



Pacific & Western

Credit Corp.

Fourth Quarter Report October 31, 2008

PACIFIC & WESTERN CREDIT CORP. ANNOUNCES RESULTS FOR ITS FOURTH QUARTER AND THE YEAR ENDED OCTOBER 31, 2008

FOURTH QUARTER AND 2008 FISCAL YEAR SUMMARY

Pacific & Western Credit Corp. announces results for its fourth quarter and the year ended October 31st, 2008.

- Regulatory capital increased by 9.69% to \$100.7 million from \$91.8 million a year ago.
- Loans and leases increased by 13.6% to \$1.1 billion from \$978 million a year ago.
- Net interest income for the year declined to \$11.4 million from \$17.7 million a year ago.
- Spread for the year declined to .77% from 1.27% a year ago.
- Several large non-cash charges were made during the year totaling \$17.7 million. These charges included \$15.0 million to reflect a decline in market value of certain securities, \$2.7 million charge against future income tax assets and \$2.5 million addition to general provisions.
- Non-interest expenses marginally increased to \$14.0 million from \$13.9 million a year ago.
- Net Income (Loss) was (\$20.1 million) versus \$2.2 million a year ago.

PRESIDENT'S COMMENTS

Last year was an incredibly challenging year for our industry and tested our model, which, I am pleased to tell you stood up well. We have a high quality portfolio of loans, leases and securities that are beginning to yield attractive spread income. However, while our risk averse model was not directly impacted by the toxic assets that have plagued our industry world-wide, we did not escape the negative affect of these extremely turbulent times altogether. Our long standing portfolio of major Canadian financial institutions' preferred shares lost significant market value, which as a result of mark to market accounting, significantly reduced our regulatory capital, which in turn reduced our lending capacity and our ability to invest in higher yielding short term treasury assets. Additionally, this quarter we wrote down our investment in Discovery Air, a company that we formed in 2004 to invest in niche aviation businesses. This company's stock appreciated rapidly and gave rise to non-cash gains, most of which we wrote down last quarter. The actual cash cost of our Discovery Air investment was nominal and our written down book value is currently \$2.8 million. The decline in the market value of our Discovery Air investment also negatively impacted our regulatory capital, but not nearly as much as the decline in our portfolio of major financial institutions' preferred shares. To compensate for this unfortunate reduction in regulatory capital, we raised additional capital through issuance of interest bearing notes during the year. The capital raised in this manner was more than enough to offset the decline due to the drop in market value of the securities and resulted in our regulatory capital increasing to \$100.7 million from \$91.8 million a year ago. This increase in capital allowed us to continue the steady growth of our loan portfolio which increased to \$1.1 billion from \$978 million a year ago. In normal circumstances this should have given rise to an increase in our net interest income, however, due to the turbulent market, we faced a significant compression in the spread that we earn on our loans, leases and investments, over what we paid to our depositors. Our spread for the year dropped to .77% from 1.27% earned in the previous year. In particular, we suffered spread compression on our loans priced over major banks' prime rates. This situation, however, was corrected towards the end of the fiscal year by re-pricing the majority of these loans over our 30 day cost of funds.

We feel that our low risk lending model with particular emphasis on financing public sector entities is ideally suited to take advantage of the unusually wide spreads that now exist in this market and the reduced competition. We plan to continue steady growth by serving Canada's public sector entities and expect our spreads and profits to increase steadily in 2009 as our existing loan and lease portfolio gradually is re-priced and new more profitable loans and leases are booked.

FINANCIAL HIGHLIGHTS

(unaudited)

	for the three months ended		for the year ended	
	October 31 2008	October 31 2007	October 31 2008	October 31 2007
(\$ thousands, except per share amounts)				
Results of operations (teb)				
Net interest income per financial statements	\$ 1,115	\$ 3,777	\$ 8,555	\$ 15,503
Teb adjustment	675	715	2,859	2,209
Net interest income	1,790	4,492	11,414	17,712
Spread	0.49%	1.33%	0.77%	1.27%
Provision for credit losses	2,502	198	2,815	841
Net interest income after provision for credit losses	(712)	4,294	8,599	16,871
Impairment writedowns	(11,341)	-	(15,044)	-
Other income	129	114	312	1,626
Total revenue	(11,924)	4,408	(6,133)	18,497
Non-interest expenses	3,280	3,049	14,025	13,897
Net income (loss)	(15,809)	638	(20,089)	2,200
Earnings (loss) per common share:				
Basic	\$ (1.16)	\$ 0.04	\$ (1.49)	\$ 0.14
Diluted	\$ (1.16)	\$ 0.04	\$ (1.49)	\$ 0.14
Efficiency ratio	n/m	\$ 0.66	n/m	\$ 0.72
Return on average common shareholders' equity	-223.39%	4.13%	-54.87%	3.25%
Return on average total assets	-4.31%	0.19%	-1.35%	0.16%
Gross impaired loans to total assets	0.52%	0.10%	0.52%	0.10%
Provision for credit losses as a % of average loans	0.24%	0.02%	0.27%	0.09%
Number of full time equivalent staff	57	57	57	57

