

Financial Highlights

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

- * Net income (excluding ABCP-related provisions) of \$61.2 million, down 28.9%.
- * Total assets of \$25.2 billion, up 12.2%.
- * Loans (including securitized mortgages, net of provisions) of \$21.0 billion, up 15.2%.
- * Deposits (excluding wholesale deposits) of \$19.6 billion, up 12.4%.
- * Investor Services assets under administration and management of \$4.0 billion, down 1.6%.
- * Operating revenue (excluding ABCP-related provisions) of \$225.1 million, up 4.6%.
- * Efficiency ratio (non-interest expenses as a percentage of operating revenues) worsened from 60.6% to 66.6%, excluding all ABCP-related provisions.

ATB posts continuing growth, lower profits

Edmonton, Alberta – November 27, 2008 –

Growth in operating revenue, loans and deposits in the second quarter of 2008-09 underlines the steady performance of ATB Financial (“ATB”) in turbulent economic times.

ATB recorded a \$5.7-million profit in the second quarter and, at September 30, 2008, reached record highs in assets (\$25.2 billion, up 12.2% from last year’s second quarter), net loans (\$20.5 billion, up 12.9%), and deposits, excluding wholesale (\$19.6 billion, up 12.4%).

Net income of \$5.7 million includes a \$55.5-million increase in ATB’s provision for potential losses on holdings of asset-backed commercial paper (ABCP). This quarter’s increase is due largely to increased credit spreads and is in addition to the 2007-08 year-end ABCP provision of \$253.1 million.

Excluding the impact of provisions for ABCP, net income for this quarter was \$61.2 million, down 28.9% from last year’s second quarter. The decrease reflects the impact of declining margins. Also excluding ABCP, operating revenue for the quarter was \$225.1 million, up 4.6% from the second quarter last year.

“Times are getting tougher, even in resilient economies such as Alberta’s, and interest rate conditions and uncertainty in the marketplace continue to impact our business. But our continued growth and positive results mean Albertans can be

confident in ATB,” said Dave Mowat, ATB’s President and CEO.

Mowat said the institution’s criteria for loans and mortgages have not changed.

“The conventional wisdom is that credit for individuals and businesses is harder to come by these days, but we are sticking by Albertans, just as we have for 70 years,” he said.

ATB’s \$1.14-billion principal investment in ABCP will be converted to longer-term notes that reach maturity in six to nine years. ATB will revalue the restructured ABCP investment upon closing.

Operational Highlights

Personal and Business Financial Services (PBFS)

– ATB’s largest line of business includes branches and agencies in all corners of Alberta. PBFS’s assets have grown \$1.9 billion, or 12.5% over the last year. Operating revenue increased from the second quarter last year by \$5.6 million, or 3.7%. During the quarter, PBFS opened new branches in Camrose, Fort McMurray, Edmonton, and Calgary, including one at SAIT Polytechnic, the first branch opened by a major financial institution on an Alberta post-secondary campus.

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. CFS has recorded

asset growth of \$950.7 million, or 26.4% over the last year. Operating revenue increased from the second quarter last year by \$3.8 million, or 15.4%.

ATB Investor Services (IS) – This line of business is responsible for growing and protecting wealth for more than 45,000 customers. In the quarter ended September 30, 2008, client assets under management and administration were \$4.0 billion, down \$63.6 million from the second quarter last year. In a Leger Marketing survey, IS was rated #1 in client satisfaction in Alberta versus the Big Five Toronto-based banks.

ATB in the Community – In the past quarter, ATB continued to support a wide range of community projects and charities, including the Stollery and Alberta Children’s Hospital Foundations, Junior Achievement of Northern Alberta and Camp He Ho Ha. In September, ATB celebrated its 70th anniversary with a week of Customer Appreciation events, in which associates from across the province performed acts of kindness in their communities.

About ATB Financial – ATB Financial is the largest Alberta-based financial institution, with assets of \$25.2 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 163 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. It was recently named one of Alberta’s Top 40 Employers by Mediacorp Canada Inc.

For complete second-quarter financial results, including Management’s Discussion and Analysis, please visit www.atb.com

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Bob Splane
Chairman of the Board



Dave Mowat
President & CEO

Interim Consolidated Balance Sheet

(unaudited)

(\$ in thousands)	As at Sep 30 2008	As at Jun 30 2008	As at Mar 31 2008	As at Sep 30 2007
Assets				
Cash resources				
Cash	\$ 143,936	\$ 122,332	\$ 91,567	\$ 66,103
Interest-bearing deposits with financial institutions	2,672,810	2,599,862	1,928,230	2,189,596
	<u>2,816,746</u>	<u>2,722,194</u>	<u>2,019,797</u>	<u>2,255,699</u>
Securities (Note 7)	1,088,212	1,271,556	1,253,518	1,412,133
Loans				
Business	7,902,116	7,425,115	7,347,110	6,869,088
Residential mortgage	7,713,373	7,682,222	7,719,066	7,432,414
Personal	4,584,450	4,382,415	4,089,104	3,628,745
Credit card	520,048	479,693	450,007	417,806
Allowance for credit losses (Note 8)	(180,674)	(168,781)	(161,770)	(157,064)
	<u>20,539,313</u>	<u>19,800,664</u>	<u>19,443,517</u>	<u>18,190,989</u>
Other				
Premises and equipment	247,482	223,381	208,875	183,243
Derivative financial instruments (Note 9)	120,386	150,676	109,250	99,902
Other assets	387,710	358,736	308,196	311,337
	<u>755,578</u>	<u>732,793</u>	<u>626,321</u>	<u>594,482</u>
	<u>\$ 25,199,849</u>	<u>\$ 24,527,207</u>	<u>\$ 23,343,153</u>	<u>\$ 22,453,303</u>
Liabilities and Equity				
Deposits				
Personal	\$ 9,947,279	\$ 9,820,724	\$ 9,757,840	\$ 9,353,166
Business and other	9,604,046	8,858,954	8,035,590	8,046,296
Wholesale	3,370,834	3,571,131	3,382,286	2,821,569
	<u>22,922,159</u>	<u>22,250,809</u>	<u>21,175,716</u>	<u>20,221,031</u>
Other liabilities				
Derivative financial instruments (Note 9)	99,825	139,609	82,390	107,011
Other liabilities	403,525	352,094	343,597	372,207
	<u>503,350</u>	<u>491,703</u>	<u>425,987</u>	<u>479,218</u>
Subordinated debentures	57,013	57,013	72,998	72,998
Equity				
Retained earnings	1,705,713	1,700,020	1,643,341	1,686,399
Accumulated other comprehensive income (loss)	11,614	27,662	25,111	(6,343)
	<u>1,717,327</u>	<u>1,727,682</u>	<u>1,668,452</u>	<u>1,680,056</u>
	<u>\$ 25,199,849</u>	<u>\$ 24,527,207</u>	<u>\$ 23,343,153</u>	<u>\$ 22,453,303</u>

