

### Financial Highlights

Current results compared to the first quarter of fiscal year 2007-2008:

- \* Net income of \$56.7 million, down 12.12%.
- \* Total assets of \$24.5 billion, up 14.39%.
- \* Loans (including securitized mortgages, net of provisions) of \$20.0 billion, up 13.24%.
- \* Deposits (excluding wholesale deposits) of \$18.7 billion, up 8.84%.
- \* Investor Services assets under administration and management of \$4.1 billion, up 3.97%.
- \* Operating revenue of \$220.3 million, up 6.34%.
- \* Efficiency ratio (non-interest expenses as a percentage of operating revenues) increased to 70.76% from 65.68%, excluding all ABCP-related provisions.

## ATB Financial records continuing growth in first quarter

### Edmonton, Alberta – August 29, 2008 -

Operating revenue, loan and deposit growth resulted in ATB Financial (“ATB”) recording a \$56.7-million profit in the first quarter of 2008-2009.

At June 30, 2008, ATB reached record highs in assets (\$24.5 billion, up 14.4% from last year’s first quarter), net loans (\$19.8 billion, up 11.9%) and deposits, excluding wholesale (\$18.7 billion, up 8.8%).

Operating revenue for the quarter was \$220.3 million, up 6.3% from the first quarter last year, while net income of \$56.7 million was down 12.1%, largely due to a decrease in the margin earned on assets (net interest spread). This was driven by the decrease in the Canadian bank prime lending rate and the competitive deposit market.

“ATB continues to benefit from a strong Alberta economy, from products and services that work for Albertans, and from the passion and commitment of our more than 4,800 associates,” said Dave Mowat, ATB’s President and CEO.

“We are pleased to report continued growth in our loans, deposits, and operating revenue, but, like all Canadian financial institutions, we are well aware of the impact of lower interest rates and the current uncertainty in the marketplace. We will be monitoring those trends carefully throughout the year.”

The fair value of ATB’s asset-backed commercial paper (“ABCP”) investments improved slightly over the quarter. The financial institution’s ABCP holdings – purchased at an original cost of \$1.15 billion – have an estimated fair value of \$922.7 million at June 30, 2008, an improvement of \$20.4 million from March 31, 2008. This is due largely to an improvement in financial market credit spreads.

The Pan-Canadian Investors Committee, which includes ATB, has been working toward an orderly restructuring of these investments during the standstill period outlined by the Montreal Accord. On August 18, a three-judge panel of the Ontario Court of Appeal ruled that the restructuring plan is fair and legal. “We are very pleased with the Court’s decision. Our intention

all along has been to contribute to a resolution that is fair and amenable to Canadian investors, and in the best interests of ATB,” Mowat said. Mowat said ATB ultimately expects to recover nearly all of its principal investment, plus interest, once the ABCP is converted to longer-term notes that reach maturity in six to nine years.

ATB’s equity position also improved at quarter’s end to \$1.73 billion.

## Operational Highlights

**Personal and Business Financial Services (PBFS)** – ATB’s largest line of business includes 160 branches and 133 agencies, telephone and Internet banking, its Customer Contact Centre, direct sales, and mortgage brokers. In the quarter ended June 30, 2008, PBFS assets grew by \$520.3 million (or 3.3%), which compares to growth of \$489.0 million (or 3.6%) in the first quarter last year. Operating revenue increased from the first quarter last year by \$7.0 million (or 4.9%). During the quarter, PBFS opened new branches in Grande Prairie and Jasper.

**Corporate Financial Services (CFS)** – This line of business provides services to Alberta’s mid- and senior-market companies in three sub-lines – Energy, Commercial, and Food & Forestry. In the quarter ended June 30, 2008, CFS assets grew by \$74.7 million (or 1.8%), which compares to growth of \$94.8 million (or 2.7%) in the first quarter last year. Operating revenue increased from the first quarter last year by \$4.5 million (or 19.3%).

**ATB Investor Services (IS)** – This line of business is responsible for growing, protecting, and transferring wealth for more than 45,000 customers. In the quarter ended June 30, 2008, client assets under management and administration grew to \$4.1 billion.

**ATB in the Community** – ATB’s associates and customers, through the annual Teddy for a Toonie campaign, raised \$0.6 million for the Stollery Children’s Hospital in Edmonton and the Alberta Children’s Hospital in Calgary. The campaign exceeded its goal of \$0.5 million.

Since 2000, the Teddy for a Toonie campaign has raised \$2.5 million for Alberta children’s health and wellness.

**About ATB Financial** – ATB Financial is the largest Alberta-based financial institution, with assets of \$24.5 billion. It provides Personal and Business Financial Services, Investor Services, and Corporate Financial Services to more than 660,000 Albertans in 244 communities. It provides service through 160 branches and 133 agencies, telephone and Internet banking, a Customer Contact Centre, and Automated Banking Machines. ATB Financial was established in 1938 and has been a provincial Crown corporation since 1997. For more information about ATB Financial, visit [www.atb.com](http://www.atb.com)



Bob Splane  
Chairman of the Board



Dave Mowat  
President & CEO

## Interim Consolidated Balance Sheet

(unaudited)

(\$ in thousands)	As at Jun 30 2008	As at Mar 31 2008	As at Jun 30 2007
<b>Assets</b>			
<b>Cash resources</b>			
Cash	\$ 122,332	\$ 91,567	\$ 166,256
Interest-bearing deposits with financial institutions	2,599,862	1,928,230	1,134,486
	<u>2,722,194</u>	<u>2,019,797</u>	<u>1,300,742</u>
<b>Securities (Note 7)</b>	<b>1,271,556</b>	<b>1,253,518</b>	<b>1,846,546</b>
<b>Loans</b>			
Residential mortgage	7,682,222	7,719,066	7,187,222
Business	7,425,115	7,347,110	6,891,501
Personal	4,382,415	4,089,104	3,379,551
Credit card	479,693	450,007	402,560
Allowance for credit losses (Note 8)	(168,781)	(161,770)	(159,629)
	<u>19,800,664</u>	<u>19,443,517</u>	<u>17,701,205</u>
<b>Other</b>			
Premises and equipment	223,381	208,875	180,949
Derivative financial instruments (Note 9)	150,676	109,250	98,000
Other assets	358,736	308,196	314,158
	<u>732,793</u>	<u>626,321</u>	<u>593,107</u>
	<b>\$ 24,527,207</b>	<b>\$ 23,343,153</b>	<b>\$ 21,441,600</b>
<b>Liabilities and Equity</b>			
<b>Deposits</b>			
Personal	\$ 9,820,724	\$ 9,757,840	\$ 9,279,148
Business and other	8,858,954	8,035,590	7,882,596
Wholesale	3,571,131	3,382,286	2,139,923
	<u>22,250,809</u>	<u>21,175,716</u>	<u>19,301,667</u>
<b>Other liabilities</b>			
Derivative financial instruments (Note 9)	139,609	82,390	110,581
Other liabilities	352,094	343,597	306,712
	<u>491,703</u>	<u>425,987</u>	<u>417,293</u>
<b>Subordinated debentures</b>	<b>57,013</b>	<b>72,998</b>	<b>57,009</b>
<b>Equity</b>			
Retained earnings	1,700,020	1,643,341	1,677,852
Accumulated other comprehensive income (loss)	27,662	25,111	(12,221)
	<u>1,727,682</u>	<u>1,668,452</u>	<u>1,665,631</u>
	<b>\$ 24,527,207</b>	<b>\$ 23,343,153</b>	<b>\$ 21,441,600</b>

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

## Interim Consolidated Income Statement

(unaudited)

(\$ in thousands)	For the three months ended		
	Jun 30 2008	Mar 31 2008	Jun 30 2007
<b>Interest income</b>			
Loans	\$ 278,633	\$ 293,798	\$ 271,116
Deposits with financial institutions	17,694	20,021	12,472
Securities	13,545	16,341	18,758
	<b>309,872</b>	<b>330,160</b>	<b>302,346</b>
<b>Interest expense</b>			
Deposits	142,118	162,399	142,635
Subordinated debentures	725	782	826
	<b>142,843</b>	<b>163,181</b>	<b>143,461</b>
<b>Net interest income</b>	<b>167,029</b>	<b>166,979</b>	<b>158,885</b>
<b>Other income</b>			
Service charges	17,009	18,329	17,233
Card fees	10,437	8,776	8,224
Investor services	9,663	9,699	9,499
Securitization income (Note 6)	6,336	-	-
Insurance	3,132	2,127	2,360
Credit fees	3,056	1,619	4,675
Foreign exchange	2,896	2,625	2,503
Sundry	208	510	4,444
(Losses) gains on derivative financial instruments	(753)	1,673	(656)
	<b>51,984</b>	<b>45,358</b>	<b>48,282</b>
<b>Operating revenue before the undernoted</b>	<b>219,013</b>	<b>212,337</b>	<b>207,167</b>
Recovery of (provision for) loss on asset-backed commercial paper (Note 7)	1,285	(146,233)	-
<b>Total operating revenue</b>	<b>220,298</b>	<b>66,104</b>	<b>207,167</b>
<b>Provision for credit losses</b>	<b>8,640</b>	<b>2,630</b>	<b>6,597</b>
<b>Non-interest expenses</b>			
Human resources (Note 11)	86,131	79,001	75,396
Data processing	17,899	16,815	16,752
Premises and occupancy, including amortization	12,814	12,570	11,867
Professional and consulting costs	8,833	8,964	6,641
Marketing and supplies	6,867	8,163	6,315
Deposit guarantee fee	6,581	6,497	4,395
Equipment and software, including amortization	6,150	5,217	5,475
Communication	4,567	5,395	4,251
Other	2,853	4,596	2,766
ATB Agencies	2,284	2,386	2,216
	<b>154,979</b>	<b>149,604</b>	<b>136,074</b>
<b>Net income</b>	<b>\$ 56,679</b>	<b>\$ (86,130)</b>	<b>\$ 64,496</b>

