

### Financial Highlights

Current results compared to the first quarter of fiscal year 2006-2007:

- Net income of \$64.5 million, up 3.93 per cent.
- Total assets of \$21.4 billion, up 14.09 per cent.
- Net loans of \$17.7 billion, up 15.64 per cent.
- Total deposits of \$19.3 billion, up 13.74 per cent.
- Operating revenue of \$207.2 million, up 17.35 per cent.
- Non-interest expenses of \$136.1 million, up 20.28 per cent.
- Efficiency ratio (non-interest expenses as a percentage of operating revenues) rose to 65.68 per cent from 64.08 per cent.

## ATB Financial Announces Record First Quarter Results

**Edmonton – August 28, 2007** – ATB Financial reported first quarter earnings of \$64.5 million for the period ending June 30, 2007. Increased operating revenue of \$207.2 million, up \$30.6 million or 17.35 per cent, was offset by growth in non-interest expenses of \$22.9 million or 20.28 per cent. ATB's equity now stands at \$1.7 billion, up 18.04 per cent compared to June 30, 2006.

"ATB Financial has had an excellent start to the year with a very strong financial performance. Our results represent the strongest first quarter in our history," said Dave Mowat, President and CEO, ATB Financial. "We continue to see growth in net interest income, driven by strong growth in loans and deposits. With a strong business plan and a commitment to focus on the customer, ATB continues to capitalize on Alberta's strong economy."

**Personal & Business Financial Services (PBFS)**  
This line of business continues to see strong growth. Loan growth in the first quarter was \$598.0 million compared to \$340.5 million in the first quarter last year, up 75.62 per cent. Deposit growth was also strong at \$528.6 million, but declined compared to growth for the prior year of \$790.6 million, down 33.14 per cent.

### Branch Network

During the first quarter, ATB Financial opened a new branch, Edmonton – The Grange, which represented our 155<sup>th</sup> branch. Our 156<sup>th</sup> branch, Edmonton – The Meadows opened in July 2007.

### ATB Investor Services (ATBIS)

Despite limited market growth, assets under management and administration grew by \$228.7 million or 6.15 per cent, up from growth of \$164.9 million a year ago. Assets under management and administration were \$3.95 billion at the end of the quarter, an increase of 50.62 per cent over the prior year.

### Corporate Financial Services (CFS)

CFS comprises the three sub-lines of Energy, Commercial and Food & Forestry. In the first quarter, CFS grew its loan book by \$94.8 million or 2.74 per cent compared to last year's growth of \$122.1 million.

Deposit balances remained relatively flat this quarter, compared to an increase of \$204.4 million in the same quarter last year.

Operating revenue grew by \$2.4 million or 11 per cent this quarter, compared to \$1.8 million or 11 per cent for the same period last year, with strong individual performances in each sub-line.

## **Asset Backed Commercial Paper**

As of August 24, ATB Financial held \$945 million of non-bank asset backed commercial paper. As also announced on that date, we acquired an additional \$255 million of these investments through an exchange of ATB Money Market investments held through our Investor Services subsidiaries. These \$1.2 billion of assets are now held in our corporate investment portfolio.

As is the case with other institutional investors and financial institutions, ATB Financial invests a portion of our assets in investment grade (R1-high) instruments for short-term liquidity purposes. Recent market instability has brought the liquidity of this particular category of non-bank asset backed commercial paper into question. We continue to have confidence in the quality of the underlying assets and cash flows. ATB Financial, as a signatory to the "Montreal Accord", will participate actively in ensuring an orderly restructuring of these assets to longer-term financial instruments.

While the short-term liquidity of these investments has been affected, ATB maintains a strong liquidity position and the re-categorization of these assets will not affect our ability to maintain and increase our growth in the province.

## **ATB in the Community**

Thanks to the generous support of our customers and dedication of our associates, ATB is donating \$440,000 to the Stollery Children's Hospital and Alberta Children's Hospital Foundations.

The proceeds will support the Telehealth program in both hospitals. Telehealth allows children, their families, and professional staff to be connected with other health care sites in real time for clinical, educational, or administrative purposes. Physicians in rural areas will have access to 24-hour telemedicine services in Calgary, Red Deer, Edmonton, Grande Prairie, High Level, and Fort McMurray.

Since 2000, the Teddy for a Toonie campaign has raised more than \$1,900,000 for Alberta children's health and wellness.

For the second year in a row, ATB donated \$50,000 to an Edmonton Habitat for Humanity Women Build project. The funds contributed by ATB are being used for construction of a tri-plex in the Norwood community. A team of 150 ATB women associates volunteered for a week at the construction site in May.

The ATB Financial Classic was held June 25 - July 1 at the Calgary Elks Lodge and Golf Club. Professionals from around the world competed at this inaugural stop on the Canadian Professional Golf Tour to compete for a purse of \$150,000.

In keeping with our strong commitment to the community, ATB donated \$22,510 to the Alberta Children's Hospital Foundation, the 2007 ATB Financial Classic charity beneficiary.

## **Economic Review & Outlook**

The Alberta economy continues to remain strong and lead the country in growth. While it had been anticipated that 2007 might experience some slowdown, most indicators point to continued robust economic activity.

ATB Financial's Business Sentiments Index™ for the third quarter of 2007 rose to 152.5, a substantial increase from the 140.3 from the second quarter of this year. The upward trend is reaching 2006 levels. Anticipated growth will accelerate, especially in northern Alberta and in the oil and gas sector.

Over the past several months, additional future investments in the oilsands and in upgrading capacity have been announced. These multi-year, multi-billion dollar projects are in addition to more than \$100 billion in previously announced projects. However, in the conventional gas drilling business, wells drilled and utilization rates are significantly lower than last year. Inflation continues to be a major threat in the province driven almost entirely by increased costs of housing and rental accommodations. Housing prices in Edmonton have risen sharply whereas Calgary prices have moderated somewhat.

The Alberta labour market continues to operate at or above capacity with unemployment at 30 year lows. Labour shortages will continue to be the primary challenge facing businesses in the province.