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

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Interim Consolidated Income Statement

(unaudited)

(\$ in thousands)	For the three months ended			For the six months ended	
	Sep 30 2008	Jun 30 2008	Sep 30 2007	Sep 30 2008	Sep 30 2007
Interest income					
Loans	\$ 289,313	\$ 278,633	\$ 291,440	\$ 567,946	\$ 562,556
Deposits with financial institutions	18,383	17,694	18,010	36,077	30,482
Securities	12,093	13,545	21,383	25,638	40,141
	319,789	309,872	330,833	629,661	633,179
Interest expense					
Deposits	152,436	142,118	161,227	294,554	303,862
Subordinated debentures	669	725	782	1,394	1,608
	153,105	142,843	162,009	295,948	305,470
Net interest income	166,684	167,029	168,824	333,713	327,709
Other income					
Service charges	17,143	17,009	17,302	34,152	34,535
Card fees	11,588	10,437	9,246	22,025	17,470
Investor services	9,483	9,663	10,066	19,146	19,565
Securitization income (Note 6)	8,492	6,336	-	14,828	-
Insurance	4,411	3,132	3,598	7,543	5,958
Credit fees	2,522	3,056	2,332	5,578	7,007
Foreign exchange	2,475	2,896	2,837	5,371	5,340
Gains (losses) on derivative financial instruments	2,132	(753)	934	1,379	278
Sundry	189	208	64	397	4,508
	58,435	51,984	46,379	110,419	94,661
Operating revenue before the undernoted	225,119	219,013	215,203	444,132	422,370
(Provision for) recovery of loss on asset-backed commercial paper (Note 7)	(55,544)	1,285	(77,600)	(54,259)	(77,600)
Total operating revenue	169,575	220,298	137,603	389,873	344,770
Provision for (recovery of) credit losses	13,917	8,640	(1,434)	22,557	5,163
Non-interest expenses					
Human resources (Note 11)	80,310	86,131	73,005	166,441	148,401
Data processing	18,791	17,899	16,939	36,690	33,691
Premises and occupancy, including amortization	13,355	12,814	11,814	26,169	23,681
Professional and consulting costs	7,554	8,833	7,739	16,387	14,380
Marketing and supplies	7,214	6,867	6,214	14,081	12,529
Equipment and software, including amortization	6,174	6,150	5,857	12,324	11,332
Deposit guarantee fee	5,168	6,581	4,395	11,749	8,790
Other	4,823	2,853	(2,012)	7,676	754
Communication	4,515	4,567	4,213	9,082	8,464
ATB Agencies	2,061	2,284	2,326	4,345	4,542
	149,965	154,979	130,490	304,944	266,564
Net income	\$ 5,693	\$ 56,679	\$ 8,547	\$ 62,372	\$ 73,043

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
Equity as at June 30, 2008	\$ 1,700,020	\$ 27,662	\$ 1,727,682
Net income for the three months ended September 30, 2008	5,693	-	5,693
Other comprehensive income (loss) for the three months ended September 30, 2008:			
Change in unrealized gains and (losses) on available-for-sale securities and deposits with financial institutions, net of cash flow hedges	-	(21,058)	(21,058)
Changes in gains and (losses) on derivative financial instruments designated as cash flow hedges	-	563	563
Reclassification to earnings of gains and (losses) on cash flow hedges	-	4,447	4,447
	<u>-</u>	<u>(16,048)</u>	<u>(16,048)</u>
Comprehensive (loss) for the three months ended September 30, 2008			(10,355)
Equity as at September 30, 2008	\$ 1,705,713	\$ 11,614	\$ 1,717,327
Equity as at June 30, 2007	\$ 1,677,852	\$ (12,221)	\$ 1,665,631
Net income for the three months ended September 30, 2007	8,547	-	8,547
Other comprehensive income (loss) for the three months ended September 30, 2007:			
Change in unrealized gains and (losses) on available-for-sale securities and deposits with financial institutions, net of cash flow hedges	-	(542)	(542)
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	-	6,190	6,190
Reclassification to earnings of gains and (losses) on cash flow hedges	-	115	115
	<u>-</u>	<u>5,878</u>	<u>5,878</u>
Comprehensive income for the three months ended September 30, 2007			14,425
Equity as at September 30, 2007	\$ 1,686,399	\$ (6,343)	\$ 1,680,056

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

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

(\$ in thousands)	Retained earnings	Accumulated other comprehensive income (loss)	Total equity
Equity as at March 31, 2008	\$ 1,643,341	\$ 25,111	\$ 1,668,452
Net income for the six months ended September 30, 2008	62,372	-	62,372
Other comprehensive income (loss) for the six months ended September 30, 2008:			
Change in unrealized gains and (losses) on available-for-sale securities and deposits with financial institutions, net of cash flow hedges	-	(1,924)	(1,924)
Changes in gains and (losses) on derivative financial instruments designated as cash flow hedges	-	(19,305)	(19,305)
Reclassification to earnings of gains and (losses) on cash flow hedges	-	7,732	7,732
	-	(13,497)	(13,497)
Comprehensive income for the six months ended September 30, 2008			48,875
Equity as at September 30, 2008	\$ 1,705,713	\$ 11,614	\$ 1,717,327
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
Net income for the six months ended September 30, 2007	73,043	-	73,043
Other comprehensive income (loss) for the six months ended September 30, 2007:			
Change in unrealized gains and (losses) on available-for-sale securities and deposits with financial institutions, net of cash flow hedges	-	(375)	(375)
Changes in gains and (losses) on derivative financial instruments designated as cash flow hedges	-	(9,442)	(9,442)
Reclassification to earnings of gains and (losses) on cash flow hedges	-	13	13
	-	(9,804)	(9,804)
Comprehensive income for the six months ended September 30, 2007			63,239
Equity as at September 30, 2007	\$ 1,686,399	\$ (6,343)	\$ 1,680,056

