

### Financial Highlights

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

- \* Net income of \$43.1 million, down 37.74 per cent, due to \$29.3 million ABCP provision
- \* Total assets of \$22.9 billion, up 15.67 per cent.
- \* Net loans of \$18.9 billion, up 14.39 per cent.
- \* Deposits (excluding wholesale deposits) of \$17.5 billion, up 8.18 per cent.
- \* Investor Services assets under administration and management of \$4.0 billion, up 16.80 per cent.
- \* Operating revenue of \$181.4 million, down 6.08 per cent.
- \* Efficiency ratio (non-interest expenses as a percentage of operating revenues) increased to 63.22 per cent from 63.00 per cent, excluding all ABCP-related provisions.

## ATB Announces Positive Operating Results Additional Provisions Taken For Asset-Backed Commercial Paper

**Edmonton – February 25, 2008** – ATB Financial reported third quarter earnings of \$43.1 million for the period ending December 31, 2007 – down 37.74 per cent from the prior year. This reduction is a result of a \$29.3 million provision for potential losses on third-party asset-backed commercial paper (“ABCP”). ATB’s “core” operating results (i.e. excluding the ABCP provision) for the quarter were \$3.2 million higher than the prior year.

“Although the restructuring process under the Montreal Accord continues to make good progress, with an agreement in principle in place and an expectation that the restructuring will be substantially complete by March 31, 2008, we have determined that an additional provision against our current ABCP holdings is required” said Dave Mowat, President and CEO of ATB Financial. “As the restructuring process evolves, we continue to analyze more details regarding the expected outcome and other detailed information on which to base our valuation. This information is not complete, but with what we know, we have determined that it is prudent to record an additional provision this quarter of \$29.3 million. This increases ATB’s total provision from 6.9 per cent of our holdings of impacted ABCP at September 30, 2007 to 10.2 per cent at December 31, 2007.

Our expectation is that the restructuring will succeed – but the question is still at what ultimate cost to investors. In December 2007, our holdings of \$91.9

million in Skeena Capital Trust were successfully restructured with a net write-down of \$0.6 million – or 0.69 per cent.”

“Notwithstanding the challenge of ABCP, we remain focused on ATB Financial’s key business – and are pleased to report that despite the additional provision this quarter, we generated net income of \$43.1 million, with both loan and deposit growth exceeding that experienced last year at this time.”

### Personal & Business Financial Services (PBFS)

This line of business saw loan growth in the third quarter of \$528.7 million (or 3.58 per cent), which compares favorably to growth of \$345.3 million (or 2.63 per cent) in the third quarter last year. Deposit growth of \$97.9 million (or 0.67 per cent) was also up from a decline in the third quarter last year of \$56.0 million (or 0.41 per cent).

Operating revenue increased from the third quarter last year by \$14.5 million or 10.59 per cent.

### Branch Network

ATB Financial continues to invest in its branch network throughout the province. At the end of the third quarter, four branches were under construction in Edmonton, Calgary, Fort McMurray, and Grande Prairie.

## **ATB Investor Services (ATBIS)**

ATBIS assets under administration and management reduced slightly during the quarter to just under \$4.0 billion. This decrease was a result of a general stock market decline. Overall, ATBIS continues to perform well compared to its peers, with growth of 16.8 per cent in the 2007 calendar year versus industry growth of 6.0 per cent.

During the quarter, ATBIS celebrated its fifth year offering the Compass Portfolio funds.

## **Corporate Financial Services (CFS)**

CFS represents three sub-lines of business – Energy, Commercial, and Food & Forestry. The third quarter saw deposit growth of \$94.7 million (or 4.88 per cent) which compares to the \$121.1 million (or 7.23 per cent) increase in deposits in the third quarter of the prior year.

Loan balances increased in the third quarter by \$159.1 million (or 4.48 per cent), exceeding growth of \$136.9 million (or 4.61 per cent) in the third quarter last year.

Operating revenue of \$25.4 million in the third quarter represents an improvement over operating revenue of \$20.5 million generated in the third quarter of the prior year.

## **Asset Backed Commercial Paper**

As announced on August 24, 2007, ATB held \$1.2 billion of third-party- or non-bank-sponsored asset backed commercial paper (“ABCP”) in its corporate investment portfolio. The Canadian market for third-party-sponsored ABCP suffered a liquidity disruption in mid-August 2007, following which a group of financial institutions and other parties agreed, pursuant to the Montreal Accord (the “Accord”), to a standstill period in respect of ABCP sold by twenty-three conduit issuers. A Pan-Canadian Investors Committee (“Investors Committee”) was subsequently established to oversee the orderly restructuring of these instruments during this standstill period. ATB is a signatory to the Accord, a member of the Investors Committee, and continues to actively support the restructuring process.

On December 23, 2007, the Investors Committee announced that an agreement in principle had been reached to restructure the subject ABCP – whereby the ABCP notes held by ATB and other investors will be exchanged for longer-term notes that will more closely match the maturity dates of the underlying assets. Detailed negotiations to finalize the agreement in principle are underway. The final

agreement is subject to the approval of investors and various other parties. The Investors Committee currently anticipates that the restructuring will be substantially completed by March 31, 2008.

As of December 31, 2007, ATB held a variety of investments in ABCP totaling \$1.1 billion. Of these holdings, investments in eleven conduits amounting to \$1.0 billion are subject to the Montreal Accord (September 30, 2007: \$1.1 billion). ATB’s investment of \$91.9 million in ABCP notes issued by Skeena Capital Trust was successfully restructured in December 2007. ATB received a combination of cash and a long-term floating-rate note issued by a successor trust in exchange for its holdings in Skeena Capital Trust, and recognized a net loss of \$0.6 million from this restructuring.

In the absence of an active market for third-party-sponsored ABCP during the standstill period, ATB has estimated the fair value of these assets as at December 31, 2007 using an internal valuation model. The valuation model incorporates management’s updated best estimates of credit risk attributable to underlying assets, the net discounted cash flows ATB expects to earn from those assets, the relevant market discount rate for such investments, and assumptions regarding the likelihood that the restructuring process will proceed as outlined by the Investors Committee. ATB had recorded a \$77.6 million provision for losses (together with a \$2.0 million provision for expected restructuring costs) as at September 30, 2007, reflecting our then best estimate of the reduction in the fair value of these investments as at that date. ATB has since updated its valuation model to reflect its understanding of additional details of the restructuring agreement in principle together with updated asset- and market-related information. As at December 31, 2007, ATB has recognized an additional provision of \$29.3 million to reflect our best estimate of the fair value of these assets. This brings the total cumulative provision to \$106.3 million (or 10.2 per cent of our impacted holdings, including accrued interest).

It must be emphasized that ATB’s estimate of the fair value of the third-party-sponsored ABCP investments as at December 31, 2007 is subject to significant uncertainty, especially with regards to critical assumptions underlying our valuation model. The eventual resolution of these uncertainties could be such that the ultimate fair value of these investments may vary significantly from management’s current best estimate and the magnitude of any such difference could be material to our financial results.

To ensure ATB maintained its strong liquidity position following the ABCP market disruption, additional investments were promptly made in other liquid assets, funded through the issuance of short- and mid-term notes. We have continued to maintain our strong liquidity position. The liquidity disruption in the Canadian market for third-party-sponsored ABCP has had no other significant impact on ATB's operations or financial position. Under the current restructuring proposal, ATB's holdings in eleven conduits will be combined into three new investments and the magnitude of one investment would exceed ATB's current regulatory limits. ATB is currently working with the Government of Alberta to resolve this matter.

### **ATB in the Community**

The ATB Financial United Way Campaign is an annual province-wide fundraising initiative and supports the ten United Way regional agencies across Alberta. Once again, associates came together to raise money through a number of activities and their own generous donations. Those efforts, combined with the 50 per cent corporate matching program, resulted in donations of over \$600,000.

In December, Edmonton and area associates organized a number of activities to support the Christmas Bureau. The Christmas Bureau is Edmonton's longest serving not-for-profit organization and provides a meal and gifts for those in the community that would not otherwise be able to celebrate the holiday season. This year ATB associates were able to raise over \$47,000. ATB's associate volunteer program, Community Stars, was established to recognize our associates who are actively involved as volunteers in their community. ATB makes a \$200 donation to the not-for-profit organizations that are important to our associates. During the third quarter, cheques were provided on behalf of 45 associates.