Robert Splane  
Chairman of the Board

Dave Mowat  
President & CEO

## Interim Consolidated Balance Sheet

(unaudited)

(\$ in thousands)	As at Jun 30 2007	As at Mar 31 2007	As at Jun 30 2006
<b>Assets</b>			
<b>Cash resources</b>			
Cash	\$ 166,256	\$ 78,117	\$ 245,628
Interest-bearing deposits with financial institutions	1,134,486	1,017,497	1,077,416
	<u>1,300,742</u>	<u>1,095,614</u>	<u>1,323,044</u>
<b>Securities</b>	<b>1,846,546</b>	<b>1,684,821</b>	<b>1,767,471</b>
<b>Loans</b>			
Residential mortgage	7,187,222	6,965,985	6,517,476
Business	6,891,501	6,712,420	5,986,062
Personal	3,379,551	3,101,429	2,634,907
Credit card	402,560	368,329	331,057
Allowance for credit losses (Note 3)	(159,629)	(153,834)	(162,554)
	<u>17,701,205</u>	<u>16,994,329</u>	<u>15,306,948</u>
<b>Other</b>			
Premises and equipment	180,949	177,561	143,846
Derivative financial instruments (Note 4)	98,000	28,200	23,822
Other assets	314,158	314,193	228,759
	<u>593,107</u>	<u>519,954</u>	<u>396,427</u>
	<b>\$ 21,441,600</b>	<b>\$ 20,294,718</b>	<b>\$ 18,793,890</b>
<b>Liabilities and Equity</b>			
<b>Deposits</b>			
Personal	\$ 9,279,148	\$ 9,156,823	\$ 8,722,575
Business and other	10,022,519	9,096,015	8,248,106
	<u>19,301,667</u>	<u>18,252,838</u>	<u>16,970,681</u>
<b>Other liabilities</b>			
Other liabilities	306,712	337,626	351,572
Derivative financial instruments (Note 4)	110,581	8,629	1,744
	<u>417,293</u>	<u>346,255</u>	<u>353,316</u>
<b>Subordinated debentures</b>	<b>57,009</b>	<b>72,242</b>	<b>58,840</b>
<b>Equity</b>			
Retained earnings	1,677,852	1,623,383	1,411,053
Accumulated other comprehensive income (loss)	(12,221)	-	-
	<u>1,665,631</u>	<u>1,623,383</u>	<u>1,411,053</u>
	<b>\$ 21,441,600</b>	<b>\$ 20,294,718</b>	<b>\$ 18,793,890</b>

The accompanying notes are an integral part of these interim consolidated financial statements.

## Interim Consolidated Statement of Income

(unaudited)

(\$ in thousands)	For the three months ended		
	Jun 30 2007	Mar 31 2007	Jun 30 2006
<b>Interest income</b>			
Loans	\$ 271,116	\$ 249,494	\$ 221,715
Securities	18,758	19,167	16,333
Deposits with financial institutions	12,472	12,258	11,908
	<b>302,346</b>	<b>280,919</b>	<b>249,956</b>
<b>Interest expense</b>			
Deposits	142,635	134,008	114,967
Subordinated debentures	826	825	857
	<b>143,461</b>	<b>134,833</b>	<b>115,824</b>
<b>Net interest income</b>	<b>158,885</b>	<b>146,086</b>	<b>134,132</b>
<b>Other income</b>			
Service charges	17,233	18,467	16,346
Investor services	9,499	8,350	6,139
Card fees	8,224	7,436	6,336
Credit fees	4,675	6,408	7,853
Sundry	4,444	1,589	1,969
Foreign exchange	2,503	2,220	2,165
Insurance	2,360	4,586	1,304
Gains (losses) on derivative financial instruments	(656)	808	301
	<b>48,282</b>	<b>49,864</b>	<b>42,413</b>
<b>Total operating revenues</b>	<b>207,167</b>	<b>195,950</b>	<b>176,545</b>
<b>Provision for (recovery of) credit losses</b>	<b>6,597</b>	<b>11,253</b>	<b>1,359</b>
<b>Non-interest expenses</b>			
Human resources (Note 6)	75,396	68,609	63,237
Data processing	16,752	15,733	13,291
Premises and occupancy, including amortization	11,867	11,966	10,331
Professional and consulting costs	6,641	9,363	4,674
Marketing and supplies	6,315	6,165	4,582
Equipment and software, including amortization	5,475	5,122	4,800
Deposit guarantee fee	4,395	4,261	3,631
Communication	4,251	3,990	3,663
Other	2,766	8,097	2,961
ATB Agencies	2,216	2,164	1,958
	<b>136,074</b>	<b>135,470</b>	<b>113,128</b>
<b>Net income</b>	<b>\$ 64,496</b>	<b>\$ 49,227</b>	<b>\$ 62,058</b>

The accompanying notes are an integral part of these interim consolidated financial statements.

## Interim Consolidated Statement of Changes in Equity

(unaudited)

(\$ in thousands)	Retained earnings	Accumulated other comprehensive income (loss)	Total Equity
<b>Equity as at March 31, 2007</b>	<b>\$ 1,623,383</b>	<b>\$ -</b>	<b>\$ 1,623,383</b>
<b>Transition adjustment on adoption of new Financial Instruments accounting standards effective April 1, 2007: (Note 2)</b>	<b>(10,027)</b>	<b>3,461</b>	<b>(6,566)</b>
<b>Adjusted balance as at April 1, 2007</b>	<b>1,613,356</b>	<b>3,461</b>	<b>1,616,817</b>
<b>Net income for the three months ended June 30, 2007</b>	<b>64,496</b>	<b>-</b>	<b>64,496</b>
<b>Other comprehensive income (loss) for the three months ended June 30, 2007:</b>			
Change in unrealized gains and (losses) on available-for-sale securities and deposits with financial institutions, net of cash flow hedges	-	167	167
Reclassification to earnings in respect of available-for-sale securities and deposits with financial institutions	-	(115)	(115)
Changes in gains and (losses) on derivative financial instruments designated as cash flow hedges	-	(15,632)	(15,632)
Reclassification to earnings of gains and (losses) on cash flow hedges	-	(102)	(102)
	<b>-</b>	<b>(15,682)</b>	<b>(15,682)</b>
<b>Comprehensive income for the three months ended June 30, 2007</b>	<b>-</b>	<b>-</b>	<b>48,814</b>
<b>Equity as at June 30, 2007</b>	<b>\$ 1,677,852</b>	<b>\$ (12,221)</b>	<b>\$ 1,665,631</b>
Equity as at December 31, 2006	\$ 1,574,156	\$ -	\$ 1,574,156
Net income for the three months ended March 31, 2007	49,227		49,227
Equity as at March 31, 2007	\$ 1,623,383	\$ -	\$ 1,623,383
Equity as at March 31, 2006	\$ 1,348,995	\$ -	\$ 1,348,995
Net income for the three months ended June 30, 2006	62,058		62,058
Equity as at June 30, 2006	\$ 1,411,053	\$ -	\$ 1,411,053