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			For the six months ended	
	Sep 30 2008	Jun 30 2008	Sep 30 2007	Sep 30 2008	Sep 30 2007
Cash flows from operating activities					
Net income	\$ 5,693	\$ 56,679	\$ 8,547	\$ 62,372	\$ 73,043
Adjustments to determine net cash flows:					
Provision for (recovery of) credit losses	13,917	8,640	(1,434)	22,557	5,163
Amortization	8,877	8,642	8,398	17,519	16,490
Net changes in accrued interest receivable and payable	(880)	(9,435)	(6,619)	(10,315)	(10,996)
Net changes in derivative financial instruments	(4,484)	(791)	20,055	(5,275)	19,996
Provision for (Recovery of) loss on asset-backed commercial paper	55,544	(1,285)	77,600	54,259	77,600
Gain on sale of securitized residential mortgage loans (Note 6)	(7,561)	(6,330)	-	(13,891)	-
Other items, net	32,730	(23,191)	50,955	9,539	49,297
Net cash provided by operating activities	103,836	32,929	157,502	136,765	230,593
Cash flows from financing activities					
Net change in deposits	670,003	1,074,638	917,347	1,744,641	1,980,341
Repayment of subordinated debentures	-	(15,985)	-	(15,985)	(15,234)
Issuance of subordinated debentures	-	-	15,990	-	15,990
Net cash provided by financing activities	670,003	1,058,653	933,337	1,728,656	1,981,097
Cash flows from investing activities					
Net change in interest-bearing deposits					
with financial institutions	(72,917)	(671,854)	(1,055,266)	(744,771)	(1,172,220)
Purchase of investment securities	(1,137,707)	(876,301)	(3,029,079)	(2,014,008)	(7,873,961)
Proceeds from investment securities	1,244,331	878,910	3,385,604	2,123,241	8,069,499
Net change in loans	(941,848)	(616,266)	(481,559)	(1,558,114)	(1,224,850)
Proceeds from sale of securitized residential mortgage loans (Note 6)	188,884	247,842	-	436,726	-
Net purchases of premises and equipment	(32,978)	(23,148)	(10,692)	(56,126)	(22,172)
Net cash used in investing activities	(752,235)	(1,060,817)	(1,190,992)	(1,813,052)	(2,223,704)
Net increase (decrease) in cash and cash equivalents	21,604	30,765	(100,153)	52,369	(12,014)
Cash and cash equivalents at beginning of period	122,332	91,567	166,256	91,567	78,117
Cash and cash equivalents at end of period, represented by cash	\$ 143,936	\$ 122,332	\$ 66,103	\$ 143,936	\$ 66,103
Supplementary cash flow information:					
Amount of interest paid during the period	\$ 136,600	\$ 151,516	\$ 148,313	\$ 288,116	\$ 296,710

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 six months ended September 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 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 September 30, 2008:

(\$ in thousands)

As at September 30, 2008

	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	Carrying Value		Financial liabilities measured at amortized cost	Derivatives designated for hedge accounting	Total carrying value
				Held-to-maturity instruments measured at amortized cost				
Financial Assets								
Cash	\$ 143,936	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 143,936 ⁽¹⁾
Interest-bearing deposits with financial institutions	116,333	2,556,477	-	-	-	-	-	2,672,810 ⁽¹⁾
Securities	39,068	1,013,693	-	35,451	-	-	-	1,088,212 ⁽²⁾
Loans								
Business	-	-	7,902,116	-	-	-	-	7,902,116
Residential mortgages	-	-	7,713,373	-	-	-	-	7,713,373
Personal	-	-	4,584,450	-	-	-	-	4,584,450
Credit card	-	-	520,048	-	-	-	-	520,048
Allowance for credit losses	-	-	(180,674)	-	-	-	-	(180,674) ⁽³⁾
	-	-	20,539,313	-	-	-	-	20,539,313
Other								
Derivative financial instruments	90,780	-	-	-	-	-	29,606	120,386
Other assets	-	-	336,009	-	-	-	-	336,009
	90,780	-	336,009	-	-	-	29,606	456,395 ⁽¹⁾
Financial liabilities								
Deposits								
Personal	-	-	-	-	(9,947,279)	-	-	(9,947,279)
Business and other	-	-	-	-	(9,604,046)	-	-	(9,604,046)
Wholesale	-	-	-	-	(3,370,834)	-	-	(3,370,834) ⁽⁴⁾
	-	-	-	-	(22,922,159)	-	-	(22,922,159)
Other liabilities								
Derivative financial instruments	(90,148)	-	-	-	-	(9,677)	-	(99,825)
Other liabilities	-	-	-	-	(365,842)	-	-	(365,842) ⁽¹⁾
	(90,148)	-	-	-	(365,842)	(9,677)	-	(465,667)
Subordinated debentures	-	-	-	-	(57,013)	-	-	(57,013) ⁽⁵⁾

(1) Fair value estimated to equal carrying value
(2) Fair value of securities estimated to be \$1,088,228
(3) Fair value of loans estimated to be \$21,108,017
(4) Fair value of deposits estimated to be \$23,175,224
(5) Fair value of subordinated debentures estimated to be \$58,486

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 September 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 September 30, 2008
(\$ in thousands)

	Outstanding	Undrawn commitments ⁽¹⁾	Other	Total
Loans ⁽²⁾	\$ 20,719,987	\$ 9,656,045	\$ -	\$ 30,376,032
Over-the-counter derivatives ⁽³⁾	-	-	110,631	110,631
Other off-balance sheet items ⁽⁴⁾	-	-	307,787	307,787
Total credit risk	\$ 20,719,987	\$ 9,656,045	\$ 418,418	\$ 30,794,450

- (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:

(\$ in thousands)	As at September 30, 2008			As at June 30, 2008	As at March 31, 2008
	Gross Loans	Specific Allowances	General Allowances	Net Carrying Value	Net Carrying Value
Commercial	\$ 4,376,251	\$ 6,010	\$ 53,276	\$ 4,316,965	\$ 3,850,274
Independent business	2,284,622	4,233	47,622	2,232,767	2,128,715
Agricultural	1,241,243	1,007	12,867	1,227,369	1,258,604
Residential mortgage	7,713,373	475	10,723	7,702,175	7,707,924
Personal	4,584,450	2,734	26,219	4,555,497	4,061,925
Credit card	520,048	-	15,508	504,540	465,129
	\$ 20,719,987	\$ 14,459	\$ 166,215	\$ 20,539,313	\$ 19,443,517

Impaired Loans

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

(\$ in thousands)	As at September 30, 2008			As at June 30, 2008	As at March 31, 2008
	Gross impaired loans	Specific allowances	Net carrying value	Net carrying value	Net carrying value
Commercial	\$ 13,904	\$ 6,010	\$ 7,894	\$ 5,877	\$ 194
Independent business	10,711	4,233	6,478	7,949	6,135
Agricultural	7,143	1,007	6,136	6,383	9,300
Residential mortgage	20,317	475	19,842	15,581	13,377
Personal	9,312	2,734	6,578	5,084	4,613
	\$ 61,387	\$ 14,459	\$ 46,928	\$ 40,874	\$ 33,619

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 September 30, 2008

(\$ in thousands)

	Residential				
	mortgages	Business	Personal	Credit card ⁽¹⁾	Total
Up to one month	\$ 98,753	\$ 31,191	\$ 31,223	\$ 45,756	\$ 206,923
Over one month up to two months	9,450	7,457	6,712	10,083	33,702
Over two months up to three months	2,366	2,316	4,914	3,225	12,821
Over three months	129	1,830	509	3,131	5,599
Total past due but not impaired	\$ 110,698	\$ 42,794	\$ 43,358	\$ 62,195	\$ 259,045

