2,461	2,372	2,179	2,787	3,169	2,352	1,087	3,472
Provision for (recovery of) credit losses	83	-	42	40	(473)	19	(735)	26
Other income (charges)	(185)	(290)	706	362	481	(215)	62	21
Total revenue	2,193	2,082	2,843	3,109	4,123	2,118	1,884	3,467
Non-interest expenses	6,781	5,616	4,332	4,388	4,486	4,338	4,251	4,211
Income (loss) before income taxes	(4,588)	(3,534)	(1,489)	(1,280)	(363)	(2,220)	(2,367)	(744)
Income tax provision (recovery)	3,499	204	687	550	1,016	305	463	596
Net income (loss)	\$ (8,087)	\$ (3,738)	\$ (2,176)	\$ (1,829)	\$ (1,379)	\$ (2,525)	\$ (2,830)	\$ (1,340)
Earnings (loss) per share								
-basic	\$ (0.32)	\$ (0.18)	\$ (0.14)	\$ (0.13)	\$ (0.10)	\$ (0.18)	\$ (0.21)	\$ (0.10)
-diluted	\$ (0.32)	\$ (0.18)	\$ (0.14)	\$ (0.13)	\$ (0.10)	\$ (0.18)	\$ (0.21)	\$ (0.10)

The financial results of the Corporation for each of the last eight quarters are summarized above. The Corporation's results, particularly total interest income and net interest income are comparable between quarters with some seasonality occurring during the spring and summer months due to residential construction lending. In addition, total interest income between quarters can fluctuate depending on the amount and timing of loan fees recorded as these are related to loan advances and commitments earned each quarter. Total interest income in 2011 reflects the impact of increased levels of lending assets and increased yields being earned on new and renewed loans. Other income during the current quarter includes impairment charges relating to securities in the Corporation's treasury portfolio, net of gains on securitization activities.

Non-interest expenses over the past year have been comparable between quarters until the last two quarters. Non-interest expenses increased in those quarters as a result of expenses being incurred totalling approximately \$1.3 million relating to professional and consulting fees for the Corporation's private label credit card program. The Corporation does not expect to incur significant consulting and professional fees relating to implementation of the private label credit card program in 2012.

The provision for income taxes in the fourth quarter of 2011 includes an income tax adjustment of \$2.8 million relating to income taxes in the parent company.

Significant Accounting Policies

Significant accounting policies are detailed on pages 58 to 61 of the Corporation's 2010 Annual Report. There have been no changes in accounting policies or new significant accounting policies adopted during the current period.

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 Reporting 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 and is on schedule to meet IFRS reporting requirements. It has a project team assigned to achieve a smooth transition to IFRS. Regular reporting to the Audit Committee of the Board of Directors on the status of the IFRS implementation continues to take place. The Corporation and the Bank also provide 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 consisted of three phases which included: research, diagnostic and planning phase; impact analysis, evaluation and design phase; and implementation, training and review phase. The Corporation has completed virtually all phases of its implementation project at October 31, 2011. The results thus far of the Corporation's analysis of IFRS in comparison to Canadian GAAP have identified several differences. However the differences identified 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 and recognition of impairment charges in previous years relating to securities in the Corporation's treasury portfolio.

Under IFRS certain financial assets that previously qualified for derecognition on transfer are expected to be re-recognized. This would result in retroactively re-recognizing the assets that were previously considered to have been sold as amortizing assets that continue to reside on the Consolidated Balance Sheet, earning spread income over their term. This would also result in an adjustment to retained earnings intended to unwind the previously reported impact of all securitization transactions undertaken subsequent to January 1, 2004. As at October 31, 2011, insured mortgages which previously qualified for derecognition under GAAP and which will be required to be added back to the consolidated balance sheet under IFRS totalled \$42.4 million.

In addition, under IFRS the basis for determining impairment in the Corporation's available-for-sale securities, specifically the preferred shares it holds in its treasury portfolio, will change from that used under Canadian Generally Accepted Accounting Principles. The result will be that any impairment in these securities as determined under IFRS prior to November 1, 2010 will be recorded at the date of transition through a transfer between Accumulated Comprehensive Income (Loss) and Retained Earnings (Deficit). Total Shareholders' Equity will remain unchanged as a result of this adjustment.