Balance Sheet Summary

Cash and securities	\$ 370,993	\$ 441,727	\$ 370,993	\$ 441,727
Total loans	1,110,807	977,727	1,110,807	977,727
Average loans	1,029,702	950,556	1,044,267	920,779
Total assets	1,512,467	1,458,656	1,512,467	1,458,656
Average assets	1,471,431	1,342,120	1,485,562	1,394,193
Deposits	1,389,455	1,282,756	1,389,455	1,282,756
Notes payable	70,405	35,660	70,405	35,660
Shareholders' equity	24,131	57,054	24,131	57,054

Capital ratios

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

Total regulatory capital	\$ 100,705	\$ 91,820	\$ 100,705	\$ 91,820
Risk weighted assets	907,151	800,582	907,151	800,582
Assets-to-capital ratio	15.35	16.19	15.35	16.19
Tier 1 risk-based capital ratio	8.90%	7.72%	8.90%	7.72%
Total risk-based capital ratio	11.10%	11.47%	11.10%	11.47%

n/m - not meaningful

Non-GAAP measures:

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

MANAGEMENT'S DISCUSSION AND ANALYSIS OF OPERATIONS AND FINANCIAL CONDITION

This management's discussion and analysis (MD&A) of operations and financial condition for the fourth quarter of fiscal 2008 should be read in conjunction with the unaudited interim consolidated financial statements for the period ended October 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 (\$15.8 million) or (\$1.16) per share ((\$1.16) diluted) compared to \$638,000 or \$0.04 per share (\$0.04 diluted) for the same period a year ago. The decrease from last year was due primarily to a compression in spreads, a charge of \$2.5 million relating to an increase in the general provision for credit losses, a charge of \$2.7 million relating to a valuation allowance against future income tax assets and a charge for impairment of \$11.3 million (\$9.5 million after income taxes) relating to the Corporation's investment in Discovery Air Inc. (DA). A large portion of the decline in market value of the investment in DA had already been reflected in previous periods' shareholders' equity and in the Bank's regulatory capital as a result of previously recorded mark-to-market adjustments relating to this investment. For the year, net income (loss) was (\$20.1 million) or (\$1.49) per share ((\$1.49) diluted) compared to \$2.2 million or \$0.14 per share (\$0.14 diluted) last year. The change in net income from a year ago was due primarily to the factors described above in addition to an impairment charge of \$3.7 million recorded in the third quarter.

Net interest income (teb) for the quarter was \$1.8 million compared to \$4.5 million for the same period a year ago. For the year, net interest income (teb) was \$11.4 million compared to \$17.7 million last year. The decrease in net interest income from a year ago was due primarily to increased cost of funds on deposits and interest on additional notes payable issued in the year as well as a compression of spreads in the securities and lending portfolios. The spread in the lending portfolio declined earlier in the year as the yield on floating rate loans decreased due to reductions in the prime lending rate. Reductions in the prime lending rate will generally have a negative influence on spread as the loan portfolio reprices more quickly than the Corporation's deposit liabilities. Net interest income also declined as a result of higher liquidity levels maintained during the year as a result of market instability. Late in 2008 the Corporation began repricing its floating rate loans so they are priced based on the Corporation's costs of funds. This will result in increased spreads in the coming year. Despite the 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 October 31, 2008, total assets were \$1.51 billion compared to \$1.46 billion a year ago and lending assets grew to \$1.1 billion from \$978 million a year ago, an increase of 14%. The provision for credit losses as a percentage of average loans for the quarter was 0.24% compared to 0.02% a year ago and for the year was 0.27% compared to 0.09% last year. While the credit quality of the Corporation's overall loan portfolio remains strong, the Corporation increased its general provision for credit losses by \$2.5 million in the fourth quarter as a result of a review of its credit models relating primarily to its personal loan portfolio due to recent events in the market place.

Total Revenue (teb)

Total revenue (teb), which is comprised of net interest income after the provision for credit losses and other income (charges), was (\$11.9 million) for the quarter compared to \$4.4 million a year ago. For the year, total revenue (teb) was (\$6.1 million) compared to \$18.5 million last year. The decrease in total revenue from a year ago was due primarily to a compression of spreads during the year, the increase in the general provision for credit losses and impairment charges on available-for-sale assets.

