

Financial Highlights

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

- * Net income (excluding ABCP-related provisions) of \$54.2 million, down 25.2%.
- * Total assets of \$25.7 billion, up 12.1%.
- * Loans (including securitized mortgages, net of provisions) of \$22.0 billion, up 16.8%.
- * Deposits (excluding wholesale deposits) of \$20.2 billion, up 15.5%.
- * Investor Services assets under administration and management of \$3.8 billion, down 4.2%.
- * Operating revenue (excluding ABCP-related provisions) of \$226.2 million, up 7.4%.
- * Efficiency ratio (non-interest expenses as a percentage of operating revenues) worsened from 63.22% to 69.91%, excluding all ABCP-related provisions.

Record loan growth at ATB Financial tempered by substantial ABCP provision

Edmonton, Alberta – Record loan growth at ATB Financial (“ATB”) highlighted a third quarter that also saw another substantial provision for asset-backed commercial paper (“ABCP”).

ATB recorded a net loss of \$85.8 million in the third quarter after realizing a \$140-million increase in ATB’s provision for potential losses on ABCP. Excluding the impact of provisions for ABCP, net income for this quarter was \$54.2 million, down 25.2% from last year’s third quarter. The drop reflects the impact of decreases in the prime lending rate, Canada’s competitive deposit market and increased operating expenses.

At December 31, 2008, ATB’s results show assets of \$25.7 billion (up 12.1% from last year’s third quarter), net loans of \$21.4 billion (up 13.3%) and deposits, excluding wholesale of \$20.2 billion (up 15.5%). Operating revenue, excluding the ABCP provision, was \$226.2 million, up 7.4%.

Albertans continue to regard ATB as a trusted partner – particularly in challenging economic times – as the institution’s business loans grew to \$8.6 billion (up 21.8% from last year’s third quarter), and personal loans grew to \$4.8 billion (up 23.3%). “Despite what Albertans might have heard about credit drying up or even disappearing, our loan activity demonstrates the power of 163 branches and more than 4,600 associates eager to serve our

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

“We are growing and we are using our experience – through 70 years of good times and bad – to meet the financial needs of more Albertans than ever. Our commitment to this province is based on our knowledge of its strengths, which don’t change with economic cycles.”

Mowat also noted that ATB’s holdings in ABCP were restructured on January 21, 2009. The institution’s \$1.14-billion principal investment in ABCP has been converted to longer-term notes that reach maturity in six to nine years.

“ABCP was a challenging issue for our organization, and we’re eager to move forward with the benefit of lessons learned and an even stronger emphasis on our customers and associates,” Mowat said.

Operational Highlights

Personal and Business Financial Services (PBFS)

– ATB’s largest line of business includes branches and agencies throughout Alberta. Assets, primarily consisting of loans, have grown \$1.8 billion, or 11.7% over the last year. Operating revenue increased from the third quarter last year by \$5.9 million, or 3.9%.

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's assets have grown \$1.4 billion, or 38.0% over the last year. Operating revenue increased from the third quarter last year by \$17.4 million, or 68.5%.

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 December 31, 2008, client assets under management and administration were \$3.8 billion, down \$166.8 million from the third quarter last year. Net assets gathered were \$110.7 million for the quarter, compared to a net decline of \$13.6 million for the same quarter last year. The fund's success is the result of a strong portfolio structure and ATB's long-term focus on asset management.

ATB in the Community – In the past quarter, ATB raised a record \$621,705 for the United Way, breaking its associate-giving goal by nearly \$20,000. Through its ongoing partnership with the Edmonton Oilers, ATB raised \$50,000 for the Christmas Bureau Campaign by raffling off signed Oilers jerseys in 28 Edmonton-area branches.

About ATB Financial – ATB Financial is the largest Alberta-based financial institution, with assets of \$25.7 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 Canada's 50 Best Employers by *Report on Business Magazine*. For more information about ATB Financial, visit www.atb.com



Bob Splane
Chairman of the Board



Dave Mowat
President & CEO

Interim Consolidated Balance Sheet

(unaudited)

(\$ in thousands)	As at Dec 31 2008	As at Sep 30 2008	As at Jun 30 2008	As at Dec 31 2007
Assets				
Cash resources				
Cash	\$ 475,039	\$ 143,936	\$ 122,332	\$ 93,154
Interest-bearing deposits with financial institutions	2,171,252	2,672,810	2,599,862	2,014,323
	2,646,291	2,816,746	2,722,194	2,107,477
Securities (Note 7)	871,816	1,088,212	1,271,556	1,424,815
Loans				
Business	8,642,095	7,902,116	7,425,115	7,092,829
Residential mortgage	7,635,067	7,713,373	7,682,222	7,629,365
Personal	4,754,071	4,584,450	4,382,415	3,855,138
Credit card	542,908	520,048	479,693	453,267
Allowance for credit losses (Note 8)	(191,592)	(180,674)	(168,781)	(161,035)
	21,382,549	20,539,313	19,800,664	18,869,564
Other				
Premises and equipment	266,743	247,482	223,381	193,629
Derivative financial instruments (Note 9)	255,078	120,386	150,676	74,667
Other assets	291,691	387,710	358,736	270,993
	813,512	755,578	732,793	539,289
	\$ 25,714,168	\$ 25,199,849	\$ 24,527,207	\$ 22,941,145
Liabilities and Equity				
Deposits				
Personal	\$ 10,374,510	\$ 9,947,279	\$ 9,820,724	\$ 9,486,877
Business and other	9,839,353	9,604,046	8,858,954	8,008,905
Wholesale	3,162,707	3,370,834	3,571,131	3,149,044
	23,376,570	22,922,159	22,250,809	20,644,826
Other liabilities				
Derivative financial instruments (Note 9)	151,780	99,825	139,609	103,532
Other liabilities	419,279	403,525	352,094	386,828
	571,059	503,350	491,703	490,360
Subordinated debentures	57,013	57,013	57,013	72,998
Equity				
Retained earnings	1,619,868	1,705,713	1,700,020	1,729,471
Accumulated other comprehensive income	89,658	11,614	27,662	3,490
	1,709,526	1,717,327	1,727,682	1,732,961
	\$ 25,714,168	\$ 25,199,849	\$ 24,527,207	\$ 22,941,145

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

Interim Consolidated Income Statement

(unaudited)

