

ATB Financial[®]

**ENTERPRISE RISK
MANAGEMENT POLICY**

**ATB Financial
Board of Directors**

January 17, 2006

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1. Overview

Alberta Treasury Branches and its subsidiaries (collectively, “ATB Financial”) operate in a dynamic environment and given ATB Financial’s markets, growth, and structure, elements of risk are inherent.

The purpose of this policy is to: facilitate proactive risk management; heighten understanding of all the risks that ATB Financial faces; facilitate the integration of the management and prioritization of risks into planning and operational activities; and enhance the effectiveness of risk management activities within ATB Financial. This will allow management to make better business decisions through a focus on risk and return which in turn will enhance the value of ATB Financial and preserve its soundness and profitability over time.

This policy is applicable to ATB Financial on an enterprise-wide basis.. This policy will be implemented through the development and application of an ERM framework. The ERM framework shall be approved and implemented by the Corporate Management Committee (“CMC”) in its ERM function.

2. Introduction

The importance of enterprise risk management (“ERM”), within financial institutions, transcends the individual financial institution since losses arising from the failure of any financial institution to manage risk can have systemic repercussions to the financial services industry. As such, effective ERM is of interest to the owners, regulators, customers and suppliers of ATB Financial.

This policy conforms to any guidelines provided by the Minister of Finance for Alberta and aligns with the related guidelines of the Office of the Superintendent of Financial Institutions (“OSFI”). This alignment is advisable because the OSFI guidelines apply to the Canadian chartered banks, which ATB Financial contracts and competes with, and against which, it benchmarks its performance. This policy also aligns with the Basel II Capital Accord (“Basel II”), which establishes capital requirements based on evaluation of a number of factors, including enterprise risk management. Basel II reflects evolving international best practice and confirms the importance of ERM within the financial services industry.

3. Objectives

ATB Financial’s future success will be determined and measured by its ability to successfully balance over time, the risk associated with its business activities against the cost of risk mitigation controls. Accordingly, ATB Financial will practice a structured and disciplined approach to ERM, including the development and application of a corporate-wide risk profile to guide decision

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making on risk management related issues. ERM will ensure that the results of ATB Financial's efforts are not diminished through avoidable loss, or uncertainty, and that ATB Financial takes advantage of emerging opportunities where appropriate.

The specific key objectives of this policy are to:

- endorse a structured approach by which to identify current and future potential risks to ATB Financial;
- mandate an ERM framework to evaluate each risk for its probability and impact on ATB Financial;
- mandate the allocation of each risk to a risk category (financial, operational or strategic) so that appropriate governance structures and policies and procedures can be developed and implemented;
- facilitate the making of informed business decisions, including the prioritization of identified risks consistent with ATB Financial's risk tolerance;
- on an ongoing basis, an effective method for the monitoring and reporting on the status of all corporate risks to the appropriate management and Board of Directors ("Board") committees; and
- Provide reasonable assurance with respect to ATB Financial's ability to achieve its strategic and business objectives.

4. Policy Guidelines

This policy is aligned with the intentions outlined in the OSFI Corporate Governance Guideline. This Guideline recognizes the actions that a financial service business makes with respect to the achievement of its strategies and business objectives are ultimately tied to decisions about the nature and level of risk it is prepared to take and the most effective means to manage and mitigate those risks.

Risk management at ATB Financial shall be based on an understanding of the quality and nature of ATB Financial's assets and its sources of revenue, and the impact of any associated potential liabilities. This policy, the ERM framework, the related management policies and procedures and management committees, shall enable executive management and the Board to meet their enterprise-wide ERM responsibilities.

Risk may be incurred directly from the activities of Alberta Treasury Branches or indirectly based on the activities of its subsidiaries. The principles on which this policy document is based and the identified policies set out herein shall be reviewed regularly to ensure that they remain appropriate, in light of changing circumstances and to ensure that such principles and policies are effectively implemented.

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5. ERM Principles

This policy and the ERM framework, which shall govern the related management policies and procedures and the terms of reference of all Board and management committees with risk management functions identified herein, shall be premised upon a common understanding and application of the following principles:

- **PRINCIPLE 1** - The informed acceptance of risk is an essential element of good business strategy.
- **PRINCIPLE 2** - Risk management is an effective means to enhance and protect the value of a business over time.
- **PRINCIPLE 3** –A common definition and understanding of risks is necessary, in order to better manage those risks and make more consistent and informed business decisions.
- **PRINCIPLE 4** – The management of enterprise risk is an anticipatory, proactive process, to be embedded in the corporate culture and a key part of strategic planning, business planning and operational management.
- **PRINCIPLE 5** - All risks are to be identified, assessed, measured, managed, monitored and reported on in accordance with management policies and procedures.
- **PRINCIPLE 6** - All business activities are to adhere to risk management practices which reflect effective internal controls that are appropriate for the business and consistent with businesses of similar size and nature.
- **PRINCIPLE 7** – The risk management activities of the lines of business and functional units are to be reported by the business owner to executive management on a regular basis.