Net Interest Income

Net interest income (teb) was \$1.8 million for the quarter compared to \$4.5 million a year ago, and for the year was \$11.4 million compared to \$17.7 million a year ago. Net interest margin or spread (teb), which is net interest income as a percentage of average assets, was 0.49% for the quarter compared to 1.33% for the same quarter a year ago. For the year, spread (teb) was 0.77% compared to 1.27% a year ago. The decrease in spread was due primarily to several factors including an increase in our cost of funds on deposits and the interest on additional notes payable issued in the year. In addition, the Corporation maintained higher liquidity levels during the year as a result of market instability. Finally, 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. Reductions in the prime lending rate will generally have a negative influence on spread as the loan portfolio reprices more quickly than the Corporation's deposit liabilities.

Impairment Charge on Available-for-sale Assets

In the fourth quarter, the Corporation recorded an impairment charge of \$11.3 million as a result of its investment in DA trading below the Corporation's amortized cost for a prolonged period of time. In addition the Corporation recorded an impairment charge of \$3.7 million in the third quarter bringing total charges for impairment for the year to \$15.0 million. The charge taken in the third quarter related to a preferred share position in its securities portfolio which had been trading below the Corporation's amortized cost for a prolonged period of time. The decline in value of this preferred share position was due primarily to market conditions rather than to a deterioration in the credit quality of the issuer.

Non-Interest Expenses

Non-interest expenses for the quarter were \$3.3 million compared to \$3.1 million a year ago and for the year were \$14.0 million compared to \$13.9 million a year ago. Most categories of non-interest expenses were lower in the fourth quarter and for the year compared to last year due to a reduction in discretionary spending however these reductions were offset by 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, a lower rate of tax being applied to the impairment charge on the DA investment and impacted by expenses such as stock-based compensation which are not deductible for income tax purposes. These items, as well as a valuation allowance on future income tax assets resulted in an income tax recovery of \$70,000 and an effective rate of 0.04% being recorded in the fourth quarter, and for the year an income tax recovery of \$2.9 million and an effective rate of 13%.

At October 31, 2008, the Corporation had a future income tax asset of \$11.0 million (2007 - \$3.5 million) which is primarily a result of income tax losses from the current and previous years, the benefit of which was recorded at the time, and net of a valuation allowance of \$2.7 million relating to the future income tax asset in Pacific & Western Credit Corp., the parent company. The income tax loss carryforwards in the Bank are scheduled to expire in 2027 and in 2028 if unutilized. A significant portion of the future tax asset relates to the decline in market value of the preferred shares. 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 Corporation 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 Corporation being able to generate taxable income sufficient to offset these income tax losses. The ability to generate sufficient taxable income may be dependent upon the Bank increasing regulatory capital to facilitate growth in its lending portfolio, 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.

Balance Sheet

Total assets at October 31, 2008, were \$1.51 billion compared to \$1.46 billion a year ago with lending assets growing to \$1.1 billion from \$978 million a year ago. Total assets increased from a year ago primarily as a result of the higher level of mortgages and loans.

Cash and Securities

Cash and securities, which are held for liquidity management purposes and to earn investment income, were \$371 million compared to \$442 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 \$5.4 million and a fair value based on external valuation models of \$1.2 million. On August 1, 2008 the Corporation reclassified the CDO from the available-for-sale category to held-to-maturity. This reclassification was based on the view that carrying the investment at amortized cost was more appropriate given the lack of verifiable inputs for the valuation model being used to determine fair value and the Corporation's intention to hold the investment to maturity. This CDO was arranged by a major Canadian bank and is secured by corporate credits. 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 October 31, 2008, the net unrealized loss in our securities portfolio was \$26.7 million compared to a net unrealized loss of \$11.7 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.

Recent market conditions have resulted in a significant decline in the market value of equity securities held by the Corporation for investment purposes. These securities, consisting primarily of preferred shares of major Canadian banks and insurance companies, are subject to market fluctuations and, at October 31, 2008, traded at a value approximately \$21,675,000 below their amortized cost. The Corporation intends to hold these securities until a recovery in value is achieved. The securities have provisions that will allow the issuer to redeem the securities at various dates commencing over the years 2010 to 2013; however, there is no promise or legal requirement for the issuers of the preferred shares to redeem these shares on those dates. Recovery of the market value declines is dependent upon future market conditions and the ultimate future redemption of the shares by the issuers.