As the Corporation completes its transition to IFRS, it continues to monitor all ongoing changes to IFRS. 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, 2010, and are found on pages 39 to 42 of the Corporation's 2010 Annual Report.

Controls and Procedures

During the most recent interim period, there have been no changes in the Corporation's policies and procedures and other processes that comprise its internal control over financial reporting, that have materially affected, or are reasonably likely to materially affect, the Corporation's internal control over financial reporting.

Dated: December 7, 2011

Forward-Looking Statements

The statements in this management's discussion and analysis that relate to the future are forward-looking statements. By their very nature, forward-looking statements involve inherent risks and uncertainties, both general and specific, many of which are out of our control. Risks exist that predictions, forecasts, projections and other forward-looking statements will not be achieved. Readers are cautioned not to place undue reliance on these forward-looking statements as a number of important factors could cause actual results to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward-looking statements. These factors include, but are not limited to, the strength of the Canadian economy in general and the strength of the local economies within Canada in which we conduct operations; the effects of changes in monetary and fiscal policy, including changes in interest rate policies of the Bank of Canada; the effects of competition in the markets in which we operate; inflation; capital market fluctuations; the timely development and introduction of new products in receptive markets; the impact of changes in the laws and regulations regulating financial services; changes in tax laws; technological changes; unexpected judicial or regulatory proceedings; unexpected changes in consumer spending and savings habits; and our anticipation of and success in managing the risks implicated by the foregoing. For a detailed discussion of certain key factors that may affect our future results, please see page 43 of our 2010 Annual Report.

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

PACIFIC & WESTERN CREDIT CORP.

Consolidated Balance Sheet

(thousands of dollars)

	October 31	October 31
	2011	2010
	<u>(unaudited)</u>	
Assets		
Cash and cash equivalents	\$ 194,899	\$ 96,989
Securities	135,137	234,661
Mortgages and loans	1,090,932	964,862
Other assets	<u>26,171</u>	<u>26,220</u>
	<u><u>\$ 1,447,139</u></u>	<u><u>\$ 1,322,732</u></u>
Liabilities and Shareholders' equity		
Deposits	\$ 1,269,730	\$ 1,150,903
Notes payable	77,581	75,559
Other liabilities	<u>31,219</u>	<u>38,396</u>
	<u>1,378,530</u>	<u>1,264,858</u>
Preferred share liabilities	41,256	40,744
Shareholders' equity		
Share capital	69,900	44,054
Deficit	(36,444)	(20,548)
Accumulated other comprehensive income (loss)	<u>(6,103)</u>	<u>(6,376)</u>
	<u>27,353</u>	<u>17,130</u>
	<u><u>\$ 1,447,139</u></u>	<u><u>\$ 1,322,732</u></u>

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

	<i>for the three months ended</i>		<i>for the year ended</i>	
	October 31 2011	October 31 2010	October 31 2011	October 31 2010
	(unaudited)	(unaudited)	(unaudited)	
Interest income				
Interest income on loans	\$ 11,255	\$ 9,937	\$ 43,296	\$ 35,226
Interest and income from securities	1,847	2,737	8,055	13,493
Loan fee income	1,003	974	3,762	4,168
	<u>14,105</u>	<u>13,648</u>	<u>55,113</u>	<u>52,887</u>
Interest expense				
Deposits and other	8,208	7,840	32,655	32,515
Notes payable	2,606	2,069	9,789	8,355
Preferred share liabilities	1,208	1,196	4,812	4,499
	<u>12,022</u>	<u>11,105</u>	<u>47,256</u>	<u>45,369</u>
Net interest income	2,083	2,543	7,857	7,518
Provision for (recovery of) credit losses	83	(473)	165	(1,163)
Net interest income after provision for (recovery of) credit losses	2,000	3,016	7,692	8,681
Other income (charges)	(185)	481	593	349
	<u>1,815</u>	<u>3,497</u>	<u>8,285</u>	<u>9,030</u>
Non-interest expenses				
Salaries and benefits	2,506	1,980	9,143	7,576
General and administrative	3,888	2,008	10,319	7,689
Premises and equipment	387	498	1,655	2,020
	<u>6,781</u>	<u>4,486</u>	<u>21,117</u>	<u>17,285</u>
Loss before income taxes	(4,966)	(989)	(12,832)	(8,255)
Income tax provision (recovery)	3,121	390	2,998	(181)
Net loss	<u>\$ (8,087)</u>	<u>\$ (1,379)</u>	<u>\$ (15,830)</u>	<u>\$ (8,074)</u>
Basic loss per share	<u>\$ (0.32)</u>	<u>\$ (0.10)</u>	<u>\$ (0.83)</u>	<u>\$ (0.58)</u>
Diluted loss per share	<u>\$ (0.32)</u>	<u>\$ (0.10)</u>	<u>\$ (0.83)</u>	<u>\$ (0.58)</u>
Weighted average number of common shares	<u>25,392,000</u>	<u>13,986,000</u>	<u>19,255,000</u>	<u>14,285,000</u>