The accompanying notes are an integral part of these interim consolidated financial statements.

## Interim Consolidated Statement of Changes in Cash Flows

(unaudited)

(\$ in thousands)	For the three months ended		
	Jun 30 2007	Mar 31 2007	Jun 30 2006
<b>Cash flows from operating activities</b>			
Net income	\$ 64,496	\$ 49,227	\$ 62,058
Adjustments to determine net cash flows:			
Provision for (recovery of) credit losses	6,597	11,253	1,359
Amortization	8,092	7,432	7,173
Net changes in accrued interest receivable and payable	(4,377)	(5,864)	10,754
Net changes in derivative financial instruments	(59)	(6,773)	4,088
Other items, net	(1,659)	(97,428)	(39,968)
Net cash provided by (used in) operating activities	<b>73,090</b>	<b>(42,153)</b>	<b>45,464</b>
<b>Cash flows from financing activities</b>			
Net change in deposits	1,062,994	447,841	1,100,373
Repayment of subordinated debentures	(15,233)	-	(12,738)
Net cash provided by financing activities	<b>1,047,761</b>	<b>447,841</b>	<b>1,087,635</b>
<b>Cash flows from investing activities</b>			
Net change in interest-bearing deposits with financial institutions	(116,954)	56,130	(100,745)
Purchase of investment securities	(4,844,882)	(5,631,884)	(4,926,625)
Proceeds from investment securities	4,683,895	5,702,470	4,540,598
Net change in loans	(743,291)	(509,179)	(461,613)
Net purchases of premises and equipment	(11,480)	(20,424)	(16,540)
Net cash used in investing activities	<b>(1,032,712)</b>	<b>(402,887)</b>	<b>(964,925)</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>88,139</b>	<b>2,801</b>	<b>168,174</b>
Cash and cash equivalents at beginning of period	78,117	75,316	77,454
<b>Cash and cash equivalents at end of period, represented by cash</b>	<b>\$ 166,256</b>	<b>\$ 78,117</b>	<b>\$ 245,628</b>
Supplementary cash flow information:			
Amount of interest paid during the period	\$ 148,397	\$ 140,214	\$ 100,308

The accompanying notes are an integral part of these interim consolidated financial statements.

## Notes to the Interim Consolidated Financial Statements

For the three months ended June 30, 2007 (\$ in thousands)

(unaudited)

### 1. Basis of Presentation

These unaudited interim Consolidated Financial Statements should be read in conjunction with the audited Consolidated Financial Statements for the year ended March 31, 2007, as set out on pages 86 to 121 of the 2007 Annual Report.

These interim Consolidated Financial Statements have been prepared in accordance with Canadian Generally Accepted Accounting Principles using the same significant accounting policies outlined in the notes to the Consolidated Financial Statements for the year ended March 31, 2007, except as described in Note 2.

### 2. Changes in Accounting Policies

Effective April 1, 2007, ATB adopted new or revised accounting standards issued by the Canadian Institute of Chartered Accountants (or "CICA"): CICA Handbook Section 1530, Comprehensive Income; Section 3855, Financial Instruments – Recognition and Measurement; Section 3861, Financial Instruments – Disclosure and Presentation; and Section 3865, Hedges. The adoption of new accounting policies to comply with these standards, often collectively referred to as "the financial instruments standards" or "the new standards", resulted in certain changes to ATB's accounting for financial instruments and hedges. As these new policies have been adopted prospectively, prior period results have not been restated and certain transition adjustments have been recorded in opening retained earnings as of April 1, 2007 (the transitional date).

#### Classification of and accounting for Financial Instruments

Prior to adopting the new standards, ATB accounted for virtually all of its financial assets (principally cash resources, securities, and loans) and financial liabilities (principally deposits and subordinated debentures) on an accrual basis and measured them at cost or amortized cost, as applicable.

Section 3855 establishes a new framework for the recognition and measurement of financial assets, financial liabilities, and non-financial derivatives. All existing financial instruments have been classified as of April 1, 2007 according to this new framework, either based on the type of instrument or ATB's intention regarding the instrument, as described below. Any new financial instruments entered into after that date will be classified on inception. This classification determines how financial instruments are accounted for under the new standards.

#### **Held-for-trading**

ATB has classified certain cash resources and securities denominated in foreign currencies as "held-for-trading" (or "HFT") as of April 1, 2007.

Financial assets and liabilities classified as HFT are measured on the Consolidated Balance Sheet at fair value with changes in fair value (unrealized gains or losses) recorded in "net income" in the Consolidated Statement of Income. Unrealized gains and losses from changes in fair value or realized gains or losses on disposal are accounted for as other income. Any interest earned (or incurred) continues to be recognized on an accrual basis as interest income (or expense).

#### **Financial assets and liabilities designated as held-for-trading under the fair value option**

ATB may designate any financial instrument as HFT on initial recognition or adoption of the new standard if fair value can be reliably determined, irrespective of whether the instrument would otherwise qualify as HFT.

ATB has not designated any financial instruments as HFT under the fair value option as of April 1, 2007 or June 30, 2007.

