



Pacific & Western

Credit Corp.

Third Quarter Report July 31, 2008

PACIFIC & WESTERN CREDIT CORP. ANNOUNCES RESULTS FOR ITS THIRD QUARTER ENDED JULY 31, 2008

THIRD QUARTER SUMMARY

(three months ended July 31, 2008, compared to three months ended July 31, 2007, unless otherwise noted)

- Third quarter results were negatively impacted by a charge of \$3.7 million (\$2.5 million after income taxes) relating to a security whose decline in value was determined to be other than temporary.
- Net income (loss) for the quarter was (\$4.2 million) or (\$0.31) per share ((\$0.31) diluted) compared to \$127,000 or \$0.01 per share (\$0.00 diluted) for the same period last year. On a year-to-date basis, net income (loss) was (\$4.3 million) or (\$0.33) per share ((\$0.33) diluted) compared to \$1.6 million or \$0.10 per share (\$0.10 diluted) for the same period a year ago.
- Total loans increased to \$949 million from \$923 million a year ago.
- Total assets were \$1.43 billion compared to \$1.23 billion a year ago.
- Net increase in notes payable totalling \$28.6 million during the quarter with the proceeds being invested in the Corporation's bank subsidiary Pacific & Western Bank of Canada (the "Bank") to fund additional growth and pursue new lending opportunities.
- Regulatory capital in the Bank increased to \$111.8 million at the end of the quarter from \$93.7 million a year ago.

PRESIDENT'S COMMENTS

This quarter we determined that there was a permanent impairment in the value of one of our preferred share positions that had been trading below our amortized cost for sometime. This resulted in a \$2.5 million reduction of income after taxes. However, the impact upon our shareholder's equity and regulatory capital of the Bank was significantly less as we had already recorded this reduction in previous periods' mark to market adjustments. This quarter's results also continued to be affected by the temporary compression of spreads resulting from the reduction in the prime interest rate earlier in the year. As the majority of our short term GIC's have now matured and replaced by GIC's with lower interest rates, we expect our spread to widen back to normal levels.

On a positive note during this quarter, we received the approval of our Series C Noteholders to extend the notes' maturity date for another ten years, maturing October, 2018 and also to increase the maximum amount of the issue to \$100 million. We then issued additional Series C Notes and other short term notes that in total amounted to \$28.6 million dollars and invested the proceeds in the Bank. These additional funds more than offset the decline in the Bank's regulatory capital caused by mark to market adjustments in the Bank's equity securities. The Bank's regulatory capital now is at a record high level of \$112 million, which will provide sufficient lending capacity for the Bank to continue to grow in its target markets. In this respect, the Bank has identified an opportunity to grow rapidly in the insured residential mortgage market and intends to develop relationships with residential mortgage originators in the near future. The turbulent financial markets have taken their toll on our Bank's preferred share portfolio, which negatively impacted its regulatory capital. However, with the issuance of new Series C Notes and other short term notes, our Bank has the capacity to take advantage of substantial new opportunities in low risk lending markets.

FINANCIAL HIGHLIGHTS

(unaudited)

	for the three months ended		for the nine months ended	
	July 31 2008	July 31 2007	July 31 2008	July 31 2007
(\$ thousands, except per share amounts)				
Results of operations (teb)				
Net interest income per financial statements	\$ 944	\$ 3,373	\$ 7,441	\$ 11,878
Teb adjustment	679	559	2,184	1,494
Net interest income	1,623	3,932	9,625	13,372
Spread	0.46%	1.20%	0.89%	1.40%
Provision for credit losses	242	142	314	643
Net interest income after provision for credit losses	1,381	3,790	9,311	12,729
Impairment writedown on securities	(3,703)	-	(3,703)	-
Other income	139	108	183	1,361
Total revenue	(2,183)	3,898	5,791	14,090
Non-interest expenses	3,523	3,643	10,745	10,849
Net income (loss)	(4,215)	127	(4,280)	1,562
Earnings (loss) per common share:				
Basic	\$ (0.31)	\$ 0.01	\$ (0.33)	\$ 0.10
Diluted	\$ (0.31)	\$ -	\$ (0.33)	\$ 0.10
Efficiency ratio	n/m	\$ 0.90	\$ 1.76	\$ 0.73
Return on average common shareholders' equity	-42.21%	0.45%	-13.22%	2.97%
Return on average total assets	-1.21%	0.04%	-0.39%	0.16%
Gross impaired loans to total assets	0.55%	0.21%	0.55%	0.21%
Provision for credit losses as a % of average loans	0.02%	0.02%	0.03%	0.07%
Number of full time equivalent staff	58	62	58	62

Balance Sheet Summary

Cash and securities	\$ 446,908	\$ 266,588	\$ 446,908	\$ 266,588
Total loans	948,596	923,385	948,596	923,385
Average loans	969,155	911,678	963,162	893,608
Total assets	1,430,395	1,225,583	1,430,395	1,225,583
Average assets	1,382,332	1,296,209	1,444,526	1,277,656
Deposits	1,173,732	1,116,317	1,173,732	1,116,317
Notes payable	68,850	35,847	68,850	35,847
Shareholders' equity	39,946	60,981	39,946	60,981

