



Q3 2008

WESTERN FINANCIAL GROUP INC.

FINANCIAL HIGHLIGHTS (in \$ thousands)	Three months ended September 30			Nine months ended September 30		
	2008	2007	% Change	2008	2007	% Change
THE NETWORK						
Revenue (\$)	19,825	17,007	16.6 %	58,186	49,290	18.0 %
Operating income (\$)	5,583	4,944	12.9 %	17,376	16,080	8.1 %
BANK WEST						
Interest and investment income (\$)	4,677	3,312	41.2 %	14,228	8,632	64.8 %
Net interest income (\$)	1,492	665	124.4 %	4,544	2,953	53.9 %
Operating income (loss) (\$)	(32)	3	(1166.7) %	1,100	249	341.8 %
WESTERN LIFE						
Premium and investment income (\$)	7,092	8,306	(14.6) %	22,584	20,440	10.5 %
Operating income (\$)	1,086	733	48.1 %	3,522	2,514	40.1 %
CORPORATE AND ALL OTHER						
Revenue (\$)	418	929	(55.0) %	1,487	2,396	(37.9) %
Operating income (\$)	(2,187)	(1,343)	62.8 %	(5,408)	(4,432)	22.0 %
CONSOLIDATED						
Revenue (\$)	32,012	29,554	8.3 %	96,485	80,758	19.5 %
Net income (\$)	2,100	2,344	(10.4) %	10,325	8,979	15.0 %
Earnings per share						
- basic (\$)	\$ 0.04	\$ 0.05	(20.0) %	\$ 0.17	\$ 0.19	(10.5) %
- diluted (\$)	\$ 0.04	\$ 0.04	0.0 %	\$ 0.17	\$ 0.17	0.0 %

DEAR FELLOW SHAREHOLDERS

The results for the nine months are presented in the pages that follow.

Continued Strong Operating Earnings

The nine month results for 2008 present both good and bad news. The good news is that our operating businesses continue to do well – having posted increases in revenue and operating income. By virtually every measure, we are making progress toward our goal of strong internal growth in revenue, market share and profitability. The Network's same store sales grew by 9.7% and our same store customer count is up by 4.3%, both a clear demonstration of our market share growing. The Network's margin stands at its long term goal of 30%. Bank West's operating income has shown dramatic improvement and its loan provisions and delinquency indicators are within expected parameters, in spite of some "lumpy" expenses in the third quarter. Western Life continues to provide significant growth in sales and profitability in spite of reduced investment income. All in all, we are pleased with the performance of the Company's operations, and believe we are well positioned to grow profitability and revenue over the coming quarters and years ahead. Western Canada's economy continues to be strong, and is expected to lead the country in 2009 and beyond. We are noticing a number of leading indicators of insurance rate increases. We are beginning to see the effects of integration and synergy across our operating units, and we expect this to accelerate into 2009.

Reduction in short term expected returns from Strategic Partners

Now for the bad news. Our strategic partnership portfolio, specifically, our partners at Jennings Capital are suffering through a difficult period in the investment industry, and in the third quarter suffered a loss – primarily the result of mark to market inventory writedowns. We expect that the fourth quarter will continue to be a challenge, and that Jennings over the next number of quarters will likely deliver financial results that are significantly reduced compared to those of the past. That said, we firmly believe that Jennings is much better positioned than many of its competitors to weather the storm and take advantage of coming opportunities. Jennings' operating platform is efficient and low cost. It has no debt, and has zero exposure to derivatives or credit swaps. We remain committed to our partnership with Jennings. Our other strategic partners – H.E.D., Falkins and Harvard Western all are operating at or ahead of their budgets.

Change in 2008 Objectives

Given the results at nine months, and our outlook for the final quarter, we are adjusting our 2008 stated goals to reflect a reduction in expected contributions from our strategic partnership portfolio. We also have changed the Bank West portfolio growth number to reflect the expected closing of the acquisition of AgriFinancial on or before December 31. Our revenue growth target remains unchanged.

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2008 OBJECTIVES

Same Store Revenue	7%-10% growth
Bank Assets	25% growth
EPS	0%-10% reduction

While we are disappointed to have our overall bottom line progress hampered in the short term by events in the stock market, we remain very excited about our ability to grow our business and increase profitability in the months and years ahead.

On behalf of the Board of Directors,



Scott Tannas, President and Chief Executive Officer
High River, Alberta
November 7, 2008

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of our results of operations and financial condition should be read in conjunction with our unaudited consolidated financial statements and related notes as at and for the three and nine months ended September 30, 2008 and the management's discussion and analysis and audited consolidated financial statements and related notes for the year ended December 31, 2007.

This management's discussion and analysis is dated November 7, 2008 and provides comments regarding our objectives, strategies, financial results, risk management and business outlook. Forward-looking statements involve numerous assumptions, risks and uncertainties, including the risk that prediction and other forward-looking statements may not prove to be accurate. We caution the reader not to place undue reliance on these statements, as a number of important factors could cause actual results to differ materially from the estimates and comments expressed in them. Such factors may include, but are not limited to: changing financial and economic conditions in Canada, particularly in Western Canada; regulatory developments; competition industry trends and availability of capital resources; and our anticipated success in managing our risks. We caution readers that the foregoing list is not exhaustive. Except as required by law, we do not undertake to update any forward-looking statements, written or oral, that we may make from time to time regarding our operations and performance.

The financial statements are expressed in Canadian dollars and have been prepared in accordance with Canadian Generally Accepted Accounting Principles (GAAP). We use the term "operating income" to refer to earnings, including investment income, before interest expense, deposits, taxes, depreciation and amortization of intangible and capital assets, excluding gain (loss) from the sale of long-term assets and income from long-term investments. Although operating income and operating margin, each of which are discussed herein, do not have standardized meanings prescribed by GAAP, these measures are determined by reference to our financial statements. We discuss these measures as we feel that they are some of the key indicators of the performance of our business. Operating income is used to measure corporate performance before the costs of capital and amortization of capital and intangible assets. As we continue to make acquisitions, our amortization of intangibles will continue to increase along with interest costs on funds borrowed to finance the acquisitions. In order to evaluate our longer-term sustainable performance, our management believes that operating income provides a relevant measure of our actual performance.

Business of Western Financial Group

We are a leader in providing insurance, financial services and banking services to more than 400,000 individuals and businesses in Western Canada through our WFG Agency Network (the "Network"), affiliated insurance brokers, Western Life Assurance Company ("Western Life") and Bank West.

Our primary business is the ownership and operation of WFG Agency Network, which serves over 80 communities with offices in British Columbia, Alberta, Saskatchewan and Manitoba. In addition, we have affiliated offices in 12 communities with 15 offices in British Columbia and Saskatchewan. These locations offer a broad variety of property and casualty insurance services including private

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auto insurance and government auto in British Columbia, Saskatchewan and Manitoba, home and farm insurance, business and specialty insurance, life products and in many locations, investment and financial services.

In addition, Western Life Assurance Company was acquired effective February 28, 2005, and brings a wide range of quality life insurance products to the WFG Agency Network offices. These include term and permanent life insurance, group benefits, health and disability insurance and loss of employment insurance. Western Life also has a network of over 2,000 brokers who sell its products. Since being acquired Western Life and the Network have worked closely in developing strategies to successfully integrate their product lines with our clients through the Network.

Bank West (“the Bank”), a Schedule A chartered bank, offers deposit and loan services, including GICs and personal and commercial loans which are offered through its own broker network as well as through WFG Agency Network locations. The Bank has been successful in developing a growing business in recreational vehicles, marine and auto dealership financing and in offering mortgage products.

Investment products are offered from many of the WFG Agency Network locations on a referral basis to Jennings Capital, a full-service investment dealer with its head office in Calgary, Alberta, in which we have a 25.0% equity interest.

ACQUISITIONS AND INVESTMENTS

In the nine months ended September 30, 2008 we acquired all of the outstanding shares of the following insurance brokerage businesses: Southern Insurance Management Inc., in Lethbridge, Alberta, Simpson Insurance Ltd., in Trochu, Alberta, Woodland Insurance Agencies, in Grande Cache, Alberta, Boyd Agencies Ltd. in Prince Albert, Saskatchewan, Vet’s Insurance & Consultants Ltd. in Coleman, Alberta and Dunn Realty and Insurance Ltd. in Wolseley, Saskatchewan. In addition we increased our investment in Hayhurst Elias Dudek Inc. (“HED”) to 49%. In August 2006, we acquired a 25% initial interest in Hayhurst Elias Dudek Inc. (“HED”). HED is one of the largest independently-owned insurance brokers in Canada, with approximately 190 employees nationwide. HED’s head office and the majority of the employees are located in Winnipeg, with additional offices in Toronto, Montreal and Halifax. HED offers three core product segments: i) Commercial Property & Casualty; ii) Life and Health; and iii) Pet Health Insurance through its subsidiary SecuriCan General Insurance Company, the leading provider of pet insurance in Canada, sold under the Petsecure brand.