⁽¹⁾ 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:

(\$ in thousands)	Sep 30 2008		Jun 30 2008	
	Outstanding ⁽¹⁾	% of net carrying value	Outstanding ⁽¹⁾	% of net carrying value
Individuals				
Residential mortgage	\$ 7,712,898	37.6	\$ 7,681,804	38.8
Personal	4,887,991	23.8	4,660,268	23.5
	12,600,889	61.4	12,342,072	62.3
Business and other				
Mining, energy, and forestry	1,684,762	8.2	1,655,318	8.4
Agricultural and related services	1,333,873	6.5	1,315,746	6.6
Real estate	1,082,694	5.3	931,595	4.7
Accommodation, food and beverage	565,738	2.8	547,315	2.8
Construction	560,883	2.7	523,632	2.6
Other services	497,060	2.4	436,127	2.2
Transportation, communication, and utilities	494,098	2.4	434,737	2.2
Manufacturing	486,037	2.4	494,355	2.5
Retail trade	393,498	1.9	347,908	1.8
Business services	288,284	1.4	275,122	1.4
Educational services, health, and social services	270,401	1.3	250,835	1.3
Wholesale trade	172,922	0.8	150,135	0.8
Finance and insurance	164,382	0.8	150,897	0.8
Other	110,007	0.5	104,106	0.5
	8,104,639	39.4	7,617,828	38.5
Loans before general allowance	20,705,528	100.8	19,959,900	100.8
General allowance	(166,215)	(0.8)	(159,236)	(0.8)
Net carrying value	\$ 20,539,313	100.0	\$ 19,800,664	100.0

⁽¹⁾ 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.

At September 30, 2008 ATB maintained a minimum liquidity level in excess of the internal targeted optimal level of 10%.

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 September 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

ATB is subject to interest rate risk in that it earns interest income on interest-bearing assets, pays interest expense on interest-bearing liabilities, and has certain off-balance-sheet derivative instruments with values that are interest rate sensitive. To the extent either that these assets, liabilities, and financial instruments mature or reprice at different times or that the financial instruments do not effectively address any interest rate mismatch between the assets and liabilities, ATB is exposed to interest rate risk.

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. ATB actively manages the interest rate gap to protect net interest income while minimizing risk.

As at September 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 (%)	\$	%
ASSETS										
Cash	\$ 143,936	3.59	\$ -	-	\$ -	-	\$ -	-	\$ 143,936	3.59
Securities and interest-bearing deposits with financial institutions	3,761,022	3.28	-	-	-	-	-	-	3,761,022	3.28
Loans	14,637,255	5.25	5,956,395	5.87	84,388	6.25	(138,725)	-	20,539,313	5.47
Other	-	-	-	-	-	-	755,578	-	755,578	-
Total assets	\$ 18,542,213		\$ 5,956,395		\$ 84,388		\$ 616,853		\$ 25,199,849	
LIABILITIES AND EQUITY										
Deposits	\$ 18,460,690	2.24	\$ 4,461,469	4.06	\$ -	-	\$ -	-	\$ 22,922,159	2.59
Other liabilities and equity	-	-	-	-	-	-	2,220,677	-	2,220,677	-
Subordinated debentures	-	-	-	-	-	-	57,013	4.29	57,013	4.29
Total liabilities	\$ 18,460,690		\$ 4,461,469		\$ -		\$ 2,277,690		\$ 25,199,849	
On-balance sheet gap	\$ 81,523		\$ 1,494,926		\$ 84,388		\$ (1,660,837)			
Off-balance sheet gap	\$ (2,141,000)		\$ 2,141,000		-		-			
Net gap	\$ (2,059,477)		\$ 3,635,926		\$ 84,388		\$ (1,660,837)			
Net gap as a % of assets	(8.17)%		14.43%		0.33%		(6.59)%			

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 September 30, 2008
(\$ in thousands)

Impact on net income in the next 12 months from:

Increase in interest rates of:

100 basis points	\$ 15,152
200 basis points	\$ 29,555

Decrease in interest rates of:

100 basis points	\$ (15,179)
200 basis points	\$ (30,764)

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 September 30, 2008:

As at September 30, 2008

(\$ in thousands)

Assets			
Cash resources	\$		154,930
Securities			39,068
Loans and other			300,716
Liabilities			
Deposits			(507,121)
Other			(10,930)
Net total	\$		(23,337)

In addition to the amounts shown above, ATB has certain foreign exchange forward deals that settle in one day. These deals had a net asset position of \$22.0 million as at September 30, 2008, reducing the net foreign exchange exposure to \$1.3 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. ATB uses 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 six months ended September 30, 2008, ATB's capital levels exceeded both regulatory and internal policy requirements.

As at September 30, 2008

(\$ in thousands)

Tier 1 capital	
Retained earnings	\$ 1,705,713
Tier 2 capital	
Allowable portions of:	
Subordinated debentures	29,514
General allowance for credit losses	153,670
Less: investment in ATB Securities Inc	(25,000)
	158,184
Total regulatory capital	\$ 1,863,897
Total risk-weighted assets	\$ 17,562,254
Risk-weighted capital ratios	
Tier 1 capital ratio	9.71%
Total regulatory capital ratio	10.61%

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 in other income at the time of sale. 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		
	Sep 30 2008	Jun 30 2008	Sep 30 2007
Proceeds, net of transaction fees	\$ 188,884	247,842	-
Retained interests	8,720	8,700	-
Deferred servicing revenue	(1,144)	(1,465)	-
	196,460	255,077	-
Residential mortgages securitized and sold	188,899	248,747	-
Gain on sale, net of transaction fees	\$ 7,561	\$ 6,330	\$ -

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

(\$ in thousands)	For the three months ended		
	Sep 30 2008	Jun 30 2008	Sep 30 2007
Gain on sale, net of transaction fees	\$ 7,561	\$ 6,330	\$ -
Other securitization income	779	-	-
Servicing revenues	152	6	-
Securitization income	\$ 8,492	\$ 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		
	Sep 30 2008	Jun 30 2008	Sep 30 2007
Expected weighted average life of mortgage pool	47.6 months	45.2 months	-
Prepayment rate	20%	20%	-
Excess spread	2.10%	1.68%	-
Discount rate	3.90%	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 September 30, 2008				June 30, 2008	March 31, 2008	September 30, 2007
	Less than 1 year	From 1-5 years	Greater than 5 years	Total carrying value	Total carrying value	Total carrying value	Total carrying value
Issued or guaranteed by the Canadian federal government	\$ 161,460	\$ -	\$ -	\$ 161,460	\$ 162,005	\$ 161,304	\$ 159,820
Commercial paper							
Third-party-sponsored ABCP	-	-	773,068	773,068	845,200	825,984	1,143,019
Bank-sponsored ABCP	-	-	55,361	55,361	77,525	76,333	52,475
Corporate paper	71,941	-	-	71,941	168,500	182,766	51,922
Total commercial paper	71,941	-	828,429	900,370	1,091,225	1,085,083	1,247,416
Retained interest in securitization	-	16,341	-	16,341	8,652	-	-
Other	10,041	-	-	10,041	9,674	7,131	4,897
	\$ 243,442	\$ 16,341	\$ 828,429	\$ 1,088,212	\$ 1,271,556	\$ 1,253,518	\$ 1,412,133