Mortgages and Loans

Lending assets grew to \$1.1 billion at the end of the year from \$978 million a year ago. This growth was due primarily to increases in insured residential mortgages, public sector loans and corporate loans and mortgages. New lending in the quarter totalled \$241 million compared to \$127 million for the same period a year ago. For the year, new lending totalled \$471 million compared to \$500 million last year. Loan growth in the current year was slowed by capital constraints as the Bank introduced higher internal targets for its capital ratios and carried higher levels of liquidity during the year as a result of market instabilities.

Other Assets

Other assets totalled \$30.7 million at the end of the year compared to \$39.2 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 October 31, 2008, the investment in DA had a carrying value of \$3.5 million after the Corporation recorded an impairment charge of \$11.3 million against the investment in the fourth quarter. This charge was recorded primarily as a result of the length of time the shares of DA had been trading below the Corporation's amortized cost as well as the significance of the decline in value below the Corporation's amortized cost.

Deposits and Financing

Deposits are used as a primary source of financing growth in assets and are raised entirely through a well established and well diversified deposit broker network across Canada. Deposits at the end of the year were \$1.39 billion compared to \$1.28 billion a year ago and consist primarily of guaranteed investment certificates. Of these amounts, \$18.9 million was in the form of demand deposits at the end of the year compared to \$7.5 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 year, there were no amounts outstanding related to securities sold under repurchase agreements or margin lines compared to \$50 million being outstanding last year.

Notes Payable

Notes payable, net of issue costs, at October 31, 2008 totalled \$70.4 million compared to \$35.7 million a year ago with the increase due to new notes issued during the past year. In the third quarter, notes totalling \$35.6 million were issued and \$7 million in short term notes were repaid. In the fourth quarter, \$1.8 million in short term notes were issued. The net proceeds from the issue of notes payable were used to increase the level of regulatory capital in the Bank. At October 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 \$12.6 million which mature in 2009. Notes payable bear interest at rates ranging from 7.0% to 9.25% per annum.

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.

With the increase in the notes issued by Pacific & Western Credit Corp. during the year, a difference of approximately \$50 million currently exists between subordinated notes of the Bank owned by Pacific & Western Credit Corp. and the notes payable it has issued. This has also resulted in a deficiency in cash flows and net interest income in Pacific & Western Credit Corp. on a non-consolidated basis. Management plans to reduce this difference by the parent issuing non-interest bearing equity with the proceeds being invested in a combination of equity and interest earning subordinated debt of the Bank.

Credit Quality

Gross impaired loans at the end of the year totalled \$7.8 million or 0.52% of total assets compared to \$1.5 million or 0.10% of total assets a year ago. The increase in impaired loans was due to a borrower whose loans, which are secured primarily by a hospital facility, were impaired at the end of the year. We expect these loans to be settled with no loss being incurred. The provision for credit losses for the fourth quarter was \$2.5 million compared to \$198,000 a year ago and for the year was \$2.8 million compared to \$841,000 a year ago. The increase in the provision for credit losses was a result of an increase in the general provision as the Corporation reviewed its credit models relating primarily to its personal loan portfolio based on recent events in the market place. Total allowances for credit losses, including specific and general allowances, were \$6.0 million at the end of the year compared to \$3.2 million a year ago. The provision for credit losses as a percentage of average loans for the quarter was 0.24% compared to 0.02% last year. For the year, the provision for credit losses as a percentage of average loans was 0.27% compared to 0.09% a year ago.

Shareholders' Equity

At the end of the year, shareholders' equity was \$24.1 million compared to \$57.1 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 year totalled 13,642,452 compared to 13,685,552 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 1,077,110 at the end of the year compared to 1,054,345 a year ago. Our book value per common share at the end of the year was \$1.51 compared to \$3.91 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 year, the Corporation repurchased for cancellation under this bid 131,800 common shares for a total cost of \$956,500. Since July 17, 2007, the Corporation repurchased for cancellation under this bid 212,000 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. To October 31, 2008, the Corporation has repurchased for cancellation under this bid 7,300 common shares for a total cost of \$36,500. It is anticipated that the Corporation will not make any further purchases pursuant to this second bid.

Updated Share Information

At January 26, 2009, there was no change in the number of common shares outstanding since October 31, 2008. At the same date, there were 901,167 stock options outstanding with the change since October 31, 2008 due to stock options which had expired.

Capital Management

Total regulatory capital in the Corporation's principal subsidiary, the Bank, totalled \$100.7 million at October 31, 2008 compared to \$91.8 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 available-for-sale equity securities the Bank holds in its securities portfolio and its investment in DA which are recorded at market values.