(\$ in thousands)	For the three months ended			For the nine months ended	
	Dec 31 2008	Sep 30 2008	Dec 31 2007	Dec 31 2008	Dec 31 2007
Interest income					
Loans	\$ 278,301	\$ 289,313	\$ 299,491	\$ 846,247	\$ 862,047
Deposits with financial institutions	16,800	18,383	24,333	52,877	54,815
Securities	8,044	12,093	15,401	33,682	55,542
	<u>303,145</u>	<u>319,789</u>	<u>339,225</u>	<u>932,806</u>	<u>972,404</u>
Interest expense					
Deposits	139,926	152,436	173,720	434,480	477,582
Subordinated debentures	611	669	783	2,005	2,391
	<u>140,537</u>	<u>153,105</u>	<u>174,503</u>	<u>436,485</u>	<u>479,973</u>
Net interest income	<u>162,608</u>	<u>166,684</u>	<u>164,722</u>	<u>496,321</u>	<u>492,431</u>
Other income					
Service charges	17,038	17,143	17,027	51,190	51,562
Card fees	12,487	11,588	9,518	34,512	26,988
Securitization income (Note 6)	10,882	8,492	-	25,710	-
Investor services	8,394	9,483	9,163	27,540	28,728
Gains on derivative financial instruments	5,193	2,132	582	6,572	860
Insurance	3,910	4,411	3,440	11,453	9,398
Credit fees	3,224	2,522	2,001	8,802	9,008
Foreign exchange	2,105	2,475	3,798	7,476	9,138
Sundry	396	189	447	793	4,955
	<u>63,629</u>	<u>58,435</u>	<u>45,976</u>	<u>174,048</u>	<u>140,637</u>
Operating revenue before the undernoted	<u>226,237</u>	<u>225,119</u>	<u>210,698</u>	<u>670,369</u>	<u>633,068</u>
Provision for loss on asset-backed commercial paper (Note 7)	(140,000)	(55,544)	(29,300)	(194,259)	(106,900)
Total operating revenue	<u>86,237</u>	<u>169,575</u>	<u>181,398</u>	<u>476,110</u>	<u>526,168</u>
Provision for credit losses	<u>13,911</u>	<u>13,917</u>	<u>5,113</u>	<u>36,468</u>	<u>10,276</u>
Non-interest expenses					
Human resources (Note 11)	82,104	80,310	70,002	248,545	218,403
Data processing	19,501	18,791	16,706	56,191	50,397
Premises and occupancy, including amortization	14,046	13,355	11,580	40,215	35,261
Professional and consulting costs	9,775	7,554	5,683	26,162	20,063
Marketing and supplies	8,430	7,214	7,804	22,511	20,333
Equipment and software, including amortization	6,994	6,174	5,622	19,318	16,954
Deposit guarantee fee	5,932	5,168	4,923	17,681	13,713
Other	5,040	4,823	3,809	12,716	4,563
Communication	4,256	4,515	4,673	13,338	13,137
ATB Agencies	2,093	2,061	2,411	6,438	6,953
	<u>158,171</u>	<u>149,965</u>	<u>133,213</u>	<u>463,115</u>	<u>399,777</u>
Net (loss) income	<u>\$ (85,845)</u>	<u>\$ 5,693</u>	<u>\$ 43,072</u>	<u>\$ (23,473)</u>	<u>\$ 116,115</u>

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 September 30, 2008	\$ 1,705,713	\$ 11,614	\$ 1,717,327
Net loss for the three months ended December 31, 2008	(85,845)	-	(85,845)
Other comprehensive income (loss) for the three months ended December 31, 2008:			
Change in unrealized gains and (losses) on available-for-sale securities and deposits with financial institutions, net of cash flow hedges	-	(1,499)	(1,499)
Changes in gains on derivative financial instruments designated as cash flow hedges	-	73,310	73,310
Reclassification to earnings of gains on cash flow hedges	-	6,233	6,233
	<u>-</u>	<u>78,044</u>	<u>78,044</u>
Comprehensive loss for the three months ended December 31, 2008			(7,801)
Equity as at December 31, 2008	\$ 1,619,868	\$ 89,658	\$ 1,709,526
Equity as at September 30, 2007	\$ 1,686,399	\$ (6,343)	\$ 1,680,056
Net income for the three months ended December 31, 2007	43,072	-	43,072
Other comprehensive income (loss) for the three months ended December 31, 2007:			
Change in unrealized gains and (losses) on available-for-sale securities and deposits with financial institutions, net of cash flow hedges	-	54	54
Reclassification to earnings in respect of available-for-sale securities and deposits with financial institutions	-	(3)	(3)
Changes in gains on derivative financial instruments designated as cash flow hedges	-	4,296	4,296
Reclassification to earnings of gains on cash flow hedges	-	5,486	5,486
	<u>-</u>	<u>9,833</u>	<u>9,833</u>
Comprehensive income for the three months ended December 31, 2007			52,905
Equity as at December 31, 2007	\$ 1,729,471	\$ 3,490	\$ 1,732,961

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 loss for the nine months ended December 31, 2008	(23,473)	-	(23,473)
Other comprehensive income (loss) for the nine months ended December 31, 2008:			
Change in unrealized gains and (losses) on available-for-sale securities and deposits with financial institutions, net of cash flow hedges	-	(3,423)	(3,423)
Changes in gains on derivative financial instruments designated as cash flow hedges	-	54,005	54,005
Reclassification to earnings of gains on cash flow hedges	-	13,965	13,965
	-	64,547	64,547
Comprehensive income for the nine months ended December 31, 2008			41,074
Equity as at December 31, 2008	\$ 1,619,868	\$ 89,658	\$ 1,709,526
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 nine months ended December 31, 2007	116,115	-	116,115
Other comprehensive income (loss) for the nine months ended December 31, 2007:			
Change in unrealized gains and (losses) on available-for-sale securities and deposits with financial institutions, net of cash flow hedges	-	(321)	(321)
Reclassification to earnings in respect of available-for-sale securities and deposits with financial institutions	-	(3)	(3)
Changes in losses on derivative financial instruments designated as cash flow hedges	-	(5,146)	(5,146)
Reclassification to earnings of gains on cash flow hedges	-	5,499	5,499
	-	29	29
Comprehensive income for the nine months ended December 31, 2007			116,144
Equity as at December 31, 2007	\$ 1,729,471	\$ 3,490	\$ 1,732,961

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 nine months ended	
	Dec 31 2008	Sep 30 2008	Dec 31 2007	Dec 31 2008	Dec 31 2007
Cash flows from operating activities					
Net (loss) income	\$ (85,845)	\$ 5,693	\$ 43,072	\$ (23,473)	\$ 116,115
Adjustments to determine net cash flows:					
Provision for credit losses	13,911	13,917	5,113	36,468	10,276
Amortization	9,510	8,877	7,950	27,029	24,440
Net changes in accrued interest receivable and payable	(15,351)	(880)	(10,186)	(25,666)	(21,182)
Net changes in derivative financial instruments	(3,194)	(4,484)	31,539	(8,469)	51,535
Provision for loss on asset-backed commercial paper	140,000	55,544	29,300	194,259	106,900
Gain on sale of securitized residential mortgage loans (Note 6)	(14,267)	(7,561)	-	(28,158)	-
Other items, net	142,544	32,730	67,435	152,083	116,732
Net cash provided by operating activities	<u>187,308</u>	<u>103,836</u>	<u>174,223</u>	<u>324,073</u>	<u>404,816</u>
Cash flows from financing activities					
Net change in deposits	453,004	670,003	424,193	2,197,645	2,404,534
Repayment of subordinated debentures	-	-	-	(15,985)	(15,234)
Issuance of subordinated debentures	-	-	-	-	15,990
Net cash provided by financing activities	<u>453,004</u>	<u>670,003</u>	<u>424,193</u>	<u>2,181,660</u>	<u>2,405,290</u>
Cash flows from investing activities					
Net change in interest-bearing deposits with financial institutions	503,054	(72,917)	175,591	(241,717)	(996,629)
Purchase of investment securities	(132,384)	(1,137,707)	(2,629,727)	(2,146,392)	(10,503,688)
Proceeds from investment securities	205,884	1,244,331	2,587,504	2,329,125	10,657,003
Net change in loans	(1,121,589)	(941,848)	(686,397)	(2,679,703)	(1,911,247)
Proceeds from sale of securitized residential mortgage loans (Note 6)	264,597	188,884	-	701,323	-
Net purchases of premises and equipment	(28,771)	(32,978)	(18,336)	(84,897)	(40,508)
Net cash used in investing activities	<u>(309,209)</u>	<u>(752,235)</u>	<u>(571,365)</u>	<u>(2,122,261)</u>	<u>(2,795,069)</u>
Net increase in cash and cash equivalents	<u>331,103</u>	<u>21,604</u>	<u>27,051</u>	<u>383,472</u>	<u>15,037</u>
Cash and cash equivalents at beginning of period	143,936	122,332	66,103	91,567	78,117
Cash and cash equivalents at end of period, represented by cash	<u>\$ 475,039</u>	<u>\$ 143,936</u>	<u>\$ 93,154</u>	<u>\$ 475,039</u>	<u>\$ 93,154</u>
Supplementary cash flow information:					
Amount of interest paid during the period	\$ 158,849	\$ 136,600	\$ 182,004	\$ 446,965	\$ 478,714