6. ERM Policies

The ERM framework shall be based upon the following policy parameters. Any ERM framework document, which may be developed by executive management, shall acknowledge and incorporate, at a minimum, the following ERM policies:

- 6.1** The nature and level of risks assumed, the risk categories into which risks are grouped and the relative priority of particular types of risk within ATB Financial's ERM framework will be based on its business activities and established risk tolerance.

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6.2 ATB Financial shall develop comprehensive, integrated management policies and procedures that, taken together, will apply to its significant business activities and recognize its corporate philosophy on risk management, permitted exposures to risk, risk management objectives, delegation of authorities and governance structure.

6.3 ERM at ATB Financial shall focus on all integrated corporate business risk exposures that could keep it from achieving its strategic goals and business objectives. Business units are responsible for risk management within their respective areas and for ensuring that appropriate practices and internal controls are in place and followed to manage any risk events associated exclusively with their line of business or business unit.

6.4 The ERM process at ATB Financial will be based on the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”) Framework, with such adjustments as are necessary to reflect the strategy, business and operations of ATB Financial, as determined by the CMC.

6.5 This ERM policy, shall be implemented by senior management across ATB Financial in the context of all planning and corporate decision making, with the objective of identifying potential risk events that could effect ATB Financial and managing such risks within the risk tolerance established by the Board.

6.6 The risk tolerance of ATB Financial shall be established by the Board based on consideration of the recommendations of executive management. The risk tolerance shall establish the amount of risk in both qualitative and quantitative terms that ATB Financial is willing to accept. Risk tolerance will be communicated to ATB Financial associates in both management policy and other forms of written communication from the CMC or other risk management committees, depending on the risk category and the nature of the risk involved.

6.7 As part of the ERM framework, a common language will be established and applied in order to provide a consistent means of identifying and classifying the nature, impact and priority of corporate risks at ATB Financial.

6.8 The ERM framework to be approved by the CMC will focus on corporate risk, being any catastrophic or significant risk that can originate in any part of ATB Financial, which when viewed from an enterprise-wide perspective, could potentially cause ATB Financial to fail to achieve its strategic and business objectives.

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6.9 All corporate risk will be identified and assessed based on the likelihood of the risk occurring and the impact of any occurrence of such risk. The likelihood of risk shall be the probability/possibility that a given event will occur. The impact of a risk shall be the result or effect of an event and may include a range of possible impacts both positive and negative relative to ATB Financial's objectives.

6.10 Corporate risks shall be evaluated as to whether they are catastrophic, significant, moderate or minimal. The implementation of the ERM framework shall focus initially on any corporate risks evaluated as catastrophic or significant, before addressing any moderate or minimal risks identified.

6.11 The ERM framework shall set out agreed upon risk response mechanisms. Each risk shall be evaluated to confirm appropriate risk responses have been put in place to address the likelihood and the impact of an occurrence of such risk. Agreed upon risk responses at ATB Financial shall include: the acceptance of risk; the establishment of risk mitigation controls and action plans; the sharing of risk with third parties including insurers; and the adoption of other risk avoidance measures. Risk responses put into effect by executives or management committees with ERM functions shall be reviewed, evaluated and confirmed from time to time by the CMC.

6.12 The initial identification and assessment of risk will focus on the gross/inherent exposure, which is the pure exposure without consideration of any mitigation through risk responses. Once identified and assessed as to the gross/inherent exposure, all risks shall also be assessed as to the net residual exposure, being the risk remaining after taking into account the effect of risk responses associated with that risk.

6.13 The ERM framework will separate identified risks into the following risk categories for effective risk management:

Financial Risk: - including risk events associated with economic conditions, capital structure, liquidity, credit, profitability, cash flows, markets and public reporting;

Operational Risk: - including risk events associated with business processes, customer service and products, people, infrastructure investments, internal controls and regulatory and legal compliance; and

Strategic Risk – including risk events associated with strategic decisions, including growth strategies, partnerships, acquisitions, reputation, public accountability and corporate citizenship;

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7. Assignments and Responsibilities

Where possible, ERM shall be integrated into existing corporate processes, becoming part of regular day-to-day business and activities of all associates. ERM shall be part of the integrated control structure, and as such, a collective and collaborative effort by all ATB Financial associates is necessary to achieve an appropriate level of ERM. Responsibility and accountability for achieving the desired ERM environment shall be clearly defined throughout ATB Financial.

In order to support ERM activities and provide assurance that an effective level of ERM is occurring, specific roles and responsibilities exist within ATB Financial.

Clear strategies and oversight by the Board and senior management, a strong ERM and internal control culture timely and accurate internal reporting, and contingency planning are all crucial elements of an effective ERM framework. Accordingly, specific assignments and responsibilities are outlined below.

7.1 *Board of Directors*

The actions, choices and decisions of the Board influence ATB Financial's performance and reputation as a trustworthy financial institution. The Board of ATB Financial is ultimately responsible for the integrity of the ERM and internal control environment and for ensuring that risk is managed on an enterprise-wide basis. To ensure the integrity and implementation of the ERM framework, management will provide periodic reporting, acceptable to the Board and its Committees.