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

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**Interim Consolidated Statement of Changes in Equity**

(unaudited)

(\$ in thousands)	Retained earnings	Accumulated other comprehensive income (loss)	Total equity
<b>Equity as at March 31, 2008</b>	<b>\$ 1,643,341</b>	<b>\$ 25,111</b>	<b>\$ 1,668,452</b>
<b>Net income for the three months ended June 30, 2008</b>	<b>56,679</b>	<b>-</b>	<b>56,679</b>
<b>Other comprehensive income (loss) for the three months ended June 30, 2008:</b>			
Change in unrealized gains and (losses) on available-for-sale securities and deposits with financial institutions, net of cash flow hedges	-	19,134	19,134
Changes in gains and (losses) on derivative financial instruments designated as cash flow hedges	-	(19,868)	(19,868)
Reclassification to earnings of gains and (losses) on cash flow hedges	-	3,285	3,285
	-	2,551	2,551
<b>Comprehensive income for the three months ended June 30, 2008</b>			<b>59,230</b>
<b>Equity as at June 30, 2008</b>	<b>\$ 1,700,020</b>	<b>\$ 27,662</b>	<b>\$ 1,727,682</b>
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	(10,027)	3,461	(6,566)
Adjusted balance as at April 1, 2007	1,613,356	3,461	1,616,817
<b>Net income for the three months ended June 30, 2007</b>	<b>64,496</b>	<b>-</b>	<b>64,496</b>
<b>Other comprehensive income (loss) for the three months ended June 30, 2007:</b>			
Change in unrealized gains and (losses) on available-for-sale securities and deposits with financial institutions, net of cash flow hedges	-	167	167
Reclassification to earnings in respect of available-for-sale securities and deposits with financial institutions	-	(115)	(115)
Changes in gains and (losses) on derivative financial instruments designated as cash flow hedges	-	(15,632)	(15,632)
Reclassification to earnings of gains and (losses) on cash flow hedges	-	(102)	(102)
	-	(15,682)	(15,682)
<b>Comprehensive income (loss) for the three months ended June 30, 2007</b>			<b>48,814</b>
<b>Equity as at June 30, 2007</b>	<b>\$ 1,677,852</b>	<b>\$ (12,221)</b>	<b>\$ 1,665,631</b>

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

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## Interim Consolidated Statement of Changes in Cash Flows

(unaudited)

(\$ in thousands)	For the three months ended		
	Jun 30 2008	Mar 31 2008	Jun 30 2007
<b>Cash flows from operating activities</b>			
Net income	\$ 56,679	\$ (86,130)	\$ 64,496
Adjustments to determine net cash flows:			
Provision for credit losses	8,640	2,630	6,597
Amortization	8,642	8,226	8,092
Net changes in accrued interest receivable and payable	(9,435)	(5,601)	(4,377)
Net changes in derivative financial instruments	(791)	(33,882)	(59)
(Recovery of) provision for loss on asset-backed commercial paper	(1,285)	146,233	-
Gain on sale of securitized residential mortgage loans (Note 6)	(6,330)	-	-
Other items, net	(23,191)	(75,819)	(1,658)
Net cash provided by (used in) operating activities	<u>32,929</u>	<u>(44,343)</u>	<u>73,091</u>
<b>Cash flows from financing activities</b>			
Net change in deposits	1,074,638	535,226	1,062,994
Repayment of subordinated debentures	(15,985)	-	(15,234)
Net cash provided by financing activities	<u>1,058,653</u>	<u>535,226</u>	<u>1,047,760</u>
<b>Cash flows from investing activities</b>			
Net change in interest-bearing deposits with financial institutions	(671,854)	85,970	(116,954)
Purchase of investment securities	(876,301)	(2,125,008)	(4,844,882)
Proceeds from investment securities	878,910	2,149,953	4,683,895
Net change in loans	(616,266)	(579,913)	(743,291)
Proceeds from sale of securitized residential mortgage loans (Note 6)	247,842	-	-
Net purchases of premises and equipment	(23,148)	(23,472)	(11,480)
Net cash used in investing activities	<u>(1,060,817)</u>	<u>(492,470)</u>	<u>(1,032,712)</u>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>30,765</b>	<b>(1,587)</b>	<b>88,139</b>
Cash and cash equivalents at beginning of period	<u>91,567</u>	<u>93,154</u>	<u>78,117</u>
<b>Cash and cash equivalents at end of period, represented by cash</b>	<b>\$ 122,332</b>	<b>\$ 91,567</b>	<b>\$ 166,256</b>
Supplementary cash flow information:			
Amount of interest paid during the period	\$ 151,516	\$ 160,044	\$ 148,397

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

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## Notes to the Interim Consolidated Financial Statements

For the three months ended June 30, 2008 (\$ 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, 2008, as set out on pages 77 to 113 of the 2008 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, 2008, except as described in Note 2.

### 2. Changes in Accounting Policies

#### Capital Disclosures and Financial Instruments – Disclosures and Presentation

Effective April 1, 2008, ATB adopted the requirements of three new sections of the Canadian Institute of Chartered Accountants (CICA) Handbook, namely Section 1535, Capital Disclosures, Section 3862, Financial Instruments – Disclosures, and Section 3863, Financial Instruments – Presentation. The adoption of these new accounting standards had no impact on accounting or measurement of capital or financial instruments.

Section 1535 requires ATB to disclose certain qualitative and quantitative information regarding objectives, policies, and processes for management of capital, as well as compliance with externally imposed capital requirements. Note 5 Capital Disclosures to the consolidated interim financial statements includes information related to this new standard.

Sections 3862 and 3863 replace Section 3861, Financial Instruments – Disclosure and Presentation, and provide enhanced disclosure requirements relative to financial instruments. Specifically, they require additional disclosure about the nature and extent of risks associated with financial instruments and how those risks are managed. This enhanced disclosure is provided in Note 4 Risk Management and in a number of other notes to the consolidated interim financial statements (Note 3 Carrying Value of Financial Instruments, Note 7 Securities, Note 8 Allowance for Credit Losses, Note 9 Derivative Financial Instruments and Hedge Accounting, and Note 10 Guarantees and Pledged Assets).

### 3. Carrying Value of Financial Instruments

Financial assets and financial liabilities can be measured at cost, fair value, or amortized cost depending on their classification under Section 3855. Note 3 to the consolidated financial statements for the year ended March 31, 2008 describes the different financial instrument classifications and how each is measured and how gains and losses are recognized.

The fair value of a financial instrument is the amount at which it could be exchanged in an arm's-length transaction between knowledgeable and willing parties under no compulsion to act. For those instruments with an available market price, fair value is established by reference to the last traded price prior to the balance sheet date. Some of ATB's financial instruments lack such an available trading market, and the associated fair value is determined based on valuation models or by reference to other similar products in an active market. Fair values determined using valuation models require the use of assumptions. These assumptions are primarily based on observable market information, but in limited cases there may be no observable market information on which to base these assumptions. As detailed in Note 7 to these statements, in determining the fair value of third-party sponsored asset-backed commercial paper ("ABCP") and certain bank-sponsored ABCP, ATB has made certain assumptions about the expected market discount rate and the probability of successful restructuring.

### 3. Carrying Value of Financial Instruments (continued)

The following table summarizes ATB's financial instrument classifications and provides their carrying value as at June 30, 2008:

(\$ in thousands)

	As at June 30, 2008							Total carrying value
	Carrying Value							
	Held-for-trading assets and liabilities measured at fair value	Available-for-sale instruments measured at fair value	Loans and receivables measured at amortized cost	Held-to-maturity instruments measured at amortized cost	Financial liabilities measured at amortized cost	Derivatives designated for hedge accounting		
<b>Financial Assets</b>								
Cash	\$ 122,332	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	122,332 <sup>(1)</sup>
Interest-bearing deposits with financial institutions	137,626	2,462,236	-	-	-	-	-	2,599,862 <sup>(1)</sup>
Securities	37,434	1,198,655	-	35,467	-	-	-	1,271,556 <sup>(2)</sup>
<b>Loans</b>								
Residential mortgages	-	-	7,682,222	-	-	-	-	7,682,222
Business	-	-	7,425,115	-	-	-	-	7,425,115
Personal	-	-	4,382,415	-	-	-	-	4,382,415
Credit card	-	-	479,693	-	-	-	-	479,693
Allowance for credit losses	-	-	(168,781)	-	-	-	-	(168,781)
	-	-	19,800,664	-	-	-	-	19,800,664 <sup>(3)</sup>
<b>Other</b>								
Derivative financial instruments	130,467	-	-	-	-	20,209	-	150,676
Other assets	-	-	305,815	-	-	-	-	305,815
	130,467	-	305,815	-	-	20,209	-	456,491 <sup>(1)</sup>
<b>Financial liabilities</b>								
<b>Deposits</b>								
Personal	-	-	-	-	9,820,724	-	-	9,820,724
Business and other	-	-	-	-	8,858,954	-	-	8,858,954
Wholesale	-	-	-	-	3,571,131	-	-	3,571,131
	-	-	-	-	22,250,809	-	-	22,250,809 <sup>(4)</sup>
<b>Other liabilities</b>								
Derivative financial instruments	130,393	-	-	-	-	9,216	-	139,609
Other liabilities	-	-	-	-	314,905	-	-	314,905
	130,393	-	-	-	314,905	9,216	-	454,514 <sup>(1)</sup>
Subordinated debentures	-	-	-	-	57,013	-	-	57,013 <sup>(5)</sup>

<sup>(1)</sup> Fair value estimated to equal carrying value

<sup>(2)</sup> Fair value of securities estimated to be \$1,271,602

<sup>(3)</sup> Fair value of loans estimated to be \$20,224,329

<sup>(4)</sup> Fair value of deposits estimated to be \$22,193,591

<sup>(5)</sup> Fair value of subordinated debentures estimated to be \$57,956

### 4. Risk Management

The use of financial instruments exposes ATB to credit, liquidity, and market risk.