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 nine months ended December 31, 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 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 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 December 31, 2008:

(\$ in thousands)

As at December 31, 2008

	Carrying Value						Total carrying value
	Held-for-trading assets and liabilities measured at fair value	Available-for-sale instruments measured at fair value	Loans and receivables measured at amortized cost	Held-to-maturity instruments measured at amortized cost	Financial liabilities measured at amortized cost	Derivatives designated for hedge accounting	
Financial Assets							
Cash	\$ 475,039	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 475,039 ⁽¹⁾
Interest-bearing deposits with financial institutions	1,179	2,170,073	-	-	-	-	2,171,252 ⁽¹⁾
Securities	44,714	791,667	-	35,435	-	-	871,816 ⁽²⁾
Loans							
Business	-	-	8,642,095	-	-	-	8,642,095
Residential mortgages	-	-	7,635,067	-	-	-	7,635,067
Personal	-	-	4,754,071	-	-	-	4,754,071
Credit card	-	-	542,908	-	-	-	542,908
Allowance for credit losses	-	-	(191,592)	-	-	-	(191,592)
	-	-	21,382,549	-	-	-	21,382,549 ⁽³⁾
Other							
Derivative financial instruments	133,575	-	-	-	-	121,503	255,078
Other assets	-	-	241,753	-	-	-	241,753
	133,575	-	241,753	-	-	121,503	496,831 ⁽¹⁾
Financial liabilities							
Deposits							
Personal	-	-	-	-	(10,374,510)	-	(10,374,510)
Business and other	-	-	-	-	(9,839,353)	-	(9,839,353)
Wholesale	-	-	-	-	(3,162,707)	-	(3,162,707)
	-	-	-	-	(23,376,570)	-	(23,376,570) ⁽⁴⁾
Other liabilities							
Derivative financial instruments	(134,773)	-	-	-	-	(17,007)	(151,780)
Other liabilities	-	-	-	-	(385,871)	-	(385,871)
	(134,773)	-	-	-	(385,871)	(17,007)	(537,651) ⁽¹⁾
Subordinated debentures	-	-	-	-	(57,013)	-	(57,013) ⁽⁵⁾

⁽¹⁾ Fair value estimated to equal carrying value

⁽²⁾ Fair value of securities estimated to be \$863,985

⁽³⁾ Fair value of loans estimated to be \$22,494,650

⁽⁴⁾ Fair value of deposits estimated to be \$23,627,923

⁽⁵⁾ Fair value of subordinated debentures estimated to be \$60,512

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 December 31, 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 December 31, 2008, without taking into account any collateral held or any other credit enhancements.

4. Risk Management (continued)

As at December 31, 2008
(\$ in thousands)

	Outstanding	Undrawn commitments ⁽¹⁾	Other	Total
Loans ⁽²⁾	\$ 21,574,141	\$ 9,615,583	\$ -	\$ 31,189,724
Over-the-counter derivatives ⁽³⁾	-	-	238,071	238,071
Other off-balance sheet items ⁽⁴⁾	-	-	316,574	316,574
Total credit risk	\$ 21,574,141	\$ 9,615,583	\$ 554,645	\$ 31,744,369

- (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 includes 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 December 31, 2008			As at September 30, 2008	As at June 30, 2008	
	Gross Loans	Specific Allowances	General Allowances	Net Carrying Value	Net Carrying Value	Net Carrying Value
Residential mortgage	\$ 7,635,067	\$ 532	\$ 10,677	\$ 7,623,858	\$ 7,702,175	\$ 7,670,936
Commercial	4,974,274	7,775	59,742	4,906,757	4,316,965	3,944,763
Personal	4,754,071	2,817	26,386	4,724,868	4,555,497	4,354,710
Independent business	2,355,408	4,032	49,351	2,302,025	2,232,767	2,150,745
Agricultural	1,312,413	806	13,135	1,298,472	1,227,369	1,214,381
Credit card	542,908	-	16,339	526,569	504,540	465,129
	\$ 21,574,141	\$ 15,962	\$ 175,630	\$ 21,382,549	\$ 20,539,313	\$ 19,800,664

Impaired Loans

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

(\$ in thousands)	As at December 31, 2008			As at September, 2008	As at June 30, 2008
	Gross impaired loans	Specific allowances	Net carrying value	Net carrying value	Net carrying value
Residential mortgage	\$ 22,456	\$ 532	\$ 21,924	\$ 19,842	\$ 15,581
Commercial	13,273	7,775	5,498	7,894	5,877
Personal	9,639	2,817	6,822	6,578	5,084
Independent business	13,582	4,032	9,550	6,478	7,949
Agricultural	5,222	806	4,416	6,136	6,383
	\$ 64,172	\$ 15,962	\$ 48,210	\$ 46,928	\$ 40,874

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 December 31, 2008

(\$ in thousands)

	Residential mortgages	Business	Personal	Credit card ⁽¹⁾	Total
Up to one month	\$ 91,756	\$ 53,495	\$ 33,173	\$ 34,410	\$ 212,834
Over one month up to two months	11,544	23,486	9,834	7,431	52,295
Over two months up to three months	2,247	476	5,401	3,064	11,188
Over three months	2,915	512	2,918	3,772	10,117
Total past due but not impaired	\$ 108,462	\$ 77,969	\$ 51,326	\$ 48,677	\$ 286,434