In May 2007, we entered into an agreement with Prospera Credit Union pursuant to which we agreed to acquire all of the issued and outstanding shares of Ubiquity Bank of Canada. Ubiquity Bank is a Canadian online virtual bank that offers access to account or banking information 24 hours a day delivering financial services through non-traditional forms of banking including phone, internet, ATM, and fax. Ubiquity was founded in April 2004 and is based in Abbotsford, British Columbia. On October 1, 2007 the acquisition was completed and Bank West and Ubiquity Bank were amalgamated with the operations of the two banks consolidated under the Bank West brand.

During 2007 the Company acquired all of the outstanding shares of the following insurance brokerage businesses: the Sawchuk Group with three offices in Dawson Creek, B.C., four offices in Fort St. John, B.C., and one office in Fort Nelson, B.C. The Sawchuk Group consists of Pomeroy Insurance Services Ltd., J.W. Baker Insurance Agencies Inc., Northland Insurance Services Ltd., and Geer and Spice Insurance Agencies Ltd. Additional acquisitions in British Columbia (B.C.) include Sawchuk Financial Services Inc., in Dawson Creek, B.C., McDonald Bychkowski and Holland Ltd. and 411248 B.C. Ltd., in Vernon, B.C., and Blonde and Blonde Ltd., in Kelowna, B.C. The Company acquired Nielsen and Wolfe Agencies Ltd. in Morin, Alberta, 601369 Alberta Ltd. in Lac La Biche, Alberta, 601369 Alberta Ltd., Younger and Holmes Limited, 999416 Alberta Ltd., 999400 Alberta Ltd., and Fimac Insurance Ltd. in Peace River, Alberta, Oncescu Agencies Ltd. in Assiniboia, Saskatchewan and Early Insurance Ltd. in Thompson, Manitoba. The Company also acquired the remaining 75% outstanding shares of Northcountry Insurance Agencies Ltd. serving seven communities in B.C., and certain assets of Butler Byers Insurance Ltd.

Key Business Drivers

Our management has identified certain key business drivers to assist it in managing and evaluating the progress of our business, especially the largest component of our business, the Network. These drivers consist of both financial and operational indicators. For the Network we track **same-store revenue** change, from one period to the next. As we continue to add branch offices to the Network through acquisitions it is important for us to track the revenues of the Network’s existing branch offices. As we continue to add new products through the sale of P&C insurance and the addition of financial service products through the Network, we expect the average number of products we sell to existing customers to increase. To analyze this, we track the **products per customer account (PPCA)**. We also track the Network’s year-to-date annualized percentage change in **same-store customer account** increase. With Western Life we track the increase in the **policy and certificate count**, and with Bank West we are focused on the growth of our **loan book**. Corporately we are looking at our **return on equity** and the increase we are able to achieve over the next few years. The table below

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shows our key business drivers, which are non-GAAP measures.

	As at September 30 2008	As at September 30 2007
Same-store Revenue (% change) ⁽¹⁾	+9.7 %	+ 7.1 %
Products per customer account (PPCA)	2.32	2.19
Same-store Customer Count (year to date annualized, % change) ⁽²⁾	+4.3 %	+ 4.8 %
Western Life Policy/Certificate Count	27,779	25,348
Bank West Loan Book (\$ millions)	\$ 281.4	\$ 199.6
Return on Common Equity (ROE)	8.5 %	10.6 %

Notes:

- (1) Represents same-store revenue increase for the twelve months ended on the date indicated over the corresponding period in the prior year.
(2) Represents year over year annualized increase.

Three Year Summary

(In \$ thousands except for per share amounts)	Nine months ended September 30		
	2008	2007	2006
Total revenues	\$ 96,485	\$ 80,758	\$ 59,839
Net Income	10,325	8,979	5,010
Earnings per share - Basic (\$)	0.17	0.19	0.16
Earnings per share - Diluted (\$)	0.17	0.17	0.13
Issued common shares	49,458	45,947	35,174

Segmented Data

Our financial results are divided into four reportable segments: insurance brokerage, banking services, life insurance and corporate and all other which includes travel agencies and real estate assets. The insurance brokerage segment provides a variety of property, casualty, life and health, and investment products and services to customers across Western Canada through WFG Agency Network. The banking segment commenced operations in January 2003 and provides premium financing to customers of the insurance segment as well as loans and mortgages to other customers through Bank West. The life segment offers a range of disability products along with group life and health, and loss of employment insurance through WFG Agency Network and other distribution channels.

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(In \$ thousands except for per share amounts)	Nine months ended September 30	
	2008	2007
The Network		
Commissions and other customer revenue	\$ 58,186	\$ 49,290
Operating expenses	<u>40,810</u>	<u>33,210</u>
Operating income ⁽¹⁾	<u>\$ 17,376</u>	<u>\$ 16,080</u>
Bank West		
Interest and investment income	\$ 14,228	\$ 8,632
Interest expense-customer deposits	<u>9,684</u>	<u>5,679</u>
Net interest and investment income	4,544	2,953
Provisions for credit losses	569	702
Operating expenses	<u>2,875</u>	<u>2,002</u>
Operating income ⁽¹⁾	<u>\$ 1,100</u>	<u>\$ 249</u>
Western Life		
Premium and investment income	\$ 22,584	\$ 20,440
Policyholder benefits	9,037	9,168
Operating expenses	<u>10,025</u>	<u>8,758</u>
Operating income ⁽¹⁾	<u>\$ 3,522</u>	<u>\$ 2,514</u>
Corporate and all other		
Other revenues	\$ 1,487	\$ 2,396
Operating expenses	<u>6,895</u>	<u>6,828</u>
Operating loss ⁽¹⁾	<u>\$ (5,408)</u>	<u>\$ (4,432)</u>
Total operating income ⁽¹⁾	<u>\$ 16,590</u>	<u>\$ 14,411</u>

Notes:

- (1) We use “operating income (loss)” to refer to earnings, before interest expense, taxes, depreciation and amortization of intangible and capital assets. Operating income (loss) is a non-GAAP measure that we use to measure our corporate performance before the costs of capital and amortization of capital and intangible assets. This measure may not be comparable to similar measures presented by other issuers and investors are cautioned that it should not be used as an alternative to “net income” or other measures of financial performance calculated in accordance with GAAP.

Results of Operations

Three months ended September 30, 2008 compared with three months ended September 30, 2007

Revenue (in \$ thousands)	Three months ended September 30	
	2008	2007
The Network	\$ 19,825	\$ 17,007
Bank West	4,677	3,312
Western Life	7,092	8,306
Corporate and all other	418	929
	<u>\$ 32,012</u>	<u>\$ 29,554</u>

Total revenue increased by \$2.4 million, or 8.4%, to \$32.0 million compared to \$29.6 million in 2007. We saw an increase at The Network from acquisitions, and increase in same-store revenue and an increase in the number of products sold to our customers. Bank

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West had an increase in premium finance revenue and other types of fee income, and Western Life benefited from an increase in both first year and renewal premiums.

Revenue (in \$ thousands)	Three months ended September 30	
	2008	2007
The Network		
Property & Casualty Commission	\$ 14,759	\$ 12,596
Government auto	3,393	2,007
Contingent income	1,375	943
Other	298	1,461
	\$ 19,825	\$ 17,007

The Network's revenue increased by \$2.8 million to \$19.8 million in 2008 compared to \$17.0 million in 2007. This was primarily due to acquisitions contributing \$1.4 million and the growth in same-store revenue of 9.7%, representing an additional contribution of approximately \$1.0 million in the quarter.

Revenue (in \$ thousands)	Three months ended September 30	
	2008	2007
Bank West		
Interest income	\$ 4,556	\$ 3,239
Other income	121	73
	\$ 4,677	\$ 3,312

Bank West's gross interest revenue increased by \$1.4 million to \$4.7 million in 2008 compared to \$3.3 million in 2007 from organic growth and the acquisition of Ubiquity Bank.

Revenue (in \$ thousands)	Three months ended September 30	
	2008	2007
Western Life Assurance		
Premium income	\$ 8,165	\$ 7,382
Investment income (loss)	(1,073)	923
	\$ 7,092	\$ 8,305

Western Life contributed \$7.1 million in total revenue with \$8.2 million in net premium revenue as compared to \$7.4 million in 2007. Specific product offerings covering creditor and group lines continued to show positive growth in the third quarter and direct sales from the Network of \$900,000 in the third quarter of 2008 compared to \$600,000 in the third quarter of 2007.