#### Credit Risk

Credit risk is the potential for financial loss in the event of failure by a borrower or counterparty to completely honor its financial or contractual obligation to ATB arising from on- or off-balance sheet financial instruments, such as interest and/or principal payments due in respect of a loan balance, or other amounts due in respect of guarantees, letters of credit, or derivative contracts. ATB's risk management practices and key measures are disclosed in the Management's Discussion and Analysis on pages 56 to 60 of the 2008 Annual Report.

Key measures as at June 30, 2008 are outlined below.

#### Total Credit Exposure

The amounts shown in the table on the next page represent ATB's maximum exposure to credit risk as at the Balance Sheet date, without taking into account any collateral held or any other credit enhancements.

## 4. Risk Management (continued)

As at June 30, 2008  
(\$ in thousands)

	Outstanding	Undrawn commitments <sup>(1)</sup>	Other	Total
Loans <sup>(2)</sup>	\$ 19,969,445	\$ 9,070,874	\$ -	\$ 29,040,319
Over-the-counter derivatives <sup>(3)</sup>	-	-	143,419	143,419
Other off-balance sheet items <sup>(4)</sup>	-	-	281,249	281,249
<b>Total credit risk</b>	<b>\$ 19,969,445</b>	<b>\$ 9,070,874</b>	<b>\$ 424,668</b>	<b>\$ 29,464,987</b>

(1) Represents undertakings by ATB to make credit available in the form of loans or other financing for specific amounts and maturities, subject to certain conditions, and include recently authorized credit not yet drawn down and credit facilities available on a revolving basis.

(2) Includes residential mortgages, business, personal, and credit card loans.

(3) Derivative credit exposure is the fair value of all derivatives where ATB is in a favourable position, net of those contracts covered by a master netting agreement with the same counterparty that are in an unfavourable position. A master netting agreement allows ATB to not settle unfavourable contracts and reduce its net exposure in respect of favourable contracts with the same counterparty.

(4) Letters of credit and guarantees represent an irrevocable obligation to make payments to a third party in the event that the customer is unable to meet its financial or performance contractual obligations.

### Credit Quality

ATB's loan portfolio consists of the following:

	As at June 30, 2008				As at March 31, 2008	
	Gross Loans	Specific Allowances	General Allowances	Net Carrying Value	Net Carrying Value	
Residential mortgage	\$ 7,682,222	\$ 418	\$ 10,868	\$ 7,670,936	\$ 7,707,924	
Personal	4,382,415	2,214	25,491	4,354,710	4,061,925	
Credit card	479,693	-	14,564	465,129	436,075	
Agricultural	1,229,279	1,157	13,741	1,214,381	1,258,604	
Independent business	2,200,653	4,638	45,270	2,150,745	2,128,715	
Commercial	3,995,183	1,118	49,302	3,944,763	3,850,274	
	<b>\$ 19,969,445</b>	<b>\$ 9,545</b>	<b>\$ 159,236</b>	<b>\$ 19,800,664</b>	<b>\$ 19,443,517</b>	

### Impaired Loans

Impaired loans included in the preceding table consist of the following:

	As at June 30, 2008			As at March 31, 2008	
	Gross impaired loans	Specific allowances	Net carrying value	Net carrying value	
Residential mortgage	\$ 15,999	\$ 418	\$ 15,581	\$ 13,377	
Personal	7,298	2,214	5,084	4,613	
Agricultural	7,540	1,157	6,383	9,300	
Independent business	12,587	4,638	7,949	6,135	
Commercial	6,995	1,118	5,877	194	
	<b>\$ 50,419</b>	<b>\$ 9,545</b>	<b>\$ 40,874</b>	<b>\$ 33,619</b>	

## 4. Risk Management (continued)

### Loans Past Due

The following are the loans past due but not impaired because they are less than 90 days past due or because it is otherwise reasonable to expect full payment:

As at June 30, 2008

(\$ in thousands)

	Residential mortgages	Business	Personal	Credit card <sup>(1)</sup>	Total
Up to one month	\$ 137,378	\$ 94,421	\$ 33,666	\$ 31,193	\$ 296,658
Over one month up to two months	8,049	16,642	6,351	6,894	37,936
Over two months up to three months	1,333	4,723	3,251	2,387	11,694
Over three months	636	817	1,844	2,116	5,413
<b>Total past due but not impaired</b>	<b>\$ 147,396</b>	<b>\$ 116,603</b>	<b>\$ 45,112</b>	<b>\$ 42,590</b>	<b>\$ 351,701</b>

<sup>(1)</sup> Consumer credit card loans are classified as impaired and written off when payments become 180 days past due. Business and agricultural credit card loans that become due for three consecutive billing cycles (or approximately 90 days) are removed from the credit card portfolio and transferred into the applicable impaired loan category.

### Industry Concentration

ATB's loan portfolio is diversified across a number of customer and industry sectors as detailed in the following table:

As at June 30 (\$ in thousands)	2008 Outstanding <sup>(1)</sup>	% of net carrying value
Individuals		
Residential mortgage	\$ 7,681,804	38.8
Personal	4,660,268	23.5
	<b>12,342,072</b>	<b>62.3</b>
Business and other		
Mining/energy/forestry	1,655,318	8.4
Agricultural and related services	1,315,746	6.6
Real estate	931,595	4.7
Accommodation, food and beverage	547,315	2.8
Construction	523,632	2.6
Manufacturing	494,355	2.5
Other services	436,127	2.2
Transportation, communication, and utilities	434,737	2.2
Retail trade	347,908	1.8
Business services	275,122	1.4
Educational services, health and social services	250,835	1.3
Finance and insurance	150,897	0.8
Wholesale trade	150,135	0.8
Other	104,106	0.5
	<b>7,617,828</b>	<b>38.5</b>
Loans before general allowance	19,959,900	100.8
General allowance	(159,236)	(0.8)
<b>Net carrying value</b>	<b>\$ 19,800,664</b>	<b>100.0</b>

<sup>(1)</sup> Outstanding amount includes credit card balances and specific loan allowance

## 4. Risk Management (continued)

### Liquidity Risk

Liquidity risk is the risk of ATB being unable to meet its financial obligations in a timely manner at reasonable prices. It is ATB's policy to ensure that sufficient liquid assets and funding capacity are available to meet its financial commitments. ATB's internal optimal target liquidity level is between 10% and 12%, with a targeted minimum liquidity level of 10%. ATB's risk management practices are disclosed in the Management's Discussion and Analysis on pages 64 to 65 of the 2008 Annual Report.

ATB's key measure, the liquidity ratio, as at June 30, 2008 is:

As at June 30, 2008

(\$ in thousands)

Cash resources	\$	2,722,194	
Securities		340,179	<sup>(1)</sup>
Less: pledged assets		(322,500)	<sup>(2)</sup>
Add: pledged but unencumbered		281,500	<sup>(3)</sup>
Total liquid assets	\$	<u>3,021,373</u>	

As a percentage of total assets 12.32%

(1) Excludes asset-backed commercial paper and other non-current investments, which are considered illiquid.

(2) Includes assets pledged to the Bank of Canada so that ATB can participate in the clearing and payment system and the amount pledged to Clearing and Depository Services Inc. to allow ATB to participate in a settlement credit ring.

(3) Amount of pledged assets not encumbered at the end of the day.

As outlined above, ATB is in excess of its current optimal liquidity level at June 30, 2008. If all pledged assets were encumbered at the end of the day, ATB's liquidity would have been 11.17% at June 30, 2008, which is within ATB's internal optimal target.

### Market Risk

Market risk is the risk that ATB may incur a loss due to adverse changes in interest rates, foreign exchange rates, or equity or commodity market prices. ATB's risk management practices and key measures are disclosed in the Management's Discussion and Analysis on pages 61 to 63 of the Annual Report. A description of ATB's key market risks and their measurement as at June 30, 2008 is outlined below:

#### Interest rate risk

Interest rate risk is the risk of negative impact on ATB's net interest income ("NII") due to changes in interest rates. This risk occurs when there is a mismatch in the re-pricing characteristics of interest-rate-sensitive assets (such as loans and investments) and interest-rate-sensitive liabilities (such as deposits).