Capital ratios

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

Total regulatory capital	\$ 111,838	\$ 93,701	\$ 111,838	\$ 93,701
Risk weighted assets	1,021,138	752,461	1,021,138	752,461
Assets-to-capital ratio	13.11	13.36	13.11	13.36
Tier 1 risk-based capital ratio	8.99%	8.47%	8.99%	8.47%
Total risk-based capital ratio	10.95%	12.45%	10.95%	12.45%

Non-GAAP measures:

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

MANAGEMENT'S DISCUSSION AND ANALYSIS OF OPERATIONS AND FINANCIAL CONDITION

This management's discussion and analysis (MD&A) of operations and financial condition for the third quarter of fiscal 2008 should be read in conjunction with the unaudited interim consolidated financial statements for the period ended July 31, 2008, included herein, and the audited consolidated financial statements and MD&A for the year ended October 31, 2007, 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, 2007, remain substantially unchanged.

Overview

Net income (loss) for the quarter was (\$4.2 million) or (\$0.31) per share ((\$0.31) diluted) compared to \$127,000 or \$0.01 per share (\$0.00 diluted) for the same period a year ago with the decrease due primarily to a decrease in net interest income and a charge of \$3.7 million (\$2.5 million after income taxes) for impairment of securities where the decline in value was determined to be other than temporary. A large portion of this charge had already been reflected in shareholders' equity and in the Bank's regulatory capital as a result of previously recorded mark-to-market adjustments relating to this security. On a year-to-date basis, net income (loss) was (\$4.3 million) or (\$0.33) per share ((\$0.33) diluted) compared to \$1.6 million or \$0.10 per share (\$0.10 diluted) for the same period a year ago with the change due primarily to the same factors mentioned above as well as a decrease in other income in the current year. Other income for the nine month period last year included a gain of \$888,000 resulting from the disposition of shares of Discovery Air Inc. (DA). There was no similar gain earned in the current year.

Net interest income (teb) for the quarter was \$1.6 million compared to \$3.9 million for the same period a year ago. On a year-to-date basis net interest income was \$9.6 million compared to \$13.4 million last year. The decrease in net interest income from a year ago was due primarily to an increase in the cost of funds and a compression of spreads in the securities and lending portfolios. The spread in the lending portfolio decreased as the yield on floating rate loans decreased as a result of reductions in the prime lending rate. Despite this compression of spreads, the Corporation has maintained its focus on low risk lending and investing opportunities and does not have any direct exposure to the North American subprime lending market or to asset-backed commercial paper.

At July 31, 2008, total assets were \$1.43 billion compared to \$1.23 billion a year ago and lending assets increased to \$949 million from \$923 million a year ago. The provision for credit losses as a percentage of average loans for the quarter was 0.02%, similar to the same period a year ago and on a year-to-date basis was 0.03% compared to 0.07% for the same period last year.

Total Revenue (teb)

Total revenue (teb), which is comprised of net interest income after the provision for credit losses and other income (charges), was (\$2.2 million) for the quarter compared to \$3.9 million a year ago. On a year-to-date basis, total revenue (teb) was \$5.8 million compared to \$14.1 million last year. The decrease in total revenue from a year ago was due primarily to the impairment writedown of \$3.7 million on securities and a compression of spreads, primarily in the Corporation's securities portfolio.

Net Interest Income

Net interest income (teb) was \$1.6 million for the quarter compared to \$3.9 million a year ago, and on a year-to-date basis was \$9.6 million compared to \$13.4 million a year ago. Net interest margin or spread (teb), which is net interest income as a percentage of average assets, was 0.46% for the quarter compared to 1.20% for the same quarter a year ago. On a year-to-date basis, spread (teb) was 0.89% compared to 1.40% a year ago. The decrease in spread was due primarily to several factors including increased competition in the deposit broker network where the Corporation raises virtually all of its deposits. This increased competition resulted in an increase in our cost of funds. In addition to this, the Corporation's banking subsidiary invested excess cash in low risk government securities in order to improve its capital ratios, resulting in a decrease in yield and spread in its securities portfolio. Finally, over the past nine months, spreads in the Corporation's lending portfolio narrowed when the yield on floating rate loans decreased as a result of reductions in the prime lending rate.

Impairment Charge on Securities and Other Income

During the third quarter, the Corporation recorded an impairment charge of \$3.7 million as a result of a preferred share position in its securities portfolio which had been trading below the Corporation's amortized cost for a prolonged period of time. This decline in value was due primarily to current market conditions rather than to a deterioration in the credit quality

of the issuer. Although the Corporation has the ability to hold this security until its value recovers, the period of time over which it had been trading below its amortized cost resulted in the decision to write down the security to its market value at July 31, 2008.

Other income for the third quarter was \$139,000 compared to \$108,000 for the same period a year ago and on a year-to-date basis was \$183,000 compared to \$1.4 million a year ago. This decrease was due to a gain of \$888,000 recorded last year when DA shares were disposed of as well as charges recorded in the current year relating to mark-to-market adjustments on interest rate swaps.

Non-Interest Expenses

Non-interest expenses for the quarter were \$3.5 million compared to \$3.6 million a year ago and on a year-to-date basis were \$10.7 million compared to \$10.8 million a year ago. Non-interest expenses were lower in the current quarter and year-to-date compared to last year due to a reduction in discretionary spending. However, this reduction was offset by increased accruals for capital taxes as a result of new notes being issued in the quarter and other volume related expenses.