⁽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)	Dec 31 2008		Sep 30 2008	
	Outstanding ⁽¹⁾	% of net carrying value	Outstanding ⁽¹⁾	% of net carrying value
Individuals				
Residential mortgage	\$ 7,634,535	35.7	\$ 7,712,898	37.6
Personal	5,077,199	23.7	4,887,991	23.8
	12,711,734	59.4	12,600,889	61.4
Business and other				
Mining, energy, and forestry	2,115,216	9.9	1,684,762	8.2
Agricultural and related services	1,409,699	6.6	1,333,873	6.5
Real estate	1,249,675	5.8	1,082,694	5.3
Accommodation, food and beverage	636,265	3.0	565,738	2.8
Construction	597,727	2.8	560,883	2.7
Other services	281,251	1.3	497,060	2.4
Transportation, communication, and utilities	542,012	2.5	494,098	2.4
Manufacturing	480,687	2.2	486,037	2.4
Retail trade	385,128	1.8	393,498	1.9
Business services	347,297	1.6	288,284	1.4
Educational services, health, and social services	321,307	1.5	270,401	1.3
Wholesale trade	172,859	0.8	172,922	0.8
Finance and insurance	207,610	1.0	164,382	0.8
Other	99,712	0.6	110,007	0.5
	8,846,445	41.4	8,104,639	39.4
Loans before general allowance	21,558,179	100.8	20,705,528	100.8
General allowance	(175,630)	(0.8)	(166,215)	(0.8)
Net carrying value	\$ 21,382,549	100.0	\$ 20,539,313	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 December 31, 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 December 31, 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 December 31, 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	\$ 475,039	1.62	\$ -	-	\$ -	-	\$ -	-	\$ 475,039	1.62
Securities and interest-bearing deposits with financial institutions	3,043,068	2.05	-	-	-	-	-	-	3,043,068	2.05
Loans	15,672,007	4.24	5,799,602	6.15	60,738	6.42	(149,798)	-	21,382,549	4.79
Other	-	-	-	-	-	-	813,512	-	813,512	-
Total assets	\$ 19,190,114		\$ 5,799,602		\$ 60,738		\$ 663,714		\$ 25,714,168	
LIABILITIES AND EQUITY										
Deposits	\$ 18,518,421	1.67	\$ 4,858,149	4.02	\$ -	-	\$ -	-	\$ 23,376,570	2.16
Other liabilities and equity	-	-	-	-	-	-	2,280,585	-	2,280,585	-
Subordinated debentures	-	-	-	-	-	-	57,013	4.29	57,013	4.29
Total liabilities	\$ 18,518,421		\$ 4,858,149		\$ -		\$ 2,337,598		\$ 25,714,168	
On-balance sheet gap	\$ 671,693		\$ 941,453		\$ 60,738		\$ (1,673,884)			
Off-balance sheet gap	(2,669,000)		2,669,000		-		-			
Net gap	\$ (1,997,307)		\$ 3,610,453		\$ 60,738		\$ (1,673,884)			
Net gap as a % of assets	(7.77)%		14.04%		0.24%		(6.51)%			

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 December 31, 2008

(\$ in thousands)

Impact on net income in the next 12 months from:

Increase in interest rates of:

100 basis points	\$ 31,757
200 basis points	\$ 63,469

Decrease in interest rates of:

100 basis points	\$ (31,757)
200 basis points	\$ (65,845)

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 December 31, 2008:

As at December 31, 2008

(\$ in thousands)

Assets			
	Cash resources	\$	219,021
	Securities		44,714
	Loans and other		317,867
Liabilities			
	Deposits		(598,366)
	Other		(7,325)
Net total		\$	(24,089)

In addition to the amounts shown above, ATB has other foreign exchange forward deals with a net asset position of \$30.7 million as at December 31, 2008, reducing the net foreign exchange exposure to \$6.6 million.

Equity and commodity risk

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

Commodity price risk arises when ATB offers derivatives products where the value of the derivative instrument is linked to changes in the price of an underlying commodity. 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 nine months ended December 31, 2008, ATB's capital levels exceeded both regulatory and internal policy requirements.

As at December 31, 2008

(\$ in thousands)

Tier 1 capital		
Retained earnings	\$	1,619,868
Tier 2 capital		
Allowable portions of:		
Subordinated debentures		29,514
General allowance for credit losses		155,618
		185,132
Total regulatory capital	\$	1,805,000
Total risk-weighted assets	\$	17,784,929
Risk-weighted capital ratios		
Tier 1 capital ratio		9.11%
Total regulatory capital ratio		10.15%

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		
	Dec 31 2008	Sep 30 2008	Dec 31 2007
Proceeds, net of transaction fees	\$ 264,597	\$ 188,884	\$ -
Retained interests	16,278	8,720	-
Deferred servicing revenue	(1,538)	(1,144)	-
	279,337	196,460	-
Residential mortgages securitized and sold	265,070	188,899	-
Gain on sale, net of transaction fees	\$ 14,267	\$ 7,561	\$ -

(\$ in thousands)	For the nine months ended	
	Dec 31 2008	Dec 31 2007
Proceeds, net of transaction fees	\$ 701,323	\$ -
Retained interests	33,698	-
Deferred servicing revenue	(4,147)	-
	730,874	-
Residential mortgages securitized and sold	702,716	-
Gain on sale, net of transaction fees	\$ 28,158	\$ -

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

(\$ in thousands)	For the three months ended		
	Dec 31 2008	Sep 30 2008	Dec 31 2007
Gain on sale, net of transaction fees	\$ 14,267	\$ 7,561	\$ -
Other securitization (loss) income	(3,700)	779	-
Servicing revenues	315	152	-
Securitization income	\$ 10,882	\$ 8,492	\$ -

(\$ in thousands)	For the nine months ended	
	Dec 31 2008	Dec 31 2007
Gain on sale, net of transaction fees	\$ 28,158	\$ -
Other securitization loss	(2,921)	-
Servicing revenues	473	-
Securitization income	\$ 25,710	\$ -

6. Securitization (continued)

The key weighted-average assumptions used to value the retained interests are outlined below:

	For the three months ended		
	Dec 31 2008	Sep 30 2008	Dec 31 2007
Expected weighted average life of mortgage pool (in months)	45.5	47.6	-
Prepayment rate	20%	20%	-
Excess spread	3.21%	2.10%	-
Discount rate	3.59%	3.90%	-

	For the nine months ended	
	Dec 31 2008	Dec 31 2007
Expected weighted average life of mortgage pool (in months)	46.0	-
Prepayment rate	20%	-
Excess spread	2.37%	-
Discount rate	3.78%	-

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

7. Securities

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

	As at December 31, 2008				September 30, 2008	June 30, 2008	December 31, 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	\$ 147,948	\$ -	\$ -	\$ 147,948	\$ 161,460	\$ 162,005	\$ 160,490
Commercial paper							
Third-party-sponsored ABCP	-	-	644,316	644,316	773,068	845,200	1,020,520
Bank-sponsored ABCP	-	-	45,498	45,498	55,361	77,525	78,037
Corporate paper	-	-	-	-	71,941	168,500	160,695
Total commercial paper	-	-	689,814	689,814	900,370	1,091,225	1,259,252
Retained interest in securitization	-	27,371	-	27,371	16,341	8,652	-
Other	6,683	-	-	6,683	10,041	9,674	5,073
	\$ 154,631	\$ 27,371	\$ 689,814	\$ 871,816	\$ 1,088,212	\$ 1,271,556	\$ 1,424,815

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 December 31, 2008, ATB holds investments in such ABCP with a net carrying value of \$644.3 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.

7. Securities (continued)

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").

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.

On December 11, 2008, the Pan-Canadian Committee announced that due to the extraordinary volatility in the credit markets that an agreement in principle had been reached to amend certain key areas of the restructuring plan. Specifically:

- An initial moratorium period during which no collateral calls may be made;
- A widening of certain "spread-loss" triggers, which will be relevant upon expiry of the moratorium; and
- Additional margin funding facilities in the form of "back-stop" arrangements ranking senior to all other previously agreed margin funding facilities and collateral.

This agreement in principle was subject to approvals by certain key participants in the restructuring process.