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## 4. Risk Management (continued)

### Interest Rate Gap Analysis

Gap analysis involves the allocation of interest-rate-sensitive assets and interest-rate-sensitive liabilities into categories according to their maturity or re-pricing date. Gaps can change significantly in a short period of time. The impact of changes in interest rates on net interest income will depend upon the size and rate of change in interest rates, the size and maturity of the total gap position, and management of these positions over time. We actively manage the interest rate gap to protect net interest income while minimizing risk.

As at June 30, 2008

(\$ in thousands)

(\$ in thousands)	Term to maturity/repricing								Total	
	Within 1 year	Effective interest rate (%)	1-5 years	Effective interest rate (%)	Over 5 years	Effective interest rate (%)	Non-interest sensitive	Effective interest rate (%)	\$	%
<b>ASSETS</b>										
Cash	\$ 122,332	3.16	\$ -	-	\$ -	-	\$ -	-	\$ 122,332	3.16
Securities and interest-bearing deposits with financial institutions	3,871,418	3.19	-	-	-	-	-	-	3,871,418	3.19
Loans	13,754,012	5.22	6,091,010	5.78	87,625	6.27	(131,983)	-	19,800,664	5.43
Other	-	-	-	-	-	-	732,793	-	732,793	-
<b>Total assets</b>	<b>\$ 17,747,762</b>		<b>\$ 6,091,010</b>		<b>\$ 87,625</b>		<b>\$ 600,810</b>		<b>\$ 24,527,207</b>	
<b>LIABILITIES AND EQUITY</b>										
Deposits	\$ 17,659,961	2.25	\$ 4,590,848	4.09	\$ -	-	\$ -	-	\$ 22,250,809	2.63
Other liabilities and equity	-	-	-	-	-	-	2,219,385	-	2,219,385	-
Subordinated debentures	-	-	-	-	-	-	57,013	4.29	57,013	4.29
<b>Total liabilities</b>	<b>\$ 17,659,961</b>		<b>\$ 4,590,848</b>		<b>\$ -</b>		<b>\$ 2,276,398</b>		<b>\$ 24,527,207</b>	
On-balance sheet gap	\$ 87,801		\$ 1,500,162		\$ 87,625		\$ (1,675,588)			
Off-balance sheet gap	(1,610,000)		1,610,000		-		-			
<b>Net gap</b>	<b>\$ (1,522,199)</b>		<b>\$ 3,110,162</b>		<b>\$ 87,625</b>		<b>\$ (1,675,588)</b>			
<b>Net gap as a % of assets</b>	<b>(6.21)%</b>		<b>12.68%</b>		<b>0.36%</b>		<b>(6.83)%</b>			

### Interest Rate Sensitivity

The following table provides the potential impact of an immediate and sustained 100 basis point and 200 basis point increase and decrease in interest rates on ATB's net income:

As at June 30, 2008

(\$ in thousands)

#### Impact on net income in the next 12 months from:

Increase in interest rates of:

100 basis points	\$ 18,519
200 basis points	\$ 23,781

Decrease in interest rates of:

100 basis points	\$ (19,282)
200 basis points	\$ (51,081)

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## 4. Risk Management (continued)

### **Foreign exchange risk**

Foreign exchange risk is the potential risk of loss resulting from fluctuations in foreign exchange rates. Foreign exchange risk arises from the existence of a net asset or liability position denominated in foreign currencies and/or a difference in maturity profiles for purchases and sales of a given currency.

The following table outlines the Canadian dollar equivalent balances held in foreign currencies, the majority of which is United States dollars, on ATB's balance sheet as at June 30, 2008:

As at June 30, 2008

(\$ in thousands)

<b>Assets</b>		
Cash resources	\$	158,695
Securities		37,434
Loans and other		254,209
<b>Liabilities</b>		
Deposits		(429,070)
Other		(7,998)
<b>Net total</b>	<b>\$</b>	<b>13,270</b>

In addition to the amounts shown above, ATB has certain foreign exchange spot deals that settle in one day. These deals had a net position of \$10.6 million as at June 30, 2008, reducing the net foreign exchange exposure to \$2.6 million.

### **Equity and commodity risk**

Equity price risk arises when ATB offers deposit products where the rate of return is linked to changes in value of equity securities or equity market indices. ATB uses equity-linked derivatives to hedge ATB's associated risk exposure on these products. Equity risk is subject to Board-approved limits.

Commodity price risk arises when ATB offers derivatives products where the value of the derivative instrument is linked to changes in the price of an underlying commodity. We use commodity-linked derivatives to fully hedge the associated commodity-risk-exposure on these products. ATB does not accept any net commodity price risk.

## 5. Capital

ATB manages capital to ensure that it meets the minimum levels set out by its regulator, Alberta Finance and Enterprise, while supporting the continued growth of its business and building shareholder value.

As a Crown Corporation, ATB and its subsidiaries operate under a regulatory framework established pursuant to the ATB Act and ATB Regulation. The capital structure of ATB is defined in this legislation, which was modeled under the statutes and regulations governing other Canadian financial institutions at the time. Under the ATB Regulation, Tier 1 Capital consists of retained earnings and Tier 2 Capital includes the eligible portions of subordinated debentures and general allowance for credit losses, less qualifying investment in subsidiaries.

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## 5. Capital (continued)

ATB's minimum Tier 1 capital requirement is 7% and the total capital requirement is 10%. For the three months ended June 30, 2008, ATB's capital levels exceeded both regulatory and internal policy requirements.

As at June 30, 2008

(\$ in thousands)

Tier 1 capital	
Retained earnings	<b>\$ 1,700,020</b>
Tier 2 capital	
Allowable portions of:	
Subordinated debentures	29,512
General allowance for credit losses	148,182
Less: investment in ATB Securities Inc	(24,000)
	<b>153,694</b>
<b>Total regulatory capital</b>	<b>\$ 1,853,714</b>
<b>Total risk-weighted assets</b>	<b>\$ 16,935,031</b>
Risk-weighted capital ratios	
Tier 1 capital ratio	<b>10.04%</b>
Total regulatory capital ratio	<b>10.95%</b>

## 6. Securitization

ATB periodically securitizes residential mortgage loans by selling loans or packaged loans in the form of mortgage-backed securities ("MBS") to special purpose entities. These transactions are accounted for as sales and the transferred assets are removed from the Consolidated Balance Sheet when ATB has surrendered control over such assets and has received consideration other than beneficial interests in the transferred loans. For control to have been surrendered, all of the following must occur: (i) the transferred loans must be isolated from the seller, even in bankruptcy or other receivership; (ii) the purchaser must have the legal right to sell or pledge the transferred loans; and (iii) the seller must not continue to control the transferred loans through an agreement to purchase them or have a right to cause the loans to be returned. If any one of these conditions is not met, the transfer is considered to be a secured borrowing and the loans remain on the Consolidated Balance Sheet with the proceeds received recognized as a liability.

Gains on the sale of loans or MBS are recognized at the time of sale in other income. Fair values are based on quoted market values, when available. When quoted market values are not available, ATB determines fair value based on the present value of expected future cash flows using management's best estimates of key assumptions such as weighted average life of the loans, prepayment rates, excess spread, expected credit losses, and discount rates commensurate with the risks involved. Retained interests are classified as available-for-sale securities and subject to periodic impairment review.

For loan securitizations in which servicing rights are retained, deferred servicing revenue is recognized in other liabilities. The deferred servicing revenue is amortized into other income on a monthly basis in proportion to outstanding balances over the weighted average life of the mortgage pool.

## 6. Securitization (continued)

ATB securitizes residential mortgage loans through the creation of MBS. Gains on the sale of loans or MBS are recognized in other income on the Consolidated Statement of Income. The following table summarizes the new residential mortgage loans securitized by ATB:

(\$ in thousands)	For the three months ended		
	Jun 30 2008	Mar 31 2008	Jun 30 2007
Proceeds, net of transaction fees	\$ 247,842	\$ -	\$ -
Retained interests	8,700	-	-
Deferred servicing revenue	(1,465)	-	-
	255,077	-	-
Residential mortgages securitized and sold	248,747	-	-
Gain on sale, net of transaction fees	\$ 6,330	\$ -	\$ -

The following table summarizes the impact of securitization activities on the Consolidated Statement of Income:

(\$ in thousands)	For the three months ended		
	Jun 30 2008	Mar 31 2008	Jun 30 2007
Gain on sale, net of transaction fees	\$ 6,330	\$ -	\$ -
Servicing revenues	6	-	-
Securitization income	\$ 6,336	\$ -	\$ -

The key weighted-average assumptions used to value the retained interests at the date of securitization transaction for activities are as follows:

	For the three months ended		
	Jun 30 2008	Mar 31 2008	Jun 30 2007
Expected weighted average life of mortgage pool	45.2 months	-	-
Prepayment rate	20%	-	-
Excess spread	1.68%	-	-
Discount rate	4.11%	-	-

No credit losses are anticipated, as the transferred residential mortgage loans are insured by the Canada Mortgage and Housing Corporation.