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 September 30, 2008, ATB holds investments in such ABCP with a net carrying value of \$773.1 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 September 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 to 8 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 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 subprime mortgages. On restructuring, ATB expects to receive IA Tracking long-term FRNs with maturities of approximately 8 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 ("Sanction Order"). On June 25 and 26, 2008, the Ontario Court of Appeal heard a motion from a group of investors seeking to appeal the Sanction Order. On August 18, 2008, the Ontario Court of Appeal upheld the Sanction Order and on September 19, 2008, the Supreme Court of Canada upheld the Court of Appeal's decision. The expectation is that the restructuring will be completed in the third quarter of the current fiscal year.

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 September 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 June 30, 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 September 30, 2008 (excluding accrued interest of \$41.8 million) of ATB's third-party-sponsored ABCP subject to the Montreal Accord was \$737.6 million. This is a decrease of \$72.1 million from the \$809.7 million fair value at June 30, 2008. This includes a \$73.8 reduction in fair value, partially offset by a \$1.7 million foreign exchange gain on the portion of this investment denominated in US dollars. \$54.5 million of this decrease in fair value was charged to net income and \$19.3 million was recorded through other comprehensive income. This decrease in fair value was driven by the increased market discount rates resulting from the deterioration in the credit markets since 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 769 basis points (for C notes). At June 30, 2008 the range was between 85 basis points and 605 basis points.

In addition to the fair value provision, ATB accrued \$2.0 million 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 fiscal 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 were similar to the Accord in that the investments were to be restructured into long-term notes (approximately 8 to 9 years) to match the maturity date of the underlying assets.

One of these investments restructured in the last quarter and the other restructured during this quarter. This quarter, in exchange for the original investment with a face value of \$51.8 million and a fair value of \$49.2 million, ATB received cash of \$18.8 million and an FRN with a total face value of \$33.0 million, monthly interest at 35 basis points over the one-month Canadian Deposit Offering Rate, and a maturity of September 2016. The fair value of this new investment was determined to be \$1.0 million lower than the fair value of the original investment at June 30, 2008. This loss on exchange was recognized in the income statement as an additional provision for loss on ABCP.

The fair value of the two restructured bank-sponsored ABCP investments have been reduced by \$2.7 million based on their estimated fair value at September 30, 2008. This amount was recorded through other comprehensive income.

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 \$44.9 million.

Other

Of the total \$1.1 billion of third-party-sponsored ABCP held by ATB as at September 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		
	Sep 30 2008	Jun 30 2008	Sep 30 2007	Sep 30 2008	Jun 30 2008	Sep 30 2007	Sep 30 2008	Jun 30 2008	Sep 30 2007
For the three months ended									
Balance at beginning of the period	\$ 12,895	\$ 11,896	\$ 14,835	\$ 159,236	\$ 153,010	\$ 148,212	\$ 172,131	\$ 164,906	\$ 163,047
Write-offs	(3,023)	(2,503)	(3,099)	-	-	-	(3,023)	(2,503)	(3,099)
Recoveries	825	1,088	1,225	-	-	-	825	1,088	1,225
Provision for (recovery of) credit losses	6,938	2,414	(11)	6,979	6,226	(1,423)	13,917	8,640	(1,434)
Balance at end of the period	17,635	12,895	12,950	166,215	159,236	146,789	183,850	172,131	159,739
Less: Allowance for cost of credit recovery included in other liabilities	3,176	3,350	2,675	-	-	-	3,176	3,350	2,675
Allowance for loan losses	\$ 14,459	\$ 9,545	\$ 10,275	\$ 166,215	\$ 159,236	\$ 146,789	\$ 180,674	\$ 168,781	\$ 157,064
	Specific		General		Total				
For the six months ended	Sep 30 2008	Sep 30 2007	Sep 30 2008	Sep 30 2007	Sep 30 2008	Sep 30 2007			
Balance at beginning of the period	\$ 11,896	\$ 15,352	\$ 153,010	\$ 141,827	\$ 164,906	\$ 157,179			
Write-offs	(5,526)	(5,335)	-	-	(5,526)	(5,335)			
Recoveries	1,913	2,732	-	-	1,913	2,732			
Provision for credit losses	9,352	201	13,205	4,962	22,557	5,163			
Balance at end of the period	17,635	12,950	166,215	146,789	183,850	159,739			
Less: Allowance for cost of credit recovery included in other liabilities	3,176	2,675	-	-	3,176	2,675			
Allowance for loan losses	\$ 14,459	\$ 10,275	\$ 166,215	\$ 146,789	\$ 180,674	\$ 157,064			

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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.

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 September 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 September 30, 2008			As at June 30, 2008			As at March 31, 2008			As at September 30, 2007		
	Notional amount	Assets	Liabilities	Notional amount	Assets	Liabilities	Notional amount	Assets	Liabilities	Notional amount	Assets	Liabilities
Corporate (non-trading) derivatives												
Cash flow hedges	\$ 4,229,613	\$ 33,301	\$ (12,745)	\$ 3,487,675	\$ 20,922	\$ (10,028)	\$ 2,650,000	\$ 30,740	\$ (5,792)	\$ 3,890,231	\$ 8,372	\$ (17,800)
Other	356,594	36,989	-	373,903	55,479	-	465,769	50,245	(12)	387,633	81,761	-
Client (trading) derivatives	1,973,021	50,096	(49,634)	1,788,406	74,275	(73,935)	374,730	28,265	(27,992)	392,750	9,769	(9,622)
Embedded derivatives												
Equity-linked deposits	260,618	-	(37,232)	260,911	-	(55,405)	257,078	-	(48,433)	270,836	-	(78,419)
Other	85,447	-	(214)	97,094	-	(241)	105,130	-	(161)	127,503	-	(1,170)
	\$ 6,905,293	\$ 120,386	\$ (99,825)	\$ 6,007,989	\$ 150,676	\$ (139,609)	\$ 3,862,707	\$ 109,250	\$ (82,390)	\$ 5,068,953	\$ 99,902	\$ (107,011)

In addition to the notional amounts of derivative instruments shown above, ATB has certain foreign exchange spot deals that settle in one day. These deals had notional amounts of \$38,451 as at September 30, 2008 (June 30, 2008: \$16,722, March 31, 2008: \$8,550, September 30, 2007: \$19,643).