## 2. Changes in Accounting Policies (continued)

### Available-for-sale

ATB has classified interest-bearing deposits with financial institutions and securities denominated in Canadian dollars as “available-for-sale” (or “AFS”) as of April 1, 2007.

Financial assets classified as “available-for-sale” are measured on the Consolidated Balance Sheet at fair value with changes in fair value (unrealized gains or losses), including any foreign exchange component, being recognized in other comprehensive income rather than net income. Unrealized gains and losses from changes in fair value are not recognized in income but are recognized in accumulated other comprehensive income (“AOCI”) until sale when the cumulative gain or loss on disposal are transferred to the Consolidated Statement of Income as other income. Any interest earned prior to disposal continues to be recognized on an accrual basis as interest income.

### Held-to-maturity

ATB may classify non-derivative financial assets as “held-to-maturity” (or “HTM”) if the assets have fixed or determinable payments, a fixed term to maturity, and if ATB has the ability and intention to hold the assets to maturity. HTM assets are measured at amortized cost using the effective interest rate method.

ATB has not classified any financial assets as HTM as of April 1, 2007 or June 30, 2007.

### Loans and receivables

Financial assets classified as loans and receivables are accounted for at amortized cost using the effective interest rate method.

### Financial liabilities

Financial liabilities, except for derivatives, are measured at amortized cost using the effective interest rate method unless classified as held-for-trading (or designated as such under the fair value option).

### Effective interest rate method

Prior to adopting the new standards, all transaction and origination costs relating to financial assets and liabilities were expensed as incurred within non-interest expenses in the Consolidated Statement of Income. Significant loan fees were deferred and recognized in the Consolidated Statement of Income as net interest income over the term of the loan on a straight-line basis. Amortized cost for loans and deposits was determined on the basis of the contractual rate as was any related interest income and interest expense.

On adoption of the new standards, ATB has adjusted the balance of deferred loan fees as of April 1, 2007 as if all origination, restructuring, and renegotiation fees had been deferred as received, and amortized into income using the effective interest rate method. Incremental direct costs relating to the origination of loans are netted against deferred loan fees and are recognized on an effective yield basis in a manner consistent with the appropriate fee. The effective interest rate method also incorporates management’s best estimate regarding expected future cash flows and the impact of off-market interest rates into the determination of amortized cost.

### Derivatives and hedge accounting

ATB enters into over-the-counter derivative contracts in the normal course of business. These contracts are either used for ATB’s own risk management purposes to manage its exposure to fluctuations in interest rates or equity markets or are used to facilitate ATB’s clients’ own risk management programs. These contracts are hereinafter referred to as the “corporate” or “non-trading” portfolio and the “client” or “trading” portfolio, respectively. Refer to pages 105 to 107 of the 2007 Annual Report for a more complete description of these derivative financial instruments.

Prior to adopting the new standards, ATB’s corporate (non-trading) derivative contracts that qualified for hedge accounting in accordance with Accounting Guideline 13 (or “AcG-13”) were accounted for on an accrual basis with any income or expense amounts attributable to the hedging instruments recognized in the Consolidated Statement of Income in the same category and period as the related hedged item. The fair value of derivative contracts that qualified for hedge accounting was not recognized in the Consolidated Balance Sheet during the life of the hedging relationship. Client (trading) derivatives and any corporate (non-trading) derivatives that did not meet the criteria for hedge accounting were measured at fair value and recognized as an asset or liability in the Consolidated Balance Sheet with changes in fair value recognized in the Consolidated Statement of Income.

## 2. Changes in Accounting Policies (continued)

The new standards for financial instruments require all derivative financial instruments, including “embedded derivatives,” to be classified as held-for-trading and measured at fair value on the Consolidated Balance Sheet beginning April 1, 2007. Derivatives having positive fair value are presented as derivative assets and those having negative fair value are presented as derivative liabilities. Changes in the fair value of derivative financial instruments are now recorded in net income unless the derivative qualifies for hedge accounting as a cash flow hedge, in which case the changes in fair value are reflected in other comprehensive income.

### Embedded derivatives

Embedded derivatives are components within a financial instrument or other contract that have features similar to a derivative. Under the new standards, embedded derivatives having economic characteristics and risks that are not considered closely related to the characteristics and risks of the host contract may need to be accounted for separately if a separate instrument having the same terms would qualify as a derivative and if the host contract is not already measured at fair value. Prior to adopting the new standards, ATB did not account for embedded derivatives separately from the host contract.

On adoption of the new standards, ATB has reviewed contracts signed after March 31, 2004 and identified embedded derivatives within certain extendible loan contracts and within all equity-linked deposit contracts. As of April 1, 2007, any such embedded derivatives that are not considered closely related to the host contract have been accounted for separately as derivative assets or liabilities.

### Hedge accounting

Section 3865 establishes new criteria under which hedge accounting may be applied to ATB's corporate (non-trading) derivatives that are all held for risk management purposes. Hedge accounting is optional and allows the recognition of the effective component of a hedging derivative in net income at the same time as the hedged item, reducing income volatility. The change in fair value attributable to any ineffective component of a hedging derivative is recognized in net income during the period of ineffectiveness.

For a derivative instrument to qualify for hedge accounting under the new standards, the hedging relationship between the derivative (hedging) instrument and the hedged item(s) must be designated and formally documented at inception in accordance with the new requirements of Section 3865. ATB must also document an assessment of the effectiveness of the derivative instrument in offsetting changes in cash flows or fair value of the hedged item, both at inception of the hedging relationship and on an ongoing basis. When ATB designates a derivative as a hedge, it is classified as either a cash flow hedge or a fair value hedge.

ATB has discontinued hedge accounting for certain previously effective cash flow hedges and any previously effective fair value hedges as of April 1, 2007. The cumulative unrealized gain or loss on such derivative instruments as of April 1, 2007 is recognized in opening retained earnings on the transition date.