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## 7. Securities

The carrying value of securities, by remaining term to maturity and net of valuation provisions, is as follows:

	As at June 30, 2008			Total carrying value	March 31, 2008	June 30, 2007
	Less than 1 year	From 1-5 years	Greater than 5 years		Total carrying value	Total carrying value
Issued or guaranteed by the						
Canadian federal government	\$ 162,005	\$ -	\$ -	\$ 162,005	\$ 161,304	\$ 159,990
Commercial paper						
Third-party-sponsored ABCP	-	-	845,200	845,200	825,984	1,139,409
Bank-sponsored ABCP	-	-	77,525	77,525	76,333	540,100
Corporate paper	168,500	-	-	168,500	182,766	983
Total commercial paper	168,500	-	922,725	1,091,225	1,085,083	1,680,492
Retained interest in securitization	-	8,652	-	8,652	-	-
Other	9,674	-	-	9,674	7,131	6,064
	\$ 340,179	\$ 8,652	\$ 922,725	\$ 1,271,556	\$ 1,253,518	\$ 1,846,546

### Third-Party-Sponsored Asset-Backed Commercial Paper

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 June 30, 2008, ATB holds investments in such ABCP with a net carrying value of \$845.2 million (or \$1.1 billion gross investment), as detailed in the table above. This agreement, which came to be known as the Montreal Accord (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 conversion of the ABCP notes into longer-term floating-rate notes (“FRNs”) with maturities corresponding to those of the underlying assets. The 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 and a member of the Investors Committee, and continues to actively support the restructuring process.

When these ABCP investments were originally purchased by ATB, Dominion Bond Rating Service had rated them R1 high and they complied with the criteria of ATB’s investment policy.

### Anticipated Restructuring – Montreal Accord

On March 17, 2008, the Pan-Canadian Committee received an order from the Ontario Superior Court of Justice under the Companies Creditors Arrangement Act (Canada) (“CCAA”). This order set out the approval process required for the restructuring plan, specifically that in order for the restructuring to proceed, the Plan required the support of note-holders constituting a majority in number (i.e., 50% plus 1 of the number of note-holders) and representing not less than 66 2/3% of the total aggregate principal amount of affected ABCP.

On March 20, 2008, a Notice of Proceedings and Meeting was issued in respect of the plan of compromise and arrangement (the “Plan”) proposed and supported by the Investors Committee pursuant to the CCAA. This Plan provides for comprehensive restructuring of all the outstanding third-party debt obligations (the “affected ABCP”) under the Accord. Investors’ holdings of ABCP backed by traditional or ineligible assets will be restructured separately as TA tracking notes or IA tracking notes, while notes backed primarily by synthetic assets will be pooled with those of other investors into one of two entities the Investors Committee refers to as “master asset vehicles” (or “MAV1” and “MAV2”). Based on this and other public information, it is estimated that, of the \$1.0 billion of ABCP in which ATB has invested as at June 30, 2008:

- \$75.8 million is represented by traditional securitized assets, and on restructuring ATB expects to receive TA Tracking long-term FRNs with a maturity of approximately 6.4 to 8.3 years.

## 7. Securities (continued)

- \$943.9 million is represented by a combination of leverage-collateralized debt, synthetic assets, and traditional securitized assets and upon restructuring, ATB expects to receive replacement senior Class A-1 and Class A-2 and subordinated Class B and Class C long-term FRNs with maturities of approximately 8.5 years. ATB expects to receive replacement notes with par values as follows:
  - Class A-1: \$445.8 million
  - Class A-2: \$400.8 million
  - Class B: \$69.0 million
  - Class C: \$28.3 million

The replacement senior notes are expected to be rated AA, while the replacement subordinated notes are likely to be unrated; and

- \$13.8 million is represented by assets that have an exposure to US sub-prime mortgages. On restructuring, ATB expects to receive IA Tracking long-term FRNs with maturities of approximately 8.5 years. There has been no indication whether these notes will be rated.

On April 25, 2008, the noteholders voted in favor of the restructuring and on June 5, 2008, Justice Colin Campbell of the Ontario Superior Court sanctioned the Plan. The sanction order remains subject to appeals by noteholders and the restructuring is not expected to be implemented until all appeals have been finally resolved. The expectation is that the restructuring will be completed by December 31, 2008.

### Valuation – Montreal Accord

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 June 30, 2008, 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 March 31, 2008.

Consistent with the prior period:

- Management has assumed a very high probability of success of the Accord under the terms outlined in the Plan.
- In determining the estimated fair value of these ABCP investments, management assumed that ATB will participate in MAV1 and used the cost of the facility in MAV2 as the basis for estimating the value of the MAV1 self-insured margin-funding facility. The valuation model does not contemplate any potential costs that would be incurred in the event that 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 ATB's 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 rates for the various types of follow-on investments (traditional, and the A-1, A-2, B, and C notes in MAV1) were determined by reference to market rates for other market investments and appropriate forward-credit indices. They were then adjusted to include an estimated premium to reflect the expected lack of liquidity in the restructured floating-rate notes together with the leveraged nature of the underlying assets, and were adjusted for subordination where appropriate.

## 7. Securities (continued)

- 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 an alternate restructuring plan or the 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 Accord is considered remote. Other significant assumptions include the expected date of issuance of the restructured investments and the repayment on restructuring of interest earned on the ABCP notes since the date of disruption at the original rate for each investment.
- The valuation of the ineligible assets (primarily US subprime assets) is based on information detailed in the Plan and the accompanying Report of Restructuring.

Based on this valuation methodology, the fair value as at June 30, 2008 (excluding accrued interest of \$32.8 million) of ATB's third-party sponsored ABCP subject to the Montreal Accord was \$809.7 million. This is an increase of \$19.2 million from the \$790.5 million fair value at March 31, 2008. This increase in fair value due to changing market conditions has been recorded through other comprehensive income.

This increase in fair value from March 31, 2008 resulted from lower market interest rates used in the valuation model at June 30, 2008. It is management's best estimate that the shortfall between the expected yield and expected discount rate will be between 85 basis points (for traditional tracking notes) and 605 basis points (for C notes). At March 31, 2008 the range was between 85 basis points and 648 basis points.

In addition to the fair value provision, ATB accrued \$2.0million in the second quarter of fiscal 2008 for its estimated share of restructuring costs associated with the Montreal Accord. This provision is considered adequate and no additional provision for such expenditure is anticipated.

### **Bank-Sponsored Asset-Backed Commercial Paper**

During the fourth quarter of 2008, the two bank-sponsored ABCP investments held by ATB suffered a liquidity disruption and were at some risk of liquidation, which would have resulted in losses to ATB. Separate restructuring plans were announced for both of these trusts outside of the Accord. In general, these restructuring plans are similar to the Accord in that the current investments will be restructured into long-term notes (approximately nine years) to match the maturity date of the underlying assets.

One of these investments restructured during this quarter. In exchange for the original investment with a face value of \$34.0 million and a fair value of \$27.3 million, ATB received two FRN's with a total face value of \$34.0 million, monthly interest at the one-month Canadian Deposit Offering Rate, and maturity between December 2013 and September 2016. The fair value of this new investment was determined to be \$1.3 million higher than the fair value of the original investment at March 31, 2008. This gain on exchange was recognized in the income statement as a recovery of loss on ABCP.

ATB has estimated the fair value of the remaining bank sponsored ABCP undergoing restructuring as at June 30, 2008, using a probability-weighted discounted-cash-flow-valuation model similar to that used for the Accord holdings. Key assumptions include:

- expected cash flows—interest is expected to be paid monthly over a nine-year term, with anticipated lump sum principal payments and ultimate full repayment at the end of nine years;
- an appropriate market-discount rate which is 172 basis points above the expected yield on the investments (at March 31, 2008 the difference was 197 basis points); and
- expected credit losses.

7. Securities (continued)

Measurement Uncertainty

The ongoing nature of the restructuring negotiations contributes to a lack of certainty regarding the outcome of the restructuring process. This lack of certainty, in turn, contributes to significant measurement uncertainty in management’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 ATB’s financial results.

One key variable is the market discount rate. A 1.0% increase in the discount rate will decrease the fair value of the Montreal Accord ABCP by approximately \$48.2 million and the yet-to-be restructured bank-sponsored ABCP by \$1.7 million.

Other

Of the total \$1.1 billion of third-party-sponsored ABCP held by ATB as at June 30, 2008, \$255.0 million was acquired through an exchange with ATB’s Investor Services subsidiaries on August 24, 2007. These assets were acquired at par value in exchange for cash and ATB term deposit certificates. The balance of the investment in third-party-sponsored ABCP was acquired before the mid-August market disruption through ATB’s short-term liquidity-management program.