Revenue (in \$ thousands)	Three months ended September 30	
	2008	2007
Corporate and all other		
Commission and other customer revenue	\$ 277	\$ 263
Interest and investment income	15	115
Dividend income	126	551
	\$ 418	\$ 929

Revenue from our corporate and all other segment saw a decrease in dividend income in the quarter. Revenue in corporate and all other is derived mainly from our travel operations along with dividend and investment income at corporate.

Operating Expenses (in \$ thousands)	Three months ended September 30	
	2008	2007
The Network	\$ 14,242	\$ 12,064
Bank West	1,164	662
Western Life	3,456	3,260
Corporate and all other	2,605	2,272
	\$ 21,467	\$ 18,258

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Total operating expenses increased by \$3.2 million, or 17.6%, to \$21.5 million compared to \$18.3 million in the third quarter of 2007.

Operating expenses in the Network increased \$2.2 million, or 18.1%, to \$14.2 million in 2008 compared to \$12.1 million in 2007, as a result of acquisitions, and the increase in activity levels as a result of new business. Acquisition activity increased our operating expenses by \$1.0 million in the third quarter of 2008. We saw an increase in salaries and wages before acquisitions of \$1.1 million due to the additional staff required to manage the sales activity in the Network branch offices and head office. In addition the third quarter reflects salary adjustments from our annual performance appraisals.

Bank West's operating expenses increased by \$500,000 or 75.8% with general office expense increases, professional and directors' fees, and the implementation of the new banking platform associated with the acquisitions of Ubiquity Bank in October 2007.

Western Life operating expenses increased by \$200,000 or 6.0% primarily due to an increase in commission expense in the quarter, which are in direct correlation to the increase in net premium income for the quarter of \$1.7 million.

Corporate and all other segment expenses increased \$300,000 in the quarter to \$2.6 million in 2008 compared to \$2.3 million in 2007. We were able to reduce the production costs and received credit for advertising placement with the magazine we deliver to the Network clients and our local businesses which was offset by an increase in professions fees of \$100,000 and salaries of \$150,000 in the quarter.

Nine months ended September 30, 2008 compared with nine months ended September 30, 2007

Revenue (in \$ thousands)	Nine months ended September 30	
	2008	2007
The Network	\$ 58,186	\$ 49,290
Bank West	14,228	8,632
Western Life	22,584	20,440
Corporate and all other	1,487	2,396
	\$ 96,485	\$ 80,758

Total revenue increased by \$15.7 million, or 19.5%, to \$96.5 million compared to \$80.8 million in 2007. This was primarily a result of the acquisitions at The Network, and an increase of 15.0% in net premium income at Western Life contributing \$22.6 million to our revenue. The Bank West loan portfolio increased to \$281.4 million at September 30, 2008 compared to \$199.6 million at September 30, 2007, which increased gross interest income by \$5.6 million in revenue.

Revenue (in \$ thousands)	Nine months ended September 30	
	2008	2007
The Network		
Property & Casualty Commission	\$ 42,457	\$ 36,157
Government auto	10,165	8,331
Contingent income	4,656	2,776
Other	908	2,026
	\$ 58,186	\$ 49,290
Premiums	\$ 258,889	\$ 225,762

The Network's revenue increased by \$8.9 million to \$58.2 million in 2008 compared to \$49.3 million in 2007. This was primarily due to acquisitions contributing \$3.3 million and the growth in same-store revenue of 9.7%, representing an additional contribution of approximately \$3.1 million. Finally we saw an increase in contingent profit of \$1.9 million from receiving higher than expected income from 2007, and entering into enhanced contingent profit agreements in 2008 along with improved loss ratios.

Revenue (in \$ thousands)	Nine months ended September 30	
	2008	2007
Bank West		
Interest income	\$ 13,975	\$ 8,454
Other income	253	178
	\$ 14,228	\$ 8,632

Bank West's gross interest revenue increased by \$5.6 million to \$14.2 million in 2008 compared to \$8.6 million in 2007 from organic growth and the acquisition of Ubiquity Bank. Bank West had an increase in premium financing interest of \$292,000 from the monthly

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financing of insurance policies for the Network, an increase in mortgages and personal loan interest of \$4.9 million and an increase in investment and leasing interest of \$570,000. Customer deposits increased by \$59.8 million to \$259.3 million in 2008 from \$199.7 million as at September 30, 2007 which drove interest and commission expense higher by \$4.1 million. As a result, Bank West's net interest and other revenue after provisions for loan losses increased by \$1.7 million to \$3.9 million in 2008 compared to \$2.2 million in 2007. Mortgages and other loans before provisions for loan losses increased 41.0% to \$281.4 million in 2008 from \$199.6 million as at September 30, 2007.

Revenue (in \$ thousands)	Nine months ended September 30	
	2008	2007
Western Life Assurance		
Premium income	\$ 23,055	\$ 20,044
Investment income (loss)	(471)	396
	\$ 22,584	\$ 20,440

Western Life contributed \$22.6 million in total revenue with \$23.1 million in net premium revenue as compared to \$20.0 million in 2007. Specific product offerings covering creditor and group lines led the positive growth in net first year and renewal premiums. Additionally, direct sales from the Network of \$2.4 million compared to \$1.7 million in 2007, demonstrated the continued support and integration between Western Life and the Network.

Revenue (in \$ thousands)	Nine months ended September 30	
	2008	2007
Corporate and all other		
Commission and other customer revenue	\$ 808	\$ 884
Interest and investment income	347	374
Dividend income	332	1,138
	\$ 1,487	\$ 2,396

Revenue from our corporate and all other segment decreased \$900,000 with the decrease in our dividend income. Revenue in corporate and all other is derived mainly from our travel operations along with dividend and investment income at corporate.

Operating Expenses (in \$ thousands)	Nine months ended September 30	
	2008	2007
The Network	\$ 40,810	\$ 33,210
Bank West	2,875	2,002
Western Life	10,025	8,758
Corporate and all other	6,895	6,828
	\$ 60,605	\$ 50,798

Total operating expenses increased by \$9.8 million, or 19.3%, to \$60.6 million in 2008 compared to \$50.8 million in 2007.

Operating expenses in the Network increased \$7.6 million, or 22.9%, to \$40.8 million in 2008 compared to \$33.2 million in 2007. Our increases in expenses are normally the result of new acquisitions and the increase in activity levels as a result of new business. Acquisition activity increased our operating expenses by \$2.2 million in the first nine months of 2008. We saw an increase in salaries and wages before acquisitions of \$3.9 million. Approximately \$2.6 million comes from the additional staff required to manage the sales activity in the Network branch offices and salary adjustments for annual performance appraisals and employee incentive bonuses. We had job vacancies last year in the first quarter that we filled throughout the year that reduced our expected expenses in 2007. This increase equates to an average of one new staff member per branch. We also saw an increase in commissions of \$500,000 which is a result of our increase in revenue. We saw an increase of approximately \$800,000 in our head office staffing. Again at head office we were not fully staffed in 2007. We are now staffed to support the growth of our network, and staffed to manage our extensive audit and compliance requirements. As a percentage of revenue, salaries and wages including producer commissions increased to 50% compared to 48% in 2007. We expect salaries and wages as a percentage of revenue to generally run at approximately 50.0%. We spent an additional \$800,000 in advertising and promotion. This is from the growth of the Network and the ongoing branding of Western Financial Group in our communities. Finally we saw an increase of \$500,000 in rent expense as we identified and relocated branch offices when required.

Bank West's operating expenses increased by \$870,000 or 43.6% with professional fees, directors' fees and internal and external audit fees increasing \$180,000, and salaries and recruitment costs adding \$160,000 to our expenses due to an increase in the staffing as the

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bank continues to grow and add new products. In addition with the implementation of our new banking platform and running parallel systems we increased our computer expense by \$270,000.

Western Life operating expenses increased by \$1.3 million or 14.5%. Western Life continues to demonstrate efficient control of expenses and slightly lower loss ratios at 41.7%. Commission expenses account for \$1.1 million of the increase but are in direct correlation to the increase in net premium income.

Corporate and all other segment expenses increased \$70,000 to \$6.9 million in 2008 compared to \$6.8 million in 2007. We were able to reduce the production costs and received credit for advertising placement with the magazine we deliver to the Network clients and our local businesses reducing expense \$550,000. This savings was offset by additional consultant and professional fees of \$280,000 and an increase in salaries and education of \$400,000.

Income from long-term investments

Income from long-term investments saw a slight decrease with investment income at \$1.5 million in 2008 compared to \$1.8 million in 2007. Our investments include Jennings Capital Inc., Harvard Western Ventures Inc., Falkins Insurance Group Limited, Hayhurst Elias Dudek Inc., and Archibald Clarke & Defieux Insurance Services Inc.