Income Taxes

The Corporation's statutory federal and provincial income tax rate is approximately 33% compared to 36% last year with the difference due to rate reductions which were substantively enacted earlier in the current year. However, the Corporation's effective rate is reduced by non-taxable income earned on preferred shares in our securities portfolio and impacted by expenses such as stock-based compensation which are not deductible for income tax purposes. These items resulted in an effective rate of 34% and an income tax recovery of \$2.2 million being recorded in the quarter and an effective rate of 40% and an income tax recovery of \$2.9 million recorded for the year-to-date. This is in comparison to a recovery of \$431,000 recorded in the same quarter last year and a provision of \$185,000 being recorded for the previous year-to-date.

Balance Sheet

Total assets at July 31, 2008, were \$1.43 billion compared to \$1.23 billion a year ago with lending assets growing to \$949 million from \$923 million a year ago. Total assets increased from a year ago primarily as a result of a higher level of cash and securities.

Cash and Securities

Cash and securities, which are held for liquidity management purposes and to earn investment income, were \$447 million compared to \$267 million a year ago. Securities consist of Government of Canada treasury bills and bonds and corporate debt and preferred shares. Included in corporate debt is an investment in a collateral debt obligation (CDO) with an amortized cost of \$10 million and a fair value of \$5.2 million based on external valuation models. The CDO is secured by corporate credits and to date there have been no defaults by any of these corporations. As indicated previously, the Corporation does not own any asset-backed commercial paper and therefore is not exposed to any direct losses from this type of security as a result of market instabilities.

At July 31, 2008, the net unrealized loss in our securities portfolio was \$20.2 million compared to a net unrealized loss of \$6.0 million a year ago. These amounts are recorded after income taxes in Accumulated Other Comprehensive Income (Loss). The increase in the net unrealized loss from the previous year is related primarily to a decrease in the market value of the Corporation's investments in the preferred shares of major Canadian banks and insurance companies and its investment in the CDO. The result of changes in market interest rates and the impact of the market's increases in the pricing for credit risk in securities have negatively impacted the valuation of the preferred shares. Since the Corporation has the ability and intent to hold these securities until there is a recovery of value, maturity or redemption, and the period of time over which they have been trading below amortized cost has not been prolonged, these unrealized losses are considered temporary in nature.

Mortgages and Loans

Lending assets grew to \$949 million at the end of the quarter from \$923 million a year ago. This increase was due primarily to growth in public sector loans and corporate loans and mortgages, offset by decreases in insured residential mortgages. New lending in the quarter totalled \$93 million offset by \$142 million in repayments with the largest repayments being in our insured residential mortgage portfolio. For the first nine months of fiscal 2008, new lending totalled \$229 million with loan repayments totalling \$273 million. Loan growth in the past two quarters was slowed by current market conditions which made new lending opportunities less attractive as well as capital constraints as the Bank

introduced higher internal targets for its capital ratios. However, additional capital invested in the Bank in the third quarter will allow for new lending opportunities to be pursued.

Other Assets

Other assets totalled \$34.9 million at the end of the quarter compared to \$35.6 million a year ago. Included in other assets is the Corporation's investment in DA which is accounted for as an available-for-sale asset and carried at market value. At July 31, 2008, the investment in DA had a cost of \$14.6 million and an unrealized loss of \$5.6 million which is recorded after income taxes in Accumulated Other Comprehensive Income (Loss). No writedown of the DA investment has been recorded as the period of time over which the shares of DA have been trading below cost has not been prolonged and management has the ability to hold the shares until they recover in value.

Deposits and Financing

Deposits are used as a primary source of financing growth in assets and are raised entirely through a deposit broker network across Canada. Deposits at the end of the quarter were \$1.17 billion compared to \$1.12 billion a year ago and consist primarily of guaranteed investment certificates. Of these amounts, \$15.0 million was in the form of demand deposits at the end of the quarter compared to \$15.9 million a year ago with the remaining deposits having fixed terms.

A second source of financing growth in assets is the use of margin lines and securities sold under repurchase agreements. From time to time, the Corporation uses these sources of financing when the cost of borrowing is less than the interest rates that would have to be paid on new deposits. At the end of the quarter, \$120 million was outstanding related to securities sold under repurchase agreements compared to \$nil a year ago.

Notes payable, net of issue costs, at July 31, 2008 totalled \$68.9 million compared to \$35.9 million a year ago with the increase due to new notes issued during the past year, of which \$35.6 million were issued in the third quarter and \$7 million of short term notes were repaid. In June 2008, the Corporation received approval from its Series C Noteholders to extend the maturity date of its Series C Notes from October 16, 2008 to October 16, 2018. In addition, the Corporation received approval from the Series C Noteholders to increase the number of Series C Notes that the Corporation can issue to a maximum of \$100 million.

At July 31, 2008 notes payable consist of Series C Notes totalling \$47.5 million which mature in 2018, Series A Notes totalling \$11.5 million which mature in 2010 and short term notes totalling \$10.8 million which mature in 2009. Notes payable bear interest at rates ranging from 7.0% to 9.25% per annum.