8. 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		
	Jun 30 2008	Mar 31 2008	Jun 30 2007	Jun 30 2008	Mar 31 2008	Jun 30 2007	Jun 30 2008	Mar 31 2008	Jun 30 2007
<b>For the three months ended</b>									
Balance at beginning of the period	\$ 11,896	\$ 11,970	\$ 15,352	\$ 153,010	\$ 151,896	\$ 141,827	\$ 164,906	\$ 163,866	\$ 157,179
Write-offs	(2,503)	(2,623)	(2,236)	-	-	-	(2,503)	(2,623)	(2,236)
Recoveries	1,088	1,033	1,507	-	-	-	1,088	1,033	1,507
Provision for credit losses	2,414	1,516	212	6,226	1,114	6,385	8,640	2,630	6,597
Balance at end of the period	12,895	11,896	14,835	159,236	153,010	148,212	172,131	164,906	163,047
Less: Allowance for cost of credit recovery included in other liabilities	3,350	3,136	3,418	-	-	-	3,350	3,136	3,418
Allowance for loan losses	\$ 9,545	\$ 8,760	\$ 11,417	\$ 159,236	\$ 153,010	\$ 148,212	\$ 168,781	\$ 161,770	\$ 159,629

9. Derivative Financial Instruments and Hedge Accounting

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, foreign exchange, or commodity 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. Refer to pages 101 to 105 of the 2008 Annual Report for a more complete description of these derivative financial instruments.

**9. Derivative Financial Instruments and Hedge Accounting** (continued)

Embedded derivatives are components within a financial instrument or other contract that have features similar to a derivative. 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.

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.

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 securities and loans as well as certain deposits. In a qualifying cash flow hedging 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 accumulated other comprehensive income are reclassified from other comprehensive income into net income in the same period that the cash flows arising from the underlying hedged item impact net income.

No derivative instruments have been designated as fair value hedges as of June 30, 2008.

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

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

	As at June 30, 2008			As at March 31, 2008			As at June 30, 2007		
	Notional amount	Assets	Liabilities	Notional amount	Assets	Liabilities	Notional amount	Assets	Liabilities
Corporate (non-trading) derivatives									
Cash flow hedges	\$ 3,487,675	\$ 20,922	\$ (10,028)	\$ 2,650,000	\$ 30,740	\$ (5,792)	\$ 4,064,050	\$ 12,295	\$ (25,423)
Other	373,903	55,479	-	465,769	50,245	(12)	379,517	81,329	-
Client (trading) derivatives	1,788,406	74,275	(73,935)	374,730	28,265	(27,992)	141,751	4,376	(4,297)
Embedded derivatives									
Equity-linked deposits	260,911	-	(55,405)	257,078	-	(48,433)	265,530	-	(79,408)
Other	97,094	-	(241)	105,130	-	(161)	122,199	-	(1,453)
	<b>\$ 6,007,989</b>	<b>\$ 150,676</b>	<b>\$ (139,609)</b>	<b>\$ 3,852,707</b>	<b>\$ 109,250</b>	<b>\$ (82,390)</b>	<b>\$ 4,973,047</b>	<b>\$ 98,000</b>	<b>\$ (110,581)</b>

**10. Guarantees and Pledged Assets**

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 an 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, 2008) totaling \$281,249 as at June 30, 2008 (March 31, 2008: \$269,875, June 30, 2007: \$215,575).

## 10. Guarantees and Pledged Assets (continued)

- b) Foreign exchange forward contracts (discussed in Note 14 to the Consolidated Financial Statements for the year ended March 31, 2008) having notional principal amounts totaling \$952,351 as at June 30, 2008 (March 31, 2008: \$19,992, June 30, 2007: \$10,994).
- c) Commodity forward contracts (discussed in Note 14 to the Consolidated Financial Statements for the year ended March 31, 2008) having notional principal amounts totaling \$836,055 as at June 30, 2008 (March 31, 2008: \$354,738, June 30, 2007: \$130,757).
- 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.

In the ordinary course of business, ATB pledges securities and interest-bearing deposits with financial institutions to the Bank of Canada in order to participate in clearing and payment systems and to have access to its facilities. ATB also pledges securities to Clearing and Depository Services Inc. in order to participate in a settlement-agent credit ring. The total amount so pledged as at June 30, 2008 has a carrying value of \$322,500 (March 31, 2008: \$362,500, June 30, 2007: \$274,100).

## 11. 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, 2008).

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

For the three months ended	June 30, 2008	March 31, 2008	June 30, 2007
Net pension benefit expense	\$ 5,726	\$ 3,606	\$ 5,076

## 12. 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.

**12. Segmented Information** (continued)

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

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

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

<b>As at and for the three months ended:</b>	<b>Personal and Business Financial Services</b>		<b>Corporate Financial Services</b>		<b>Investor Services</b>		<b>Other Business Units*</b>		<b>Total</b>
<b>June 30, 2008</b>									
Net interest income	\$	118,488	\$	20,912	\$	1,502	\$	26,127	\$ 167,029
Other income		32,377		6,839		9,810		2,958	51,984
Recovery of loss on ABCP		-		-		-		1,285	1,285
Total operating revenues		150,865		27,751		11,312		30,370	220,298
Provision for (recovery of) credit losses		5,456		3,771		-		(587)	8,640
Non-interest expenses		117,268		7,354		12,007		18,350	154,979
<b>Net income (loss)</b>	<b>\$</b>	<b>28,141</b>	<b>\$</b>	<b>16,626</b>	<b>\$</b>	<b>(695)</b>	<b>\$</b>	<b>12,607</b>	<b>\$ 56,679</b>
Total assets	\$	16,218,674	\$	4,135,332	\$	5,224	\$	4,167,977	\$ 24,527,207
Total liabilities	\$	15,295,435	\$	2,474,563	\$	566,801	\$	4,462,726	\$ 22,799,525
<b>March 31, 2008</b>									
Net interest income	\$	115,346	\$	19,983	\$	2,007	\$	29,643	\$ 166,979
Other income		31,040		4,631		9,547		140	45,358
(Provision for) loss on ABCP		-		-		-		(146,233)	(146,233)
Total operating revenues		146,386		24,614		11,554		(116,450)	66,104
Provision for (recovery of) credit losses		2,174		632		-		(176)	2,630
Non-interest expenses		115,839		7,613		10,934		15,218	149,604
<b>Net income (loss)</b>	<b>\$</b>	<b>28,373</b>	<b>\$</b>	<b>16,369</b>	<b>\$</b>	<b>620</b>	<b>\$</b>	<b>(131,492)</b>	<b>\$ (86,130)</b>
Total assets	\$	15,698,335	\$	4,060,638	\$	4,078	\$	3,580,102	\$ 23,343,153
Total liabilities	\$	14,776,994	\$	2,153,106	\$	548,877	\$	4,195,724	\$ 21,674,701
<b>June 30, 2007</b>									
Net interest income	\$	111,050	\$	18,696	\$	1,332	\$	27,807	\$ 158,885
Other income		32,773		4,574		9,650		1,285	48,282
(Provision for) loss on ABCP		-		-		-		-	-
Total operating revenues		143,823		23,270		10,982		29,092	207,167
Provision for (recovery of) credit losses		4,028		3,890		-		(1,321)	6,597
Non-interest expenses		102,934		6,336		11,162		15,642	136,074
<b>Net income (loss)</b>	<b>\$</b>	<b>36,861</b>	<b>\$</b>	<b>13,044</b>	<b>\$</b>	<b>(180)</b>	<b>\$</b>	<b>14,771</b>	<b>\$ 64,496</b>
Total assets	\$	14,134,925	\$	3,549,416	\$	4,092	\$	3,753,167	\$ 21,441,600
Total liabilities	\$	14,502,925	\$	1,867,356	\$	489,780	\$	2,915,908	\$ 19,775,969

\* 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.

### 13. Comparative amounts

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

### 14. Payment in lieu of tax

Bill 13 received Royal Assent and came into force June 3, 2008. This amendment to the ATB Act provides the Government of Alberta the ability to assess a charge against ATB in lieu of tax as prescribed by the ATB Regulations. As at June 30, 2008, the ATB Regulations have not been updated and the methodology for the calculation of this payment has not been defined. As a result, ATB is unable to make a reasonable estimate of, and has not accrued, any liability as at June 30, 2008.

### 15. Future Changes in Accounting Policies

#### Goodwill and Intangible Assets

In February 2008, the CICA issued *CICA Handbook* Section 3064, Goodwill and Intangible Assets that will take effect for ATB beginning April 1, 2009. This standard will replace Section 3062, Goodwill and Other Intangible Assets, and Section 3450, Research and Development Costs. It will establish the standard for the recognition, measurement, and disclosure of goodwill and intangible assets. ATB is currently reviewing its capitalization policy in order to update it for adoption of this section on April 1, 2009, or possible early adoption in the current fiscal year. This standard will be applied retrospectively with restatement of prior periods, if required. ATB is currently assessing the impact of this initial application on the consolidated financial statements.

#### International Financial Reporting Standards

In February 2008, the Canadian Accounting Standards Board ("AcSB") confirmed that the basis for financial reporting by Canadian publicly accountable enterprises will move from Canadian Generally Accepted Accounting Standards ("GAAP") to International Financial Reporting Standards ("IFRS") and will be effective for fiscal year-ends beginning on or after January 1, 2011. This change is part of a worldwide transition to IFRS intended to facilitate global capital flows and greater clarity and consistency in financial reporting in the global marketplace. ATB will adopt IFRS for the year ended March 31, 2012. ATB has commenced an IFRS conversion project and is currently evaluating the impact of the application of these standards on the consolidated financial statements.

### 16. Subsequent event

Subsequent to June 30, 2008, a bank-sponsored ABCP investment of \$51.9 million held by ATB was successfully restructured. ATB received cash proceeds and a long-term floating rate note in exchange for the original investment. The impact of this restructuring will be recognized in the quarter ending September 30, 2008.