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

(thousands of dollars)

	<i>for the three months ended</i>		<i>for the year ended</i>	
	October 31	October 31	October 31	October 31
	2011	2010	2011	2010
	(unaudited)	(unaudited)	(unaudited)	
Total net loss	\$ (8,087)	\$ (1,379)	\$ (15,830)	\$ (8,074)
Other comprehensive income (loss), net of tax:				
Net unrealized (losses) gains on assets held as available-for-sale ⁽¹⁾	(4,326)	4,559	(1,581)	6,992
Amount transferred to net loss for available-for-sale assets ⁽²⁾	2,060	768	1,778	(446)
Amount transferred to net loss for impairment writedown on available-for-sale assets ⁽³⁾	-	-	76	231
Total other comprehensive income (loss)	(2,266)	5,327	273	6,777
Total comprehensive income (loss)	<u>\$ (10,353)</u>	<u>\$ 3,948</u>	<u>\$ (15,557)</u>	<u>\$ (1,297)</u>

(1) Net of income tax benefit (expense) for the three months of \$1,767 (2010-\$1,862) and year of \$646 (2010-\$2,856).

(2) Net of income tax benefit (expense) for the three months of (\$839) (2010-\$313) and year of (\$724) (2010-\$390).

(3) Net of income tax benefit (expense) for the three months of \$nil (2010-\$nil) and year of (\$31) (2010-\$95).

PACIFIC & WESTERN CREDIT CORP.

Consolidated Statement of Changes in Shareholders' Equity

(thousands of dollars)

	<i>for the three months ended</i>		<i>for the year ended</i>	
	October 31 2011	October 31 2010	October 31 2011	October 31 2010
	(unaudited)	(unaudited)	(unaudited)	
Common shares				
Balance, beginning of period	\$ 56,656	\$ 37,621	\$ 38,295	\$ 35,817
Shares issued, net of issue costs	4,556	-	20,895	-
Issued on payment of Class B preferred share dividend	674	674	2,696	2,478
Balance, end of period	<u>\$ 61,886</u>	<u>\$ 38,295</u>	<u>\$ 61,886</u>	<u>\$ 38,295</u>
Common share purchase warrants				
Balance, beginning of period	\$ 1,761	\$ -	\$ -	\$ -
Warrants issued	242	-	2,003	-
Balance, end of period	<u>\$ 2,003</u>	<u>\$ -</u>	<u>\$ 2,003</u>	<u>\$ -</u>
Class A preferred shares				
Balance, beginning and end of period	<u>\$ 1,061</u>	<u>\$ 1,061</u>	<u>\$ 1,061</u>	<u>\$ 1,061</u>
Class B preferred shares				
Balance, beginning of period	\$ 4,262	\$ 4,262	\$ 4,262	\$ 3,022
Shares issued, net of issue costs	-	-	-	1,240
Balance, end of period	<u>\$ 4,262</u>	<u>\$ 4,262</u>	<u>\$ 4,262</u>	<u>\$ 4,262</u>
Contributed surplus				
Balance, beginning of period	\$ 684	\$ 421	\$ 436	\$ 326
Fair value of stock option transactions (note 6)	4	15	252	110
Balance, end of period	<u>\$ 688</u>	<u>\$ 436</u>	<u>\$ 688</u>	<u>\$ 436</u>
Deficit				
Balance, beginning of period	\$ (28,357)	\$ (19,169)	\$ (20,548)	\$ (12,408)
Net loss	(8,087)	(1,379)	(15,830)	(8,074)
Dividends on preferred shares	-	-	(66)	(66)
Balance, end of period	<u>\$ (36,444)</u>	<u>\$ (20,548)</u>	<u>\$ (36,444)</u>	<u>\$ (20,548)</u>
Accumulated other comprehensive income (loss), net of taxes				
Balance, beginning of period	\$ (3,837)	\$ (11,703)	\$ (6,376)	\$ (13,153)
Other comprehensive income (loss)	(2,266)	5,327	273	6,777
Balance, end of period	<u>\$ (6,103)</u>	<u>\$ (6,376)</u>	<u>\$ (6,103)</u>	<u>\$ (6,376)</u>
Total shareholders' equity	<u><u>\$ 27,353</u></u>	<u><u>\$ 17,130</u></u>	<u><u>\$ 27,353</u></u>	<u><u>\$ 17,130</u></u>