On December 24, 2008, an agreement was reached with all key stakeholders, including the governments of Canada, Quebec, Ontario, and Alberta to provide \$4.45 billion in additional margin funding facilities needed to bring the proposal announced on December 11, 2008 closer to completion. The Pan-Canadian Committee announced that they would be making a motion in court in early January 2009 to seek approval for these amendments and to commence the closing process.

The expectation is that the restructuring will be completed in the fourth quarter of the current fiscal year.

Restructuring Plan

Based on public information available at December 31, 2008, it is estimated that, of the \$1.0 billion of ABCP in which ATB has invested in the ABCP subject to the Montreal Accord:

- \$74.7 million is represented by traditional securitized assets, and on restructuring ATB expects to receive TA Tracking long-term FRNs with a maturity of approximately six to eight years.

7. Securities (continued)

- \$927.0 million is represented by a combination of leveraged-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 eight years. ATB expects to receive replacement notes with par values as follows:
 - Class A-1: \$433.8 million
 - Class A-2: \$397.6 million
 - Class B: \$67.8 million
 - Class C: \$27.8 millionThe replacement senior notes are expected to be rated A, while the replacement subordinated notes are likely to be unrated; and
- \$27.0 million is represented by assets that have an exposure to US sub prime mortgages. On restructuring, ATB expects to receive IA Tracking long-term FRNs with maturities of approximately eight years. There has been no indication whether these notes will be rated.

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 December 31, 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 September 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 for subordination where appropriate.
- 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 sub prime assets) is based on information detailed in the Plan and the accompanying Report of Restructuring.

7. Securities (continued)

Based on this valuation methodology, the fair value as at December 31, 2008 (excluding accrued interest of \$47.5 million) of ATB's third-party-sponsored ABCP subject to the Montreal Accord was \$608.8 million. This is a decrease of \$128.8 million from the \$737.6 million fair value at September 30, 2008. This includes a \$134.4 million reduction in fair value, partially offset by a \$5.6 million foreign exchange gain on the portion of this investment denominated in US dollars. The full amount of this fair value adjustment was recorded through the income statement as an "other than temporary" adjustment. This decrease in fair value was driven by the increased market discount rates resulting from the deterioration in the credit markets since September 30, 2008. It is management's best estimate that the shortfall between the expected yield and expected discount rate will be between 185 basis points (for traditional tracking notes) and 7,200 basis points (for C notes). At September 30, 2008 the range was between 85 basis points and 769 basis points.

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 eight to nine years) to match the maturity date of the underlying assets. These investments restructured this fiscal year, one in the first quarter and one in the second quarter.

In December 2008, due to significant volatility in the market, one of these restructured investments breached its spread-loss trigger and was close to requiring additional collateral. In order to avoid the need for investors to pledge additional collateral, the trust agent agreed to restructure the investment. This was accomplished via the issuance of new notes with new terms and conditions, one of which was the removal of the spread-loss triggers and the potential requirement to pledge additional security. The exchange of the old notes for the new restructured notes occurred on December 19, 2008 and was deemed to be a transaction of substance. Consequently, the original investment was removed from the balance sheet with the new notes recognized at fair value. The resulting \$5.6 million loss was recognized in the income statement and was included as a provision for loss on ABCP.

The fair value of the other restructured bank-sponsored ABCP investments has been reduced by \$5.9 million based on their estimated fair value at December 31, 2008. This amount was recorded through other comprehensive income.

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 \$38.2 million.

Other

Of the total \$1.1 billion of third-party-sponsored ABCP held by ATB as at December 31, 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		
	Dec 31 2008	Sep 30 2008	Dec 31 2007	Dec 31 2008	Sep 30 2008	Dec 31 2007	Dec 31 2008	Sep 30 2008	Dec 31 2007
For the three months ended									
Balance at beginning of the period	\$ 17,635	\$ 12,895	\$ 12,950	\$ 166,215	\$ 159,236	\$ 146,789	\$ 183,850	\$ 172,131	\$ 159,739
Write-offs	(4,228)	(3,023)	(2,266)	-	-	-	(4,228)	(3,023)	(2,266)
Recoveries	993	825	1,280	-	-	-	993	825	1,280
Provision for credit losses	4,496	6,938	6	9,415	6,979	5,107	13,911	13,917	5,113
Balance at end of the period	18,896	17,635	11,970	175,630	166,215	151,896	194,526	183,850	163,866
Less: Allowance for cost of credit recovery included in other liabilities	2,934	3,176	2,831	-	-	-	2,934	3,176	2,831
Allowance for loan losses	\$ 15,962	\$ 14,459	\$ 9,139	\$ 175,630	\$ 166,215	\$ 151,896	\$ 191,592	\$ 180,674	\$ 161,035
	Specific		General		Total				
For the nine months ended	Dec 31 2008	Dec 31 2007	Dec 31 2008	Dec 31 2007	Dec 31 2008	Dec 31 2007			
Balance at beginning of the period	\$ 11,896	\$ 15,352	\$ 153,010	\$ 141,827	\$ 164,906	\$ 157,179			
Write-offs	(9,754)	(7,601)	-	-	(9,754)	(7,601)			
Recoveries	2,906	4,012	-	-	2,906	4,012			
Provision for credit losses	13,848	207	22,620	10,069	36,468	10,276			
Balance at end of the period	18,896	11,970	175,630	151,896	194,526	163,866			
Less: Allowance for cost of credit recovery included in other liabilities	2,934	2,831	-	-	2,934	2,831			
Allowance for loan losses	\$ 15,962	\$ 9,139	\$ 175,630	\$ 151,896	\$ 191,592	\$ 161,035			

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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 December 31, 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 December 31, 2008			As at September 30, 2008			As at June 30, 2008			As at December 31, 2007		
	Notional amount	Assets	Liabilities	Notional amount	Assets	Liabilities	Notional amount	Assets	Liabilities	Notional amount	Assets	Liabilities
Corporate (non-trading) derivatives												
Cash flow hedges	\$ 4,328,276	\$ 122,998	\$ (17,007)	\$ 4,229,613	\$ 33,301	\$ (12,745)	\$ 3,487,675	\$ 20,922	\$ (10,028)	\$ 3,005,146	\$ 8,974	\$ (8,481)
Other	311,045	18,999	-	356,594	36,989	-	373,903	55,479	-	329,705	53,824	-
Client (trading) derivatives	1,683,998	113,081	(108,678)	1,973,021	50,096	(49,634)	1,788,406	74,275	(73,935)	417,506	11,869	(11,636)
Embedded derivatives												
Equity-linked deposits	260,372	-	(26,093)	260,618	-	(37,232)	260,911	-	(55,405)	270,007	-	(82,885)
Other	68,261	-	(2)	85,447	-	(214)	97,094	-	(241)	126,184	-	(530)
	<u>\$ 6,651,952</u>	<u>\$ 255,078</u>	<u>\$ (151,780)</u>	<u>\$ 6,905,293</u>	<u>\$ 120,386</u>	<u>\$ (99,825)</u>	<u>\$ 6,007,989</u>	<u>\$ 150,676</u>	<u>\$ (139,609)</u>	<u>\$ 4,148,548</u>	<u>\$ 74,667</u>	<u>\$ (103,532)</u>

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 \$2,938, as at December 31, 2008 (September 30, 2008: \$38,451, June 30, 2008: \$16,722, December 31, 2007: \$18,121).