The Bank's total risk-based capital ratio, which is the ratio of regulatory capital to risk-weighted assets, was 11.10% at October 31, 2008 compared to 11.47% 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. The Bank's Tier 1 risk-based capital ratio, which is the ratio of Tier 1 capital to risk-weighted assets, was 8.90% at October 31, 2008, compared to 7.72% a

year ago. The Bank's assets-to-capital ratio was 15.35 at the end of the year compared to 16.19 a year ago. See note 8 to the interim consolidated financial statements for more information regarding capital management.

Subsequent to October 31, 2008, the Bank estimated that it had, on a temporary basis, exceeded by a minor amount, the assets-to-capital ratio that had been established by OSFI. This exception took place primarily as a result of a decrease in the market value of preferred shares held in the Bank's securities portfolio and which are primarily those of major Canadian banks and insurance companies. This decrease took place as a result of market volatility versus any credit impairment in the issuers of the securities. Shortly thereafter, the Bank's adherence to this requirement was re-established.

Summary of Quarterly Results

(thousands of dollars except per share amounts)

	2008				2007			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Results of operations:								
Total interest income								
per financial statements	\$ 17,702	\$ 16,022	\$ 18,105	\$ 20,377	\$ 18,795	\$ 16,978	\$ 17,538	\$ 18,163
Teb adjustment	675	679	659	844	715	559	492	444
Total interest income	18,377	16,701	18,764	21,221	19,510	17,537	18,030	18,607
Yield on assets (%)	5.01%	4.79%	5.39%	5.71%	5.77%	5.37%	5.42%	5.49%
Interest expense	16,587	15,078	15,820	16,165	15,018	13,757	13,495	13,701
Cost of funds (%)	4.52%	4.33%	4.54%	4.35%	4.44%	4.21%	4.06%	4.04%
Net interest income	1,790	1,623	2,944	5,056	4,492	3,780	4,535	4,906
Net interest margin (%)	0.49%	0.46%	0.85%	1.36%	1.33%	1.16%	1.36%	1.45%
Provision for credit losses	2,502	242	64	8	198	142	72	429
Impairment writedowns	(11,341)	(3,703)	-	-	-	-	-	-
Other income (charges)	129	139	130	(86)	114	260	294	959
Total revenue	(11,924)	(2,183)	3,010	4,962	4,408	3,898	4,757	5,436
Non-interest expenses	3,280	3,523	3,441	3,781	3,049	3,643	3,548	3,658
Income (loss) before income taxes	(15,204)	(5,706)	(431)	1,181	1,359	255	1,209	1,778
Income taxes	605	(1,491)	170	645	721	128	865	687
Net income (loss)	(15,809)	(4,215)	(601)	536	638	127	344	1,091
Earnings (loss) per share								
-basic	\$ (1.16)	\$ (0.31)	\$ (0.05)	\$ 0.03	\$ 0.04	\$ 0.01	\$ 0.02	\$ 0.08
-diluted	\$ (1.16)	\$ (0.31)	\$ (0.05)	\$ 0.03	\$ 0.04	\$ -	\$ 0.02	\$ 0.07

Net interest income (teb) decreased to \$1.6 million in the third quarter from previous quarters but improved to \$1.8 million in the fourth quarter. Spread (teb) improved to 0.49% in the fourth quarter from 0.46% in the third quarter as a result of growth in lending assets. However net interest income and spread for the last two quarters were less than in previous quarters in the year as a result of a compression of spreads primarily in the Corporation's securities and loan portfolios and an increase in liquidity levels to deal with market instability. The provision for credit losses increased in the fourth quarter to \$2.5 million as a result of enhancements made to credit models relating primarily to the personal loan portfolio based on recent events in the market place

Non-interest expenses in the fourth quarter decreased from previous quarters due to reductions in discretionary spending offset slightly by increases in volume related expenses.

Net income (loss) in the fourth quarter was further impacted by a valuation allowance of \$2.7 million being recorded in the provision for income taxes. This valuation allowance was with respect to the future income tax assets that exist within the parent company Pacific & Western Credit Corp.