Credit Quality

Gross impaired loans at the end of the quarter totalled \$7.9 million or 0.55% of total assets compared to \$2.6 million or 0.21% of total assets a year ago with the increase due to several commercial mortgages relating to one borrower which were classified as impaired in the current quarter. The provision for credit losses for the third quarter was \$242,000 compared to \$142,000 a year ago and on a year-to-date basis was \$314,000 compared to \$643,000 a year ago. Total allowances for credit losses, including specific and general allowances, were \$3.5 million at the end of the quarter compared to \$3.2 million a year ago. The provision for credit losses as a percentage of average loans for the quarter was 0.02%, the same as a year ago and for the year-to-date was 0.03% compared to 0.07% a year ago.

Shareholders' Equity

At the end of the quarter, shareholders' equity was \$39.9 million compared to \$61.0 million a year ago with the decrease due primarily to the change in Accumulated Other Comprehensive Income (Loss), the net loss incurred in the current year and common shares repurchased and cancelled under the Normal Course Issuer Bids. These decreases were partially offset by the issue of common shares on exercise of stock options. Common shares outstanding at the end of the quarter totalled 13,644,252 compared to 13,753,652 a year ago with the change due to the exercise of common share options offset by shares repurchased for cancellation. Outstanding common share options totalled 1,079,410 at the end of the quarter compared to 1,071,028 a year ago. Our book value per common share at the end of the quarter was \$2.67 compared to \$4.18 a year ago.

On July 17, 2007, the Corporation announced that it had filed a Notice of Intention to make a Normal Course Issuer Bid, pursuant to which the Corporation may purchase for cancellation up to 1 million of its common shares. This bid terminated on July 18, 2008. During the nine months ended July 31, 2008, the Corporation repurchased for cancellation under this bid 135,200 common shares for a total cost of \$942,000. Since July 17, 2007, the Corporation repurchased for cancellation under this bid 215,400 common shares for a total cost of \$1.5 million.

On July 18, 2008, the Corporation announced that it had filed a Notice of Intention to make another Normal Course Issuer Bid, pursuant to which the Corporation may purchase for cancellation up to 500,000 of its common shares. The Bid commenced on July 22, 2008 and will terminate on July 21, 2009. The price that the Corporation pays for any common shares is the market price at the time of purchase. The Corporation believes that the market price of its common shares is unusually low and does not fully reflect the value of its business and future business prospects. As a result, the Corporation believes that purchasing its common shares represents an attractive investment opportunity and an appropriate and desirable use of available funds. To July 31, 2008, the Corporation has repurchased for cancellation under this bid 2,100 common shares for a total cost of \$11,000.

Updated Share Information

At August 27, 2008, there was no change in the number of common shares outstanding and no change in the number of common share options outstanding since July 31, 2008.

Capital Management

Total regulatory capital in the Corporation's principal subsidiary, the Bank, totalled \$111.8 million at July 31, 2008 compared to \$93.7 million a year ago. The increase in total regulatory capital from a year ago was primarily a result of common shares or Tier 1 capital issued by the Bank to the Corporation, offset by the change in Accumulated Other Comprehensive Income (Loss) related to equity securities the Bank holds in its securities portfolio and its investment in DA.

The Bank's total risk-based capital ratio, which is the ratio of regulatory capital to risk-weighted assets, was 10.95% at July 31, 2008 compared to 12.45% a year ago with the change being a result of an increase in risk-weighted assets due to the inclusion of an operational risk charge under the new Basel II guidelines and higher amounts for loan commitments, offset by the increase in regulatory capital as discussed above. The Bank's Tier 1 risk-based capital ratio, which is the ratio of Tier 1 capital to risk-weighted assets, was 8.99% at July 31, 2008, compared to 8.47% a year ago. The Bank's assets-to-capital ratio was 13.11 at the end of the quarter compared to 13.36 a year ago. See note 8 to the interim consolidated financial statements for more information regarding capital management.

Summary of Quarterly Results

(thousands of dollars except per share amounts)

	2008			2007			2006	
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Results of operations:								
Total interest income								
per financial statements	\$ 16,022	\$ 18,105	\$ 20,377	\$ 18,795	\$ 16,978	\$ 17,538	\$ 18,163	\$ 18,677
Teb adjustment	679	659	844	715	559	492	444	432
Total interest income	16,701	18,764	21,221	19,510	17,537	18,030	18,607	19,109
Yield on assets (%)	4.79%	5.39%	5.71%	5.77%	5.37%	5.42%	5.49%	5.79%
Interest expense	15,078	15,820	16,165	15,018	13,757	13,495	13,701	14,415
Cost of funds (%)	4.33%	4.54%	4.35%	4.44%	4.21%	4.06%	4.04%	4.37%
Net interest income	1,623	2,944	5,056	4,492	3,780	4,535	4,906	4,694
Net interest margin (%)	0.46%	0.85%	1.36%	1.33%	1.16%	1.36%	1.45%	1.42%
Provision for credit losses	242	64	8	198	142	72	429	339
Impairment writedown on securities	(3,703)	-	-	-	-	-	-	-
Other income (charges)	139	130	(86)	114	260	294	959	1,116
Total revenue	(2,183)	3,010	4,962	4,408	3,898	4,757	5,436	5,471
Non-interest expenses	3,523	3,441	3,781	3,049	3,643	3,548	3,658	3,252
Income (loss) before income taxes	(5,706)	(431)	1,181	1,359	255	1,209	1,778	2,219
Income tax provision	1,491	170	645	721	128	865	687	737
Net income (loss)	(4,215)	(601)	536	638	127	344	1,091	1,482
Earnings (loss) per share								
-basic	\$ (0.31)	\$ (0.05)	\$ 0.03	\$ 0.04	\$ 0.01	\$ 0.02	\$ 0.08	\$ 0.11
-diluted	\$ (0.31)	\$ (0.05)	\$ 0.03	\$ 0.04	\$ -	\$ 0.02	\$ 0.07	\$ 0.10