PACIFIC & WESTERN CREDIT CORP.

Consolidated Statement of Cash Flows (thousands of dollars)

	<i>for the three months ended</i>		<i>for the year ended</i>	
	October 31 2011	October 31 2010	October 31 2011	October 31 2010
	(unaudited)	(unaudited)	(unaudited)	
Cash provided by (used in):				
Operations:				
Net loss	\$ (8,087)	\$ (1,379)	\$ (15,830)	\$ (8,074)
Items not involving cash:				
Provision for (recovery of) credit losses	83	(473)	165	(1,163)
Stock-based compensation (note 6)	232	15	252	110
Future income tax provision (recovery)	358	390	-	(181)
Gain on sale of available-for-sale assets	(44)	(137)	(874)	(2,178)
Gains realized on securitization	(475)	-	(680)	(1,348)
Impairment write downs on securities	724	-	724	326
Gain on foreclosed real estate	-	-	-	(267)
Change in derivative financial instruments	(184)	815	(184)	(246)
Unrealized losses (gains) on other securities	73	(283)	-	499
Interest expense on preferred share liabilities	674	795	2,696	2,478
Change in other assets and liabilities	5,269	33,861	(4,253)	18,813
	<u>(1,377)</u>	<u>33,604</u>	<u>(17,984)</u>	<u>8,769</u>
Investing:				
Purchase of securities	(50,309)	(105,425)	(449,602)	(680,187)
Proceeds from sale and maturity of securities	80,967	238,832	549,712	726,870
Mortgages and loans	(24,967)	(29,527)	(148,040)	(56,303)
Proceeds of mortgage securitizations	10,293	-	18,868	24,332
Securitization retained interests	1,151	-	1,897	2,383
	<u>17,135</u>	<u>103,880</u>	<u>(27,165)</u>	<u>17,095</u>
Financing:				
Deposits	10,012	(258,896)	118,827	(66,234)
Notes payable	(15,580)	-	1,400	(2,612)
Proceeds of units issued, net of costs	4,798	-	22,898	-
Preferred share liabilities	-	-	-	14,318
Short term financings	-	-	-	(46,578)
Dividends paid	-	-	(66)	(66)
	<u>(770)</u>	<u>(258,896)</u>	<u>143,059</u>	<u>(101,172)</u>
Increase (decrease) in cash resources	14,988	(121,412)	97,910	(75,308)
Cash resources, beginning of period	<u>179,911</u>	<u>218,401</u>	<u>96,989</u>	<u>172,297</u>
Cash resources, end of period	<u>\$ 194,899</u>	<u>\$ 96,989</u>	<u>\$ 194,899</u>	<u>\$ 96,989</u>
Supplementary cash flow information:				
Interest paid during the period	\$ 12,666	\$ 14,481	\$ 39,591	\$ 42,850
Income taxes paid during the period	\$ 454	\$ -	\$ 2,762	\$ -

PACIFIC & WESTERN CREDIT CORP.
Notes to the interim consolidated financial statements (unaudited)
For the year ended October 31, 2011

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, 2010, 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, 2010.

The risk management policies and procedures of the Corporation relating to credit, liquidity, and market risk are included on pages 39 - 42 of the 2010 annual report and are an integral part of the Interim Consolidated Financial Statements.

2. Securities

The Corporation's cash and securities are comprised of cash, bankers acceptances, federal government treasury bills, federal, provincial and municipal government bonds, government insured mortgage-backed securities, corporate bonds and corporate preferred shares.