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 with its fiscal period commencing November 1, 2011. The Corporation has commenced a review of the new standards however 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: January 26, 2009

Forward-Looking Statements

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

	October 31 2008	October 31 2007
	<u>(unaudited)</u>	
Assets		
Cash resources	\$ 207,831	\$ 113,421
Securities	163,162	328,306
Mortgages and loans	1,110,807	977,727
Other assets	<u>30,667</u>	<u>39,202</u>
	<u>\$ 1,512,467</u>	<u>\$ 1,458,656</u>
Liabilities and Shareholders' Equity		
Deposits	\$ 1,389,455	\$ 1,282,756
Notes payable	70,405	35,660
Other liabilities	<u>28,476</u>	<u>83,186</u>
	<u>1,488,336</u>	<u>1,401,602</u>
Shareholders' equity		
Share capital	39,387	39,470
Retained earnings	3,796	24,125
Accumulated other comprehensive income (loss)	<u>(19,052)</u>	<u>(6,541)</u>
	<u>24,131</u>	<u>57,054</u>
	<u>\$ 1,512,467</u>	<u>\$ 1,458,656</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 2008	October 31 2007	October 31 2008	October 31 2007
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Interest income				
Interest income on loans	\$ 13,582	\$ 14,018	\$ 53,490	\$ 52,814
Interest and income from securities	3,225	3,942	15,285	16,042
Loan fee income	895	835	3,431	2,618
	<u>17,702</u>	<u>18,795</u>	<u>72,206</u>	<u>71,474</u>
Interest expense				
Deposits and other	14,973	14,132	59,005	52,452
Notes payable	1,614	886	4,646	3,519
	<u>16,587</u>	<u>15,018</u>	<u>63,651</u>	<u>55,971</u>
Net interest income	1,115	3,777	8,555	15,503
Provision for credit losses	<u>2,502</u>	<u>198</u>	<u>2,815</u>	<u>841</u>
Net interest income (loss) after provision for credit losses	(1,387)	3,579	5,740	14,662
Impairment writedown on securities	(11,341)	-	(15,044)	-
Other income	129	114	312	1,626
	<u>(12,599)</u>	<u>3,693</u>	<u>(8,992)</u>	<u>16,288</u>
Non-interest expenses				
Salaries and benefits	1,552	1,552	7,598	7,813
General and administrative	1,228	1,037	4,475	4,311
Premises and equipment	500	460	1,952	1,773
	<u>3,280</u>	<u>3,049</u>	<u>14,025</u>	<u>13,897</u>
Income (loss) before income taxes	(15,879)	644	(23,017)	2,391
Income tax (recovery) provision	<u>(70)</u>	<u>6</u>	<u>(2,928)</u>	<u>191</u>
Net income (loss)	\$ (15,809)	\$ 638	\$ (20,089)	\$ 2,200
Basic earnings (loss) per share	<u>\$ (1.16)</u>	<u>\$ 0.04</u>	<u>\$ (1.49)</u>	<u>\$ 0.14</u>
Diluted earnings (loss) per share	<u>\$ (1.16)</u>	<u>\$ 0.04</u>	<u>\$ (1.49)</u>	<u>\$ 0.14</u>
Weighted average number of common shares	<u>13,643,000</u>	<u>13,739,000</u>	<u>13,633,000</u>	<u>13,674,000</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 2008	October 31 2007	October 31 2008	October 31 2007
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Total net income (loss)	\$ (15,809)	\$ 638	\$ (20,089)	\$ 2,200
Other comprehensive income (loss), net of tax:				
Net unrealized losses on assets held as available-for-sale ⁽¹⁾	(4,960)	(4,136)	(11,866)	(9,377)
Amount transferred to net income for hedges ⁽²⁾	27	53	190	212
Amount transferred to net income for available-for-sale assets ⁽³⁾	89	(9)	(38)	(1,358)
Amount transferred to net income for impairment writedown on available-for-sale assets ⁽⁴⁾	4,782	-	(797)	-
Total other comprehensive income (loss)	(62)	(4,092)	(12,511)	(10,523)
Total comprehensive income (loss)	\$ (15,871)	\$ (3,454)	\$ (32,600)	\$ (8,323)

(1) Net of income tax benefit (expense) for the three months of \$470 (2007-\$790) and year-to-date of \$5,085 (2007-\$3,743)

(2) Net of income tax benefit (expense) for the three months of (\$21) (2007-(\$30)) and year-to-date of (\$104) (2007-(\$120))

(3) Net of income tax benefit (expense) for the three months of (\$37) (2007-\$5) and year-to-date of \$26 (2007-\$512)