### **Economic Review & Outlook**

Half way through the first quarter of 2008, Alberta's economy remains healthy. Nonetheless, the risks associated with a slowing North American economy have heightened and are tempering growth expectations in Alberta.

Since last quarter, economic and financial conditions in the US have deteriorated markedly. On January 22, 2008 – a full week prior to its expected announcement date – the US Federal Reserve reduced its trend-setting "fed funds" rate by 75 basis points to 3.50 per cent; it reduced the rate by another 50 basis points the following week to 3.0 per cent.

These cuts were made in response to the significant write-downs and associated losses at financial institutions, the extreme volatility in the stock markets, and the concern of a looming recession in the US. The Bank of Canada also lowered its overnight lending rate by 25 basis points to 4.00 per cent on January 22, 2008.

The major story of the fourth quarter of 2007 was the rise in value of the Canadian dollar. Since falling back from its high point in November, the dollar has stabilized and remains close to parity. Sales of gas, beef, forest products, crude oil, and tourism services continue to be negatively impacted by the higher Canadian dollar.

ATB Financial's Business Sentiments Index™ ("BSI") for the first quarter of 2008 stands at 124.7. This is down noticeably from a level of 149.7 in Q1 2006 and 140.2 in Q1 2007. In this latest survey, the BSI for Northern Alberta was 130.0, compared with 119.0 for Southern Alberta. This regional spread continues a pattern that first became evident last summer.

Despite these setbacks, Alberta's economy is still healthy. Housing prices in Edmonton and Calgary – which had been declining in the fall – appear to have stabilized in January. Inflation was 3.6 per cent in January, and the most recent employment figures show that the labour market remains very tight. It is still expected that Alberta's real GDP will be among the fastest growing in the country in 2008, with growth in the range of 3.0 to 3.5 per cent.



Bob Splane  
Chairman of the Board



Dave Mowat  
President & CEO

## Interim Consolidated Balance Sheet

(unaudited)

(\$ in thousands)	As at Dec 31 2007	As at Sep 30 2007	As at Jun 30 2007	As at Dec 31 2006
<b>Assets</b>				
<b>Cash resources</b>				
Cash	\$ 93,154	\$ 66,103	\$ 166,256	\$ 75,316
Interest-bearing deposits with financial institutions	2,014,323	2,189,596	1,134,486	1,073,627
	<u>2,107,477</u>	<u>2,255,699</u>	<u>1,300,742</u>	<u>1,148,943</u>
<b>Securities (Note 3)</b>	<b>1,424,815</b>	<b>1,412,133</b>	<b>1,846,546</b>	<b>1,755,407</b>
<b>Loans</b>				
Residential mortgage	7,629,365	7,432,414	7,187,222	6,789,255
Business	7,092,829	6,869,088	6,891,501	6,564,927
Personal	3,855,138	3,628,745	3,379,551	2,918,954
Credit card	453,267	417,806	402,560	366,570
Allowance for credit losses (Note 4)	(161,035)	(157,064)	(159,629)	(143,303)
	<u>18,869,564</u>	<u>18,190,989</u>	<u>17,701,205</u>	<u>16,496,403</u>
<b>Other</b>				
Premises and equipment	193,629	183,243	180,949	164,569
Derivative financial instruments (Note 5)	74,667	99,902	98,000	23,977
Other assets	270,993	311,337	314,158	243,459
	<u>539,289</u>	<u>594,482</u>	<u>593,107</u>	<u>432,005</u>
	<b>\$ 22,941,145</b>	<b>\$ 22,453,303</b>	<b>\$ 21,441,600</b>	<b>\$ 19,832,758</b>
<b>Liabilities and Equity</b>				
<b>Deposits</b>				
Personal	\$ 9,486,877	\$ 9,353,166	\$ 9,279,148	\$ 9,045,680
Business and other	8,008,905	8,046,296	7,882,596	7,127,483
Wholesale	3,149,044	2,821,569	2,139,923	1,631,834
	<u>20,644,826</u>	<u>20,221,031</u>	<u>19,301,667</u>	<u>17,804,997</u>
<b>Other liabilities</b>				
Other liabilities	386,828	372,207	306,712	370,184
Derivative financial instruments (Note 5)	103,532	107,011	110,581	11,179
	<u>490,360</u>	<u>479,218</u>	<u>417,293</u>	<u>381,363</u>
<b>Subordinated debentures</b>	<b>72,998</b>	<b>72,998</b>	<b>57,009</b>	<b>72,242</b>
<b>Equity</b>				
Retained earnings	1,729,471	1,686,399	1,677,852	1,574,156
Accumulated other comprehensive income (loss)	3,490	(6,343)	(12,221)	-
	<u>1,732,961</u>	<u>1,680,056</u>	<u>1,665,631</u>	<u>1,574,156</u>
	<b>\$ 22,941,145</b>	<b>\$ 22,453,303</b>	<b>\$ 21,441,600</b>	<b>\$ 19,832,758</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			For the nine months ended	
	Dec 31 2007	Sep 30 2007	Dec 31 2006	Dec 31 2007	Dec 31 2006
<b>Interest income</b>					
Loans	\$ 299,491	\$ 291,440	\$ 249,609	\$ 862,047	\$ 710,580
Deposits with financial institutions	24,333	18,010	11,571	54,815	34,357
Securities	15,401	21,383	18,407	55,542	52,426
	<u>339,225</u>	<u>330,833</u>	<u>279,587</u>	<u>972,404</u>	<u>797,363</u>
<b>Interest expense</b>					
Deposits	173,720	161,227	130,211	477,582	369,135
Subordinated debentures	783	782	826	2,391	2,509
	<u>174,503</u>	<u>162,009</u>	<u>131,037</u>	<u>479,973</u>	<u>371,644</u>
<b>Net interest income</b>	<u>164,722</u>	<u>168,824</u>	<u>148,550</u>	<u>492,431</u>	<u>425,719</u>
<b>Other income</b>					
Service charges	17,027	17,302	16,396	51,562	49,774
Card fees	9,518	9,246	7,299	26,988	20,483
Investor services	9,163	10,066	7,364	28,728	20,176
Foreign exchange	3,798	2,837	2,457	9,138	6,405
Insurance	3,440	3,598	2,508	9,398	6,203
Credit fees	2,001	2,332	7,240	9,008	23,330
Gains (losses) on derivative financial instruments	582	934	1,072	860	968
Sundry	447	64	260	4,955	2,458
Provision for loss on third-party-sponsored ABCP (Note 3)	(29,300)	(77,600)	-	(106,900)	-
	<u>16,676</u>	<u>(31,221)</u>	<u>44,596</u>	<u>33,737</u>	<u>129,797</u>
<b>Total operating revenues</b>	<u>181,398</u>	<u>137,603</u>	<u>193,146</u>	<u>526,168</u>	<u>555,516</u>
<b>Provision for (recovery of) credit losses</b>	<u>5,113</u>	<u>(1,434)</u>	<u>2,285</u>	<u>10,276</u>	<u>(16,464)</u>
<b>Non-interest expenses</b>					
Human resources (Note 7)	70,002	73,005	65,814	218,403	189,583
Data processing	16,706	16,939	16,306	50,397	44,443
Premises and occupancy, including amortization	11,580	11,814	10,374	35,261	31,112
Marketing and supplies	7,804	6,214	4,704	20,333	13,267
Professional and consulting costs	5,683	7,739	6,504	20,063	17,453
Equipment and software, including amortization	5,622	5,857	5,113	16,954	15,153
Deposit guarantee fee	4,923	4,395	3,324	13,713	9,895
Communication	4,673	4,213	3,656	13,137	10,803
Other	3,809	(2,012)	3,782	4,563	9,019
ATB Agencies	2,411	2,326	2,100	6,953	6,091
	<u>133,213</u>	<u>130,490</u>	<u>121,677</u>	<u>399,777</u>	<u>346,819</u>
<b>Net income</b>	<u>\$ 43,072</u>	<u>\$ 8,547</u>	<u>\$ 69,184</u>	<u>\$ 116,115</u>	<u>\$ 225,161</u>