Net interest income (teb) decreased to \$1.6 million in the third quarter from previous quarters as a result of a compression of spreads primarily in the Corporation's securities portfolio and a decrease in loans outstanding from the end of the previous quarter. Total loans decreased in the third quarter due to a slowdown in lending activities resulting from capital constraints when new internal targets for capital adequacy were implemented by the Bank. With the Corporation using proceeds from the recent issue of notes to inject \$28.6 million into the Bank's regulatory capital in the quarter, the Bank is now in a position to pursue new lending opportunities.

Non-interest expenses in the current quarter increased from the previous quarter due primarily to increases in volume related expenses and the accrual for capital taxes resulting from the new capital raised in the quarter, offset by reductions in discretionary costs.

Change in Accounting Policies

Significant accounting policies are detailed on pages 50 to 59 of the Corporation's 2007 Annual Report. Effective November 1, 2007, the Corporation adopted new accounting standards issued by the Canadian Institute of Chartered Accountants (CICA) as follows: Section 1535, Capital Disclosures, Section 3862, Financial Instruments – Disclosures, and Section 3863, Financial Instruments - Presentation.

Future Change in Accounting Policies

The CICA has announced that public companies will be required to converge Canadian Generally Accepted Accounting Principles with International Financial Reporting Standards (IFRS). For the Corporation, this will take place over a transition period ending for its 2012 year end. The impact of IFRS convergence on the Corporation's consolidated financial statements is not yet determinable.

Risk Management

The risk management policies and procedures of the Corporation are provided in the annual MD&A for the year ended October 31, 2007, and are found on pages 39 to 41.

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: August 27, 2008

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 39-42 of our 2007 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 2008	October 31 2007	July 31 2007
	(unaudited)		(unaudited)
Assets			
Cash resources	\$ 225,237	\$ 113,421	\$ 25,714
Securities	221,671	328,306	240,874
Mortgages and loans	948,596	977,727	923,385
Other assets	34,891	39,202	35,610
	<u>\$ 1,430,395</u>	<u>\$ 1,458,656</u>	<u>\$ 1,225,583</u>
Liabilities and Shareholders' Equity			
Deposits	\$ 1,173,732	\$ 1,282,756	\$ 1,116,317
Notes payable	68,850	35,660	35,847
Other liabilities	147,867	83,186	12,438
	<u>1,390,449</u>	<u>1,401,602</u>	<u>1,164,602</u>
Shareholders' equity			
Share capital	39,331	39,470	39,917
Retained earnings	19,605	24,125	23,513
Accumulated other comprehensive income (loss)	(18,990)	(6,541)	(2,449)
	<u>39,946</u>	<u>57,054</u>	<u>60,981</u>
	<u>\$ 1,430,395</u>	<u>\$ 1,458,656</u>	<u>\$ 1,225,583</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 2008	July 31 2007	July 31 2008	July 31 2007
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Interest income				
Interest income on loans	\$ 12,633	\$ 12,923	\$ 39,908	\$ 38,796
Interest and income from securities	2,600	3,486	12,060	12,100
Loan fee income	789	569	2,536	1,783
	<u>16,022</u>	<u>16,978</u>	<u>54,504</u>	<u>52,679</u>
Interest expense				
Deposits and other	13,925	12,701	44,031	38,168
Notes payable	1,153	904	3,032	2,633
	<u>15,078</u>	<u>13,605</u>	<u>47,063</u>	<u>40,801</u>
Net interest income	944	3,373	7,441	11,878
Provision for credit losses	<u>242</u>	<u>142</u>	<u>314</u>	<u>643</u>
Net interest income after provision for credit losses	702	3,231	7,127	11,235
Impairment writedown on securities	(3,703)	-	(3,703)	-
Other income	139	108	183	1,361
	<u>(2,862)</u>	<u>3,339</u>	<u>3,607</u>	<u>12,596</u>
Non-interest expenses				
Salaries and benefits	1,934	2,048	6,046	6,262
General and administrative	1,105	1,134	3,247	3,274
Premises and equipment	484	461	1,452	1,313
	<u>3,523</u>	<u>3,643</u>	<u>10,745</u>	<u>10,849</u>
Income (loss) before income taxes	(6,385)	(304)	(7,138)	1,747
Income tax (recovery) provision	<u>(2,170)</u>	<u>(431)</u>	<u>(2,858)</u>	<u>185</u>
Net income (loss)	\$ (4,215)	\$ 127	\$ (4,280)	\$ 1,562
Basic earnings (loss) per share	<u>\$ (0.31)</u>	<u>\$ 0.01</u>	<u>\$ (0.33)</u>	<u>\$ 0.10</u>
Diluted earnings (loss) per share	<u>\$ (0.31)</u>	<u>\$ -</u>	<u>\$ (0.33)</u>	<u>\$ 0.10</u>
Weighted average number of common shares	<u>13,637,000</u>	<u>13,757,000</u>	<u>13,630,000</u>	<u>13,652,000</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
	2008	2007	2008	2007
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Total net income (loss)	\$ (4,215)	\$ 127	\$ (4,280)	\$ 1,562
Other comprehensive income (loss), net of tax:				
Net unrealized losses on assets held as				
available-for-sale ⁽¹⁾	(5,474)	(3,799)	(13,149)	(5,241)
Amount transferred to net income for hedges ⁽²⁾	55	53	164	159
Amount transferred to net income for sale of				
available-for-sale assets ⁽³⁾	30	44	(127)	(1,349)
Amount transferred to net income for impairment				
writedown on available-for-sale assets ⁽⁴⁾	1,863	-	663	-
Total other comprehensive income (loss)	<u>(3,526)</u>	<u>(3,702)</u>	<u>(12,449)</u>	<u>(6,431)</u>
Total comprehensive income (loss)	<u>\$ (7,741)</u>	<u>\$ (3,575)</u>	<u>\$ (16,729)</u>	<u>\$ (4,869)</u>