Interest and financing costs on long-term debt

Interest and financing costs decreased to \$1.7 million from \$2.0 million. This is a result of a decrease in interest expense from the conversion of \$10.0 million of subordinated convertible redeemable debentures in 2007 and \$5.0 million of subordinated convertible redeemable debentures in 2008.

Amortization of intangible assets

Amortization of intangible assets increased \$320,000, to \$950,000 in 2008 (2007-\$630,000) as a result of the increase in the amount of intangible assets from \$27.2 million in 2007 to \$28.3 million in 2008. The change in intangible assets is a result of acquisitions completed in 2007 and 2008.

Net income

Revenue (in \$ thousands)	Nine months ended September 30		
	2008	2007	Increase/Decrease
Operating income	\$ 16,517	\$ 14,411	\$ 2,106
Income from long-term investments	1,525	1,850	(325)
Interest and financing costs on long-term debt	(1,676)	(1,959)	283
Amortization of intangible assets	(946)	(625)	(321)
Amortization of capital assets	(2,087)	(1,154)	(933)
Gain on sale of intangible assets	901	-	901
Income before income taxes	14,234	12,523	1,711
Income taxes	(3,981)	(3,544)	(437)
Net income for the period	\$ 10,253	\$ 8,979	\$ 1,274

Liquidity and Capital Resources

Total shareholders' equity as at September 30, 2008 was \$208.6 million compared to \$198.4 million at December 31, 2007. This change is from the increase of \$6.9 million in retained earnings and the increase in share capital with the conversion of \$5.0 million of subordinated convertible redeemable debentures. In addition we had an increase in our accumulated other comprehensive loss on the unrealized net loss on available for sale financial instruments of \$1.7 million reducing our shareholders' equity.

We expect our capital resources will be sufficient to satisfy our financial requirements, which include business acquisitions and capital expenditures. Capital resources include cash, funds raised through equity financings, available senior bank debt and funds generated from operations.

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We have a credit facility to a maximum of \$40.0 million negotiated with a Canadian chartered bank. As at September 30, 2008, \$34.4 million of this facility had been utilized. Pursuant to the terms of this credit facility, we make monthly loan payments of \$477,000 plus interest. Repayment of the credit facility is dependent upon annual renewal. In the event the chartered bank elects not to extend the initial period, the facility will convert to a two-year committed term facility for all amounts due there under. At September 30, 2008 we were in compliance with the financial covenants of our senior credit facility.

At September 30, 2008, we had a total of \$1.0 million of unsecured subordinated notes with interest payable semi-annually at 12% per annum. The notes are redeemable by the Company after March 2010.

At September 30, 2008 we had cash of \$10.7 million as compared to \$36.0 million at December 31, 2007. Operations contributed \$14.3 million (2007-\$12.4 million) and non-cash working capital decreased by \$12.0 million (2007- increased \$5.6 million) primarily from the decrease in our accounts payable of \$9.4 million (2007-increase \$4.8 million). Payments were made for investments and acquisitions that were set up as a payable at December 31, 2007. Cash used in investing activities was \$7.1 million (2007-\$85.6 million). This was used to increase our investment in Hayhurst Elias Dudek Inc. We also used \$7.2 million for acquisition of insurance brokers. We made repayment of \$3.2 million with our senior credit facility and had an advance of an additional \$10.0 million for investments and acquisitions. We decreased our customer deposits supporting our customer loans at Bank West by \$24.0 million as we utilized cash and cash equivalents. Finally we paid dividends of \$3.4 million. This resulted in a decrease in cash and cash equivalents for the year of \$25.4 million.

RELATED PARTY TRANSACTIONS

Related parties include directors, officers and their related companies. The prices and terms of transactions with related parties are in accordance with normal business practice and recorded at the exchange amount. Interest of \$nil (2007 - \$18,000) was paid to Jennings Capital Inc., an affiliated Company in which a director holds an interest, for an investment margin loan. Dividend income on preferred shares of \$183,000 (2007 - \$1.0 million) and the loss/gain from equity investments of \$(329,000) (2007 - \$671,000) were accrued with respect to our investment in Jennings Capital Inc. Fees for computer service of \$nil (2007 - \$67,000) were accrued for services provided to Jennings Capital Inc. Dividends on preferred shares in the amount of \$nil (2007 - \$2,000) were accrued to a company controlled by a director.

SUBSEQUENT EVENTS

Subsequent to September 30, 2008 the Company entered into memorandums of understanding and term sheets with respect to the acquisition of insurance brokerage businesses for an estimated net cost of \$6.5 million.

The Company has entered into a share purchase agreement with C.A. Bancorp Inc. pursuant to which the Company will acquire Winnipeg based AgriFinancial Canada Corp. from C.A. Bancorp Inc. and Sentry Select Total Strategy Fund. The estimated purchase price for the shares is \$20.5 million. The transaction remains subject to certain conditions, including without limitation, consents and regulatory approvals.

OUTSTANDING SHARE DATA

At September 30, 2008 the balance of issued common shares was 49,441,794 for a total value of \$117.2 million. We issued 27,778 common shares with the conversion of our preferred shares series two cancelled, 30,000 shares under the terms of an issuer bid, issued 40,500 pursuant to stock options exercised and issued 1,666,666 upon conversion of subordinated convertible redeemable debentures. At the date of this report the balance of issued common shares was 49,423,894.

We have a fixed stock option plan under which we may grant options to directors, officers, shareholders and consultants to an aggregate maximum of 1,600,000 common shares. There were 668,000 options outstanding at September 30, 2008.

DISCLOSURE CONTROLS AND PROCEDURES

The Chief Executive Officer and Chief Financial Officer evaluated the effectiveness of the Company's disclosure controls and procedures as at the financial year ended December 31, 2007. Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that the design and operation of these disclosure controls and procedures were effective as at September 30, 2008 to provide reasonable assurance that material information relating to the Company, including its consolidated subsidiaries, would be made known to them by others within those entities.

WESTERN FINANCIAL GROUP INC.

INTERNAL CONTROL OVER FINANCIAL REPORTING

As at the financial year ended December 31, 2007, the Chief Executive Officer and Chief Financial Officer evaluated the design of the Company's internal control over financial reporting. Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that the design of internal control over financial reporting was effective as at September 30, 2008 to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP.

There have been no changes in the Company's internal control over financial reporting that occurred during the most recent interim period ended September 30, 2008 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

CHANGES IN ACCOUNTING POLICIES

CAPITAL DISCLOSURES, AND FINANCIAL INSTRUMENTS DISCLOSURES AND PRESENTATION

Commencing January 1, 2008, the Company adopted new accounting standards required by the Canadian Institute of Chartered Accountants (CICA) relating to Capital Disclosures - CICA Handbook section 1535, Financial Instruments Disclosures - CICA Handbook section 3862, and Financial Instruments Presentation - CICA Handbook section 3863 as well as other amendments to the CICA Handbook sections and accounting guidelines resulting from the issuance of these sections. The Company has adopted these standards prospectively.

Under CICA Handbook section 1535, the Company is required to disclose its objectives, policies and processes for managing capital; information about what it regards as capital; whether it has complied with any capital requirements, and the consequences of not complying with these capital requirements. CICA Handbook Sections 3862 and 3863 replace section 3861 - Financial Instruments Disclosure and Presentation. Section 3863 carries forward unchanged the related presentation requirements of Section 3861 while Section 3862 requires enhanced financial instrument disclosures focusing on disclosures related to the nature and extent of risks arising from financial instruments and how the entity manages those risks.

FUTURE ACCOUNTING CHANGES

The CICA Accounting Standards Board (AcSB) confirmed in February 2008 that International Financial Reporting Standards (IFRS) will replace Canadian Generally Accepted Accounting Principles (GAAP) effective January 1, 2011 for Canadian profit oriented publicly accountable entities. The Company will be required to adopt IFRS for fiscal periods commencing January 1, 2011, and is currently assessing the potential impact of this change and developing a plan accordingly.

In February 2008, the CICA issued Section 3064 "Goodwill and Intangible Assets", replacing Section 3062 "Goodwill and Other Intangible Assets" and Section 3450 "Research and Development Costs". Section 3064 establishes standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. Provisions concerning goodwill are unchanged from the previous Section 3062.

CAPITAL MANAGEMENT

The Company's capital management framework is designed to maintain adequate levels of capital in order to build long-term shareholder value, meet regulatory capital requirements of our subsidiary companies, maintain leverage targets determined by the Board of Directors, and support internal capital needs assessments including funding of future business acquisitions. Capital funds are managed in accordance with policies and plans that are regularly reviewed and approved by the Board of Directors taking into account forecasted needs and markets. Capital is primarily comprised of common share capital, preferred share capital, contributed surplus, other paid in capital, and retained earnings. Regulatory capital includes the addition of subordinated debentures if certain thresholds are met.