### Cash Flow Hedges

The derivative instrument in a cash flow hedge is intended to generate cash flows that offset the variability in expected and/or anticipated cash flows from the hedged item. ATB uses various interest rate derivatives to manage risk relating to variability of cash flows from variable rate securities and loans as well as certain deposits. In a qualifying cash flow hedge relationship, the effective portion of the change in fair value of the hedging derivative instrument is recognized in other comprehensive income and the ineffective portion in net interest income. Any such amounts recognized in AOCI are reclassified from other comprehensive income into net income in the period as the underlying hedged item affects net income.

To the extent cash flow hedging relationships that existed prior to the adoption of the new standards are continued and qualify under the new criteria, any cumulative unrealized gain or loss on the hedging instrument that is attributable to the effective portion of the hedge relationship as of April 1, 2007 is recognized in AOCI and that portion of the unrealized gain or loss attributable to the ineffective portion is recognized in opening retained earnings on transition.

The fair value of corporate (non-trading) derivative instruments that have been designated and qualify as cash flow hedges as of April 1, 2007 and June 30, 2007 are disclosed in Note 4.

### Fair Value Hedges

The fair value of a derivative instrument in a fair value hedge is intended to vary in an offsetting manner to changes in fair value of the hedged item. ATB uses interest rate derivatives to manage risk relating to changes in fair value of certain loans having embedded option features. In a qualifying fair value hedge relationship, changes in the fair value of the hedged item are recognized in net income and the carrying amount of the hedged item is adjusted accordingly. The

## 2. Changes in Accounting Policies (continued)

changes in fair value of the hedging derivative are also recognized in net income and, to the extent the hedging relationship is effective, offset the changes in the fair value of the hedged item.

No derivative instruments have been designated as fair value hedges as of April 1, 2007 or June 30, 2007.

### Comprehensive income and accumulated other comprehensive income

Comprehensive income is comprised of net income and other comprehensive income. For ATB, other comprehensive income includes net unrealized gains and losses on securities classified as available-for-sale and changes in fair value of the effective portion of cash flow hedging derivative financial instruments.

Amounts recognized in other comprehensive income will eventually be reclassified to the Statement of Income and reflected in net income as gains or losses once securities classified as available-for-sale are realized or as cash flow hedging derivative financial instruments become ineffective.

Comprehensive income and its components are disclosed in the new Consolidated Statement of Changes in Equity. This Statement also presents the continuity of accumulated AOCI. The cumulative amount of other comprehensive income recognized, AOCI, represents a new component of equity on the Consolidated Balance Sheet.

### Transition adjustments

On ATB's adoption of new accounting policies for financial instruments, the following transition adjustments have been recorded as adjustments to the opening April 1, 2007 balances of assets, liabilities, and equity:

	Assets	Liabilities	Retained earnings	Accumulated other comprehensive income
Unrealized gains (losses) on securities and deposits with financial institutions classified as available-for-sale	\$ 715	\$ -	\$ -	\$ 715
Unrealized gains (losses) on securities and deposits with financial institutions classified as held-for-trading	(2)	-	(2)	-
Effective yield adjustment of loan portfolio for loan and credit fees	(5,121)	-	(5,121)	-
Fair value of derivative instruments previously not recognized	57,072	(1,522)	55,848	2,746
Fair value of derivative instruments embedded in loans and deposits	-	60,518	(60,518)	-
Ineffective portion of cash flow hedges	(88)	-	(88)	-
Reversal of transition balances deferred on adoption of AcG-13	-	(171)	171	-
Carrying amounts no longer considered assets or liabilities	-	317	(317)	-
	<b>\$ 52,576</b>	<b>\$ 59,142</b>	<b>\$ (10,027)</b>	<b>\$ 3,461</b>

### Other

On adoption of the new standards, ATB has elected to recognize investment transactions relating to its securities portfolio on a settlement date basis.

### 3. Allowance for Credit Losses

The allowance for credit losses recorded in the Consolidated Balance Sheet is maintained at the level which management considers adequate to absorb credit-related losses for all on- and off-balance sheet items in ATB's credit portfolio as at the balance sheet date. The continuity of the allowance for credit losses is as follows:

For the three months ended	Specific			General			Total		
	Jun 30 2007	Mar 31 2007	Jun 30 2006	Jun 30 2007	Mar 31 2007	Jun 30 2006	Jun 30 2007	Mar 31 2007	Jun 30 2006
Balance at beginning of the period	\$ 15,352	\$ 14,187	\$ 19,348	\$ 141,827	\$ 132,062	\$ 145,099	\$ 157,179	\$ 146,249	\$ 164,447
Write-offs	(2,236)	(1,450)	(1,450)	-	-	-	(2,236)	(1,450)	(1,450)
Recoveries	1,507	1,127	1,405	-	-	-	1,507	1,127	1,405
Provision for (recoveries of) credit losses	212	1,488	(1,493)	6,385	9,765	2,852	6,597	11,253	1,359
Balance at end of the period	\$ 14,835	\$ 15,352	\$ 17,810	\$ 148,212	\$ 141,827	\$ 147,951	\$ 163,047	\$ 157,179	\$ 165,761
Less: Allowance for cost of credit recovery included in other liabilities	3,418	3,345	3,207	-	-	-	3,418	3,345	3,207
Allowance for loan losses	\$ 11,417	\$ 12,007	\$ 14,603	\$ 148,212	\$ 141,827	\$ 147,951	\$ 159,629	\$ 153,834	\$ 162,554

### 4. Derivative Financial Instruments

ATB enters into various "over-the-counter" derivative contracts in the normal course of its business for two purposes—for its own risk-management program and to meet the needs of ATB customers. In its non-trading (or "corporate derivative") portfolio, ATB uses derivative financial instruments for risk-management purposes to manage its exposure to fluctuations in interest rates or equity markets as an integral component of its asset/liability management program. All such contracts are transacted with North American financial institutions. ATB's trading (or "client derivative") portfolio is not utilized to generate trading income through active assumption of market risk but rather is utilized to meet the risk-management requirements of ATB customers. ATB does not accept any net exposure to such derivative contracts (except for credit risk) as it either enters into offsetting contracts with other financial institution counterparties or incorporates them into its own risk-management programs.