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 September 30, 2007</b>	<b>\$ 1,686,399</b>	<b>\$ (6,343)</b>	<b>\$ 1,680,056</b>
<b>Net income for the three months ended December 31, 2007</b>	<b>43,072</b>	<b>-</b>	<b>43,072</b>
<b>Other comprehensive income (loss) for the three months ended December 31, 2007:</b>			
Change in unrealized gains and (losses) on available-for-sale securities and deposits with financial institutions, net of cash flow hedges	-	54	54
Reclassification to earnings in respect of available-for-sale securities and deposits with financial institutions	-	(3)	(3)
Changes in gains and (losses) on derivative financial instruments designated as cash flow hedges	-	4,296	4,296
Reclassification to earnings of gains and (losses) on cash flow hedges	-	5,486	5,486
	<b>-</b>	<b>9,833</b>	<b>9,833</b>
<b>Comprehensive income for the three months ended December 31, 2007</b>			<b>52,905</b>
<b>Equity as at December 31, 2007</b>	<b>\$ 1,729,471</b>	<b>\$ 3,490</b>	<b>\$ 1,732,961</b>

(\$ in thousands)	Retained earnings	Accumulated other comprehensive income (loss)	Total equity
<b>Equity as at September 30, 2006</b>	<b>\$ 1,504,972</b>	<b>\$ -</b>	<b>\$ 1,504,972</b>
<b>Net income for the three months ended December 31, 2006</b>	<b>69,184</b>	<b>-</b>	<b>69,184</b>
<b>Equity as at December 31, 2006</b>	<b>\$ 1,574,156</b>	<b>\$ -</b>	<b>\$ 1,574,156</b>

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

## Interim Consolidated Statement of Changes in Equity (continued) (unaudited)

(\$ in thousands)	Retained earnings	Accumulated other comprehensive income (loss)	Total equity
Equity as at March 31, 2007	\$ 1,623,383	\$ -	\$ 1,623,383
Transition adjustment on adoption of new Financial Instruments accounting standards effective April 1, 2007: (Note 2)	(10,027)	3,461	(6,566)
Adjusted balance as at April 1, 2007	1,613,356	3,461	1,616,817
Net income for the nine months ended December 31, 2007	116,115	-	116,115
<b>Other comprehensive income (loss) for the nine months ended December 31, 2007:</b>			
Change in unrealized gains and (losses) on available-for-sale securities and deposits with financial institutions, net of cash flow hedges	-	(321)	(321)
Reclassification to earnings in respect of available-for-sale securities and deposits with financial institutions	-	(3)	(3)
Changes in gains and (losses) on derivative financial instruments designated as cash flow hedges	-	(5,146)	(5,146)
Reclassification to earnings of gains and (losses) on cash flow hedges	-	5,499	5,499
	-	29	29
<b>Comprehensive income for the nine months ended December 31, 2007</b>			<b>116,144</b>
Equity as at December 31, 2007	\$ 1,729,471	\$ 3,490	\$ 1,732,961
(\$ in thousands)	Retained earnings	Accumulated other comprehensive income (loss)	Total Equity
Equity as at March 31, 2006	\$ 1,348,995	\$ -	\$ 1,348,995
Net income for the nine months ended December 31, 2006	225,161	-	225,161
Equity as at December 31, 2006	\$ 1,574,156	\$ -	\$ 1,574,156

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			For the nine months ended	
	Dec 31 2007	Sep 30 2007	Dec 31 2006	Dec 31 2007	Dec 31 2006
<b>Cash flows from operating activities</b>					
Net income	\$ 43,072	\$ 8,547	\$ 69,184	\$ 116,115	\$ 225,161
Adjustments to determine net cash flows:					
Provision for (recovery of) credit losses	5,113	(1,434)	2,285	10,276	(16,464)
Amortization	7,950	8,398	7,198	24,440	21,786
Net changes in accrued interest receivable and payable	(10,186)	(6,619)	(4,008)	(21,182)	8,081
Net changes in derivative financial instruments	31,539	20,055	7,820	51,535	13,368
Other items, net	96,735	128,555	87,954	223,632	(33,382)
Net cash provided by operating activities	<u>174,223</u>	<u>157,502</u>	<u>170,433</u>	<u>404,816</u>	<u>218,550</u>
<b>Cash flows from financing activities</b>					
Net change in deposits	424,193	917,347	410,830	2,404,534	1,934,689
Repayment of subordinated debentures	-	-	-	(15,234)	(12,738)
Issuance of subordinated debentures	-	15,990	-	15,990	13,401
Net cash provided by financing activities	<u>424,193</u>	<u>933,337</u>	<u>410,830</u>	<u>2,405,290</u>	<u>1,935,352</u>
<b>Cash flows from investing activities</b>					
Net change in interest-bearing deposits with financial institutions	175,591	(1,055,266)	(93,387)	(996,629)	(96,956)
Purchase of investment securities	(2,629,727)	(3,029,079)	(4,588,653)	(10,503,688)	(13,525,057)
Proceeds from investment securities	2,587,504	3,385,604	4,513,421	10,657,003	13,151,094
Net change in loans	(686,397)	(481,559)	(472,609)	(1,911,247)	(1,633,245)
Net purchases of premises and equipment	(18,336)	(10,692)	(14,215)	(40,508)	(51,876)
Net cash used in investing activities	<u>(571,365)</u>	<u>(1,190,992)</u>	<u>(655,443)</u>	<u>(2,795,069)</u>	<u>(2,156,040)</u>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>27,051</b>	<b>(100,153)</b>	<b>(74,180)</b>	<b>15,037</b>	<b>(2,138)</b>
Cash and cash equivalents at beginning of period	66,103	166,256	149,496	78,117	77,454
<b>Cash and cash equivalents at end of period, represented by cash</b>	<b>\$ 93,154</b>	<b>\$ 66,103</b>	<b>\$ 75,316</b>	<b>\$ 93,154</b>	<b>\$ 75,316</b>
Supplementary cash flow information:					
Amount of interest paid during the period	\$ 182,004	\$ 148,313	\$ 152,365	\$ 478,714	\$ 343,349

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

## Notes to the Interim Consolidated Financial Statements

For the nine months ended December 31, 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 and Note 8.

### 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 interest-bearing deposits with financial institutions and securities denominated in foreign currencies as "held-for-trading" (or "HFT") as of April 1, 2007 and has maintained that classification through December 31, 2007. As at December 31, 2007 the total of this amount was \$250,444 (September 30, 2007: \$212,409, June 30, 2007: \$178,255, April 1, 2007: \$92,860).

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).

## 2. Changes in Accounting Policies (continued)

### **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 December 31, 2007 (or as of September 30, 2007, June 30, 2007 or April 1, 2007).

### **Available-for-sale**

ATB has classified interest-bearing deposits with financial institutions and most securities denominated in Canadian dollars as “available-for-sale” (or “AFS”) as of April 1, 2007 and has maintained that classification through December 31, 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 ordinarily recognized in income but are recognized in accumulated other comprehensive income (“AOCI”) until sale when the cumulative gain or loss on disposal is transferred to the Consolidated Statement of Income as other income. In the event of an “other than temporary” impairment in fair value, the cumulative change in fair value of the impaired asset is recognized in net income in the period of impairment. 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.

As of December 31, 2007 the total of this amount was \$35,499 (Nil for September 30, 2007, June 30, 2007, and April 1, 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.

## 2. Changes in Accounting Policies (continued)

### **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.

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 and subsequent to 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 and subsequent to April 1, 2007, any such embedded derivatives 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(s), 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 was recognized in opening retained earnings on the transition date.

## 2. Changes in Accounting Policies (continued)

### 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 income. Any such amounts recognized in AOCI are reclassified from other comprehensive income into net income in the same period that 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 was recognized in AOCI and that portion of the unrealized gain or loss attributable to the ineffective portion was 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 December 31, 2007 (and as of September 30, 2007, June 30, 2007, and April 1, 2007) is disclosed in Note 5.