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 \$307,787 as at September 30, 2008 (June 30, 2008: \$281,249, March 31, 2008: \$269,875, September 30, 2007: \$241,229).
- 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 \$928,845 as at September 30, 2008 (June 30, 2008: \$952,351, March 31, 2008: \$19,992, September 30, 2007: \$261,576).
- 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 \$1,044,176 as at September 30, 2008 (June 30, 2008: \$836,055, March 31, 2008: \$354,738, September 30, 2007: \$131,174).
- 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 September 30, 2008 has a value of \$318,000 (June 30, 2008: \$322,500, March 31, 2008: \$362,500, September 30, 2007: \$331,700).

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	September 30, 2008	June 30, 2008	September 30, 2007
Net pension benefit expense	\$ 5,070	\$ 5,726	\$ 5,388

For the six months ended	September 30, 2008	September 30, 2007
Net pension benefit expense	\$ 10,796	\$ 10,464

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.

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.

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12. Segmented Information (continued)

As at and for the three months ended:	Personal and Business Financial Services	Corporate Financial Services	Investor Services	Other Business Units*	Total
September 30, 2008					
Net interest income	\$ 123,040	\$ 22,775	\$ 1,064	\$ 19,805	\$ 166,684
Other income	34,107	5,967	9,613	8,748	58,435
Provision for loss on ABCP	-	-	-	(55,544)	(55,544)
Total operating revenues	157,147	28,742	10,677	(26,991)	169,575
Provision for credit losses	4,608	9,020	-	289	13,917
Non-interest expenses	111,695	7,109	12,068	19,093	149,965
Net income (loss)	\$ 40,844	\$ 12,613	\$ (1,391)	\$ (46,373)	\$ 5,693
Total assets	\$ 16,738,899	\$ 4,549,101	\$ 7,178	\$ 3,904,671	\$ 25,199,849
Total liabilities	\$ 15,495,780	\$ 2,979,294	\$ 598,876	\$ 4,408,572	\$ 23,482,522
June 30, 2008					
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
Net income (loss)	\$ 28,141	\$ 16,626	\$ (695)	\$ 12,607	\$ 56,679
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
September 30, 2007					
Net interest income	\$ 119,243	\$ 19,719	\$ 1,641	\$ 28,221	\$ 168,824
Other income	32,327	5,190	9,919	(1,057)	46,379
Provision for loss on ABCP	-	-	-	(77,600)	(77,600)
Total operating revenues	151,570	24,909	11,560	(50,436)	137,603
Provision for (recovery of) credit losses	7,425	(6,657)	-	(2,202)	(1,434)
Non-interest expenses	106,082	6,432	10,524	7,452	130,490
Net income (loss)	\$ 38,063	\$ 25,134	\$ 1,036	\$ (55,686)	\$ 8,547
Total assets	\$ 14,872,625	\$ 3,598,415	\$ 2,782	\$ 3,979,481	\$ 22,453,303
Total liabilities	\$ 14,550,779	\$ 1,939,830	\$ 511,270	\$ 3,771,368	\$ 20,773,247

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

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12. Segmented Information (continued)

As at and for the six months ended:	Personal and Business Financial Services	Corporate Financial Services	Investor Services	Other Business Units*	Total
September 30, 2008					
Net interest income	\$ 241,528	\$ 43,687	\$ 2,566	\$ 45,932	\$ 333,713
Other income	66,484	12,806	19,423	11,706	110,419
Provision for loss on ABCP	-	-	-	(54,259)	(54,259)
Total operating revenues	308,012	56,493	21,989	3,379	389,873
Provision for (recovery of) credit losses	10,064	12,791	-	(298)	22,557
Non-interest expenses	228,963	14,463	24,075	37,443	304,944
Net income (loss)	\$ 68,985	\$ 29,239	\$ (2,086)	\$ (33,766)	\$ 62,372
September 30, 2007					
Net interest income	\$ 230,293	\$ 38,415	\$ 2,973	\$ 56,028	\$ 327,709
Other income	65,100	9,764	19,569	228	94,661
Provision for loss on ABCP	-	-	-	(77,600)	(77,600)
Total operating revenues	295,393	48,179	22,542	(21,344)	344,770
Provision for (recovery of) credit losses	11,453	(2,767)	-	(3,523)	5,163
Non-interest expenses	209,016	12,768	21,686	23,094	266,564
Net income (loss)	\$ 74,924	\$ 38,178	\$ 856	\$ (40,915)	\$ 73,043

* 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 to ATB in lieu of tax as prescribed by the ATB Regulations. As at September 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 September 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.

15. Future Changes in Accounting Policies (continued)

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.

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Caution regarding forward-looking statements

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

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

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

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

The following Management's Discussion and Analysis ("MD&A") considers ATB's results of operations and financial condition for the three months ended September 30, 2008 and is dated November 13, 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 \$5.7 million for its second quarter ended September 30, 2008 compared to net income of \$56.7 million for the previous quarter and \$8.5 million for the second quarter last year. Adjusting for the impact of the provision for loss on ABCP, net income was \$61.2 million this quarter, compared to \$55.4 million last quarter and \$86.1 million for the second quarter last year. This represents a \$5.8 million (or 10.55%) increase from the previous quarter but a decrease of \$24.9 million (or 28.92%) from the second quarter last year.

In the current quarter, ATB recorded a provision for loss of \$55.5 million on asset-backed commercial paper ("ABCP") compared to a recovery of \$1.3 million in the prior quarter. The provision recorded in the current quarter is considered to represent an other-than-temporary impairment in the value of the asset-backed commercial paper investment held by ATB. This compares favorably to the \$77.6 million recorded in the second quarter last year when this issue first arose. Refer to "Asset Backed Commercial Paper" below for additional detail on this topic.

Despite a reduction in net interest margin from 2.81% to 2.69% and a \$5.3 million (or 61.08%) increase in the provision for credit losses, this quarter's net income (excluding the impact of ABCP) increased over the prior quarter. The increase can be attributed to an improvement in other income, which increased by \$6.5 million (or 12.41%), and a reduction in non-interest expenses, which decreased by \$5.0 million (or 3.24%).

Negative variances in nearly all areas resulted in the reduction of net income (excluding the impact of ABCP) from the second quarter last year. The most significant impact came from the reduction in net interest margin, which decreased from 3.07% to 2.69%. Non-interest expenses and the allowance for credit losses increased by \$19.5 million and \$15.4 million, respectively, to negatively impact net income. Other income, an area that is not interest sensitive, increased by \$12.1 million (or 25.99%) to partially offset the negative impact of these other areas.