#### Fair Value of Derivatives

Fair value represents an estimate as at that point in time that may change in subsequent reporting periods due to changing market conditions or other factors. Fair value estimates of over-the-counter and embedded derivative financial instruments are determined using pricing models that take into account current market and contractual prices of the underlying instruments, and time value and yield curve or volatility factors underlying the positions.

Fair value of derivative financial instruments, segregated between assets – contracts having positive fair value – and liabilities – contracts having negative fair value – is comprised as follows:

	As at June 30, 2007		As at April 1, 2007	
	Assets	Liabilities	Assets	Liabilities
Corporate (non-trading) derivatives				
Cash flow hedges	\$ 12,295	\$ (25,423)	\$ 5,494	\$ (2,460)
Other	81,329	-	74,811	-
Client (trading) derivatives	4,376	(4,297)	3,331	(3,246)
Embedded derivatives				
Equity-linked deposits	-	(79,408)	-	(75,969)
Other	-	(1,453)	-	(769)
	\$ 98,000	\$ (110,581)	\$ 83,636	\$ (82,444)

## 5. Guarantees

Guarantees represent an irrevocable obligation to make payments to a third party in certain situations. Guarantees include contracts or indemnities that contingently require ATB to make payments (either in the form of some asset or in the form of services) to another party based on (a) changes in an asset, liability, or equity the other party holds, (b) failure of a third party to perform under an obligating agreement, or (c) failure of a third party to pay its indebtedness when due. In the event of a call on such commitments, ATB has recourse against the customer.

Significant guarantees provided by ATB to third parties include:

- a) Loan guarantees and standby letters of credit (discussed in Note 15 to the Consolidated Financial Statements for the year ended March 31, 2007) totaling \$215,575 as at June 30, 2007 (March 31, 2007: \$203,974; December 31, 2006: \$199,074; June 30, 2006: \$163,138).
- b) Foreign exchange forward contracts (discussed in Note 14 to the Consolidated Financial Statements for the year ended March 31, 2007) having notional principal amounts totaling \$10,994 as at June 30, 2007 (March 31, 2007: \$30,177; December 31, 2006: \$5,985; June 30, 2006: \$561).
- c) Indemnification agreements entered into in the ordinary course of business, such as purchase contracts, service agreements, or sale of assets. A maximum potential liability cannot be readily estimated, but historically ATB has not made any significant payments under such guarantees.

ATB has also issued a \$5.0 million guarantee to Canadian Depository for Securities ("CDS") in respect of one its subsidiaries to support the settlement of investment transactions with CDS.

## 6. Employee Future Benefits

ATB provides future pension benefits to current and past employees through a combination of defined benefit and defined contribution plans, but does not provide any other employee future benefits (discussed in Note 13 to the Consolidated Financial Statements for year ended March 31, 2007).

The net pension benefit expense is included in human resources in the Consolidated Statement of Income.

For the three months ended	June 30, 2007	March 31, 2007	June 30, 2006
Net pension benefit expense	\$ 5,076	\$ 5,258	\$ 5,078

## 7. Segmented Information

ATB has organized its operations and activities around the following three business segments or lines of business:

- **Personal and Business Financial Services** comprises the branch, agency, and ABM networks and provides financial services to individuals, independent business, and agricultural customers;
- **Corporate Financial Services** provides financial services to medium- and large-sized corporate borrowers; and
- **Investor Services** provides wealth management solutions including retail brokerage, mutual funds, portfolio management, and investment advice.

ATB's operating activities are not geographically distributed for external reporting purposes, as all its operations are limited to customers within the province of Alberta.

### Basis of presentation

Results presented in the following schedules are based on ATB's internal financial reporting systems. The accounting policies used in these groupings are consistent with those followed in the preparation of the Consolidated Financial Statements as disclosed in the other Notes to the Consolidated Financial Statements. As these lines of business are based on ATB's internal management structure, they may not be comparable to those of other financial institutions.

## 7. Segmented Information (continued)

Customer-related assets and liabilities (and the directly related revenues and expenses) are allocated between ATB's lines of business based on management of the client relationship rather than the specific nature of the loan, deposit, or other product provided or service rendered.

Net interest income ("NII") is attributed to each line of business according to ATB's internal funds transfer pricing ("FTP") system whereby assets "earn" NII to the extent external revenues exceed internal FTP expense and liabilities "earn" NII to the extent internal FTP revenues exceed external interest expense. Specific provisions for credit losses are allocated based on the individual underlying impaired loan balances and general provisions (excepting any special general provisions) are allocated based on management of the client relationship, in the same way as the underlying loans.

Direct expenses are attributed between lines as incurred. Certain indirect expenses are allocated between Investor Services and the other lines on the basis of inter-line service agreements. Certain other costs are allocated between the reporting segments using cost allocation methodologies that incorporate activity-based estimates of indirect cost allocation. Indirect expenses not allocated and direct expenses of a corporate or support nature are reported under the "Other Business Units" segment.