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 (i) 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; (ii) failure of a third party to perform under an obligating agreement; or (iii) 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 \$316,574 as at December 31, 2008 (September 30, 2008: \$307,787, June 30, 2008: \$281,249, December 31, 2007: \$258,372).
- 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 \$707,373 as at December 31, 2008 (September 30, 2008: \$928,845, June 30, 2008: \$952,351, December 31, 2007: \$135,412).
- 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 \$976,625 as at December 31, 2008 (September 30, 2008: \$1,044,176, June 30, 2008: \$836,055, December 31, 2007: \$282,094).
- 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 December 31, 2008 has a carrying value of \$396,000 (September 30, 2008: \$318,000, June 30, 2008: \$322,500, December 31, 2007: \$413,500).

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	December 31, 2008	September 30, 2008	December 31, 2007
Net pension benefit expense	\$ 5,433	\$ 5,070	\$ 3,191

For the nine months ended	December 31, 2008	December 31, 2007
Net pension benefit expense	\$ 16,229	\$ 13,655

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
December 31, 2008					
Net interest income	\$ 123,579	\$ 26,139	\$ 1,081	\$ 11,809	\$ 162,608
Other income	34,202	16,597	8,611	4,219	63,629
Provision for loss on ABCP	-	-	-	(140,000)	(140,000)
Total operating revenues	157,781	42,736	9,692	(123,972)	86,237
Provision for credit losses	4,681	6,465	-	2,765	13,911
Non-interest expenses	117,596	7,232	12,522	20,821	158,171
Net income (loss)	\$ 35,504	\$ 29,039	\$ (2,830)	\$ (147,558)	\$ (85,845)
Total assets	\$ 16,948,262	\$ 5,059,543	\$ 10,204	\$ 3,696,159	\$ 25,714,168
Total liabilities	\$ 15,785,409	\$ 3,437,529	\$ 735,205	\$ 4,046,499	\$ 24,004,642
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	\$ 16,496,121	\$ 4,430,531	\$ 7,178	\$ 4,266,019	\$ 25,199,849
Total liabilities	\$ 15,495,780	\$ 2,979,294	\$ 598,876	\$ 4,408,572	\$ 23,482,522
December 31, 2007					
Net interest income	\$ 121,226	\$ 19,820	\$ 1,834	\$ 21,842	\$ 164,722
Other income (loss)	30,683	5,545	9,907	(159)	45,976
Provision for loss on ABCP	-	-	-	(29,300)	(29,300)
Total operating revenues	151,909	25,365	11,741	(7,617)	181,398
Provision for (recovery of) credit losses	4,608	1,796	-	(1,291)	5,113
Non-interest expenses	106,192	6,575	10,842	9,604	133,213
Net income (loss)	\$ 41,109	\$ 16,994	\$ 899	\$ (15,930)	\$ 43,072
Total assets	\$ 15,175,058	\$ 3,665,679	\$ 2,984	\$ 4,097,424	\$ 22,941,145
Total liabilities	\$ 14,648,638	\$ 2,034,545	\$ 521,132	\$ 4,003,869	\$ 21,208,184

* 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 nine months ended:	Personal and Business Financial Services	Corporate Financial Services	Investor Services	Other Business Units*	Total
December 31, 2008					
Net interest income	\$ 365,107	\$ 69,826	\$ 3,647	\$ 57,741	\$ 496,321
Other income	100,686	29,403	28,034	15,925	174,048
Provision for loss on ABCP	-	-	-	(194,259)	(194,259)
Total operating revenues	465,793	99,229	31,681	(120,593)	476,110
Provision for credit losses	14,745	19,256	-	2,467	36,468
Non-interest expenses	346,559	21,695	36,597	58,264	463,115
Net income (loss)	\$ 104,489	\$ 58,278	\$ (4,916)	\$ (181,324)	\$ (23,473)
December 31, 2007					
Net interest income	\$ 351,519	\$ 58,235	\$ 4,807	\$ 77,870	\$ 492,431
Other income	95,783	15,309	29,476	69	140,637
Provision for loss on ABCP	-	-	-	(106,900)	(106,900)
Total operating revenues	447,302	73,544	34,283	(28,961)	526,168
Provision for (recovery of) credit losses	16,061	(971)	-	(4,814)	10,276
Non-interest expenses	315,208	19,343	32,528	32,698	399,777
Net income (loss)	\$ 116,033	\$ 55,172	\$ 1,755	\$ (56,845)	\$ 116,115

* 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 December 31, 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 December 31, 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. 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.

16. Subsequent Event

Subsequent to December 31, 2008, the non-bank sponsored ABCP subject to the Montreal Accord (as detailed in Note 7-Securities) was successfully restructured. In exchange for the short term commercial paper originally held, ATB received longer term notes whose maturities match those of the assets of the underlying conduits. ATB received notes with a face value of \$1.03 billion and cash of \$35.6 million representing payment of accrued interest up to August 31, 2008. ATB expects to receive an additional cash payment representing accrued interest and reimbursement for restructuring costs up to January 21, 2009. The impact of this restructuring will be recognized in the quarter ending March 31, 2009.

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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 December 31, 2008 and is dated February 18, 2009. 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 has reported a net quarterly loss of \$85.8 million for the third quarter ended December 31, 2008. This compares unfavourably to a net income of \$5.7 million for the previous quarter and \$43.1 million for the third quarter of the prior fiscal year. This loss came despite continued growth in interest earning assets. As discussed in the foregoing, there were a number of factors contributing to this loss, but the main driver was a \$140.0 million provision for loss on asset-backed commercial paper ("ABCP"). Adjusting for the impact of the provision for loss on ABCP, net income was \$54.2 million this quarter, compared to \$61.2 million last quarter and \$72.4 million for the third quarter last year. This represents a \$7.1 million (or 11.56%) decrease from the previous quarter and an \$18.2 million (or 25.17%) decrease from the third quarter last year.

The continued global economic slowdown and the current challenging credit environment resulted in ATB's additional \$140.0 million provision on ABCP. This compares negatively to the provision of \$55.5 million recorded in the prior quarter and \$29.3 million recorded in the third quarter last year. 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. Although this investment was restructured subsequent to December 31, 2008, it is possible that ATB will see further fair value adjustments on this investment in the future. Refer to "Asset-Backed Commercial Paper" below for additional detail on this topic.

Excluding the impact of this increased ABCP provision, there was a \$7.1 million reduction in net income from the previous quarter. Although interest-earning assets continue to grow, declining net interest spread (from 2.78% last quarter to 2.63% in the current quarter) negatively impacted net interest income. Rather than increasing based on asset growth, net interest income declined by \$4.1 million. Non-interest expenses increased by \$8.2 million over the prior quarter as ATB continues to invest in infrastructure and people, and is required to support its continued significant business growth. Partially offsetting these reductions in net income, derivative income and gains on the securitization of loans contributed to the \$5.2 million (or 8.89%) increase in other income.

Net income also declined from the third quarter last year, excluding the impact of the ABCP provision. Again, this was primarily a result of the decline in net interest spread, which declined from 2.98% to 2.63%. Non-interest expenses and the allowance for credit losses increased by \$25.0 million and \$8.8 million, respectively, to negatively impact net income. Other income recorded a positive variance, increasing by \$17.7 million, primarily due to ATB's securitization activities initiated in the first quarter of the current fiscal year.