### 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 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 December 31, 2007 (or as of September 30, 2007, June 30, 2007, or April 1, 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 and interest-bearing deposits with financial institutions 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 Consolidated Statement of Income and reflected in net income as gains or losses once securities and interest-bearing deposits with financial institutions 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 AOCI. The cumulative amount of other comprehensive income recognized, AOCI, represents a new component of equity on the Consolidated Balance Sheet.

**2. Changes in Accounting Policies** (continued)

**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)	-
	\$	52,576	\$	59,142	\$	(10,027)
						3,461

**3. Securities**

Securities consist of investments in commercial paper and debt securities issued by the federal and provincial governments and investment grade banks. All debt securities held are purchased with the intention to hold them to maturity, or until market conditions render alternative investments more attractive. The carrying value of securities, by remaining term to maturity and net of valuation provisions, is as follows:

	As at December 31, 2007				September 30, 2007	June 30, 2007	December 31, 2006
	Less than 1 year	From 1-5 years	Greater than 5 years	Total carrying value	Total carrying value	Total carrying value	Total carrying value
Issued or guaranteed by the							
Canadian federal government	\$ 160,490	\$ -	\$ -	\$ 160,490	\$ 159,820	\$ 159,990	\$ 110,911
Commercial paper							
Third-party-sponsored ABCP	57,484	-	963,036	1,020,520	1,143,019	1,139,409	1,374,967
Bank-sponsored ABCP	44,037	34,000	-	78,037	52,475	540,100	267,832
Corporate paper	160,695	-	-	160,695	51,922	983	998
Total commercial paper	262,216	34,000	963,036	1,259,252	1,247,416	1,680,492	1,643,797
Other	5,073	-	-	5,073	4,897	6,064	699
	\$ 427,779	\$ 34,000	\$ 963,036	\$ 1,424,815	\$ 1,412,133	\$ 1,846,546	\$ 1,755,407

The Canadian market for third-party- or non-bank-sponsored asset-backed commercial paper ("ABCP") suffered a liquidity disruption in mid-August 2007, following which a group of market participants, including major investors, banks, asset providers, dealers, and third-party sponsors, agreed to work collectively to restructure this market segment. As at December 31, 2007 ATB holds investments in such ABCP valued at \$1.0 billion as detailed in the table above. This agreement, which came to be known as the Montreal Accord (or the "Accord"), provided for a standstill period during which participating investors would not demand repayment of their ABCP investments as they matured and the commercial paper issuers would not make liquidity calls to their liquidity providers who, in turn, would not demand additional collateral from the issuers. Participants to the Accord also agreed in principle to the conversion of the ABCP notes into longer-term floating-rate notes ("FRNs") with maturities corresponding to those of the underlying assets. A Pan-Canadian Investors Committee ("Investors Committee") was subsequently established to oversee the orderly restructuring of these instruments during this standstill period. ATB is a signatory to the Accord, a member of the Investors Committee, and continues to actively support the restructuring process.

### 3. Securities (continued)

When these ABCP investments were originally purchased by ATB, Dominion Bond Rating Service (“DBRS”) had rated them (High), the highest credit rating issued for commercial paper, and they were backed by R1 (High) rated assets. Since the market disruption and the establishment of the Montreal Accord to the date of preparation of these statements (February 14, 2008), these investments have been rated R-1 (High – Under Review with Developing Implications).

On December 23, 2007, the Investors Committee announced a Framework Agreement (“Agreement”) for the proposed restructuring of 20 of the then 22 remaining trusts subject to the Accord. All trusts that ATB holds investments in are subject to this Agreement. While all parties involved in the negotiations have agreed to the latest Agreement in principle, the restructuring process is ongoing and, once finalized, the Agreement will be subject to the approval of the parties involved as well as any requisite governmental or regulatory authorities. The Committee’s expectation is that the restructuring transaction will be substantially completed by the end of March 2008.

#### **Skeena Capital Trust**

Skeena Capital Trust, one of the ABCP investments held by ATB that was subject to the Montreal Accord, was successfully restructured in December 2007. As had been anticipated, ATB received a combination of cash (\$55.7 million) and a long-term floating-rate note (\$34.8 million) issued by a successor trust in exchange for its holdings of \$91.9 million in the Skeena Capital Trust. The floating-rate note, with a rate of CDOR + 155 basis points and a nine year term, was recorded on initial recognition as a held to maturity investment at a fair value of \$35.5 million – resulting in a net loss on the Skeena Capital Trust of \$0.6 million, or 0.69 per cent of ATB’s original investment.

#### **Anticipated Restructuring**

The Agreement provides for different restructuring processes, depending on the type of assets securitized by the various ABCP notes: “traditional” assets only, such as trade receivables, credit card receivables, and residential mortgage backed securities; “synthetic” assets, comprised of leveraged super senior tranches of collateralized debt obligations (“CDOs”) together with traditional assets; and “ineligible” assets, backed primarily by U.S. sub prime mortgages. Refer to the table following the “valuation” heading for ATB’s holdings of each type of asset, including any related accrued interest.

Investors’ holdings of ABCP notes backed by traditional or ineligible assets will be restructured separately, but notes backed primarily by synthetic assets will be pooled with those of other investors into one of two new entities which the Investors Committee refers to as “Master Asset Partnerships” (or “MAP1” and “MAP2”). Other critical elements of the planned restructuring of these assets include renegotiation of the existing single-factor collateral triggers underlying the CDO agreements to utilize dual-factor “spread-loss” triggers (increasing transparency and decreasing the likelihood of collateral calls) and the establishment of additional margin facilities to further enhance the stability of the underlying assets and support the renegotiated triggers. ABCP note holders who participate in the MAP1 structure will self-insure the associated margin facility whereas the MAP2 structure will include a committed margin funding facility provided primarily by third parties.

Under its current regulatory framework, ATB Financial is restricted from making investments in a single entity in excess of 25 per cent of ATB’s capital. Under the terms of the current restructuring agreement in principle, ATB’s post-restructuring holdings in notes of a Master Asset Partnership would exceed that limit. ATB is currently working with the Government of Alberta to resolve this matter and is assuming a successful resolution for the purposes of the estimated valuation of the subject assets.

#### **Valuation**

In the continued absence of an active market for the third-party-sponsored ABCP subject to the Montreal Accord, ATB has estimated the fair value of these investments as at December 31, 2007 using a probability-weighted discounted cash flow valuation model. This model incorporates management’s best estimates of multiple factors, updated to reflect market-related and other additional information that has become available since the corresponding valuation as at September 30, 2007.

**3. Securities** (continued)

The inherent uncertainty due to the ongoing process of negotiations to implement the Framework Agreement has required management to make a number of key assumptions in modeling the estimated fair value of these ABCP investments. In particular, management has assumed a very high probability of success of the Montreal Accord under the terms outlined in the Agreement. ATB has also made a number of assumptions regarding the assets to be received following restructuring. It is assumed that the restructured traditional asset notes will be AAA rated FRNs (and generate a AAA yield) with a term to maturity of seven to nine years. The restructured pooled synthetic notes are expected to include CDOs with a term to maturity of between seven and nine years. These pooled synthetic notes are expected to consist of senior and subordinate FRNs – with the senior notes rated AAA and the subordinate notes being unrated. Management expects that the majority of notes received will be senior notes, based on the quality of ATB's current holdings subject to the Montreal Accord.

The valuation of the ineligible assets (primarily US sub prime assets) is based on the assumption that they will be issued as FRNs with a term to maturity of between seven and nine years. Management has assumed that these notes will generate a return similar to the traditional and synthetic notes except that, based on the nature of their underlying assets, there will be significant additional credit risk associated with these instruments.

In determining the estimated fair value of these ABCP investments, management has assumed that ATB will participate in MAP1 and has thus included a provision for the cost of capital attributable to the facility guarantee ATB expects to provide in support of the MAP1 margin funding facility. The valuation model does not contemplate any potential costs that would be incurred in the event ATB chooses to hedge any portion of this facility guarantee. The fair value of any such arrangement would be recognized as a liability (with a corresponding charge to net income) in the period that the arrangement is established. Depending on the terms and conditions arranged, the value of that liability (and the charge to net income) could be material to our financial results.