Also subsequent to June 30, 2008, the Ontario Court of Appeal ruled that the ABCP restructuring agreement reached under the Montreal Accord was fair, legal, and could proceed.

## **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 ATB's results of operations and financial condition for the three months ended June 30, 2008 and is dated August 21, 2008. The MD&A should be read in conjunction with the unaudited consolidated interim financial statements and related notes and the 2008 Annual Report.

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## Management's Discussion and Analysis

(Unaudited)

### Net Income

ATB Financial reported net income of \$56.7 million for its first quarter ended June 30, 2008 compared to a loss of \$86.1 million for the previous quarter and net income of \$64.5 million for the first quarter last year. This represents a \$142.8 million increase from the previous quarter's net income and a decrease of \$7.8 million or 12.12% from last year's first quarter net income.

In the current quarter, ATB recognized a recovery of \$1.3 million of the loss previously recorded on asset-backed commercial paper ("ABCP") as compared to a provision of \$146.2 million recorded in the prior quarter. The provision recorded in the prior quarter was considered to represent an other-than-temporary impairment in the value of the asset-backed commercial paper investment held by ATB. During the quarter, ATB's investment in certain bank-sponsored ABCP (approximately 3.04% of ATB's ABCP holdings undergoing restructuring) was successfully restructured and resulted in an exchange of the original investment for two long term floating rate notes ("FRNs"). This exchange resulted in a net gain of \$1.3 million, an improvement over the \$146.2 provision for loss recorded in the prior quarter. This positive result, along with the \$6.3 million gain on sale generated from ATB's new mortgage securitization program, more than offset an increase in the provision for credit losses of \$6.0 million and an increase in non-interest expenses of \$5.4 million over the prior quarter.

The decrease in net income this quarter compared to the first quarter last year is attributable to two main factors: an \$18.9 million increase in non-interest expenses and a \$2.0 million increase in the provision for credit losses. These negative variances were partially offset by an increase in operating revenue, which increased by \$13.1 million year over year. The relatively low growth in operating revenues is caused by a drop in net interest income due to the drop in the bank prime rate and a very competitive deposit market.

### Net Interest Income

ATB's net interest income was \$167.0 million for the first quarter ended June 30, 2008. This is consistent with the amount recorded in the prior quarter and is \$8.1 million (or 5.13%) greater than the amount recognized in the first quarter last year.

The year-over-year increase in net interest income has been driven by a \$2.3 billion increase in average loan balances over the same period. Specifically, there has been substantial growth in residential mortgages and home equity lines of credit ("HELOCs"). The primary driver of the growth in the residential mortgage portfolio is the increased average price of homes over the last year. This increasing home value has also resulted in more customers leveraging the increased equity in their home via HELOCs. However, growth in ATB's net interest income has been restricted by a reduction in net interest spread earned on those assets. This reduction in spread is driven by the decrease in the Canadian bank prime lending rate and the very competitive deposit market.

### Other Income – excluding ABCP

Other income was \$52.0 million for the first quarter ended June 30, 2008, an increase of \$6.6 million (or 14.61%) compared to the prior quarter, and \$3.7 million (or 7.67%) compared to the first quarter of last fiscal year. The increase over the prior quarter arose in a number of areas, with card fees, credit fees, and insurance all increasing (by \$1.7 million, \$1.4 million, and 1.0 million, respectively), but the majority of the change was driven by securitization income. ATB began a mortgage securitization program with Canada Housing Trust that resulted in the recognition of a \$6.3 million gain on sale in the current quarter. These increases were partially offset by a \$2.4 million reduction in derivative income.

The \$3.7 million increase in other income from the first quarter of the prior year was similarly driven by the recognition of \$6.3 million securitization gain on sale this quarter along with a \$2.2 million increase in card fees. These positive variances were partially offset by a \$4.2 million reduction in sundry other income. Sundry other income in the first quarter last year contained a number of non-recurring items.

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

### **Provision for Credit Losses**

ATB recorded an \$8.6 million net provision for credit losses in the first quarter ended June 30, 2008. This compares unfavorably to the \$2.6 million net provision last quarter and the \$6.6 million net provision in the first quarter last year. 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 \$6.2 million compared to a provision of \$1.1 million last quarter and a \$6.4 million provision in the first quarter last year. This increase is the result of ATB's growing loan portfolio.

The specific loan loss provision has increased to \$2.4 million in the current quarter from \$1.5 million in the prior quarter and \$0.2 million in the first quarter of last year. This is driven by an increase in specifically identified impaired loans this quarter over the prior quarters.

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 first quarter ending June 30, 2008 exceeded gross impaired loans by \$118.4 million, compared to \$119.4 million and \$116.4 million at March 31, 2008 and June 30, 2007, respectively.

### **Non-Interest Expenses**

Total non-interest expenses were \$155.0 million for the first quarter ended June 30, 2008. This was \$5.4 million (or 3.59%) higher than the expense in the prior quarter and \$18.9 million (or 13.89%) higher than the expense in the first quarter of last fiscal year.

The increase from the prior quarter is primarily due to a \$7.1 million (or 9.01%) increase in human resource expenses, partially offset by decreases in "other" non-interest expenses (reduced \$1.7 million) and marketing and supplies (reduced \$1.3 million). The rise in human resource expenses is mainly attributable to an increase in the number of employees combined with annual salary increases.

Compared to the first quarter last fiscal year, non-interest expenses increased by \$18.9 million. This increase is attributable to a number of factors, including human resource expenses, professional and consulting costs, and deposit guarantee fees. ATB's human resource expenses increased by \$10.7 million (or 14.24%), primarily because of a 7.7% increase in the amount of full time equivalents working at ATB and the increased cost of existing staff. The \$2.2 million (or 33.01%) increase in professional and consulting costs is a result of ATB's Core business transformation initiative (a long term project to replace ATB's core banking and financial systems). The \$2.2 million increase in the deposit guarantee fee is due to a combination of increasing deposits and a non-recurring adjustment.

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 first quarter ended June 30, 2008, ATB's efficiency ratio was 70.76% (measured excluding the impact of the ABCP provision). This compares unfavorably to 70.46% in the prior quarter (measured excluding the impact of the ABCP provision) and 65.68% in the first quarter last fiscal year. This movement in the efficiency ratio was expected because ATB is making significant investments and net interest spread is dropping, both of which reduce revenue growth.

### **Balance Sheet**

ATB's balance sheet continues to grow, with profits increasing total equity to \$1.7 billion, up \$59.2 million from the end of the prior quarter and up \$62.1 million from a year ago. Total assets of \$24.5 billion increased by \$1.2 billion over the prior quarter and by \$3.1 billion over the first quarter of the prior year. Accumulated other comprehensive income increased from \$25.1 million last quarter to \$27.7 million in the current quarter, reflecting the net change in fair value of certain financial instruments (specifically investments and derivatives).

## Management's Discussion and Analysis (continued)

The two most significant components of ATB's balance sheet are loans and deposits. Total loans, net of allowance for credit losses, increased by \$357.1 million (or 1.84%) compared to the previous quarter and by \$2.1 billion (or 11.86%) compared to the first quarter last fiscal year. Deposits increased by \$1.1 billion (or 5.08%) compared to the prior quarter and by \$2.9 billion (or 15.28%) compared to the end of the first quarter of prior fiscal year.

Total performing loans grew by \$356.1 million over the course of the first quarter this year. This growth is down 39.21% from the preceding quarter's growth (of \$585.8 million) and down 50.27% from the corresponding first quarter growth figure last year (of \$716.1 million). This growth appears to be slower than prior periods, but this is because a portion of the performing loan portfolio was securitized through the Canada Housing Trust program. Inclusive of securitized mortgages, performing loans grew \$601.8 million, which compares favorably to last quarter, but remains less than the growth achieved in the first quarter last year. Significant growth continues in HELOCs. As at June 30, 2008, ATB held \$3.1 billion of HELOCs, representing 15.54% of total performing loans. HELOCs grew by \$251.3 million during this past quarter.

ATB has two principal sources of deposits – personal and business or commercial deposits, primarily sourced through our retail network, and wholesale deposits, which consist primarily of bearer deposit notes and mid-term notes issued on ATB's behalf by the Government of Alberta and sold to other financial institutions. Personal and business deposits increased by \$886.2 million (or 4.98%) during the current quarter, which compares favorably to the growth of \$297.6 million and \$574.9 million achieved in the prior quarter and the first quarter last year, respectively. Wholesale deposits are used as a source of funds to supplement retail deposits in supporting lending activities and can fluctuate significantly quarter-to-quarter. The agreement with the Government of Alberta currently limits the total volume of such deposits to \$4.3 billion. As at June 30, 2008, ATB has \$3.6 billion in wholesale deposits. This is up \$188.8 million (or 5.58%) over the prior quarter and \$1.4 billion (or 66.88%) from the first quarter last year. The increase in wholesale deposits from the prior year is a result of ATB's requirement for additional liquidity stemming from the ABCP crisis.