Net Interest Income

The current economic environment continues to have a negative impact on ATB's net interest income. Although ATB is continuing to grow its loan and deposit volumes, net interest income decreased by \$4.1 million (or 2.45%) from the prior quarter and by \$2.1 million (or 1.28%) from the third quarter last fiscal year. The continued reduction in the Canadian prime rate, which has reduced from an average of 6.18% in the third quarter last fiscal year to an average of 3.99% this quarter, is a primary contributor to this reduction. Interest income is more sensitive to rate changes than interest expense, thus when interest rates decrease as they have over the past year, the result is normally a reduction in net interest income. As noted in the prior quarter, 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.

Additional information on ATB's exposure to interest rate risk as at December 31, 2008 is provided in Note 4 of the unaudited interim consolidated financial statements in the interest rate gap and the interest rate sensitivity analysis. Based on ATB's current interest rate modeling, it is estimated that a one-percentage point decrease in prime would decrease ATB's net interest income by \$31.8 million over the following twelve month period. The prime rate reduced by one-half of a percentage point on January 21, 2009. As at February 11, 2009, ATB is anticipating another 50 basis points decrease in prime in the next quarter.

Management's Discussion and Analysis (continued)

Other Income – excluding ABCP

Other income, excluding losses on ABCP, increased by \$5.2 million (or 8.89%) from the prior quarter. This increase was driven by the combination of \$5.2 million in gains on derivative financial instruments, compared to gains of \$2.1 million in the prior quarter, and the recognition of a \$2.4 million increase in securitization income over the prior quarter, primarily driven by the increase in the amount of mortgages securitized and the increase in the interest spread retained by ATB compared to the prior quarter. ATB intends to securitize another pool of mortgages in the fourth quarter.

Other income, excluding losses on ABCP, increased by \$17.7 million over the third quarter last year. This increase was a result of a combination of a \$10.9 million increase in securitization income (ATB commenced its securitization program in fiscal 2009), a \$4.6 million increase in derivative gains, and a \$3.0 million increase in card fees. These increases were partially offset by a \$1.7 million reduction in foreign exchange income over the same period.

Provision for Credit Losses

ATB is significantly exposed to the economic conditions in the Alberta marketplace. Although there is evidence of a slowdown and continued uncertainty, the quality of ATB's loan portfolio remains strong, with less than 1% of the total gross loan portfolio being classified as impaired at the end of the quarter. The total credit loss allowance in the third quarter ending December 31, 2008 exceeded gross impaired loans by \$127.4 million, compared to \$119.3 million and \$107.5 million at September 30, 2008 and December 31, 2007, respectively.

ATB recorded a \$13.9 million net provision for credit losses in the third quarter ended December 31, 2008. This is in line with the provision recorded in the prior quarter but compares unfavorably to the \$5.1 million recorded in the third quarter of the prior 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 \$9.4 million compared to a provision of \$7.0 million last quarter and \$5.1 million in the third quarter last year. This increase is the result of ATB's growing loan portfolio.

The specific loan loss provision has increased to \$4.5 million in the current quarter from \$6.9 million in the prior quarter and a provision of less than \$0.01 million in the third quarter of last year. This movement is driven by a change in specifically identified impaired loans this quarter compared to the prior quarters.

Non-Interest Expenses

Non-interest expenses were \$158.2 million for the third quarter ended December 31, 2008, an increase of \$8.2 million (or 5.47%) compared to the prior quarter and an increase of \$25.0 million (or 18.74%) compared to the third quarter last year.

The increase from the prior quarter is primarily due to increased expenditures on professional and consulting costs (increased \$2.2 million or 29.40%), human resource costs (increased \$1.8 million or 2.23%) and marketing and supplies expense (increased \$1.2 million or 16.86%).

Non-interest expenses increased by \$25.0 million (or 18.74%) compared to the third quarter last year. A number of areas contributed to this increase, however, the two the main contributors were human resource expenses and professional and consulting fees. Human resource costs increased by \$12.1 million (or 17.29%), primarily due to the increase in the number of staff working at ATB. Professional and consulting costs increased by \$4.1 million (or 72.00%) following an increase in the number of consultants involved on ATB's Core initiative.

Management's Discussion and Analysis (continued)

An important measurement used by ATB to track its performance 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 third quarter ended December 31 2008, ATB's efficiency ratio was 69.91% (measured excluding the impact of the ABCP provision). This compares unfavorably to the 66.62% in the prior quarter and the 63.22% achieved in the third quarter last year (both excluding the impact of the ABCP provision). The worsening of this ratio during the past quarter was driven by an increase in non-interest expenses (\$8.2 million or 5.47%) and a decrease in net interest income (\$4.1 million or 2.45%), partially offset by an increase in other income (\$5.2 million or 8.89%). A worsening in the efficiency ratio compared to last year was expected, as significant investments are being made in growth and other improvement initiatives, but was worse than anticipated due to the significant decrease in net interest margin.

ATB management remains committed to operating efficiently, but are balancing this commitment with the goal of increasing ATB's operating capacity through the investment in technology, processes, and people. The expectation is that these investments will result in increased operating efficiency in the future. Maintaining this balance has always been a primary focus at ATB, but it has become even more of a focus in the current interest rate environment.

Balance Sheet

As at December 31, 2008, ATB had total assets of \$25.7 billion, compared to \$25.2 billion last quarter and \$22.9 billion in the third quarter of the prior year. This growth was driven by an increase in total loans, net of allowance for credit losses. Specifically, over the prior quarter, gross business loans grew by \$740.0 million, while growth over the same quarter last year was due to a significant increase in both business (increased by \$1.5 billion) and personal loans (increased by \$898.9 million). The current market conditions are providing ATB an opportunity to expand its credit portfolio, particularly in the commercial market, as many competitors tighten their lending criteria. ATB continues to be focused on "being there for Albertans" while maintaining strong credit and underwriting fundamentals.

The growth discussed above has come despite the sale of a portion of ATB's mortgage portfolio through a securitization program with Canada Housing Trust. Excluding the impact of this securitization, total performing loans grew by \$1.1 billion during the quarter. This growth is up \$172.2 million from the preceding quarter's growth (of \$916.3 million) and \$400.2 million from the corresponding third quarter growth figure last year (of \$688.3 million). As discussed earlier, a significant component of this growth occurred in the commercial performing loan portfolio. Commercial performing loans have increased by \$598.7 million this quarter, compared to \$374.2 million last quarter and \$157.2 million in the third quarter last year.

ATB's asset growth is funded through increased deposits. Deposits increased by \$0.5 billion (or 1.98%) compared to the prior quarter and by \$2.7 billion (or 13.23%) compared to the end of the third quarter of prior fiscal 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 \$662.5 million (or 3.39%) over the prior quarter, which is less than the growth of \$871.6 million achieved last quarter but significantly higher than the \$96.3 million achieved in the third quarter last year. ATB 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 December 31, 2008, ATB has \$3.2 billion in wholesale deposits. The balance of wholesale deposits is down \$208.1 million (or 6.17%) from the prior quarter and up by only \$13.7 million (or 0.43%) from the third quarter last year.

Accumulated other comprehensive income increased from \$11.6 million last quarter to \$89.7 million in the current quarter, reflecting the net temporary increase in fair value of certain financial instruments.