The valuation model also involves assumptions regarding the difference between the yield ATB expects to earn from the restructured FRNs and the appropriate market discount rate attributable to such investments. The estimated investment yields were determined based on available information. The estimated market discount rate was determined by reference to market rates for investment-grade investments and appropriate forward credit indices, then adjusted to include an estimated premium to reflect the expected lack of liquidity in the restructured FRNs together with the leveraged nature of the underlying assets. Management's best estimate from this exercise is that there will be a shortfall between the expected yield and expected discount rate for traditional and synthetic assets of nearly 90 basis points.

The valuation model also incorporates assumptions regarding the probability of success or failure of the restructuring process for each of the various assets or, in the event of such a failure, the probability of continued recovery of asset value by each trust separately, either as a going concern or by way of an orderly liquidation. The likelihood of a comprehensive failure of the Investors Committee to implement the restructuring pursuant to the Montreal Accord is considered to be remote. Other significant assumptions include the expected date of issuance of the restructured investments (currently anticipated as the March to April 2008 timeframe) and the repayment on restructuring of interest earned on the ABCP notes since the date of disruption at the original rate for each investment.

Based on this analysis (and as outlined in the following table), ATB has determined that an incremental fair value provision of \$29.3 million is required to adjust downward the carrying value of its third-party non-bank sponsored ABCP. This amount is in addition to the \$77.6 million provision that was recognized in the preceding second quarter. As was the case last quarter, this quarter's provision is considered to represent an "other than temporary" impairment in the value of these investments and has been reflected in our Interim Consolidated Statement of Income as a separate charge under the heading of other income.

### 3. Securities (continued)

As at December 31, 2007 (\$ in thousands)	Gross Investment (including Accrued Interest)	Estimated Fair Value	Provision	Provision Per cent
Traditional assets	\$ 76,602	\$ 71,934	\$ (4,668)	6.09%
Synthetic assets	954,259	860,680	(93,579)	9.81%
Ineligible assets	13,817	5,800	(8,017)	58.02%
	<b>\$ 1,044,678</b>	<b>\$ 938,414</b>	<b>\$ (106,264)</b>	<b>10.17%</b>
Less fair value provision as at September 30, 2007			(77,600)	
Less fair value provision attributable to Skeena Capital Trust			636	
<b>Incremental fair value provision as at December 31, 2007</b>			<b>\$ (29,300)</b>	

In addition to this fair value provision, ATB Financial accrued \$2.0 million in the second quarter for its estimated share of restructuring costs associated with the Montreal Accord. This provision is considered adequate and no additional provision for such expenditures has been recorded this quarter.

#### Measurement Uncertainty

The ongoing nature of the restructuring negotiations contributes to a lack of certainty with regards to the outcome of the restructuring process in general and the various details of the anticipated Master Asset Partnership structures in particular. This lack of certainty, in turn, contributes to significant measurement uncertainty in ATB's best estimate of the fair value of ATB's current ABCP investments. Since the eventual timing and amount of future cash flows attributable to these assets may vary significantly from management's current best estimates, it is possible that the ultimate fair value of these assets may vary significantly from current estimates and that the magnitude of any such difference could be material to our financial results.

#### Other

As at December 31, 2007, ATB holds \$1.1 billion of third-party-sponsored ABCP (or \$1.0 billion net of the \$106.3 million cumulative provisions for impairments in value). Of these holdings, \$57.5 million is not subject to the Montreal Accord and continues to earn and pay interest, and \$35.5 million represents the nine-year investment resulting from the restructuring of Skeena Capital Trust discussed earlier. The remaining \$927.5 million is subject to the Montreal Accord, is expected to be converted into longer-term instruments, and thus is presented as having a remaining term to maturity of greater than five years.

Of the total \$1.0 billion (net of provision) of third-party-sponsored ABCP held by ATB as at December 31, 2007, \$255.0 million were acquired through an exchange of ATB Money Market investments held through our Investor Services subsidiaries as of August 24, 2007. These assets were acquired at par value in exchange for cash and ATB term deposit certificates. The balance of our investments in third-party-sponsored ABCP was acquired prior to the mid-August market disruption through our short-term liquidity management program.

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#### 4. 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:

	Specific			General			Total		
	Dec 31 2007	Sep 30 2007	Dec 31 2006	Dec 31 2007	Sep 30 2007	Dec 31 2006	Dec 31 2007	Sep 30 2007	Dec 31 2006
<b>For the three months ended</b>									
Balance at beginning of the period	\$ 12,950	\$ 14,835	\$ 16,885	\$ 146,789	\$ 148,212	\$ 128,212	\$ 159,739	\$ 163,047	\$ 145,097
Write-offs	(2,266)	(3,099)	(2,678)	-	-	-	(2,266)	(3,099)	(2,678)
Recoveries	1,280	1,225	1,545	-	-	-	1,280	1,225	1,545
Provision for (recovery of) credit losses	6	(11)	(1,565)	5,107	(1,423)	3,850	5,113	(1,434)	2,285
Balance at end of the period	11,970	12,950	14,187	151,896	146,789	132,062	163,866	159,739	146,249
Less: Allowance for cost of credit recovery included in other liabilities	2,831	2,675	2,946	-	-	-	2,831	2,675	2,946
<b>Allowance for loan losses</b>	<b>\$ 9,139</b>	<b>\$ 10,275</b>	<b>\$ 11,241</b>	<b>\$ 151,896</b>	<b>\$ 146,789</b>	<b>\$ 132,062</b>	<b>\$ 161,035</b>	<b>\$ 157,064</b>	<b>\$ 143,303</b>
<b>For the nine months ended</b>									
Balance at beginning of the period	\$ 15,352		\$ 19,348	\$ 141,827		\$ 145,099	\$ 157,179		\$ 164,447
Write-offs	(7,601)		(5,812)	-		-	(7,601)		(5,812)
Recoveries	4,012		4,078	-		-	4,012		4,078
Provision for (recovery of) credit losses <sup>1</sup>	207		(3,427)	10,069		(13,037)	10,276		(16,464)
Balance at end of the period	11,970		14,187	151,896		132,062	163,866		146,249
Less: Allowance for cost of credit recovery included in other liabilities	2,831		2,946	-		-	2,831		2,946
<b>Allowance for loan losses</b>	<b>\$ 9,139</b>		<b>\$ 11,241</b>	<b>\$ 151,896</b>		<b>\$ 132,062</b>	<b>\$ 161,035</b>		<b>\$ 143,303</b>

<sup>1</sup> During the second quarter of the prior fiscal year, ATB implemented a refined methodology for establishing the level of its general loan loss allowance. This represented a change in estimate, was accounted for prospectively, and resulted in a one-time recovery of \$24.3 million.

#### 5. 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 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.

**5. Derivative Financial Instruments** (continued)

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 December 31, 2007			As at September 30, 2007			As at April 1, 2007		
	Notional amount	Assets	Liabilities	Notional amount	Assets	Liabilities	Notional amount	Assets	Liabilities
Corporate (non-trading) derivatives									
Cash flow hedges	\$ 3,005,146	\$ 8,974	\$ (8,481)	\$ 3,890,231	\$ 8,372	\$ (17,800)	\$ 3,838,853	\$ 5,494	\$ (2,460)
Other	329,705	53,824	-	387,633	81,761	-	375,183	74,811	-
Client (trading) derivatives	417,506	11,869	(11,636)	392,750	9,769	(9,622)	178,473	3,331	(3,246)
Embedded derivatives									
Equity-linked deposits	270,007	-	(82,885)	270,836	-	(78,419)	263,977	-	(75,969)
Other	126,184	-	(530)	127,503	-	(1,170)	118,500	-	(769)
	<b>\$ 4,148,548</b>	<b>\$ 74,667</b>	<b>\$ (103,532)</b>	<b>\$ 5,068,953</b>	<b>\$ 99,902</b>	<b>\$ (107,011)</b>	<b>\$ 4,774,986</b>	<b>\$ 83,636</b>	<b>\$ (82,444)</b>

**6. 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 due to changes in an underlying interest rate, foreign exchange rate, or other variable; (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 \$258,372 as at December 31, 2007 (September 30, 2007: \$241,229, June 30, 2007: \$215,575, December 31, 2006: \$199,074).
- 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 \$135,412 as at December 31, 2007 (September 30, 2007: \$261,576, June 30, 2007: \$10,994, December 31, 2006: \$5,985).
- c) Commodity forward contracts (discussed in Note 14 to the Consolidated Financial Statements for the year ended March 31, 2007) having notional principal amounts totaling \$282,094 as at December 31, 2007 (September 30, 2007: \$131,174, June 30, 2007: \$130,757, December 31, 2006: \$2,005).
- d) 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 of its subsidiaries to support the settlement of investment transactions with CDS.