Effective November 1, 2007 the Office of the Superintendent of Financial Institutions Canada (OSFI) adopted a new capital management framework for Canadian financial institutions impacting wholly owned subsidiary Bank West. The new framework, called Basel II, introduced changes to the risk-weighting of assets and the calculation of regulatory capital. It has resulted in a shift for Bank West into lower risk-weight categories for residential mortgages and loans to small-to-medium sized enterprises and a new capital requirement related to operational risk. Overall, Basel II has not had a significant impact on the Bank's overall required level of

WESTERN FINANCIAL GROUP INC.

regulatory capital when compared to OSFI's previous methodology. The Bank has implemented Basel II requirements for the reporting period ended March 31, 2008, June 30, 2008 and September 30, 2008.

The Office of the Superintendent of Financial Institutions (OSFI) has established a capital adequacy measurement for life insurance companies incorporated under the Insurance Companies Act (Canada) and their subsidiaries, known as the Minimum Continuing Capital and Surplus Requirements (MCCSR).

RISK MANAGEMENT

In the normal course of business, the Company is exposed to a variety of financial risks: credit risk, liquidity risk, and market risk factors including interest rate risk, and other price risk. Refer to the following sections of the 2007 Annual Report of Western Financial Group for further discussion on how the Company is exposed to and manages these risks:

- Management Discussion and Analysis section - page 42; and
- Consolidated note 25 to the Financial Statements - pages 68 to 70.

CURRENT OUTLOOK

While insurance rates in 2008 remained soft, we expect insurance premiums to rise in 2009. Over the past few years, the financial results of insurers has deteriorated, as rising claims costs were not fully covered by increases in premiums. With continuing claims cost increases and a reduction in investment income, we believe that insurance companies will be forced to apply additional rate increases. As broker's revenues are derived from commissions, we expect to realize increased revenue as insurance premiums increase. We expect inflationary trends that have been present on the expense side of our business, particularly wages, to abate somewhat.

We do not expect there to be significant changes to the financial services industry in general that would have a material impact on the growth of Bank West, WFG Agency Network, or Western Life. With the tightening of the credit markets and credit in general in Canada Bank West will be presented with both challenges and opportunities in the future that have not been presented in the past. Jennings Capital will need to go through an adjustment given the new realities of the capital markets and the investment banking business. We anticipate that the life and health insurance industry will remain stable in the medium to long-term, especially in the communities in Western Canada in which we operate.

Additional information relating to our Company, including our current Annual Information Form, is available on SEDAR at www.sedar.com.

WESTERN FINANCIAL GROUP INC.

CONSOLIDATED BALANCE SHEETS (unaudited)
(in thousands, except for per share amounts)

	As at September 30 2008	As at December 31 2007
ASSETS		
Cash and cash equivalents	\$ 10,667	\$ 36,033
Marketable securities – held-for-trading	51,018	46,886
Marketable securities – available-for-sale	33,287	51,104
Accounts receivable	29,882	26,680
Prepaid expenses	6,328	5,960
Income taxes receivable	-	2,191
Future income taxes	501	584
Other assets	446	1,489
Equity investments	40,607	26,100
Mortgages and loans	280,098	288,202
Capital assets	15,545	12,141
Intangible assets	28,312	27,166
Goodwill	103,681	98,165
	\$ 600,372	\$ 622,701
LIABILITIES		
Accounts payable and accrued liabilities	\$ 46,627	\$ 55,685
Actuarial liabilities	36,017	38,042
Provision for unpaid and unreported claims	8,427	8,653
Income taxes payable	778	-
Customer deposits	259,287	283,299
Long term debt	35,273	33,389
Future income taxes	5,358	5,274
	\$ 391,767	\$ 424,342
SHAREHOLDERS' EQUITY		
Share capital (Note 6)	\$ 173,659	\$ 168,693
Other paid in capital	-	51
Contributed surplus	1,937	1,849
Retained earnings	34,930	28,015
Accumulated other comprehensive loss	(1,921)	(249)
Total Shareholders' Equity	\$ 208,605	\$ 198,359
	\$ 600,372	\$ 622,701

See the accompanying notes to these interim consolidated financial statements.

WESTERN FINANCIAL GROUP INC.

CONSOLIDATED STATEMENTS OF INCOME AND RETAINED EARNINGS (unaudited)
(in thousands, except for per share amounts)

	Three months ended Sept 30		Nine months ended Sept 30	
	2008	2007	2008	2007
REVENUE				
Commission and other customer income	\$ 20,119	\$ 17,278	\$ 59,046	\$ 50,210
Premium income	8,121	7,370	22,999	20,001
Interest income on customer loans	4,677	3,312	14,228	8,632
Investment income				
Change in fair value of held-for-trading assets	(1,458)	362	(1,616)	(1,134)
Realized gain (loss) on sales of held-for-trading assets	2	173	(2)	11
Other net investment income	551	1,059	1,830	3,038
	<u>32,012</u>	<u>29,554</u>	<u>96,485</u>	<u>80,758</u>
EXPENSES				
Operating expenses	21,468	18,258	60,606	50,798
Policyholder benefits	2,550	4,312	9,037	9,168
Interest expense – customer deposits	3,185	2,272	9,684	5,679
Provision for credit losses	360	375	569	702
Income before the following	4,449	4,337	16,590	14,411
Income from long-term investments	67	256	1,525	1,850
Gain on sale of investments and assets	303	-	901	-
Interest and financing costs on long-term debt	(540)	(532)	(1,676)	(1,959)
Amortization of intangible assets	(316)	(215)	(946)	(625)
Amortization of capital assets	(731)	(401)	(2,087)	(1,154)
Income before income taxes	3,232	3,445	14,306	12,523
Income taxes	(1,132)	(1,101)	(3,981)	(3,544)
NET INCOME FOR THE PERIOD	\$ 2,100	\$ 2,344	\$ 10,325	\$ 8,979
Retained earnings, beginning of period as previously stated	\$ 33,361	\$ 24,529	\$ 28,015	\$ 18,538
Cumulative effect of adopting new accounting policies	-	-	-	300
Retained earnings, beginning of period as restated	33,361	24,529	28,015	18,838
Preferred share dividends	-	-	(1,908)	(501)
Common share dividends	(531)	(459)	(1,502)	(902)
Retained earnings, end of period	34,930	26,414	34,930	26,414
Earnings per share (Note 7)				
Basic	\$ 0.04	\$ 0.05	\$ 0.17	\$ 0.19
Diluted	\$ 0.04	\$ 0.04	\$ 0.17	\$ 0.17

See the accompanying notes to these interim consolidated financial statements

WESTERN FINANCIAL GROUP INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME AND ACCUMULATED OTHER
 COMPREHENSIVE INCOME (LOSS) (unaudited)
 (in thousands, except for per share amounts)

	Three months ended Sept 30		Nine months ended Sept 30	
	2008	2007	2008	2007
COMPREHENSIVE INCOME				
Net income for the period	\$ 2,100	\$ 2,344	\$ 10,325	\$ 8,979
Net change in unrealized losses in available-for-sale securities, net of tax	(687)	(308)	(1,672)	(721)
Comprehensive income	\$ 1,413	\$ 2,036	\$ 8,653	\$ 8,258
ACCUMULATED OTHER COMPREHENSIVE INCOME				
Balance, beginning of period	\$ (1,234)	\$ 283	\$ (249)	\$ -
Impact of fair value measurement of available-for-sale financial instruments at January 1, 2007 (net of tax 2007 of \$168)	-	-	-	696
Balance, as a result of accounting policy change	(1,234)	283	(249)	696
Unrealized net loss on available-for-sale financial instruments arising during the period	(733)	(182)	(1,691)	(626)
(net of tax of \$107 - 3 months; 2007 \$54)				
(net of tax of \$315 - 9 months; 2007 (\$141))				
Reclass to net income on sale of available-for-sale securities	46	(126)	19	(95)
(net of tax of \$9 - 3 months; 2007 \$11)				
(net of tax of \$11 - 9 months; 2007 \$17)				
Other comprehensive loss for the period, net of tax	(687)	(308)	(1,672)	(721)
Accumulated Other Comprehensive Loss Balance, end of period	\$ (1,921)	\$ (25)	\$ (1,921)	\$ (25)

See the accompanying notes to these interim consolidated financial statements.