3. Allowance for credit losses

	<i>for the three months ended</i>				<i>for the year ended</i>			
	October 31, 2011			October 31, 2010	October 31, 2011			October 31, 2010
	General allowance	Specific allowance	Total allowance	Total allowance	General allowance	Specific allowance	Total allowance	Total allowance
(thousands of dollars)								
Balance, beginning of the period	\$ 2,719	\$ 850	\$ 3,569	\$ 5,333	\$ 3,812	\$ 1,048	\$ 4,860	\$ 9,534
Provision for (recovery of) credit losses	88	(5)	83	(473)	195	(30)	165	(1,163)
Write-offs	20	5	25	-	(1,180)	(168)	(1,348)	(3,511)
Balance, end of period	\$ 2,827	\$ 850	\$ 3,677	\$ 4,860	\$ 2,827	\$ 850	\$ 3,677	\$ 4,860

Gross impaired loans at October 31, 2011 totalled \$923,000 (October 31, 2010 - \$3,252,000). Loans past due but not impaired at October 31, 2011 totalled \$nil (October 31, 2010 - \$nil).

Loans are secured primarily by collateral mortgages against real estate with respect to real estate lending and specific charges against equipment being financed for other lending activities.

4. Notes payable

At October 31, 2011, notes payable, excluding issue costs, consist of Series C Notes totalling \$61.7 million (2010-\$55.3 million) which mature in 2018, and short term notes of \$200,000 which mature in 2012. Notes payable bear interest at rates ranging from 7.0% to 9.0% per annum. In addition, the Corporation has subordinated notes issued by the Bank to a third party totalling \$21.5 million (2010-\$21.5 million). These subordinated notes bear interest at rates ranging from 8% to 11%, are callable by the Bank and mature in 2019 and 2021.

5. Preferred share liabilities

At October 31, 2011 the Corporation had 1,909,458 (2010-1,909,458) Class B Preferred Shares outstanding with a total value of \$47.7 million (2010-\$47.7 million) less issue costs of \$2.5 million (2010-\$2.7 million). As these Class B Preferred Shares carry certain redemption features and are convertible into common shares of the Corporation, an amount of \$41.3 million (2010-\$40.7 million), net of issue costs, representing the fair value of the Corporation's obligation to make future payments of principal and interest, has been classified on the Corporation's Consolidated Balance Sheet as a Preferred Share Liability. In addition, an amount of \$4.3 million (2010-\$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 \$41.3 million (2010-\$40.7 million) will be adjusted 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%.

6. Shareholders' equity

i. Share capital:

	Common shares outstanding	Stock Options	
		Number	Weighted- average exercise price
Outstanding, October 31, 2010	14,434,242	508,333	\$ 7.87
Granted	-	670,000	2.80
Issued for cash proceeds	10,676,000	-	-
Issued pursuant to Class B Preferred Share dividend	1,127,352	-	-
Expired	-	(35,300)	6.97
Outstanding, end of period	26,237,594	1,143,033	\$ 4.93

In addition, at October 31, 2011, there were 314,572 (2010-314,572) Class A Preferred Shares outstanding and 1,909,458 (2010-1,909,458) Class B Preferred Shares outstanding.

During the three months ended October 31, 2011, pursuant to the closing of a private offering, the Corporation issued 2,200,000 Units consisting of one common share and one-half warrant to purchase a common share, for net proceeds of \$4.9 million, bringing the total Units issued during the year to 9,676,000 for net proceeds of \$19.8 million. In addition 1,000,000 common shares were issued in February 2011 under a private placement for net proceeds of \$3.1 million.

During the three months ended October 31, 2011, pursuant to a private offering, the Corporation issued 1,100,000 warrants with a fair value of \$242,000 assigned to the warrants and recorded in Shareholders' Equity. Each warrant entitles the holder to purchase one common share of the Corporation for \$2.80 per share. Warrants issued during the year totalled 5,398,700 with a fair value of \$1.6 million which included warrants totaling 560,700 issued under the over-allotment option as part of the public offering. The warrants expire in November 2012.

The Corporation has 747,600 broker warrants outstanding with a fair value of \$0.4 million which if exercised would result in one common share and one-half warrant being issued for \$2.25 each and 56,070 broker warrants which if exercised would result in one warrant being issued for \$0.22 each. The warrants expire in November 2012.