The oversight responsibilities of the Board with respect to ERM are as follows:

The Board shall:

- have a general understanding of the risk categories and types of risks to which ATB Financial may be exposed and the practices used to identify, assess, measure and manage those risks;
- periodically review and approve the overall corporate risk management philosophy and establish the general risk tolerance of ATB Financial;
- be aware of material changes to ATB Financial's business strategies or risk tolerance and identify the risk tolerance established by the Board to management and the limits within which management is authorized to act with respect to such risks;
- review significant corporate policies or amendments to policies for the managing, monitoring, and reporting of the significant risks to which ATB Financial is exposed;

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- require that management have a process for determining ATB' Financial's optimum capitalization taking into account, the net/residual risk assumed and for ensuring that appropriate capital management strategies are in place;
- require from management, timely and accurate reporting on significant risks faced by ATB Financial, the risk responses including policies, procedures and controls in place to manage those risks, and the overall effectiveness of such risk management policies, procedures and controls;
- be aware of, and satisfied with, the manner in which any material exceptions to the policies, procedures and controls within ATB Financial are identified and monitored, the nature and basis of risk management reporting to the Board, and performance of required action by the management of ATB Financial when any exceptions have been identified;
- have sufficient independence from management, status and visibility within ATB Financial and be subject to periodic reviews of its own effectiveness; and
- include in its reviews of any changes to strategy or approval of new business initiatives a review of the requisite related changes in any risk management policies, procedures and controls.

The responsibilities of the Board shall be identified in and performed pursuant to the terms of reference of the Board and the various board committees allocated responsibilities for identified risks.

7.2 *President and Chief Executive Officer (“CEO”)*

The CEO is responsible for the management of all significant risk within ATB Financial including the creation, membership and functions of management committees with risk management roles including the CMC and the assignment and performance review of executives with responsibility for the management of identified risks and other ERM functions. The CEO also have a critical role in reporting to the Board on identified strategic risks and communicating the strategic value of the ERM to the Board and to all associates and in ensuring adequate funding and resources for required ERM activities.

7.3 *Chief Operating Officer (“COO”)*

The COO is responsible for the tracking, reporting and ensuring all operational risks are being managed. This includes the creation, membership and functions of the Operational Risk Committee of management (as set out in its terms of reference) and the selection and appointment of the General Manager, Operational Risk Management. The COO has the authority to establish the Operational Risk Management business unit, and evaluate the performance of ATB associates appropriate, as having responsibility for operational risk management function.

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The COO reports to the CEO, is a member of the CMC, and reports to the Audit Committee of the Board, on the status of operational risk management, based upon roll-up reports from designated associates.

7.4 Chief Financial Officer (“CFO”)

The CFO is the chief risk officer for ATB Financial and is responsible for the development and implementation of the ERM framework within ATB Financial. This includes, without limitation, ensuring adequate funding and resources are provided to ensure the effectiveness of ERM framework.

The CFO reports to the CEO, is a member of the CMC, and reports to the Audit Committee of the Board certain financial risks and the Governance Committee of the Board on the status and effectiveness of the ERM framework.

7.5 Executive Vice President Credit (“EVP Credit”)

The EVP Credit is responsible for tracking, reporting and ensuring credit risk is managed including, without limitation, the creation, membership and performance of the functions of the Credit Committee of management (as set out in its terms of reference).

The EVP Credit reports to the CEO, is a member of the CMC and reports to the Credit and Financial Risk Committee of the Board on the status of credit risk management, based upon roll-up reports from designated associates who report to the EVP Credit.

7.6 Executive Vice President and Treasurer (“EVP and Treasurer”)

The EVP and Treasurer is responsible for tracking, reporting and ensuring market and liquidity risk is managed including, without limitation, performance of the functions of the Asset Liability Committee (as set out in its terms of reference).

The EVP and Treasurer reports to the CEO, is a member of the CMC and reports to the Credit and Financial Risk Committee of the Board on the status of market and liquidity risk management, based upon roll-up reports from designated associates.

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7.7 Vice President Human Resources (“VP Human Resources”)

The VP Human Resources is responsible for tracking, reporting and ensuring the of people risk is managed, including, without limitation all policies and practices with respect to the hiring, training and compensation of associates of ATB Financial.

The VP Human Resources reports to the CEO, is a member of the CMC and reports to the Human Resources Committee of the Board on the status of people risk management based upon roll up reports from designated associates.

8. Monitoring Methodology

8.1 The CEO, or his designate will submit quarterly reports on the key corporate risk categories and the effectiveness of the policies, procedures and controls in place to manage such risks the appropriate Board committees and the full Board.

8.2 ATB Financial will conduct an annual assessment of the effectiveness of its ERM framework in conjunction with its business planning cycle and report to the Board.

8.3 Internal Audit will incorporate any corporate risks identified through implementation of the ERM framework as part of its annual audit planning process.

8.4 All of the forgoing monitoring requirements may be revised or amended by the Board from time to time, in which case, the ATB Financial Management and Board Committees with identified risk responsibilities shall revise or amend their terms of reference, management policies and procedures and reporting as required.