WESTERN FINANCIAL GROUP INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)
(in thousands, except for per share amounts)

	Three months ended Sep 30		Nine months ended Sep 30	
	2008	2007	2008	2007
CASH PROVIDED BY (USED IN) OPERATIONS				
Net income for the period	\$ 2,100	\$ 2,344	\$ 10,325	\$ 8,979
Non-cash items				
Amortization of intangible assets	316	215	946	625
Amortization of capital assets	731	401	2,087	1,154
Future income taxes	(167)	161	75	1,258
Unrealized gains (losses) – held-for-trading assets	1,458	(362)	1,616	1,134
Stock compensation	41	95	88	95
Other non-cash expenses	386	411	618	980
Income from long term investments	(53)	(242)	(1,483)	(1,809)
Realized net gain – held-for-trading assets	(2)	(173)	2	(11)
	4,810	2,850	14,274	12,405
CHANGE IN NON-CASH WORKING CAPITAL				
Accounts receivable	(1,956)	27	(2,996)	1,136
Prepaid expenses	(265)	(470)	(378)	(577)
Accounts payable and accrued liabilities	(1,802)	(2,252)	(9,413)	4,755
Actuarial liabilities	(1,238)	597	(2,026)	(951)
Provision for unpaid and unreported claims	(650)	1,558	(226)	2,433
Policy loans	(16)	(2)	104	58
Income taxes	735	(1,132)	2,953	(1,171)
	(382)	1,176	2,292	18,088
CASH PROVIDED BY (USED IN) INVESTING				
Other assets	811	(25)	1,043	(2,188)
Equity investments	(2,444)	589	(13,024)	1,859
Cash used in business acquisitions (Note 5)	(4,935)	(7,650)	(7,191)	(32,495)
Capital asset purchases	(1,207)	(855)	(5,408)	(2,610)
Intangibles disposal	-	-	-	(81)
Proceeds on sale of marketable securities	51,115	33,428	193,551	133,380
Investment in marketable securities	(57,375)	(45,682)	(183,481)	(132,433)
Mortgages and loans	(1,185)	(21,874)	7,431	(51,039)
	(15,220)	(42,069)	(7,079)	(85,607)
CASH PROVIDED BY (USED IN) FINANCING				
Repayments of long-term debt	(1,442)	(19,124)	(3,223)	(20,813)
Advances of long-term debt	-	20,000	10,000	40,000
Customer deposits	3,648	32,547	(24,013)	52,267
Net proceeds on issue of share capital	(75)	23,565	(85)	23,963
Dividends paid	(493)	(443)	(3,359)	(944)
Deferred finance charges	19	5	101	(4)
	1,657	56,550	(20,579)	94,469
(Decrease) increase in cash for the period	(13,945)	15,141	(25,366)	26,434
Cash and cash equivalents, beginning of period	24,612	20,378	36,033	9,085
Cash and cash equivalents, end of period	10,667	35,519	10,667	35,519

See the accompanying notes to these interim consolidated financial statements.

WESTERN FINANCIAL GROUP INC.

(In thousands, except for per share amounts)

The interim consolidated financial statements have been prepared by management in accordance with Canadian Generally Accepted Accounting Principles and follow the same accounting policies and methods of computation as the consolidated financial statements for the fiscal year ended December 31, 2007, except as described in Note 1 under changes in accounting policies. These interim financial statements do not include all disclosures required by Canadian GAAP in the annual financial statements and should be read in conjunction with the December 31, 2007 annual financial statements.

NOTE 1 CHANGES IN ACCOUNTING POLICIES

CAPITAL DISCLOSURES, AND FINANCIAL INSTRUMENTS DISCLOSURES AND PRESENTATION

Commencing January 1, 2008, the Company adopted new accounting standards required by the Canadian Institute of Chartered Accountants (CICA) relating to Capital Disclosures - CICA Handbook section 1535, Financial Instruments Disclosures – CICA Handbook section 3862, and Financial Instruments Presentation - CICA Handbook section 3863 as well as other amendments to the CICA Handbook sections and accounting guidelines resulting from the issuance of these sections. The Company has adopted these standards prospectively.

Under CICA Handbook section 1535, the Company is required to disclose its objectives, policies and processes for managing capital; information about what it regards as capital; whether it has complied with any capital requirements, and the consequences of not complying with these capital requirements. CICA Handbook Sections 3862 and 3863 replace section 3861 – Financial Instruments Disclosure and Presentation. Section 3863 carries forward unchanged the related presentation requirements of Section 3861 while Section 3862 requires enhanced financial instrument disclosures focusing on disclosures related to the nature and extent of risks arising from financial instruments and how the entity manages those risks.

NOTE 2 FUTURE ACCOUNTING CHANGES

The CICA Accounting Standards Board (AcSB) confirmed in February 2008 that International Financial Reporting Standards (IFRS) will replace Canadian Generally Accepted Accounting Principles (GAAP) effective January 1, 2011 for Canadian profit oriented publicly accountable entities. The Company will be required to adopt IFRS for fiscal periods commencing January 1, 2011, and is currently assessing the potential impact of this change and developing a plan accordingly.

In February 2008, the CICA issued Section 3064 “Goodwill and Intangible Assets”, replacing Section 3062 “Goodwill and Other Intangible Assets” and Section 3450 “Research and Development Costs”. Section 3064 establishes standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. Provisions concerning goodwill are unchanged from the previous Section 3062.

NOTE 3 CAPITAL MANAGEMENT

The Company’s capital management framework is designed to maintain adequate levels of capital in order to build long-term shareholder value, meet regulatory capital requirements of our subsidiary companies, maintain leverage targets determined by the Board of Directors, and support internal capital needs including funding of future business acquisitions. Capital funds are managed in accordance with policies and plans that are regularly reviewed and approved by the Board of Directors. Capital is comprised of common share capital, preferred share capital, contributed surplus, other paid in capital, and retained earnings. Regulatory capital includes the addition of subordinated debentures if certain thresholds are met.

Effective November 1, 2007 the Office of the Superintendent of Financial Institutions Canada (OSFI) adopted a new capital management framework for Canadian financial institutions impacting wholly owned subsidiary Bank West. The new framework, called Basel II, introduced changes to the risk-weighting of assets and the calculation of regulatory capital. It has resulted for Bank West in a shift into lower risk-weight categories for residential mortgages and loans to small-to-medium sized enterprises and a new capital requirement related to operational risk. Overall, Basel II has not had a significant impact on the Bank’s overall required level of regulatory capital when compared to OSFI’s previous methodology. The Bank has implemented Basel II requirements for the reporting period ended March 31, 2008, June 30, 2008 and September 30, 2008.

WESTERN FINANCIAL GROUP INC.

NOTE 4 RISK MANAGEMENT

OVERVIEW:

In the normal course of business, the Company is exposed to a variety of financial risks: credit risk, liquidity risk, and market risk factors including interest rate risk, and other price risk. Refer to the following sections of the 2007 Annual Report of Western Financial Group for further discussion on how the Company is exposed to and manages these risks: Management Discussion and Analysis section - page 42, and Consolidated note 25 to the Financial Statements - pages 68 to 70.

CREDIT RISK – EXPOSURE:

The Company's maximum exposure to credit risk at September 30, 2008 is summarized in the following table and represents the risk of financial loss from the failure of debtors to make payments of interest and / or principal when due:

	September 30 2008
Marketable securities – held-for-trading	\$ 51,018
Marketable securities – available-for-sale	33,287
	\$ 84,305
Accounts receivable	29,882
Mortgages and loans	280,098
Other assets	446
Total balance sheet maximum credit exposure:	\$ 394,731

The Company holds security related to mortgages and loans in the form of real property, mortgage insurance, and liens on equipment and vehicles.

CREDIT RISK – ASSET QUALITY:

The credit quality of the Company's financial assets is described in the following tables:

	September 30 2008	September 30 2008
Marketable Securities:	Held-for-trading	Available-for-sale
Bonds - AAA rating	\$ 12,542	\$ 3,246
Bonds - AA rating	22,288	423
Bonds - A rating	13,108	2,623
Preferred shares - P-1 rating	-	3,374
Canadian equities	-	11,035
Canadian government securities	3,080	12,586
	\$ 51,018	\$ 33,287
	September 30 2008	
Accounts Receivable -reinsurance recoverable:		
Reinsurance recoverable: A- credit rating	\$ 765	\$ -

WESTERN FINANCIAL GROUP INC.

NOTE 4 RISK MANAGEMENT (continued)

Mortgages and loans - credit quality:	As at September 30, 2008			
	Residential and Commercial		Business and Commercial	
	Mortgages	Personal Loans	Loans	Total
Gross carrying value:				
Neither past due nor impaired	\$ 91,214	\$ 141,820	\$ 43,602	\$ 276,636
Past due but not impaired				
Past due less than 90 days	1,221	946	976	3,143
Past due 90 to 179 days	441	27	-	468
Impaired	750	584	451	1,785
Balance before allowance	\$ 93,626	\$ 143,377	\$ 45,029	\$ 282,032
General provision	103	1,093	322	1,518
Specific provision	-	277	139	416
Net carrying value	\$ 93,523	\$ 142,007	\$ 44,568	\$ 280,098

Mortgages and loans – changes in allowance for credit losses:	As at September 30, 2008			
	Residential and Commercial		Business and Commercial	
	Mortgages	Personal Loans	Loans	Total
Balance, December 31, 2007	\$ 184	\$ 1,220	\$ 549	\$ 1,953
Provision for losses	(81)	348	302	569
Write-offs, net of recoveries	-	(198)	(390)	(588)
Balance, September 30, 2008	\$ 103	\$ 1,370	\$ 461	\$ 1,934

None of the past due mortgages and loans were renegotiated during the nine month period ended September 30, 2008.