Management's Discussion and Analysis (continued)

Asset Backed Commercial Paper

Overview

As at December 31, 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 initially restructured in the previous quarter and subsequently restructured in the current 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 Proposed Restructuring Plan (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 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.

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.

On December 11, 2008, the Pan-Canadian Committee announced that due to the extraordinary volatility in the credit markets that an agreement in principle had been reached to amend the certain key areas of the restructuring plan. Specifically:

- An initial moratorium period during which no collateral calls may be made;
- A widening of certain "spread-loss" triggers, which will be relevant upon expiry of the moratorium; and
- Additional margin funding facilities in the form of "back-stop" arrangements ranking senior to all other previously agreed margin funding facilities and collateral.

This agreement in principle was subject to approvals by certain key participants in the restructuring process.

Management's Discussion and Analysis (continued)

On December 24, 2008, an agreement was reached with all key stakeholders, including the governments of Canada, Quebec, Ontario, and Alberta to provide \$4.45 billion in additional margin funding facilities needed to bring the proposal announced on December 11, 2008 closer to completion. The Pan-Canadian Committee announced that they would be making a motion in court in early January 2009 to seek approval for these amendments and to commence the closing process.

Subsequent to December 31, 2008, the non-bank sponsored ABCP subject to the Montreal Accord was successfully restructured. Details on the expected restructuring are outlined in Note 7 Securities to the December 31, 2008 interim consolidated financial statements.

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 December 31, 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 September 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 December 31, 2008 interim consolidated financial statements.

As at September 30, 2008, the provision relative to the Montreal Accord ABCP was estimated to be \$297.5 million; this has increased to \$431.9 million at December 31, 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.

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. These investments restructured this fiscal year, one in the first quarter and one in the second quarter.

In December 2008, due to significant volatility in the market, one of these restructured investments breached its spread-loss trigger and was getting close to requiring additional collateral. In order to avoid the need for investors to pledge additional collateral, the trust agent agreed to restructure the investment. This was accomplished via the issuance of new notes with new terms and conditions, one of which was the removal of the spread-loss triggers and the potential requirement to pledge additional security. The exchange of the old notes for the new restructured notes occurred on December 19, 2008 and was deemed to be a transaction of substance. Consequently, the original investment was removed from the balance sheet with the new notes recognized at fair value. The resulting \$5.6 million loss was recognized in the income statement and was included as a provision for loss on ABCP.

The fair value of the other restructured bank-sponsored ABCP investments has been reduced by \$5.9 million based on their estimated fair value at December 31, 2008. This amount was recorded through other comprehensive income.

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.

Management's Discussion and Analysis (continued)

Measurement Uncertainty

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

Segmented Information

ATB has organized its operations and activities around three main business segments: Personal and Business Financial Services ("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.

PBFS and CFS continue to achieve growth in their asset base. PBFS increased its total assets by \$452.1 million (or 2.74%) during the third quarter and by \$1.8 billion (or 11.68%) from a year ago, while CFS achieved quarterly asset growth of \$629.0 million (or 14.20%) and annual growth of \$1.4 billion (or 38.02%). This increase in assets has not resulted in increased net income for PBFS due to reduced net interest margin and increased non-interest expenses. CFS, on the other hand, have been able to translate the increased assets into increased net income – through small increases in non-interest expenses and more significant increases in operating revenue (a combination of net interest income and other income).

As was the case last quarter, Investor Services continues to be impacted by the current negativity in the equity markets, with assets under management and administration dropping to \$3.8 billion as at December 31, 2008. This is a decrease of \$170.1 million (or 4.28%) from last quarter and \$166.8 million (or 4.20%) from a year ago. This reduction in assets under administration has a negative impact on Investors Services revenue, as evidenced by the \$2.8 million loss this quarter. This is worse than the \$1.4 million loss suffered last quarter and the small (\$0.9 million) positive result achieved in the third quarter last year. Based on the expectation that the equity markets will not rebound significantly next year, future losses are expected.

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Highlights

(unaudited)

	For the three months ended			For the nine months ended	
	December 31	September 30	December 31	December 31	December 31
	2008	2008	2007	2008	2007
Operating results (\$ in thousands)					
Interest income	\$ 303,145	\$ 319,789	\$ 339,225	\$ 932,806	\$ 972,404
Interest expense	140,537	153,105	174,503	436,485	479,973
Net interest income	162,608	166,684	164,722	496,321	492,431
Other Income	63,629	58,435	45,976	174,048	140,637
(Provision for) loss on ABCP	(140,000)	(55,544)	(29,300)	(194,259)	(106,900)
Total operating revenues	86,237	169,575	181,398	476,110	526,168
Provision for credit losses	13,911	13,917	5,113	36,468	10,276
Non-interest expenses	158,171	149,965	133,213	463,115	399,777
Net (loss) income	\$ (85,845)	\$ 5,693	\$ 43,072	\$ (23,473)	\$ 116,115

Financial position (\$ in thousands)

Total loans, net of allowance for losses	\$ 21,382,549	\$ 20,539,313	\$ 18,869,564	\$ 21,382,549	\$ 18,869,564
Total assets	\$ 25,714,168	\$ 25,199,849	\$ 22,941,145	\$ 25,714,168	\$ 22,941,145
Personal & business deposits	\$ 20,213,863	\$ 19,551,325	\$ 17,495,782	\$ 20,213,863	\$ 17,495,782
Wholesale deposits	\$ 3,162,707	\$ 3,370,834	\$ 3,149,044	\$ 3,162,707	\$ 3,149,044
Equity	\$ 1,709,526	\$ 1,717,327	\$ 1,732,961	\$ 1,709,526	\$ 1,732,961

Key Performance Measures (in per cent)

Operating revenue growth ¹	(52.46)	23.23	(6.08)	(9.51)	(5.28)
Operating revenue growth ^{1&3}	7.38	4.61	9.09	7.09	13.96
Net interest margin ²	2.52	2.69	2.87	2.67	3.00
Net interest spread on average earning assets ²	2.63	2.78	2.98	2.77	3.09
Other income to operating revenue	73.78	34.46	9.19	36.56	6.41
Other income to operating revenue ³	28.12	25.96	21.82	25.96	22.22
Non-interest expenses to operating revenue	183.41	88.44	73.44	97.27	75.98
Non-interest expenses to operating revenue ³	69.91	66.62	63.22	69.08	63.15
Return on average assets ²	(1.33)	0.09	0.75	(0.13)	0.71
Return on average assets ^{2&3}	0.84	0.99	1.26	0.92	1.36
Operating expense growth ¹	18.74	14.92	9.48	15.84	15.27
Net impaired loans to total gross loans	(0.59)	(0.58)	(0.57)	(0.59)	(0.57)
Credit losses to average loans ²	0.26	0.27	0.11	0.24	0.08
Net Loan growth ¹	13.32	12.91	14.39	13.32	14.39
Net Loan growth ⁴	16.81	15.23	14.39	16.81	14.39
Deposit growth ¹	13.23	13.36	15.95	13.23	15.95
Asset growth ¹	12.09	12.23	15.67	12.09	15.67
Asset growth ^{1&3}	13.47	13.17	16.21	13.47	16.21
Asset growth ^{1&4}	14.96	14.11	15.67	14.96	15.67

(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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