(1) Net of income tax benefit (expense) for the three months of \$2,313 (2007-\$2,097) and year-to-date of \$5,555 (2007-\$2,953)

(2) Net of income tax benefit (expense) for the three months of (\$27) (2007-(\$30)) and year-to-date of (\$83) (2007-(\$90))

(3) Net of income tax benefit (expense) for the three months of (\$14) (2007-(\$25)) and year-to-date of \$63 (2007-\$507)

(4) Net of income tax benefit (expense) for the three months of (\$876) (2007-\$nil) and year-to-date of (\$341) (2007-\$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	July 31	July 31	July 31
	2008	2007	2008	2007
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Common shares				
Balance, beginning of period	\$ 35,518	\$ 35,894	\$ 35,743	\$ 33,986
Shares issued	252	-	288	1,898
Shares repurchased	(66)	(23)	(327)	(23)
Amount transferred from contributed surplus	-	-	-	10
Balance, end of period	<u>\$ 35,704</u>	<u>\$ 35,871</u>	<u>\$ 35,704</u>	<u>\$ 35,871</u>
Class A preferred shares				
Balance, beginning and end of period	<u>\$ 3,545</u>	<u>\$ 3,545</u>	<u>\$ 3,545</u>	<u>\$ 3,545</u>
Contributed surplus				
Balance, beginning of period	\$ 80	\$ 445	\$ 182	\$ 244
Fair value of stock option transactions (note 5)	97	56	526	267
Repurchase of shares	(95)	-	(626)	-
Amount transferred to common shares	-	-	-	(10)
Balance, end of period	<u>\$ 82</u>	<u>\$ 501</u>	<u>\$ 82</u>	<u>\$ 501</u>
Retained earnings				
Balance, beginning of period	\$ 23,820	\$ 23,386	\$ 24,125	\$ 32,875
Transitional adjustment	-	-	-	103
Net income (loss)	(4,215)	127	(4,280)	1,562
Dividend in kind	-	-	-	(10,787)
Dividends on preferred shares	-	-	(240)	(240)
Balance, end of period	<u>\$ 19,605</u>	<u>\$ 23,513</u>	<u>\$ 19,605</u>	<u>\$ 23,513</u>
Accumulated other comprehensive income (loss), net of taxes				
Balance, beginning of period	\$ (15,464)	\$ 1,253	\$ (6,541)	\$ -
Transitional adjustment	-	-	-	3,982
Other comprehensive income (loss)	(3,526)	(3,702)	(12,449)	(6,431)
Balance, end of period	<u>\$ (18,990)</u>	<u>\$ (2,449)</u>	<u>\$ (18,990)</u>	<u>\$ (2,449)</u>
Total shareholders' equity	<u>\$ 39,946</u>	<u>\$ 60,981</u>	<u>\$ 39,946</u>	<u>\$ 60,981</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	July 31	July 31	July 31
	2008	2007	2008	2007
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Cash provided by (used in):				
Operations:				
Net income (loss)	\$ (4,215)	\$ 127	\$ (4,280)	\$ 1,562
Items not involving cash:				
Provision for credit losses	242	142	314	643
Other provisions	-	-	20	-
Stock-based compensation (note 4)	97	56	526	267
Future income tax provision (recovery)	(2,170)	(431)	(2,858)	185
Gain on sale of available-for-sale securities	(9)	68	(673)	(963)
Gain on disposal of shares	-	-	-	(888)
Impairment writedown on securities	3,703	-	3,703	-
Change in derivative financial instruments	-	2,652	197	648
Change in other assets and liabilities	(10,203)	4,594	(19,373)	(2,008)
	<u>(12,555)</u>	<u>7,208</u>	<u>(22,424)</u>	<u>(554)</u>
Investing:				
Purchase of securities	(513,639)	(108,211)	(1,250,022)	(506,011)
Proceeds from sale of securities	438,491	157,615	1,348,864	477,782
Mortgages and loans	42,100	(25,171)	39,951	(60,620)
	<u>(33,048)</u>	<u>24,233</u>	<u>138,793</u>	<u>(88,849)</u>
Financing:				
Deposits	(40,391)	(39,066)	(109,024)	(94,238)
Notes payable	30,553	-	35,553	-
Short term financings	119,740	(103,021)	69,823	-
Proceeds of common shares issued	252	-	288	1,898
Shares repurchased	(161)	(23)	(953)	(23)
Dividends paid	-	-	(240)	(240)
	<u>109,993</u>	<u>(142,110)</u>	<u>(4,553)</u>	<u>(92,603)</u>
Increase (decrease) in cash resources	64,390	(110,669)	111,816	(182,006)
Cash resources, beginning of period	<u>160,847</u>	<u>136,383</u>	<u>113,421</u>	<u>207,720</u>
Cash resources, end of period	<u>\$ 225,237</u>	<u>\$ 25,714</u>	<u>\$ 225,237</u>	<u>\$ 25,714</u>
Supplementary cash flow information:				
Interest paid during the period	\$ 20,583	\$ 22,549	\$ 43,667	\$ 43,573
Income taxes paid during the period	\$ -	\$ 79	\$ 68	\$ 421