### Asset Backed Commercial Paper

#### Overview

As at June 30, 2008 ATB held a portfolio of asset backed commercial paper with a face value of \$1.15 billion. This includes:

- \$1.03 billion of third-party sponsored ABCP that is being restructured under the Montreal Accord. \$255.0 million of this was acquired through an exchange with ATB's 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 ATB's investments in third-party-sponsored ABCP was acquired before the mid-August market disruption through its short-term liquidity-management program;
- \$34.8 million of third-party sponsored ABCP previously included in the Montreal Accord and successfully restructured into a long-term floating rate note on December 2007;
- \$34.0 million of bank-sponsored ABCP that successfully restructured into a long-term floating rate note in May 2008;
- \$51.8 million of bank-sponsored ABCP that successfully restructured subsequent to the end of the current quarter (in July 2008).

#### Third-Party-Sponsored ABCP Update

ATB's holdings of third-party-sponsored ABCP being restructured under the Montreal Accord last traded in an active market in August 2007.

A Pan-Canadian Investors Committee ("Investors Committee") was subsequently established to oversee the orderly restructuring of the third-party-sponsored ABCP impacted by the liquidity disruption of August 2007 under an agreement that has come to be known as the Montreal Accord. ATB is a signatory to the Montreal Accord, a member of the Investors Committee, and continues to actively support the restructuring process.

On March 17, 2008, the Pan-Canadian Investors Committee received an order from the Ontario Superior Court of Justice under the Companies Creditors Arrangement Act ("CCAA"). This order set out the approval process

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

required for the restructuring plan, specifically that in order for the restructuring to proceed, the Plan required the support of note-holders constituting a majority in number (i.e., 50% plus 1) and representing not less than 66 2/3% of the total aggregate principal amount of affected ABCP.

On March 20, 2008, the Committee released its Proposed Restructuring Plan (the "Plan"). The Plan was to exchange the original investment for a number of new floating rate notes with varying degrees of subordination and terms up to nine years. Details on this plan are outlined in Note 7 to the June 30, 2008 interim consolidated financial statements.

On April 25, 2008, the noteholders voted in favor of the Proposed Restructuring Plan and on June 5, 2008, Justice Colin Campbell of the Ontario Superior Court ruled that the plan was fair. Certain noteholders appealed this decision and on June 25, 2008, the Appeals Court reserved judgment resulting in further extensions of the standstill under the Montreal Accord. On August 18, 2008, the Ontario Court of Appeal ruled that the restructuring agreement reached under the Montreal Accord was fair, legal, and could proceed. This judgement is subject to appeal but the current expectation is that the restructuring will be completed by December 31, 2008.

### **Montreal Accord 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 assets as at June 30, 2008 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 March 31, 2008. Details as to the assumptions underlying management's best estimate as to the fair value of these investments are provided in Note 7 to the June 30, 2008 interim consolidated financial statements.

As at March 31, 2008, the provision relative to the Montreal Accord ABCP was estimated to be \$243.0 million, this has reduced to \$223.7 million at June 30, 2008 as a result of market spreads reducing during this time period. Market spreads are an input into the calculation of the representative discount rate that the market would normally attribute to assets like ABCP – a key assumption in ATB's valuation model. This \$19.3 million reduction was recorded in other comprehensive income and did not impact the income statement.

In addition to this fair value provision, ATB has accrued \$2.0 million for its estimated share of restructuring costs associated with the Montreal Accord in the second quarter of fiscal 2008. This provision is considered adequate and no additional provision for such expenditures has been recorded this quarter.

### **Bank-Sponsored Asset-Backed Commercial Paper**

During the fourth quarter of 2008, the two bank-sponsored ABCP investments held by ATB suffered a liquidity disruption and were at some risk of liquidation, which would have resulted in losses to ATB. Separate restructuring plans were announced for both of these trusts outside of the Montreal Accord. In general, these restructuring plans were similar to the Accord in that the current investments were to be restructured into long-term notes (approximately nine years) to match the maturity date of the underlying assets.

One of these investments restructured during this quarter. In exchange for the original investment with a notional value of \$34.0 million and a fair value of \$27.3 million, ATB received two floating rate notes with a total notional value of \$34.0 million, monthly interest at the one-month Canadian Deposit Offering Rate and maturity between December 2013 and September 2016. The fair value of this new investment was \$1.3 million higher than the fair value of the original investment at March 31, 2008. This gain was recognized in the income statement as a recovery of loss on ABCP.

ATB has estimated the fair value of the remaining bank sponsored ABCP undergoing restructuring as at June 30, 2008, using a probability-weighted discounted-cash-flow-valuation model similar to that used for the Accord

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

holdings. Similar to the Accord provision, the provision for loss on this investment reduced from \$2.8 million to \$2.7 million as a result of market spreads reducing from March 31, 2008 to June 30, 2008.

This investment was successfully restructured in July 2008 – subsequent to the current quarter. In exchange for the original ABCP investment ATB received a combination of cash and a long-term floating rate note. The impact of this restructuring will be recognized in the quarter ended September 30, 2008.

### **Impact on ATB Operations**

With the disruption of the active market for ABCP, ATB considers these investments to be illiquid. 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 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.

### **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 restructuring. 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 ATB's financial results.

### **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 the implementation of the Financial Instruments standards are both included within Other Business Units.

On a segmented basis, total assets for Personal and Business Financial Services increased by \$520.3 million (or 3.31%) during the first quarter and by \$2.1 billion (or 14.74%) from a year ago. Total assets for Corporate Financial Services increased in the quarter by \$74.7 million (or 1.84%) and by \$585.9 million (or 16.51%) from a year ago. Investor Services' assets under management and administration grew to \$4.1 billion at June 30, 2008, an increase of \$64.3 million (or 1.59%) from March 31, 2008 and a \$156.6 million (or 3.97%) increase from June 30, 2007.

Operating revenues increased across the two main business segments in the first quarter ended June 30, 2008 compared to the prior quarter. Personal and Business Financial Services' operating revenue increased 3.06% to \$150.9 million and Corporate Financial Services increased 12.74% to \$27.8 million. Operating revenue in Investor Services decreased slightly from the prior quarter – by 2.09% – to \$11.3 million. Corporate Financial Services grew net income this quarter, with a net income of \$16.6 million (a growth of 1.57%). Personal and Business Financial Services' and Investor Services' net income reduced compared to the prior quarter – with Investor Services experiencing a small loss.

Compared to the first quarter of the prior year, Corporate Financial Services' net income increased by \$3.6 million or 27.46% while Personal and Business Financial Services' net income reduced by \$8.7 million or 23.66%. Investor Services' loss increased in this quarter compared to the first quarter last year – by 286.11% – to \$0.7 million.

## Highlights

(unaudited)

	For the three months ended		
	June 30 2008	March 31 2008	June 30 2007
<b>Operating results</b> (\$ in thousands)			
Interest income	\$ 309,872	\$ 330,160	\$ 302,346
Interest expense	142,843	163,181	143,461
Net interest income	167,029	166,979	158,885
Other Income	51,984	45,358	48,282
Recovery of (provision for) loss on ABCP	1,285	(146,233)	-
Total operating revenues	220,298	66,104	207,167
Provision for credit losses	8,640	2,630	6,597
Non-interest expenses	154,979	149,604	136,074
Net income	\$ 56,679	\$ (86,130)	\$ 64,496

### Financial position (\$ in thousands)

Total loans, net of allowance for losses	\$ 19,800,664	\$ 19,443,517	\$ 17,701,205
Total assets	\$ 24,527,207	\$ 23,343,153	\$ 21,441,600
Personal & business deposits	\$ 18,679,678	\$ 17,793,430	\$ 17,161,744
Wholesale deposits	\$ 3,571,131	\$ 3,382,286	\$ 2,139,923
Equity	\$ 1,727,682	\$ 1,668,452	\$ 1,665,631

### Key Performance Measures (in per cent)

Operating revenue growth <sup>1</sup>	6.34	(66.26)	17.35
Operating revenue growth <sup>1 &amp; 3</sup>	5.72	8.36	17.35
Net interest margin <sup>2</sup>	2.81	2.93	3.07
Net interest spread on average earning assets <sup>2</sup>	2.90	3.01	3.14
Other income to operating revenue	23.60	68.62	23.31
Other income to operating revenue <sup>3</sup>	23.74	21.36	23.31
Non-interest expenses to operating revenue	70.35	226.32	65.68
Non-interest expenses to operating revenue <sup>3</sup>	70.76	70.46	65.68
Return on average assets <sup>2</sup>	0.95	(1.51)	1.25
Return on average assets <sup>2 &amp; 3</sup>	0.93	1.05	1.25
Operating expense growth <sup>1</sup>	13.89	10.43	20.28
Net impaired loans to total gross loans	(0.59)	(0.61)	(0.65)
Credit losses to average loans <sup>2</sup>	0.18	0.05	0.15
Net Loan growth <sup>1</sup>	11.86	14.41	15.64
Net Loan growth <sup>4</sup>	13.24	14.41	15.64
Deposit growth <sup>1</sup>	15.28	16.01	13.74
Asset growth <sup>1</sup>	14.39	15.02	14.09
Asset growth <sup>1 &amp; 3</sup>	15.45	16.26	14.09
Asset growth <sup>1 &amp; 4</sup>	15.53	15.02	15.02

(1) Calculated over trailing one-year period

(2) Calculated as average over trailing three-month period

(3) Excludes provision for loss on asset-backed commercial paper

(4) Includes securitized mortgages

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