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## 7. 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	December 31, 2007	September 30, 2007	December 31, 2006
Net pension benefit expense	\$ 3,191	\$ 5,388	\$ 5,081

For the nine months ended	December 31, 2007	December 31, 2006
Net pension benefit expense	\$ 13,655	\$ 15,221

## 8. 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 virtually 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 with the exception of Financial Instruments and ACG-4 related adjustments which are recorded at the Other Business Unit (Corporate) level only. As these lines of business are based on ATB's internal management structure, they may not be comparable to those of other financial institutions.

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.

8. Segmented Information (continued)

As at and for the three months ended:	Personal and Business Financial Services	Corporate Financial Services	Investor Services	Other Business Units*	Total
<b>December 31, 2007</b>					
Net interest income	\$ 121,226	\$ 19,820	\$ 1,834	\$ 21,842	\$ 164,722
Other income	30,683	5,545	9,907	(29,459)	16,676
Total operating revenues	151,909	25,365	11,741	(7,617)	181,398
Provision for (recovery of) credit losses	4,608	1,796	-	(1,291)	5,113
Non-interest expenses	106,192	6,575	10,842	9,604	133,213
Net income	\$ 41,109	\$ 16,994	\$ 899	\$ (15,930)	\$ 43,072
Total assets	\$ 15,403,494	\$ 3,759,311	\$ 2,984	\$ 3,775,356	\$ 22,941,145
Total liabilities	\$ 14,648,638	\$ 2,034,545	\$ 521,132	\$ 4,003,869	\$ 21,208,184
<b>September 30, 2007</b>					
Net interest income	\$ 119,243	\$ 19,719	\$ 1,641	\$ 28,221	\$ 168,824
Other income	32,327	5,190	9,919	(78,657)	(31,221)
Total operating revenues	151,570	24,909	11,560	(50,436)	137,603
Provision for (recovery of) credit losses	7,425	(6,657)	-	(2,202)	(1,434)
Non-interest expenses	106,082	6,432	10,524	7,452	130,490
Net income (loss)	\$ 38,063	\$ 25,134	\$ 1,036	\$ (55,686)	\$ 8,547
Total assets	\$ 14,872,625	\$ 3,598,415	\$ 2,782	\$ 3,979,481	\$ 22,453,303
Total liabilities	\$ 14,550,779	\$ 1,939,830	\$ 511,270	\$ 3,771,368	\$ 20,773,247
<b>December 31, 2006</b>					
Net interest income	\$ 108,566	\$ 16,626	\$ 1,106	\$ 22,252	\$ 148,550
Other income	28,795	3,915	7,465	4,421	44,596
Total operating revenues	137,361	20,541	8,571	26,673	193,146
Provision for (recovery of) credit losses	2,281	2,522	-	(2,518)	2,285
Non-interest expenses	98,371	5,081	8,541	9,684	121,677
Net income	\$ 36,709	\$ 12,938	\$ 30	\$ 19,507	\$ 69,184
Total assets	\$ 13,207,006	\$ 3,242,892	\$ 2,959	\$ 3,379,901	\$ 19,832,758
Total liabilities	\$ 13,689,150	\$ 1,861,412	\$ 399,199	\$ 2,308,841	\$ 18,258,602

\* 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.

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**8. Segmented Information** (continued)

As at and for the nine months ended:	Personal and Business Financial Services	Corporate Financial Services	Investor Services	Other Business Units*	Total
<b>Dec 31, 2007</b>					
Net interest income	\$ 351,519	\$ 58,235	\$ 4,807	\$ 77,870	\$ 492,431
Other income	95,783	15,309	29,476	(106,831)	33,737
Total operating revenues	447,302	73,544	34,283	(28,961)	526,168
Provision for (recovery of) credit losses	16,061	(971)	-	(4,814)	10,276
Non-interest expenses	315,208	19,343	32,528	32,698	399,777
Net income (loss)	\$ 116,033	\$ 55,172	\$ 1,755	\$ (56,845)	\$ 116,115
<b>Dec 31, 2006</b>					
Net interest income	\$ 316,954	\$ 45,053	\$ 3,179	\$ 60,533	\$ 425,719
Other income	88,812	11,454	20,511	9,020	129,797
Total operating revenues	405,766	56,507	23,690	69,553	555,516
Recovery of (provision for) credit losses	(14,092)	4,914	-	(7,286)	(16,464)
Non-interest expenses	281,604	13,525	24,910	26,780	346,819
Net income (loss)	\$ 138,254	\$ 38,068	\$ (1,220)	\$ 50,059	\$ 225,161

\* Comprised of business units of a corporate nature such as investment, risk management, asset liability management, and treasury operations, as well as certain revenues and expenses, and recoveries for credit losses not expressly attributed to the three lines of business.

**9. Comparative amounts**

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

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## **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.

The following Management's discussion and analysis ("MD&A") considers our results of operations and financial condition for the three- and nine-month periods ended December 31, 2007 and is dated February 14, 2008. The MD&A should be read in conjunction with our unaudited Interim Financial Statements and related notes and our 2007 Annual Report.

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## Management's Discussion and Analysis

(Unaudited)

### Net Income

ATB Financial reported net income of \$43.1 million for its third quarter ended December 31, 2007 compared to \$8.5 million for the previous quarter and \$69.2 million for the third quarter last year. This represents a \$34.5 million increase from the previous quarter's net income and a decrease of \$26.1 million or 37.74 per cent from last year's third quarter net income.

The current quarter's provision of \$29.3 million relative to certain third-party-sponsored asset-backed commercial paper ("ABCP") is less than the amount recorded in the prior quarter. This is the primary driver for the increase in net income in the third quarter, offsetting the increase of \$6.5 million in the provision for credit losses and the \$2.7 million increase in non-interest expenses over the prior quarter.

The decrease in net income in the third quarter over the same period last year is a result of the current quarter's ABCP provision. Excluding the provision, net income would have increased over the prior year by \$3.2 million, due to increased operating revenues being only partially offset by increased non-interest expenses and credit losses.

### Net Interest Income

ATB's net interest income was \$164.7 million for the third quarter ended December 31, 2007 – a decrease of \$4.1 million (or 2.43 per cent) compared to the prior quarter. This is a combined result of ATB's average interest-bearing liabilities, primarily wholesale deposits, growing at a faster rate than its interest-earning assets and the reduced spread between these two items. This increased borrowing was triggered, in large part, by the current lack of liquidity in ATB's third-party ABCP holdings and ATB's requirement to hold a certain amount of liquid assets. However, ATB has sufficient liquid assets available to support ongoing operations.

Compared to the third quarter last year, ATB's net interest income has increased \$16.2 million (or 10.89 per cent). A significant portion of this increase (\$7.4 million) can be attributed to the impact of the new accounting standards for Financial Instruments implemented in the first quarter of this year (refer to Note 2).

### Other Income

Other income increased \$47.9 million over the prior quarter. This increase is due to the reduction in the ABCP provision booked, from \$77.6 million in the prior quarter to \$29.3 million this quarter. Ignoring the impact of the ABCP provisions, other income would have decreased by \$0.4 million over the prior quarter.

Other income decreased by \$27.9 million compared to the third quarter in the prior year. This was driven entirely by the current quarter's provision for ABCP. Excluding the impact of this provision, other income would have increased by \$1.4 million. Almost all major reporting categories increased from the prior year (ranging from a \$2.2 million increase in card revenues to a \$0.2 million increase in sundry other income) – but these increases were partially offset by a \$5.2 million reduction in credit fees and a \$0.5 million reduction in gains on derivative financial instruments. The decrease in credit fees was driven by a \$5.9 million third quarter impact of the new Financial Instruments accounting standards implemented in the first quarter of fiscal 2008 (refer to Note 2).