(4) Net of income tax benefit (expense) for the three months of (\$362) (2007-\$nil) and year-to-date of \$21 (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 year ended</i>	
	October 31 2008	October 31 2007	October 31 2008	October 31 2007
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Common shares				
Balance, beginning of period	\$ 35,704	\$ 35,871	\$ 35,743	\$ 33,986
Shares issued	-	57	288	1,956
Shares repurchased	(41)	(185)	(368)	(209)
Amount transferred from contributed surplus	-	-	-	10
Balance, end of period	<u>\$ 35,663</u>	<u>\$ 35,743</u>	<u>\$ 35,663</u>	<u>\$ 35,743</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	\$ 83	\$ 501	\$ 182	\$ 244
Fair value of stock option transactions (note 5)	96	56	622	323
Repurchase of shares	-	(375)	(625)	(375)
Amount transferred to common shares	-	-	-	(10)
Balance, end of period	<u>\$ 179</u>	<u>\$ 182</u>	<u>\$ 179</u>	<u>\$ 182</u>
Retained earnings				
Balance, beginning of period	\$ 19,605	\$ 23,487	\$ 24,125	\$ 32,875
Transitional adjustment	-	-	-	77
Net income (loss)	(15,809)	638	(20,089)	2,200
Dividend in kind	-	-	-	(10,787)
Dividends on preferred shares	-	-	(240)	(240)
Balance, end of period	<u>\$ 3,796</u>	<u>\$ 24,125</u>	<u>\$ 3,796</u>	<u>\$ 24,125</u>
Accumulated other comprehensive income (loss), net of taxes				
Balance, beginning of period	\$ (18,990)	\$ (2,449)	\$ (6,541)	\$ -
Transitional adjustment	-	-	-	3,982
Other comprehensive income (loss)	(62)	(4,092)	(12,511)	(10,523)
Balance, end of period	<u>\$ (19,052)</u>	<u>\$ (6,541)</u>	<u>\$ (19,052)</u>	<u>\$ (6,541)</u>
Total shareholders' equity	<u>\$ 24,131</u>	<u>\$ 57,054</u>	<u>\$ 24,131</u>	<u>\$ 57,054</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 2008	October 31 2007	October 31 2008	October 31 2007
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Cash provided by (used in):				
Operations:				
Net income (loss)	\$ (15,809)	\$ 638	\$ (20,089)	\$ 2,200
Items not involving cash:				
Provision for credit losses	2,501	198	2,815	841
Impairment writedown on other assets	11,341	-	11,341	-
Stock-based compensation (note 5)	96	56	622	323
Future income tax provision (recovery)	(70)	315	(2,928)	500
Gain on sale of available-for-sale securities	(3)	(14)	(676)	(978)
Gain on disposal of shares	-	-	-	(888)
Impairment writedown on securities	-	-	3,703	-
Change in derivative financial instruments	-	(108)	197	(273)
Change in other assets and liabilities	(12,224)	17,188	(30,467)	15,993
	<u>(14,168)</u>	<u>18,273</u>	<u>(35,482)</u>	<u>17,718</u>
Investing:				
Purchase of securities	(530,753)	(152,827)	(1,780,775)	(658,838)
Proceeds from sale and maturity of securities	586,839	59,733	1,935,703	537,516
Mortgages and loans	(155,267)	(53,325)	(115,316)	(113,945)
	<u>(99,181)</u>	<u>(146,419)</u>	<u>39,612</u>	<u>(235,267)</u>
Financing:				
Deposits	215,723	166,439	106,699	72,201
Notes payable	-	-	34,443	-
Short term financings	(119,740)	49,917	(49,917)	49,917
Proceeds of common shares issued	-	58	288	1,956
Shares repurchased	(40)	(561)	(993)	(584)
Dividends paid	-	-	(240)	(240)
	<u>95,943</u>	<u>215,853</u>	<u>90,280</u>	<u>123,250</u>
Increase (decrease) in cash resources	(17,406)	87,707	94,410	(94,299)
Cash resources, beginning of period	<u>225,237</u>	<u>25,714</u>	<u>113,421</u>	<u>207,720</u>
Cash resources, end of period	<u>\$ 207,831</u>	<u>\$ 113,421</u>	<u>\$ 207,831</u>	<u>\$ 113,421</u>
Supplementary cash flow information:				
Interest paid during the period	\$ 21,758	\$ 11,499	\$ 65,425	\$ 55,072
Income taxes paid during the period	\$ -	\$ 79	\$ 68	\$ 500

PACIFIC & WESTERN CREDIT CORP.

Notes to the interim consolidated financial statements (unaudited) For the year months ended October 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 October 31, 2008 is an investment in a collateral debt obligation (CDO) which has an amortized cost of \$5.4 million (2007 - \$10 million) and a fair value of \$1.2 million (2007 - \$7.6 million). Fair value was determined by the use of external valuation models which incorporate observable market parameters. These include observable interest rates, credit spreads and loss expectations. The fair value amount determined based on the above may not ultimately reflect what the Corporation would receive if it were to sell the CDO in the market. The CDO is secured by corporate credits and does not have any direct residential sub-prime exposure.