As at and for the three months ended:	Personal and Business Financial Services	Corporate Financial Services	Investor Services	Other Business Units*	Total
<b>June 30, 2007</b>					
Net interest income	\$ 111,050	\$ 18,696	\$ 1,332	\$ 27,807	\$ 158,885
Other income	32,773	4,574	9,650	1,285	48,282
Total operating revenues	143,823	23,270	10,982	29,092	207,167
Provision for (recovery of) credit losses	4,028	3,890	-	(1,321)	6,597
Non-interest expenses	102,934	6,336	11,162	15,642	136,074
Net income (loss)	\$ 36,861	\$ 13,044	\$ (180)	\$ 14,771	\$ 64,496
Total assets	\$ 14,134,925	\$ 3,549,416	\$ 4,092	\$ 3,753,167	\$ 21,441,600
Total liabilities	\$ 14,502,925	\$ 1,867,356	\$ 489,780	\$ 2,915,908	\$ 19,775,969
<b>March 31, 2007</b>					
Net interest income	\$ 106,222	\$ 17,462	\$ 1,948	\$ 20,454	\$ 146,086
Other income	30,650	3,447	8,458	7,309	49,864
Total operating revenues	136,872	20,909	10,406	27,763	195,950
Provision for (recovery of) credit losses	5,393	7,089	-	(1,229)	11,253
Non-interest expenses	103,799	5,754	11,159	14,758	135,470
Net income (loss)	\$ 27,680	\$ 8,066	\$ (753)	\$ 14,234	\$ 49,227
Total assets	\$ 13,645,926	\$ 3,454,594	\$ 2,800	\$ 3,191,398	\$ 20,294,718
Total liabilities	\$ 13,974,317	\$ 1,875,709	\$ 436,294	\$ 2,385,015	\$ 18,671,335
<b>June 30, 2006</b>					
Net interest income	\$ 101,636	\$ 13,690	\$ 1,000	\$ 17,806	\$ 134,132
Other income	28,277	3,744	6,251	4,141	42,413
Total operating revenues	129,913	17,434	7,251	21,947	176,548
Provision for (recovery of) credit losses	2,098	1,914	-	(2,653)	1,359
Non-interest expenses	91,254	4,129	7,897	9,848	113,128
Net income (loss)	\$ 36,561	\$ 11,391	\$ (646)	\$ 14,752	\$ 62,058
Total assets	\$ 12,653,677	\$ 2,592,388	\$ 2,010	\$ 3,545,815	\$ 18,793,890
Total liabilities	\$ 13,533,112	\$ 1,739,535	\$ 282,285	\$ 1,827,905	\$ 17,382,837

\* Comprised of business units of a corporate nature such as investments, risk management, asset liability management and treasury operations, as well as expenses, general allowances and recoveries for credit losses not expressly attributed to any line of business.

## 8. Comparative amounts

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

### Caution regarding forward-looking statements

This report may include forward-looking statements. ATB Financial from time to time may make forward-looking statements in other written or verbal communications. These statements may involve, but are not limited to, comments relating to ATB's objectives or targets for the short and medium term, strategies or actions planned to achieve those objectives, targeted and expected financial results and the outlook for operations or the Alberta economy. Forward-looking statements typically use the words "anticipate," "believe," "estimate," "expect," "intend," "may," "plan," or other similar expressions or future or conditional verbs such as "could," "should," "would," or "will."

By their very nature, forward-looking statements require ATB's management to make numerous assumptions and are subject to inherent risks and uncertainties, both general and specific. A number of factors could cause actual future results, conditions, actions, or events to differ materially from the targets, expectations, estimates, or intentions expressed in the forward-looking statements. Such factors include, but are not limited to: changes in legislative or regulatory environment; changes in ATB's markets; technological changes; changes in general economic conditions, including fluctuations in interest rates, currency values and liquidity conditions; and other developments, including the degree to which ATB anticipates and successfully manages the risks implied by such factors.

ATB cautions readers that the aforementioned list is not exhaustive. Anyone reading and relying on forward-looking statements should carefully consider these and other factors that could potentially have an adverse affect on ATB's future results, as there is a significant risk that forward-looking statements will not prove to be accurate.

**Readers should not place undue reliance on forward-looking statements, as actual results may differ materially from plans, objectives and expectations.** ATB does not undertake to update any forward-looking statement contained in this report.

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## Management's Discussion and Analysis

(Unaudited)

### Net Income

ATB Financial reported net income for its first quarter ended June 30, 2007 of \$64.5 million compared to \$49.2 million for the previous quarter and \$62.1 million for the first quarter last year. This represents a \$15.3 million or 31.02 per cent increase from the previous quarter's net income and an increase from last year's first quarter net income of \$2.4 million or 3.93 per cent.

The increase in net income over the previous quarter is largely due to an increase in operating revenues of \$11.2 million, together with a reduction in credit losses of \$4.7 million. Non-interest expenses remained largely flat quarter-on-quarter.

The increase in net income compared to the same quarter last year is due to an increase of \$30.6 million in operating revenues, offset by an increase of \$5.2 million in the provision for credit losses and an increase of \$22.9 million in non-interest expenses.

The results for the current quarter reflect the implementation of the new Financial Instruments standards as discussed in Note 2 to the Interim Consolidated Financial Statements. The standards have been implemented prospectively and therefore comparatives have not been restated.

### Net Interest Income

ATB's net interest income was \$158.9 million for the first quarter ended June 30, 2007, an increase of \$12.8 million or 8.76 per cent compared to the previous quarter, and \$24.8 million or 18.45 per cent compared to the first quarter of last fiscal year. This was due to growth in average interest-earning assets of \$631.4 million, and an increase in spread of thirteen basis points. Of this increase, \$8.7 million arose as a result of the new Financial Instruments standards that became effective this quarter (refer to Note 2). Excluding the impact of Financial Instruments, spread would have declined by four basis points, due primarily to the impact of declining loan yields only partially offset by the impact of rising deposit yields.

ATB's net interest income has increased significantly year-over-year, largely driven by an increase in average interest-earning assets of \$2.5 billion.

### Other Income

Other income totaled \$48.3 million for the first quarter ended June 30, 2007, a decrease of \$1.6 million compared to last quarter. Decreases in insurance, credit fees, and service charges were partially offset by increases in sundry other income, investor services, card fees and foreign

exchange. This quarter also saw a number of non-recurring gains, which are included in sundry other income. Losses on derivative financial instruments, reflecting the new accounting standards for Financial Instruments (refer to Note 2), further reduced other income by \$1.4 million this quarter.

Other income increased by \$5.9 million or 13.84 per cent compared to the first quarter last year, with increases in every major reporting category (with the exception of credit fees which decreased by \$3.2 million). Revenues from the Investor Services portfolio grew by \$3.4 million or 54.73 per cent, reflecting strong year-over-year growth in this line of business. 'Sundry' other income increased year-over-year by \$2.5 million (the majority of which is considered to be non-recurring), card fees increased by \$1.9 million and insurance by \$1.1 million.

### Provision for Credit Losses

Results for the quarter ended June 30, 2007 include a \$6.6 million net provision for credit losses, compared to a \$11.3 million net provision last quarter and a \$1.4 million net provision in the first quarter last year.