Refer to the heading "Asset Backed Commercial Paper" for further discussion of this issue and the related provisions.

### Provision for Credit Losses

ATB recorded a \$5.1 million net provision for credit losses in the third quarter ended December 31, 2007. This compares unfavorably to the \$1.4 million net recovery last quarter and the \$2.3 million net provision in the third quarter last year.

## **Management's Discussion and Analysis** (continued)

The net provision consists of both a general and a specific component. The general loan loss provision is management's best estimate of probable losses not yet specifically identified in the loan portfolio while specific allowances are recorded when loans are identified as impaired. The general loan loss provision for the quarter was \$5.1 million compared to a recovery of \$1.4 million last quarter and a \$3.9 million provision in the third quarter last year. The increase was largely due to portfolio growth, with credit quality remaining relatively stable.

The specific loan loss provision remains at less than \$0.1 million, in line with last quarter, but compares unfavorably to the \$1.6 million net recovery in the third quarter last year.

The quality of ATB's loan portfolio remains strong with less than one per cent of the total gross loan portfolio being classified as impaired at the end of the quarter. The total credit loss allowance in the third quarter ending December 31, 2007 exceeded gross impaired loans by \$107.5 million, compared to \$97.8 million and \$96.6 million at September 30, 2007 and December 31, 2006 respectively.

### **Non-Interest Expenses**

Total non-interest expenses were \$133.2 million for the third quarter ended December 31, 2007. This was \$2.7 million (or 2.09 per cent) higher than the expense in the prior quarter and \$11.5 million (or 9.48 per cent) higher than the expense in the third quarter last year.

A number of line items increased from the prior quarter, but the primary driver of the increase was the normalizing of other non-interest expenses, which were abnormally low in the prior quarter due to a one-time reversal of an accounting estimate. There were certain line items with significant reductions from the prior quarter that partially offset the increase – specifically associate compensation costs (a component of human resource costs) and professional and consulting costs. Associate compensation costs generally decline in the third quarter due to annual CPP and EI contributions reaching their maximum limits. Professional and consulting costs, unusually high in the prior quarter due to a one-time accrual of \$2.0 million related to the costs of third-party ABCP restructuring under the Montreal Accord, were reduced to more normal levels in the third quarter.

The increase over the third quarter last year arose across almost all lines, with the majority relating to associate compensation (\$4.2 million) and marketing and supplies (\$3.1 million). A portion of both of these increases (\$0.8 million of associate compensation and \$1.2 million of marketing and supplies) can be attributed to the impact of the new Financial Instruments accounting standards (refer to Note 2). The remainder of the increase in associate compensation costs reflects both the increase in the number of associates and higher compensation rates.

One of ATB's key measurements relative to non-interest expenses is the ratio of non-interest expenses to operating revenue (net interest income before provisions, plus other income). This is known as the efficiency ratio – and measures ATB's effectiveness at generating operating revenue. In the third quarter ended December 31, 2007, ATB's efficiency ratio was 63.22 per cent (measured excluding the impact of the third-party ABCP provision). This compares unfavorably to 59.71 per cent in the prior quarter (measured excluding the impact of the third-party ABCP provision and related restructuring costs) and 63.00 per cent in the third quarter last year.

### **Balance Sheet and Changes in Equity**

ATB's balance sheet continues to grow with the retention of profits increasing total equity to \$1.73 billion, up \$52.9 million from the end of the prior quarter and up \$158.8 million from a year ago. Accumulated other comprehensive income, a new line of equity that resulted from the implementation of the Financial Instruments accounting standards in the first quarter (refer to Note 2), increased from a negative \$6.3 million to a positive \$3.5 million, reflecting the net change in fair value adjustments required by the new Financial Instrument accounting standards that were charged to other comprehensive income in the third quarter.

The two most significant components of ATB's balance sheet are loans and deposits. Total loans, net of allowance for loan losses, increased by \$678.6 million (or 3.73 per cent) compared to the previous quarter, and by \$2.37 billion (or 14.39 per cent) compared to the third quarter last year. Deposits increased by \$423.8 million (or 2.10 per cent) compared to the prior quarter and of \$2.84 billion (or 15.95 per cent) compared to the end of the third quarter

## **Management's Discussion and Analysis (continued)**

last year. Refer to the "Asset Backed Commercial Paper" section of this MD&A for details on the current status of our securities holdings.

Loans, deposits, other assets, and other liabilities were all impacted by adjustments required by the new Financial Instruments standards implemented in the first quarter (refer to Note 2), however the amounts are not considered significant in the context of the balance sheet as a whole.

### **Asset Backed Commercial Paper**

#### **Overview**

ATB, as with other similar financial institutions, faces liquidity risk as a natural consequence of its business due to possible fluctuations in cash flows from lending, deposit taking, investing, and other activities. ATB maintains a large holding of liquid assets pursuant to its liquidity management policy. This ensures sufficient funds are available to sustain our ongoing operations, to meet customer needs, and to satisfy other obligations as they may arise. A significant portion of these funds was invested in Canadian third-party- or non-bank-sponsored asset-backed commercial paper ("ABCP") when that market suffered a liquidity disruption in mid-August 2007.

Following that disruption, a group of market participants, including major investors, banks, asset providers, dealers, and third-party sponsors, agreed to work collectively to restructure 23 such trusts in this segment of the ABCP market. This agreement, which came to be known as the Montreal Accord, provided for a standstill period during which the ABCP notes were essentially frozen – participating investors agreed to not demand repayment of their ABCP investments as they matured and the commercial paper issuers agreed to not make liquidity calls to their liquidity providers who, in turn, would not demand additional collateral from the issuers. Participants to the Accord also agreed in principle to exchange the ABCP notes for longer-term floating-rate notes with maturities matching those of the underlying assets. A Pan-Canadian Investors Committee ("Investors Committee") was subsequently established to oversee the orderly restructuring of these instruments during this standstill period. ATB is a signatory to the Montreal Accord, a member of the Investors Committee, and continues to actively support the restructuring process.

#### **Impact on ATB Operations**

With the disruption of the active market for third-party-sponsored ABCP notes pursuant to the Montreal Accord, ATB considers them to be illiquid in the short-term. To ensure ATB maintained its strong liquidity position, additional investments were made in other liquid assets, funded through the issuance of additional short- and mid-term notes. ATB retains sufficient capacity to issue further short- and mid-term notes so as to not be constrained by this unplanned issuance. The liquidity disruption in the Canadian market for third-party-sponsored ABCP has had no other significant impact on ATB's current or planned operations or financial position. Further, no impact on planned operations or financial position is foreseen through the next five fiscal years based on ATB's latest strategic plans other than the measured acceleration of pre-existing plans to securitize a portion of ATB's mortgage portfolio.

#### **Skeena Capital Trust Restructured Successfully**

ATB's investment in Skeena Capital Trust ("Skeena"), one of the ABCP trusts that were subject to the Montreal Accord, was successfully restructured in December 2007. ATB has incurred a net loss on Skeena of \$0.6 million, or 0.69 per cent of ATB's original investment. As had been anticipated, ATB received a combination of cash and a long-term floating-rate note issued by a successor trust in exchange for its ABCP notes issued by Skeena.

#### **Restructuring Update**

On December 23, 2007, the Investors Committee announced that an agreement in principle (or "Framework Agreement") had been reached to restructure 20 of the 22 remaining trusts subject to the Montreal Accord. All of the remaining trusts that ATB has invested in are subject to this Agreement. While all parties involved in the negotiations have agreed to the latest agreement in principle, the restructuring process is still ongoing and, once finalized, the final agreement will be subject to the approval of the parties involved as well as any requisite governmental or regulatory authorities. The Committee's expectation is that the restructuring transaction will be substantially completed by the end of March 2008. Further details as to the anticipated restructuring process are provided in Note 3.