During the year ended October 31, 2011, the Corporation recognized \$252,000 (2010 - \$110,000) of compensation expense relating to the estimated fair value of stock options granted. During the year, 670,000 options were granted to a service provider. These options are exercisable into common shares at \$2.80 per share and expire in November 2012. The fair value of the options was estimated using the Black-Scholes option pricing model based on the following assumptions: (i) risk-free interest rate of 1.54%, (ii) expected option life of 18 months and (iii) expected volatility of 60.3%. The fair value of options granted was estimated at \$0.34 per option.

The fair value of options granted during the previous year was estimated using the Black-Scholes option pricing model based on the following weighted-average assumptions: (i) risk-free interest rate of 2.31%, (ii) expected option life of 5 years, (iii) expected volatility of 45%, and (iv) expected forfeiture rate of 5%. The weighted average fair value of options granted was estimated at \$1.38 per option.

ii. Accumulated other comprehensive income (loss):

The balance in accumulated other comprehensive income (loss), net of income taxes, consists of net unrealized losses on assets held as available for sale totalling (\$6,103,000) (2010 – (\$6,376,000)) net of income tax benefit of \$2,511,000 (2010 – \$2,604,000).

7. Derivative instruments

At October 31, 2011, the Corporation had outstanding contracts for asset liability management purposes to swap between floating and fixed interest rates with notional amounts totalling \$223,688,000 (2010 - \$209,060,000). 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 risk-weight of \$660,000 (2010 - \$612,000) for purposes of determining the Bank's regulatory capital ratios. As required under the accounting standard relating to hedges, at October 31, 2011, \$19,162,000 (2010 – \$19,646,000) 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. Approved counterparties are limited to Canadian chartered banks.

In addition, the Corporation enters into interest rate swap arrangements with accredited counterparties in order to transact with the Canada Housing Trust, as the Corporation 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 in the Consolidated Statement of Operations. At October 31, 2011 the notional amount of these contracts totalled \$44,560,000 (2010 - \$24,817,000).

8. Commitments and contingencies

The amount of credit related commitments represents the maximum amount of additional credit that the Corporation could be obligated to extend. Under certain circumstances, the Corporation may cancel loan commitments at its option. The amount with respect to the letters of credit are not necessarily indicative of credit risk as many of these arrangements are contracted for a limited period of usually less than one year and will expire or terminate without being drawn upon.

	October 31	
(thousands of dollars)	2011	2010
Loan commitments	\$ 227,332	\$ 236,003
Letters of credit	27,273	26,731
	<u>\$ 254,605</u>	<u>\$ 262,734</u>

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:

	October 31	
(thousands of dollars)	2011	2010
Collateral related to derivative contracts	\$ 18,551	\$ 19,367
Collateral related to letters of credit	9,003	5,111
	<u>\$ 27,554</u>	<u>\$ 24,478</u>

9. 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 October 31, 2011, outstanding securitized mortgages totalled \$42,413,000 (2010 - \$24,126,000).

Retained interests are accounted for at the settlement date. The fair value of retained interests 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 guaranteed by the Government of Canada.

During the three months ended October 31, 2011, mortgages totalling \$10,308,000 were securitized and sold for cash proceeds of \$10,293,000 resulting in a gain, net of expenses of \$535,000. The retained rights to future excess interests totalled \$1,151,000 and the servicing liability totalled \$44,000. The key assumptions used in measuring the retained interests at the date of securitization included a discount rate of 1.60% and a rate of 2.50% for the excess spread.

During year ended October 31, 2011, mortgages totalling \$18,889,000 (2010 - \$24,368,000) were securitized and sold for cash proceeds of \$18,868,000 (2010 - \$24,332,000). The retained rights to future excess interests totalled \$1,897,000 (2010 - \$2,383,000) and the servicing liability totalled \$112,000 (2010 - \$181,000). Gains on mortgages securitized and sold during the year ended October 31, 2011 totalled \$680,000 (2010 - \$1,348,000), after related expenses and are included in other income (charges) in the Consolidated Statement of Operations.

The key assumptions used in measuring the retained interests at the date of securitization included a weighted – average discount rate of 2.06% (2010 – 2.78%) and a weighted-average excess spread of 1.69% (2010 – 1.42%). It was determined that a 10% and a 20% adverse change in the discount rate used to determine the carrying value of the retained interests would not have a material impact on the financial position of the Corporation.