Net Interest Income

Despite increasing loan and deposit balances (discussed in the Balance Sheet section), ATB's net interest income has decreased by \$0.3 million (or 0.21%) from the prior quarter and by \$2.1 million (or 1.27%) from the second quarter last fiscal year. This has been driven by a decrease in the Canadian prime rate over this period and the current competitive deposit market. Prime has reduced from an average of 6.22% in the second quarter of fiscal 2008 to an average of 4.75% this quarter. Interest income is more sensitive to rate changes than interest expense, thus when interest rates decrease, as they have done over the last year, the result is normally a reduction in net interest income. This issue is exacerbated by the current crisis in financial markets and the impact it is having on the pricing of deposits. There is currently strong competition among financial institutions for client deposits, which has resulted in increased deposit pricing.

Other Income – excluding ABCP

Other income, excluding losses on ABCP, was \$58.4 million for the second quarter ended September 30, 2008, an increase of \$6.5 million (or 12.41%) compared to the prior quarter, and \$12.1 million (or 25.99%) compared to the second quarter of last year. The increase over last quarter was driven by gains on derivative financial instruments and securitization income. Gains on derivative financial instruments increased by \$2.9 million, from a loss of \$0.8 million last quarter, while securitization income increased by \$2.2 million (or 34.03%). While the carrying value of mortgages securitized this quarter was less than last, the increase in the gain was driven by the current rate environment. In addition, insurance and card fees improved over last quarter, by \$1.3 million (or 40.84%) and \$1.2 million (or 11.03%), respectively.

The \$12.1 million increase in other income over the second quarter of last year was largely driven by the recognition of an \$8.5 million securitization gain along with a \$2.3 million increase in card fees and a \$1.2 million increase in derivative income.

Management's Discussion and Analysis (continued)

Provision for Credit Losses

ATB recorded a \$13.9 million net provision for credit losses in the second quarter ended September 30, 2008. This compares unfavorably to an \$8.6 million net provision last quarter and a net recovery of \$1.4 million in the second 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 provisions are recorded when loans are identified as impaired.

The general loan loss provision for the quarter was \$7.0 million compared to a provision of \$6.2 million last quarter and a recovery of \$1.4 million in the second quarter last year. This increase is the result of ATB's growing loan portfolio.

The specific loan loss provision has increased to \$6.9 million in the current quarter from \$2.4 million in the prior quarter and a recovery of less than \$0.1 million in the second quarter of last year. This is driven by an increase in specifically identified impaired loans this quarter over the prior quarters.

As in last quarter, 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 second quarter ending September 30, 2008 exceeded gross impaired loans by \$119.3 million, compared to \$118.4 million and \$97.8 million at June 30, 2008 and September 30, 2007, respectively.

Non-Interest Expenses

Total non-interest expenses were \$150.0 million for the second quarter ended September 30, 2008. This was \$5.0 million (or 3.24%) lower than the expense in the prior quarter and \$19.5 million (or 14.92%) higher than the expense in the second quarter of last fiscal year.

The decrease from the prior quarter is primarily due to a \$5.8 million (or 6.76%) reduction in human resource expenses, a \$1.4 million (or 21.47%) reduction in the deposit guarantee fee, and a \$1.3 million (or 14.48%) decrease in professional and consulting costs. The reduction in human resource expenses is mainly attributable to reduced employer contributions in the current quarter compared to the prior quarter. The prior quarter contributions were higher than normal due to the payout of variable pay. Despite increasing deposits, the deposit guarantee fee decreased from last quarter, as last quarter's expense included a one-time upward adjustment. These decreases were partially offset by an increase in "other" non-interest expenses, which increased \$2.0 million (or 69.05%).

Currently there is some doubt as to the long term benefit and the continuation of a specific capital project at ATB. In the absence of clarity on this issue, ATB has recorded a \$4.0 million expense for a portion of the project. ATB expects that there will be certainty around this issue next quarter, with the potential for an additional expense at that time.

Non-interest expenses increased by \$19.5 million (or 14.92%) compared to the second quarter last year. A number of areas contributed to this increase, however, the two main contributors were human resource costs and "other" expenses. Human resource costs increased by \$7.3 million (or 10.01%), primarily due to a 10.49% increase in the number of full time equivalent staff working at ATB and the increased cost of existing staff. "Other" expenses increased by \$6.8 million. Last year, this was in a recovery position due to the reversal of a prior period accounting estimate, while this year it includes an expense related to a capital project whose continuation and long term benefit is currently under review (as discussed earlier).

Management's Discussion and Analysis (continued)

Non-Interest Expenses (continued)

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 for credit losses, plus other income). This is known as the efficiency ratio and measures ATB's effectiveness at generating operating revenue. A lower ratio indicates greater efficiency at generating income. In the second quarter ended September 2008, ATB's efficiency ratio was 66.62% (measured excluding the impact of the ABCP provision). This compares favorably to the 70.76% in the prior quarter (also measured excluding the impact of the ABCP provision) but is worse than the 60.64% achieved in the second quarter last year (excluding the impact of the ABCP provision). The reduction in the ratio this past quarter was driven by the increase in other income and the decrease in non-interest expenses. Net interest income, the other contributor to this ratio, remained flat compared to the prior quarter due to the reduction in net interest spreads. The increase in the efficiency compared to last year was expected, as significant investments are being made in growth and other improvement initiatives, but was higher than anticipated due to the significant decrease in net interest margin.

Balance Sheet

Total assets increased by \$0.7 billion over the prior quarter and by \$2.7 billion over the second quarter of the prior year to finish the quarter at \$25.2 billion.

Total loans, net of allowance for credit losses, increased by \$738.6 million (or 3.73%) compared to the previous quarter and by \$2.3 billion (or 12.91%) compared to the second quarter last fiscal year. Deposits increased by \$0.7 billion (or 3.02%) compared to the prior quarter and by \$2.7 billion (or 13.36%) compared to the end of the second quarter of prior fiscal year.

Excluding the impact of securitization, total performing loans grew by \$916.3 million during the quarter. This growth is up \$314.5 million from the preceding quarter's growth (of \$601.8 million) and \$445.1 million from the corresponding second quarter growth figure last year (of \$471.2 million). A significant increase in growth was observed in the commercial performing loan portfolio. In the current economic circumstances demand for commercial loans is increasing – and Corporate Financial Services ("CFS") has benefited from this demand. Commercial performing loans have increased by \$374.2 million this quarter, compared to \$92.6 million last quarter and no growth in the second quarter last year.

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 \$871.6 million (or 4.67%) over the prior quarter, which is close to the growth of \$886.2 million achieved last quarter and significantly higher than the \$237.7 million achieved in the second quarter last year. 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 September 30, 2008, ATB has \$3.4 billion in wholesale deposits. The balance of wholesale deposits is down \$200.3 million (or 5.61%) from the prior quarter and up \$549.3 million (or 19.47%) from the second 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.

Accumulated other comprehensive income decreased from \$27.7 million last quarter to \$11.6 million in the current quarter, reflecting the net temporary reduction in fair value of certain financial instruments (specifically securities and derivatives).