## **Management's Discussion and Analysis (continued)**

### **Summary of ABCP Holdings as at December 31, 2007**

As at December 31, 2007, ATB held a variety of ABCP investments totaling \$1.1 billion (or \$1.0 billion, net of provisions in respect of decreases in the estimated fair value of third-party ABCP). ATB has no further exposure to third-party-sponsored ABCP beyond these direct holdings. ATB's remaining investments in ABCP include notes issued by eleven conduits subject to the Montreal Accord amounting to \$1.0 billion (or \$927.5 million, net of the \$106.3 million provision). As at the date of preparation of these statements (February 14, 2008), all of these investments continue to be rated "R-1 (High) - Under Review with Developing Implications" by DBRS.

ATB's other investments in commercial paper include \$91.5 million in two trusts which DBRS placed "Under Review with Developing Implications." Each trust has at least one leveraged super-senior transaction with a "mark-to-market" margin call feature and DBRS is reviewing its rating methodologies with respect to such transactions.

### **Valuation of ABCP Holdings as at December 31, 2007**

In the continued absence of an active market for the third-party-sponsored ABCP subject to the Montreal Accord, ATB has estimated the fair value of these assets as at December 31, 2007 using a probability-weighted discounted cash flow valuation model. This model incorporates management's best estimates of multiple factors, updated to reflect market-related and other additional information that has become available since the corresponding valuation as at September 30, 2007.

The inherent uncertainty due to the ongoing process of negotiations to implement the Framework Agreement has required management to make a number of significant assumptions in modeling the estimated fair value of these ABCP assets. The most critical assumptions include management's estimate that it is highly probable that the restructuring proceeds in accordance with the latest proposed Agreement, that ATB will participate in a restructuring vehicle that involves a self-insured margin funding facility, and that ATB will meet any initial commitments under that facility by issuance of a guarantee.

Other assumptions relate to the restructuring of the assets underlying the ABCP notes, including the credit risk attributable to the underlying assets, the expected yield on the restructured investments (net of applicable margin facility costs) and average term of the net yield, and the representative discount rate that the market would normally attribute to such assets. Other assumptions in the valuation model include the expected date of issuance of the restructured investments, the repayment of interest earned from the date of market disruption to the restructuring date at the various notes' original interest rates, and the probability of each trust/series either independently restructuring itself or undergoing an orderly liquidation in the event that the restructuring fails to proceed as per the Montreal Accord. Further details as to the assumptions underlying management's best estimate as to the fair value of these investments are provided in Note 3.

Based on this analysis, ATB has determined that an incremental fair value provision of \$29.3 million is required to adjust the carrying value of the third-party non-bank sponsored ABCP. This amount is in addition to the \$77.6 million provision that was recognized in the preceding second quarter. As was the case last quarter, this quarter's provision is considered to represent an "other than temporary" impairment in the value of these investments and has been reflected in our Interim Consolidated Statement of Income as a separate charge under the heading of other income. ATB's cumulative provision represents 10.2 per cent of the total invested in these ABCP notes (including accrued interest).

In addition to this fair value provision, ATB Financial accrued \$2.0 million for its estimated share of restructuring costs associated with the Montreal Accord in the second quarter. This provision is considered adequate and no additional provision for such expenditures has been recorded this quarter.

## **Management's Discussion and Analysis (continued)**

### **Measurement Uncertainty**

The ongoing nature of the restructuring negotiations contributes to a lack of certainty with regards to the outcome of the restructuring process in general and the various details of the anticipated post-restructuring investment notes in particular. This lack of certainty, in turn, contributes to significant measurement uncertainty in ATB's best estimate of the fair value of its current ABCP investments subject to the Montreal Accord. Since the eventual timing and amount of future cash flows attributable to these assets may vary significantly from management's current best estimates, it is possible that the ultimate fair value of these assets may vary significantly from current estimates and that the magnitude of any such difference could be material to our financial results.

In the event further rating updates are issued by DBRS or ATB becomes aware of other relevant information with respect to any ABCP investment, ATB will re-assess its best estimate of the fair value of these other investments in the period during which such updates are issued or such information becomes known.

### **Segmented Information**

ATB has organized its operations and activities around three main business segments: Personal and Business Financial Services; Corporate Financial Services; and Investor Services. A fourth line is designated Other Business Units, which is comprised of business units of a corporate nature as well as expenses, general allowances, and recoveries not expressly attributed to any line of business. The provision relative to third-party ABCP and the impact of implementation of the new Financial Instruments standards are both included within Other Business Units.

On a segmented basis, total assets for Personal and Business Financial Services increased by \$530.9 million (or 3.57 per cent) during the third quarter and by \$2.2 billion (or 16.63 per cent) from a year ago. Total assets for Corporate Financial Services increased in the quarter by \$160.9 million (or 4.47 per cent) and by \$516.4 million (or 15.92 per cent) from a year ago. Investor Services' assets under management and administration declined slightly from \$4.04 billion in September 30, 2007 to \$3.97 billion in December 31, 2007 – a decline of 1.66 per cent. This reduction is largely due to market conditions. Compared to December 31, 2006, Investor Services' assets under management and administration have increased by \$571.6 million (or 16.80 per cent).

Operating revenues across the three main business segments in the third quarter ended December 31, 2007 were up slightly over the prior quarter (from a 0.22 per cent increase in Personal and Business Financial Services to a 1.83 per cent increase in Corporate Financial Services). This increased operating revenue resulted in net income growth in Personal and Business Financial Services over the prior quarter. An increase in expenses for both Investor Services and Corporate Financial Services (as well as an increased provision for credit losses in Corporate Financial Services) resulted in net income decreasing from the prior quarter in these units.

Net income in all three business units increased over that earned in the third quarter of the prior year due to the increase in business levels.

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## Highlights

(unaudited)

	For the three months ended			For the nine months ended	
	December 31	September 30	December 31	December 31	December 31
	2007	2007	2006	2007	2006
<b>Operating results</b> (\$ in thousands)					
Interest income	\$ 339,225	\$ 330,833	\$ 279,587	\$ 972,404	\$ 797,363
Interest expense	174,503	162,009	131,037	479,973	371,644
Net interest income	164,722	168,824	148,550	492,431	425,719
Other Income	16,676	(31,221)	44,596	33,737	129,797
Total operating revenues	181,398	137,603	193,146	526,168	555,516
Provision for (recovery of) credit losses	5,113	(1,434)	2,285	10,276	(16,464)
Non-interest expenses	133,213	130,490	121,677	399,777	346,819
Net income	\$ 43,072	\$ 8,547	\$ 69,184	\$ 116,115	\$ 225,161

### Financial position

Total loans, net of allowance for losses	\$ 18,869,564	\$ 18,190,989	\$ 16,496,403	\$ 18,869,564	\$ 16,496,403
Total assets	\$ 22,941,145	\$ 22,453,303	\$ 19,832,758	\$ 22,941,145	\$ 19,832,758
Personal & business deposits	\$ 17,495,782	\$ 17,399,462	\$ 16,173,163	\$ 17,495,782	\$ 16,173,163
Wholesale deposits	\$ 3,149,044	\$ 2,821,569	\$ 1,631,834	\$ 3,149,044	\$ 1,631,834
Equity	\$ 1,732,961	\$ 1,680,056	\$ 1,574,156	\$ 1,732,961	\$ 1,574,156

### Key Performance Measures

Operating revenue growth*	(6.08)	(25.95)	25.97	(5.28)	24.30
Net interest margin**	2.87	3.07	3.03	3.00	3.01
Net interest spread on average earning assets**	2.98	3.17	3.10	3.09	3.08
Other income to operating revenue	9.19	(22.69)	23.09	6.41	23.37
Non-interest expenses to operating revenue	73.44	94.83	63.00	75.98	62.43
Return on average assets**	0.75	0.16	1.41	0.71	1.59
Operating expense growth*	9.48	16.49	16.06	15.27	16.43
Net impaired loans to total gross loans	(0.57)	(0.53)	(0.58)	(0.57)	(0.58)
Credit losses to average loans**	0.11	(0.03)	0.06	0.08	(0.14)
Loan growth*	14.39	13.51	13.75	14.39	13.75
Deposit growth*	15.95	16.25	13.38	15.95	13.38
Asset growth*	15.67	16.21	13.80	15.67	13.80

\* 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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