10. 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) which operates as a Schedule 1 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. As a result, the following discussion on capital management is with respect to the capital of 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 ratio is calculated as follows:

(thousands of dollars)	October 31 2011	October 31 2010
Total assets (on and off-balance sheet)	\$ 1,471,512	\$ 1,342,619
Capital		
Common shares	\$ 103,965	\$ 95,365
Retained earnings (deficit)	(869)	(897)
Unrealized loss on available-for-sale equity securities	(3,719)	(6,786)
Subordinated debentures (leveragable)	49,689	41,500
Total regulatory capital	\$ 149,066	\$ 129,182
Assets-to-capital ratio	9.87	10.39

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)	October 31 2011		October 31 2010	
	Notional/ Drawn Amount	Risk Weighted Balance	Notional/ Drawn Amount	Risk Weighted Balance
Balance sheet assets	\$ 1,444,239	\$ 978,941	\$ 1,315,888	\$ 837,361
Off-balance sheet assets	520,707	118,382	495,921	117,623
Charge for operational risk		20,713		10,732
Total risk-weighted assets		\$ 1,118,036		\$ 965,716
Regulatory capital		149,066		129,182
Total risk-based capital ratio		13.33%		13.38%
Tier 1 risk-based capital ratio		8.89%		9.08%

Basel III Capital Accord

In December, 2010 the Basel Committee on Banking Supervision (the Committee) announced that it had agreed on new rules which support international standards on capital adequacy and liquidity (Basel III). The rules will include transitional arrangements and grandfathering rules. Transition to the new standards is expected to begin in 2013 with full compliance by 2019.

11. 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.

	October 31 2011		October 31 2010	
	Increase 100 bps	Decrease 100 bps	Increase 100 bps	Decrease 100 bps
(thousands of dollars)				
Maximum interest exposure during a 12 month period	\$ 3,336	n/m	\$ 3,441	n/m
Maximum interest exposure during a 60 month period	\$ (5,187)	n/m	\$ 2,483	n/m
Duration difference between assets and liabilities (months)	2.16		0.6	
n/m - not meaningful				

12. Subsidiary Company Information:

The following table presents summary financial information of the Bank:

(thousands of dollars)	October 31 2011	October 31 2010
	(unaudited)	
Cash and cash equivalents	\$ 188,994	\$ 88,991
Securities	135,137	234,661
Mortgages and loans	1,090,932	964,862
Other assets	29,176	27,374
	<u>\$ 1,444,239</u>	<u>\$ 1,315,888</u>
Deposits	\$ 1,269,730	\$ 1,150,903
Subordinated notes payable	49,651	40,025
Other liabilities	27,864	36,868
	<u>1,347,245</u>	<u>1,227,796</u>
Share capital	103,965	95,365
Deficit	(868)	(897)
Accumulated other comprehensive income (loss)	(6,103)	(6,376)
Shareholder's equity	<u>96,994</u>	<u>88,092</u>
	<u>\$ 1,444,239</u>	<u>\$ 1,315,888</u>

(thousands of dollars)	<i>for the three months ended</i>		<i>for the year ended</i>	
	October 31 2011	October 31 2010	October 31 2011	October 31 2010
	(unaudited)		(unaudited)	
Interest income	\$ 14,086	\$ 13,625	\$ 55,012	\$ 52,846
Interest expense	9,601	9,016	37,858	37,159
Net interest income	<u>4,485</u>	<u>4,609</u>	<u>17,154</u>	<u>15,687</u>
Provision for (recovery of) credit losses	83	(473)	165	(1,163)
Net interest income after provision for credit losses	<u>4,402</u>	<u>5,082</u>	<u>16,989</u>	<u>16,850</u>
Other income (charges)	(185)	451	644	286
Total revenue	<u>4,217</u>	<u>5,533</u>	<u>17,633</u>	<u>17,136</u>
Non-interest expenses	<u>4,378</u>	<u>4,221</u>	<u>17,604</u>	<u>16,850</u>
Income (loss) before income taxes	(161)	1,312	29	286
Income tax (recovery) provision	358	390	-	(181)
Net income (loss)	<u>\$ (519)</u>	<u>\$ 922</u>	<u>\$ 29</u>	<u>\$ 467</u>

Pacific & Western Bank of Canada (PWBank), a Schedule I chartered bank, is a branchless financial institution with over \$1.4 billion in assets. PWBank specializes in providing innovative financing to large corporate and government entities including hospitals, school boards, universities and colleges, municipalities and provincial and federal government agencies.

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

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

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