Management's Discussion and Analysis (continued)

Asset Backed Commercial Paper

Overview

As at September 30, 2008 ATB held a portfolio of asset-backed commercial paper with a face value of \$1.14 billion. This included:

- \$1.04 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;
- \$33.0 million of bank-sponsored ABCP that successfully restructured this quarter.

Third-Party-Sponsored Asset Backed Commercial Paper 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 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 September 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. On September 19, 2008, the Supreme Court of Canada upheld the Court of Appeal's decision. The current expectation is that the restructuring will be completed in the third quarter of the current fiscal year.

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 September 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 June 30, 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 September 30, 2008 interim consolidated financial statements.

Management's Discussion and Analysis (continued)

As at June 30, 2008, the provision relative to the Montreal Accord ABCP was estimated to be \$223.7 million; this has increased to \$297.5 million at September 30, 2008 as a result of market spreads increasing 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. \$19.3 million of this increase was a reversal of last quarter's reduction that was recorded through other comprehensive income, the remaining \$54.5 million was recorded as a provision for loss on ABCP through 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 fiscal 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 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 last quarter and the other restructured during this quarter. This quarter, in exchange for the original investment with a face value of \$51.8 million and a fair value of \$49.2 million, ATB received \$18.8 million in cash and a floating rate notes with a total face value of \$33.0 million, monthly interest at the 35 basis points above the one-month Canadian Deposit Offering Rate and maturity of September 2016. The fair value of this new investment was \$1.0 million lower than the fair value of the original investment at June 30, 2008. This loss was recognized in the income statement as a provision for loss on ABCP.

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 not to 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

The operations and activities of ATB have been organized around three main business segments: Personal and Business Financial Services ("PBFS"), Corporate Financial Services ("CFS"), 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.

Management's Discussion and Analysis (continued)

Consistent with the overall picture for ATB, the individual business segments continue to demonstrate growth. Both PBFS and CFS grew their total assets during the current quarter and over the past year. PBFS increased its total assets by \$520.2 million (or 3.21%) during the second quarter and by \$1.9 billion (or 12.55%) from a year ago. Total assets for CFS increased in the quarter by \$413.8 million (or 10.01%) and by \$950.7 million (or 26.42%) from a year ago. Investor Services has been negatively impacted by the effect that the current financial crisis has had on the equity markets, with assets under management and administration decreasing to \$4.0 billion at September 30, 2008, a decrease of \$124.0 million (or 3.02%) from June 30, 2008 and a \$63.6 million (or 1.57%) decrease from September 30, 2007. Further decreases are expected next quarter.

Through a combination of increased operating revenue, reduced non-interest expense and a reduced provision for credit losses, PBFS recorded net income of \$40.8 million this quarter, an improvement of \$12.7 million over last quarter. CFS had the same positive results in operating revenue and non-interest expenses, but an increase in the provision for credit losses resulted in a net income of \$12.6 million, \$4.0 million less than last quarter. The poor equity markets that impacted Investor Services' assets under management and administration also had a negative impact on net income, with Investor Services generating a net loss of \$1.4 million, worse than the \$0.7 million loss last quarter. However, Investor Services has performed well, relative to the industry as a whole.

Despite increasing non-interest expenses, PBFS net income this quarter was \$2.8 million higher than that earned in the second quarter last year. The major reason for this was the reduced provision for credit losses this quarter. CFS, which saw an increase in non-interest expenses and provision for credit losses, generated \$12.5 million less in net income than it generated last year in the second quarter. The current quarter impact of the weak equity markets contributed in Investor Services going from a \$1.0 million net income in the second quarter last year to a \$1.4 million net loss this year.

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Highlights

(unaudited)

	For the three months ended			For the six months ended	
	September 30	June 30	September 30	September 30	September 30
	2008	2008	2007	2008	2007
Operating results (\$ in thousands)					
Interest income	\$ 319,789	\$ 309,872	\$ 330,833	\$ 629,661	\$ 633,179
Interest expense	153,105	142,843	162,009	295,948	305,470
Net interest income	166,684	167,029	168,824	333,713	327,709
Other Income	58,435	51,984	46,379	110,419	94,661
(Provision for) recovery of loss on ABCP	(55,544)	1,285	(77,600)	(54,259)	(77,600)
Total operating revenues	169,575	220,298	137,603	389,873	344,770
Provision for (recovery of) credit losses	13,917	8,640	(1,434)	22,557	5,163
Non-interest expenses	149,965	154,979	130,490	304,944	266,564
Net income	\$ 5,693	\$ 56,679	\$ 8,547	\$ 62,372	\$ 73,043

Financial position

	(\$ in thousands)				
Total loans, net of allowance for losses	\$ 20,539,313	\$ 19,800,664	\$ 18,190,989	\$ 20,539,313	\$ 18,190,989
Total assets	\$ 25,199,849	\$ 24,527,207	\$ 22,453,303	\$ 25,199,849	\$ 22,453,303
Personal & business deposits	\$ 19,551,325	\$ 18,679,678	\$ 17,399,462	\$ 19,551,325	\$ 17,399,462
Wholesale deposits	\$ 3,370,834	\$ 3,571,131	\$ 2,821,569	\$ 3,370,834	\$ 2,821,569
Equity	\$ 1,717,327	\$ 1,727,682	\$ 1,680,056	\$ 1,717,327	\$ 1,680,056

Key Performance Measures

	(in per cent)				
Operating revenue growth ¹	23.23	6.34	(25.95)	13.08	(4.86)
Operating revenue growth ^{1 & 3}	4.61	5.72	15.81	6.31	16.56
Net interest margin ²	2.69	2.81	3.07	2.75	3.06
Net interest spread on average earning assets ²	2.78	2.90	3.17	2.84	3.15
Other income to operating revenue	34.46	23.60	(22.69)	28.32	4.95
Other income to operating revenue ³	25.96	23.74	21.55	24.86	22.41
Non-interest expenses to operating revenue	88.44	70.35	94.83	78.22	77.32
Non-interest expenses to operating revenue ³	66.62	70.76	60.64	68.66	63.11
Return on average assets ²	0.09	0.95	0.16	0.51	0.68
Return on average assets ^{2 & 3}	0.99	0.93	1.56	0.96	1.41
Operating expense growth ¹	14.92	13.89	16.49	14.40	18.40
Net impaired loans to total gross loans	(0.58)	(0.59)	(0.53)	(0.58)	(0.53)
Credit losses to average loans ²	0.27	0.18	(0.03)	0.22	0.06
Net Loan growth ¹	12.91	11.86	13.51	12.91	13.51
Net Loan growth ⁴	15.23	13.24	13.51	15.23	13.51
Deposit growth ¹	13.36	15.28	16.25	13.36	16.25
Asset growth ¹	12.23	14.39	16.21	12.23	16.21
Asset growth ^{1 & 3}	13.17	15.45	16.62	13.17	16.62
Asset growth ^{1 & 4}	14.11	15.53	16.21	14.11	16.21

(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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