During the nine month period ended September 30, 2008, loans with a carrying value of \$2.0 million were determined to be impaired based on uncertainty as to the full repayment of the outstanding principal balance. There were no loans that exhibited evidence of impairment during this period that the Company did not recognize as impaired because the decline in recoverable amount was considered by management to be temporary in nature.

Available-for-sale assets:

The available-for-sale assets disclosed in the following table exhibit evidence of impairment which is considered by management to be temporary in nature.

	As at September 30, 2008	
	Fair Value	Unrealized Losses
Marketable securities:		
Available-for-sale equities	\$ 11,035	\$ 414
Available-for-sale preferred shares	3,374	903
Total temporarily impaired financial assets	\$ 14,409	\$ 1,317

LIQUIDITY RISK:

Liquidity risk is the risk that the Company will not be able to fund all cash outflow requirements as they fall due.

The Company manages this risk through management of cash flows as well as its concentration of assets and liabilities. Bank West has an Asset and Liability Committee which meets regularly to ensure proper and prudent liquidity management in accordance with industry and regulatory guidelines and Board policy. The Life Company has

WESTERN FINANCIAL GROUP INC.

NOTE 4 RISK MANAGEMENT (continued)

an Investment Committee which along with senior management ensures that prudent cash management and investment practices are followed in accordance with Board policy, and statutory requirements.

Based on the Company's historical cash flows and financial performance, management believes that the Company's cash flows from operations will continue to provide sufficient liquidity to satisfy its obligations.

The following tables present the contractual maturities of the Company's financial liabilities:

Actuarial Liabilities	As at September 30, 2008			
Terms to maturity	0-4 years	5-9 years	Greater than 10 years	Total
Actuarial liabilities	\$ 5,126	\$ 10,198	\$ 35,286	\$ 50,610
Less reinsurance recoverable	(529)	(2,858)	(11,206)	(14,593)
Net actuarial liabilities	\$ 4,597	\$ 7,340	\$ 24,080	\$ 36,017

Customer deposits	As at September 30, 2008					
Terms to maturity	1 yr & under	1-2 years	2-3 years	3-4 years	4-5 years	Total
Business deposits	\$ 2,072	\$ 2,048	\$ 1,122	\$ 209	\$ 514	\$ 5,965
Individual deposits	66,213	44,677	94,849	41,643	6,094	253,476
Demand & other deposits	1,178	-	-	-	-	1,178
Commissions	(304)	(244)	(480)	(263)	(41)	(1,332)
Total customer deposits	\$ 69,159	\$ 46,481	\$ 95,491	\$ 41,589	\$ 6,567	\$ 259,287

Long-term debt	As at September 30, 2008					
	Remainder of 2008	2009	2010	2011	2012+	Total
Principal repayments due:	\$ 1,282	\$ 5,752	\$ 6,742	\$ 5,728	\$ 15,770	\$ 35,273

MARKET RISK:

Market Risk is the risk that the fair value of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest risk, and other price risk. The Company is exposed to interest rate price risk on monetary financial assets and liabilities that have fixed interest rates, and is exposed to interest rate cash flow risk on monetary financial assets and liabilities with floating interest rates that are reset as market rates change.

For Western Life, the actuarial assumption most susceptible to change in the short term is future investment returns. Under the prescribed valuation method, CALM, alternate interest rate scenarios are tested producing alternate policy liabilities for Individual Life insurance. The liability that is held is based on the interest rate scenario that produces the highest liability. The sensitivity to interest rate changes is, therefore, reflected in the development of the liabilities.

For Western Life, the values of held-for-trading bonds and actuarial liabilities are affected similarly by changes in interest rates. The estimated impact of a 1% increase in interest rates resulting in decreased market value of held-for-trading bonds, would correspondingly decrease actuarial liabilities, resulting in a nil net impact on net income. Conversely the estimated impact of a 1% decrease in interest rates resulting in increased market value of held-for-trading bonds would result in increased actuarial liabilities resulting in a nil net impact on net income.

The Company is exposed to interest rate risk arising from fluctuations in interest rates on certain of its bank term loans payable. The Company is also exposed to interest rate risk arising from the mismatch, or gap, between the assets and liabilities of Bank West that are scheduled to mature or re-price on particular dates. The Bank uses gap analysis to measure this risk. The gaps which existed at September 30, 2008 based on the maturity date of interest rate sensitive instruments at the bank are detailed as follows:

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NOTE 4 RISK MANAGEMENT (continued)

	30-Sep-08					Total
	1 yr & under	1 – 2 years	2 - 3 years	3 - 4 years	4 - 5 years	
Assets:						
Cash & Securities	\$ 16,363	\$ -	\$ -	\$ -	\$ -	\$ 16,363
Loans & mortgages	59,350	42,473	59,306	63,144	54,087	278,360
Other assets	7,937	-	-	-	-	7,937
Total	\$ 83,650	\$ 42,473	\$ 59,306	\$ 63,144	\$ 54,087	\$ 302,660
Liabilities & Equity:						
Current liabilities	\$ 8,098	-	-	-	-	\$ 8,098
Deposits	68,472	46,482	95,491	41,588	6,567	258,600
Shareholders' Equity	-	-	-	-	36,887	36,887
Total	\$ 76,570	\$ 46,482	\$ 95,491	\$ 41,588	\$ 43,454	\$ 303,585
Interest-rate Sensitive Gap	7,080	(4,009)	(36,185)	21,556	10,633	(925)
Cumulative Gap	7,080	3,071	(33,114)	(11,558)	(925)	
Cumulative gap as a percentage of total assets	2.34%	1.01%	-10.94%	-3.82%	-0.31%	

NOTE 5 BUSINESS ACQUISITIONS

All business acquisitions are accounted for using the purchase method whereby the assets and liabilities have been recorded at fair market values and the operating results have been included in the Company's financial statements from the effective date of purchase. The allocation of purchase price is based on consideration paid and acquisition costs incurred up to the end of the current reporting period, and may be adjusted based on the outcome of contingent consideration and future acquisition related costs.

In the nine months ended September 30, 2008 we acquired all of the outstanding shares of the following insurance brokerage businesses:

- Southern Insurance Management Inc. in Lethbridge, Alberta (January 1, 2008)
- Simpson Insurance Ltd. in Trochu, Alberta (May 1, 2008)
- Woodland Insurance Agencies in Grande Cache, Alberta (May 1, 2008)
- Boyd Agencies Ltd. in Prince Albert, Saskatchewan (August 1, 2008)
- Vet's Insurance & Consultants Ltd. in Coleman, Alberta (July 1, 2008)
- Dunn Realty and Insurance Ltd. in Wolseley, Saskatchewan (July 1, 2008)

	2008
Net assets acquired in business acquisition:	
Accounts receivable	206
Other assets	20
Capital assets	84
Intangible assets	2,092
Goodwill	5,517
Accounts payable and accrued liabilities	(295)
Corporate taxes receivable	(16)
Future taxes payable	(417)
Cash consideration	\$ 7,191

None of the total amount assigned to goodwill and intangibles is deductible for tax purposes. Goodwill included above has been shown in the WFG Agency Network segmented goodwill total (Note 13).