3. Allowance for credit losses

	<i>for the three months ended</i>				<i>for the year ended</i>			
	October 31, 2008		October 31, 2007		October 31, 2008		October 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	\$ 2,727	\$ 813	\$ 3,540	\$ 3,244	\$ 2,733	\$ 473	\$ 3,206	\$ 2,566
Provision for credit losses	2,485	17	2,502	198	2,479	336	2,815	841
Recoveries (write-offs)	-	-	-	(236)	-	21	21	(201)
Balance, end of period	\$ 5,212	\$ 830	\$ 6,042	\$ 3,206	\$ 5,212	\$ 830	\$ 6,042	\$ 3,206

Gross impaired loans at October 31, 2008 totalled \$7,791,000 (October 31, 2007 - \$1,452,000). Loans past due but not impaired at October 31, 2008 totalled \$248,000 (October 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 October 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 \$12.6 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	7.82
Exercised	96,000	(96,000)	3.00
Expired	-	(131,633)	7.59
Repurchased	(139,100)	-	-
Outstanding, end of period	13,642,452	1,077,110	\$ 9.02

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

During the year ended October 31, 2008, the Corporation recognized \$622,000 (2007-\$323,000) 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 4.02% (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 131,800 common shares for a total cost of \$956,500. Since July 17, 2007, the Corporation repurchased for cancellation 212,000 common shares for a total cost of \$1,540,500. 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 7,300 common shares under this bid for a total cost of \$36,500. It is anticipated that the Corporation will not make any further purchases pursuant to this Bid.

b. Accumulated other comprehensive income (loss):

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

	<u>October 31</u> <u>2008</u>	<u>October 31</u> <u>2007</u>
Net unrealized losses on assets held as available-for-sale	\$ (19,052)	\$ (6,356)
Deferred losses related to previously closed cash flow hedges	-	(185)
Balance, end of period	<u>\$ (19,052)</u>	<u>\$ (6,541)</u>

Net of income tax benefit of \$8,165 (2007-\$3,660).

6. Derivative instruments

At October 31, 2008, the Corporation had outstanding contracts for asset liability management purposes to swap between floating and fixed interest rates with notional amounts totalling \$241,410,000 (2007 - \$95,772,000). 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 \$18,000 (2007 - \$976,000), a credit equivalent amount of \$2,613,000 (2007 - \$2,350,000) and a risk-weight of \$523,000 (2007 - \$470,000). At October 31, 2008, these contracts were in an unfavorable position of \$21,327,000 (2007 - \$611,000). 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. Under certain circumstances, the Corporation may cancel loan commitments at its option. During 2008, loan commitments totalling approximately \$230 million were withdrawn. 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	\$ 186,657,000
Letters of credit	31,910,000
	<u>\$ 218,567,000</u>

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

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 year ended October 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)	October 31 2008	October 31 2007
Total assets (on and off-balance sheet)	\$ 1,545,437	\$ 1,486,166
Capital		
Common shares	\$ 87,365	\$ 42,117
Retained earnings	8,513	24,654
Unrealized loss on available-for-sale equity securities	(15,173)	(4,951)
Subordinated debentures	20,000	30,000
Total regulatory capital	\$ 100,705	\$ 91,820
Assets-to-capital ratio	15.35	16.19

Subsequent to October 31, 2008, the Bank estimated that it had, on a temporary basis, exceeded by a minor amount, the assets-to-capital multiple that had been established by OSFI. This exception took place primarily as a result of a decrease in the market value of preferred shares held in the Bank's securities portfolio and which are primarily those of major Canadian banks and insurance companies. This decrease took place as a result of market volatility versus any credit impairment in the issuers of the securities. Subsequently, the Bank's adherence to this requirement was re-established.

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 October 31, 2008 are presented below using the guidelines under Basel II. The Bank's risk-based capital ratios at October 31, 2007 are those determined under the previous capital adequacy guideline.

	October 31 2008		October 31 2007	
	Notional/ Drawn Amount	Risk Weighted Balance	Notional/ Drawn Amount	Risk Weighted Balance
(thousands of dollars)				
Balance sheet assets	\$ 1,513,456	\$ 809,747	\$ 1,456,045	\$ 777,247
Off-balance sheet assets	459,977	57,706	216,148	23,335
Charge for operational risk		39,698		-
Total risk-weighted assets		\$ 907,151		\$ 800,582
Regulatory capital		100,705		91,820
Total risk-based capital ratio		11.10%		11.47%
Tier 1 risk-based capital ratio		8.90%		7.72%

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 \$1.5 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:
Carla McPhee at carlam@pwbank.com, (519) 675-4204

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