PACIFIC & WESTERN CREDIT CORP.
Notes to the interim consolidated financial statements (unaudited)
For the nine months ended July 31, 2008

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, 2007, 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, 2007.

Effective November 1, 2007, the Corporation adopted the following new accounting standards issued by the Canadian Institute of Chartered Accountings ("CICA") relating to disclosures:

- Section 1535, Capital Disclosures specifies the disclosure of i) objectives, policies and processes for managing capital; ii) quantitative data about what is regarded as capital; and iii) compliance or non-compliance with capital requirements and effect thereof.
- Section 3862, Financial Instruments-Disclosures and Section 3863, Financial Instruments-Presentation which set revised and enhanced disclosure and presentation requirements. An increased emphasis is placed on disclosures regarding risks arising from financial instruments and the management thereof.

The risk management policies and procedures of the Corporation relating to credit, liquidity, and market risk are included on pages 39-41 in the annual MD&A and are an integral part of the Interim Consolidated Financial Statements.

2. Securities

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

Included in cash and securities at July 31, 2008 is an investment in a collateral debt obligation (CDO) which has an amortized cost of \$10 million (2007 - \$10 million) and a fair value of \$5.2 million (2007 - \$10 million). Fair value was determined by the use of external valuation models which incorporate observable market parameters. These include observable interest rates, credit spreads and loss expectations. The fair value amount determined based on the above may not ultimately reflect what the Corporation would receive if it were to sell the CDO in the market. The CDO is secured by corporate credits and does not have any residential sub-prime exposure. At July 31, 2008, the CDO had not experienced any defaults in its portfolio.

3. Allowance for credit losses

	<i>for the three months ended</i>				<i>for the nine months ended</i>			
	July 31, 2008		July 31, 2007		July 31, 2008		July 31, 2007	
(thousands of dollars)	General allowance	Specific allowance	Total allowance	Total allowance	General allowance	Specific allowance	Total allowance	Total allowance
Balance, beginning of the period	\$ 2,615	\$ 683	\$ 3,298	\$ 3,102	\$ 2,733	\$ 473	\$ 3,206	\$ 2,566
Provision (recovery) for credit losses	112	130	242	142	(6)	320	314	643
Recoveries	-	-	-	-	-	20	20	35
Balance, end of period	\$ 2,727	\$ 813	\$ 3,540	\$ 3,244	\$ 2,727	\$ 813	\$ 3,540	\$ 3,244

Gross impaired loans at July 31, 2008 totalled \$7,931,000 (July 31, 2007 - \$2,616,000). Loans past due but not impaired at July 31, 2008 totalled \$539,000 (July 31, 2007 - \$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

In June 2008, the Corporation received approval from its Series C Noteholders to extend the maturity date of its Series C Notes from October 16, 2008 to October 16, 2018. In addition, the Corporation received approval from the Series C Noteholders to increase the number of Series C Notes that the Corporation can issue to a maximum of \$100 million.

At July 31, 2008 notes payable consist of Series C Notes totalling \$47.5 million which mature in 2018, Series A Notes totalling \$11.5 million which mature in 2010 and short term notes totalling \$10.8 million which mature in 2009. Notes payable bear interest at rates ranging from 7.0% to 9.25% per annum. .

5. Shareholders' equity

a. Share capital and contributed surplus:

	Common shares outstanding	Employee Stock Options	
		Number	Weighted- average exercise price
Outstanding, October 31, 2007	13,685,552	1,054,345	\$ 8.58
Granted	-	250,398	7.83
Exercised	96,000	(96,000)	3.00
Expired	-	(129,333)	7.57
Repurchased	(137,300)	-	-
Outstanding, end of period	13,644,252	1,079,410	\$ 9.00

In addition, at July 31, 2008, there were 1,142,556 (2007-1,142,556) preferred shares outstanding.