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NOTE 6 SHARE CAPITAL

Authorized shares

Unlimited number of common, without nominal or par value

Unlimited number of first preferred, issuable in series

Unlimited number of second and third preferred

Issued Common Shares	Number	Amount
Balance, December 31, 2007	47,752	\$ 112,133
Common shares issued:		
On conversion of preferred shares	28	100
Cash pursuant to stock options exercised	41	93
Cancelled under terms of an issuer bid	(46)	(157)
Issued on conversion of debentures	1,667	5,050
Balance, September 30, 2008	49,458	117,219
Balance, September 30, 2007	45,947	106,584

Issued Preferred Series 2, recorded as share capital	Number	Amount
Balance, December 31, 2007	145	\$ 13,807
Converted to Common shares	(1)	(100)
Balance, September 30, 2008	144	13,707
Balance, September 30, 2007	145	13,807

Issued Preferred Series 3, recorded as share capital	Number	Amount
Balance, December 31, 2007	250	\$ 23,790
Balance, September 30, 2008	250	23,790
Balance, September 30, 2007	250	23,814

Issued Preferred Series 4, recorded as share capital	Number	Amount
Balance, December 31, 2007	200	\$ 18,963
Costs of share issue		\$ (20)
Balance, September 30, 2008	200	18,943
Balance, September 30, 2007	-	-

TOTAL SHARE CAPITAL		Amount
Balance, September 30, 2008		\$ 173,659
Balance, December 31, 2007		\$ 168,693
Balance, September 30, 2007		\$ 144,205

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NOTE 7 EARNINGS PER SHARE

	Three months ended September 30, 2008		
	Income	Shares	Per Share
Earnings per share from continuing operations			
Net income	\$ 2,100		
Preferred share dividends	-		
Net income available to common shareholders	2,100		
Basic earnings per share	\$ 2,100	48,422	\$ 0.04
Effect of dilutive securities			
Stock options	-	31	
Preferred shares	-	-	
Convertible debentures	2	1,022	
Diluted earnings per share	\$ 2,102	49,475	\$ 0.04

	Three months ended September 30, 2007		
	Income	Shares	Per Share
Earnings per share from continuing operations			
Net income	\$ 2,344		
Preferred share dividends	-		
Net income available to common shareholders	2,344		
Basic earnings per share	\$ 2,344	44,325	\$ 0.05
Effect of dilutive securities			
Stock options	-	154	
Preferred shares	-	5,142	
Convertible debentures	92	4,663	
Diluted earnings per share	\$ 2,436	54,284	\$ 0.04

	Nine months ended September 30, 2008		
	Income	Shares	Per Share
Earnings per share from continuing operations			
Net income	\$ 10,325		
Preferred share dividends	(1,908)		
Net income available to common shareholders	8,417		
Basic earnings per share	\$ 8,417	48,422	\$ 0.17
Effect of dilutive securities			
Stock options	-	66	
Preferred shares	-	-	
Convertible debentures	68	1,022	
Diluted earnings per share	\$ 8,485	49,510	\$ 0.17

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NOTE 7 EARNINGS PER SHARE (continued)

	Nine months ended September 30, 2007		
	Income	Shares	Per Share
Earnings per share from continuing operations			
Net income	\$ 8,979		
Preferred share dividends	(501)		
Net income available to common shareholders	8,478		
Basic earnings per share	\$ 8,478	44,325	\$ 0.19
Effect of dilutive securities			
Stock options	-	135	
Preferred shares	501	5,142	
Convertible debentures	314	4,663	
Diluted earnings per share	\$ 9,293	\$ 54,265	\$ 0.17

For the reporting periods ended September 30, 2008 there were 10,389 preferred shares that were anti-dilutive instruments which have been excluded from the above calculations.

NOTE 8 SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

	Three months ended		Nine months ended	
	30-Sep-08	30-Sep-07	30-Sep-08	30-Sep-07
Dividends received	\$ 107	\$ 595	\$ 274	\$ 1,393
Interest paid	5,133	2,121	11,469	6,455
Income taxes paid	558	2,065	872	3,794
Dividends paid	984	443	3,850	951

NOTE 9 RELATED PARTY TRANSACTIONS

Related parties include directors, officers and their related companies. The prices and terms of transactions with related parties are in accordance with normal business practice and recorded at the exchange amount.

- Interest of \$nil (2007 - \$18) was paid to Jennings Capital Inc., an affiliated Company in which a director holds an interest, for an investment margin loan.
- Dividend income on preferred shares of \$183 (2007 - \$1,028) and income from equity investments of \$(329) (2007 - \$671) were accrued with respect to our investment in Jennings Capital Inc.
- Fees for computer service of \$nil (2007 - \$67) were accrued for services provided to Jennings Capital Inc.
- Dividends on preferred shares in the amount of \$nil (2007 - \$2) were accrued to a company controlled by a director.

NOTE 10 SUBSEQUENT EVENTS

Subsequent to September 30, 2008 the Company entered into memorandums of understanding and term sheets with respect to the acquisition of Insurance brokerage businesses for an estimated net cost of \$ 6.5 million.

The Company has entered into a share purchase agreement with C.A. Bancorp Inc. pursuant to which the Company will acquire Winnipeg based AgriFinancial Canada Corp. from C.A. Bancorp Inc. and Sentry Select Total Strategy Fund. The estimated purchase price for the shares is \$20.5 million. The transaction remains subject to certain conditions, including without limitation, consents and regulatory approvals.

NOTE 11 COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the presentation adopted in 2008.

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NOTE 12 CONTINGENCIES

The Company occasionally is named as a party in claims and legal proceedings in the normal course of business. Although there can be no assurance that any particular claim will be resolved in the Company's favor, the Company having regard to existing insurance coverage, does not expect that the outcome of claims will have a materially adverse effect on the Company as a whole.

NOTE 13 SEGMENTED INFORMATION

The Company has four reportable segments: insurance brokerage, banking services, life insurance, and corporate and all other which includes travel agencies and real estate assets. The insurance brokerage segment provides a variety of property, casualty, life and health, and investment products and services to customers across Western Canada through WFG Agency Network. The banking services segment provides premium financing to customers of the insurance segment as well as loans and mortgages to other customers through Bank West. The life insurance segment offers a range of disability products along with group life and health through WFG Agency Network and other distribution channels.

The results of these business segments are based on the internal financial reporting systems of the Company. The accounting policies used in these segments are consistent with those followed in the preparation of the consolidated financial statements.

Management monitors the financial performance of WFG Agency Network based on operating income and customer accounts receivable. The operations of Bank West, and Western Life are monitored based on net income before income tax; the financial position is monitored based on net assets used in that segment as reported in the financial statements of Bank West and Western Life.

Because of the integrated nature of the Company's operations, all other assets, including intangibles and goodwill, are managed and reported at a corporate level. Goodwill is, however, allocated to reporting units within each segment for purposes of impairment testing. All amortization expense and interest on long term debt is recorded as a corporate expense.

	Three months ended		Nine months ended	
	30-Sep-08	30-Sep-07	30-Sep-08	30-Sep-07
Revenues				
WFG Agency Network	\$ 19,825	\$ 17,008	\$ 58,186	\$ 49,290
Western Life Assurance Company	7,092	8,305	22,584	20,440
Bank West	4,677	3,312	14,228	8,632
Corporate and all other	418	929	1,487	2,396
	\$ 32,012	\$ 29,554	\$ 96,485	\$ 80,758
Operating income				
WFG Agency Network	5,583	4,944	17,376	16,080
Western Life Assurance Company	1,086	733	3,522	2,514
Bank West	(32)	3	1,100	249
Corporate and all other	(2,187)	(1,343)	(5,408)	(4,432)
	\$ 4,449	\$ 4,337	\$ 16,590	\$ 14,411
Add (deduct)				
Income from long-term investments	67	256	1,525	1,850
Interest and financing costs on long-term debt	(540)	(532)	(1,676)	(1,959)
Gain/Loss on intangible assets	303	-	901	-
Amortization of intangible assets	(316)	(215)	(946)	(625)
Amortization of capital assets	(731)	(401)	(2,087)	(1,154)
Income taxes	(1,132)	(1,101)	(3,981)	(3,544)
Net income for the period	\$ 2,100	\$ 2,344	\$ 10,326	\$ 8,979

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NOTE 13 SEGMENTED INFORMATION (continued)

	Nine months ended	
	30-Sep-08	31-Dec-07
Total Assets		
WFG Agency Network	\$ 63,109	\$ 62,011
Western Life Assurance Company	71,886	73,108
Bank West	303,650	329,313
Corporate and all other	161,727	158,269
	\$ 600,372	\$ 622,701
Total Goodwill		
WFG Agency Network	\$ 88,225	\$ 82,720
Western Life Assurance Company	5,161	5,161
Bank West	2,788	2,777
Corporate and all other	7,507	7,507
	\$ 103,681	\$ 98,165

WESTERN FINANCIAL GROUP INC.

Corporate Information

Corporate Headquarters

Western Financial Group
1010 – 24 Street S.E.
High River, Alberta T1V 2A7
Scott Tannas, President & CEO

Auditors

PricewaterhouseCoopers LLP
Calgary, Alberta

Solicitors

Macleod Dixon LLP
Calgary, Alberta

Share Transfer Agent

Computershare Investor Services Inc.
Calgary, Alberta

Stock Exchange Listing

The Toronto Stock Exchange
Trading Symbol: WES

Investor Contact

1010 – 24 Street S.E.
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Corporate Business Units

WFG Agency Network Inc
Lana J. Wood, President & CEO

Bank West
Bruce Ratzlaff, President & CEO

Western Life Assurance Company
Bruce Ratzlaff , CEO
Dominique Gregoire, President

www.westernfinancialgroup.net