The general loan loss expense for the quarter was \$6.4 million compared to an expense of \$9.8 million last quarter and a \$2.9 million expense for the same quarter last year.

The net specific loan loss provision was \$0.2 million this quarter, compared to an expense of \$1.5 million last quarter and a recovery of \$1.5 million in the same quarter last year.

Total specific and general allowances for credit losses exceeded gross impaired loans by \$116.4 million at June 30, 2007 compared to \$107.1 million last quarter and \$105.0 million a year ago. Loan quality remains strong, with less than one per cent of our total gross loan portfolio classified as impaired at the end of the current quarter.

### Non-Interest Expenses

Non-interest expenses were \$136.1 million for the first quarter ended June 30, 2007, an increase of \$0.6 million or 0.45 per cent compared to the prior quarter, and an increase of \$22.9 million or 20.28 per cent compared to the first quarter last year.

The increase from the previous quarter was primarily due to a significant increase in associate compensation costs and data processing costs, largely offset by decreased expenditure on 'other' non-interest expenses, and professional and consulting costs. Compared to the first quarter last year, non-interest expenses increased across

almost all lines, with the majority relating to associate compensation. This reflects both an increase in the number of associates as well as rising salary costs.

ATB's efficiency ratio, expressed as the ratio of non-interest expenses to operating revenue (net interest income before loss provisions plus other income), was 65.68 per cent this quarter. This represents an improvement from 69.13 per cent for the prior quarter and deterioration from 64.08 per cent for the first quarter last year.

## Balance Sheet and Changes in Equity

ATB's total assets were \$21.44 billion at June 30, 2007, an increase of 5.65 per cent from \$20.29 billion at March 31, 2007 and 14.09 per cent from \$18.79 billion at June 30, 2006. Total loans, net of allowance for loan losses, increased by \$706.9 million or 4.16 per cent compared to the previous quarter and by \$2.39 billion or 15.64 per cent compared to the first quarter last year. Total deposits increased by \$1.05 billion or 5.75 per cent compared to the prior quarter and by \$2.33 billion or 13.74 per cent compared to the end of quarter one last year.

A new line of equity, accumulated other comprehensive income, is presented on the interim consolidated balance sheet. This also results from the Financial Instruments implementation (refer to Note 2), and stands at negative \$12.2 million at the end of the quarter.

ATB's total equity as at June 30, 2007 is \$1.67 billion, up by \$42.2 million from the end of the prior quarter and up \$254.6 million from a year ago.

## Asset Backed Commercial Paper

As of August 24, ATB Financial held \$945 million of non-bank asset backed commercial paper. As also announced on that date, we acquired an additional \$255 million of these investments through an exchange of ATB Money Market investments held through our Investor Services subsidiaries. These \$1.2 billion of assets are now held in our corporate investment portfolio.

As is the case with other institutional investors and financial institutions, ATB Financial invests a portion of our assets in investment grade (R1-high) instruments for short-term liquidity purposes. Recent market instability has brought the liquidity of this particular category of non-bank asset backed commercial paper into question. We continue to have confidence in the quality of the underlying assets and cash flows. ATB Financial, as a signatory to the "Montreal Accord", will participate actively in ensuring an orderly restructuring of these assets to longer-term financial instruments.

While the short-term liquidity of these investments has been affected, ATB maintains a strong liquidity position and the re-categorization of these assets will not affect our ability to maintain and increase our growth in the province.

## Segmented Information

On a segmented basis, total assets for Personal and Business Financial Services increased by \$489.0 million or 3.58 per cent during the first quarter and by \$1.48 billion or 11.71 per cent from a year ago. Total assets for Corporate Financial Services increased in the quarter by \$94.8 million or 2.74 per cent and by \$957.0 million or 36.92 per cent from a year ago. Investor Services' assets under management and administration grew to \$3.95 billion at June 30, 2007, an increase of \$228.7 million or 6.15 per cent from March 31, 2007 and a \$1.33 billion or 50.62 per cent increase from June 30, 2006.

Operating revenues increased across all lines of business this quarter, and this combined with a reduction in the credit loss provision, resulted in improvements to net income across all the lines of business.

The impact of the implementation of the new Financial Instruments standards is included within Other Business Units.

## Highlights

(unaudited)

	For the three months ended		
	June 30 2007	March 31 2007	June 30 2006
<b>Operating results</b> (\$ in thousands)			
Interest income	\$ 302,346	\$ 280,919	\$ 249,956
Interest expense	143,461	134,833	115,824
Net interest income	158,885	146,086	134,132
Other Income	48,282	49,864	42,413
Total operating revenues	207,167	195,950	176,545
Provision for credit losses	6,597	11,253	1,359
Non-interest expenses	136,074	135,470	113,128
Net income	\$ 64,496	\$ 49,227	\$ 62,058

### Financial position (\$ in thousands)

Total loans, net of allowance for losses	\$ 17,701,205	\$ 16,994,329	\$ 15,306,948
Total assets	\$ 21,441,600	\$ 20,294,718	\$ 18,793,890
Total deposits	\$ 19,301,667	\$ 18,252,838	\$ 16,970,681
Equity	\$ 1,665,631	\$ 1,623,383	\$ 1,411,053

### Key Performance Measures (in per cent)

Operating revenue growth*	17.35	14.63	22.75
Net interest margin**	3.07	2.95	2.96
Net interest spread on average earning assets**	3.14	3.01	3.02
Other income to operating revenue	23.31	25.45	24.02
Non-interest expenses to operating revenue	65.68	69.13	64.08
Return on average assets**	1.25	0.99	1.37
Operating expense growth*	20.28	12.34	16.24
Net impaired loans to total gross loans	(0.65)	(0.62)	(0.67)
Credit losses to average loans**	0.15	0.27	0.04
Loan growth*	15.64	14.47	12.23
Deposit growth*	13.74	15.01	17.07
Asset growth*	14.09	15.00	16.79

\* Growth percentage calculated over comparable prior year period.

\*\* Measure calculated as an annualised average over the period.

*Prior period comparatives have not been restated to reflect the impact of Financial Instruments*

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