During the nine months ended July 31, 2008, the Corporation recognized \$526,000 (2007-\$267,000) of salaries and benefits expense relating to the estimated fair value of stock options granted. The fair value of options granted during the period was estimated using the Black-Scholes option pricing model based on the following weighted-average assumptions: (i) risk-free interest rate of 4.03% (2007-4.07%), (ii) expected option life of 5 years (2007-5 years), (iii) expected volatility of 30% (2007-30%), and (iv) expected forfeiture rate of 5% (2007-5%). The weighted average fair value of options granted was estimated at \$2.66 (2007-\$3.87) per share.

On July 17, 2007, the Corporation announced that it had filed a Notice of Intention to make a Normal Course Issuer Bid, pursuant to which the Corporation may purchase for cancellation up to 1 million of its common shares. The price that the Corporation paid for any common shares was the market price at the time of acquisition. Since October 31, 2007, the Corporation repurchased for cancellation 135,200 common shares for a total cost of \$942,000. Since July 17, 2007, the Corporation repurchased for cancellation 215,400 common shares for a total cost of \$1,526,000. This bid was completed on July 18, 2008.

On July 18, 2008, the Corporation announced that it had filed a Notice of Intention to make a Normal Course Issuer Bid, pursuant to which the Corporation may purchase for cancellation up to 500,000 of its common shares. The bid commenced on July 22, 2008 and will terminate on July 21, 2009. The price that the Corporation pays for any common shares will be the market price at the time of acquisition. To July 31, 2008 the Corporation has repurchased for cancellation 2,100 common shares under this bid for a total cost of \$11,000.

b. Accumulated other comprehensive income (loss):

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

	<u>July 31 2008</u>	<u>July 31 2007</u>
Net unrealized losses on assets held as available-for-sale	\$ (18,963)	\$ (2,212)
Deferred losses related to previously closed cash flow hedges	(27)	(237)
Balance, end of period	<u>\$ (18,990)</u>	<u>\$ (2,449)</u>

Net of income tax benefit of \$6,802 (2007 \$1,940).

6. Derivative instruments

At July 31, 2008, the Corporation had outstanding contracts for asset liability management purposes to swap between floating and fixed interest rates with notional amounts totalling \$174,187,000 (2007 - \$72,011,000). 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 \$193,000 (2007 - \$nil), a credit equivalent amount of \$2,346,000 (2007 - \$1,035,000) and a risk-weight of \$469,000 (2007 - \$207,000). At July 31, 2008, these contracts were in an unfavorable position of \$11,856,000 (2007 – favorable position of \$424,000). Under the accounting standard relating to hedges, this amount is included in other liabilities on the consolidated balance sheet, however there was nominal impact on net income (loss).

7. Commitments and contingencies

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

Loan commitments	\$ 454,257,000
Letters of credit	36,427,000
	<u>\$ 490,684,000</u>

8. Capital Management

a. Overview:

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

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

Capital is managed in accordance with policies and plans that are regularly reviewed and approved by the Board of Directors and take into account forecasted capital needs and markets. The goal is to maintain adequate regulatory capital to be considered well capitalized, protect consumer deposits and provide capacity for internally generated growth and strategic opportunities that do not otherwise require accessing the public capital markets, all the while providing a satisfactory return for shareholders. The Bank's regulatory capital is comprised of share capital, retained earnings and accumulated other comprehensive income (loss) (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 ratio.

During the nine month period ended July 31, 2008, there have been no material changes in the Bank's management of capital and it has complied with capital requirements as prescribed by OSFI's Guidelines on Capital Adequacy.

b. Assets-to-Capital Multiple:

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

(thousands of dollars)	July 31 2008	July 31 2007
Total assets (on and off-balance sheet)	\$ 1,466,342	\$ 1,251,537
Capital		
Common shares	\$ 86,870	\$ 42,117
Retained earnings	20,941	24,033
Unrealized loss on available-for-sale equity securities	(15,973)	(2,449)
Subordinated debentures	20,000	30,000
Total regulatory capital	\$ 111,838	\$ 93,701
Assets-to-capital ratio	13.11	13.36

c. Risk-Based Capital Ratio:

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

In June 2004, the Basel Committee on Banking Supervision released its report entitled "International Convergence of Capital Measurement and Capital Standards: A Revised Framework" (Basel II). The new framework is designed to more closely align regulatory capital requirements with underlying risks by introducing changes in the treatment of credit risk. An explicit new capital charge for operational risk was introduced, as well as increased supervisory review of capital adequacy and expansion of the related public disclosure. The new Basel II Framework was effective November 1, 2007 for Canadian banks. The Bank's risk-based capital ratios at July 31, 2008 are presented below using the guidelines under Basel II. The Bank's risk-based capital ratios at July 31, 2007 are those determined under the previous capital adequacy guideline.

(thousands of dollars)	July 31 2008		July 31 2007	
	Notional/ Drawn Amount	Risk Weighted Balance	Notional/ Drawn Amount	Risk Weighted Balance
Balance sheet assets	\$ 1,429,915	\$ 782,056	\$ 1,222,073	\$ 727,755
Off-balance sheet assets	664,871	197,238	29,465	24,707
Charge for operational risk		41,866		-
Total risk-weighted assets		\$ 1,021,160		\$ 752,462
Regulatory capital		111,838		93,701
Total risk-based capital ratio		10.95%		12.45%
Tier 1 risk-based capital ratio		8.99%		8.47%

9. Comparative figures

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

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

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

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

To receive company news releases, please contact:
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