ATB Financial™

FY 2017 Q1 HIGHLIGHTS

						For the three months ended
		June 30 2016		March 31 2016		June 30 2015
Operating results *($ in thousands)*						
Net interest income	**$**	**275,459**	$	277,585	$	269,285
Other income		**104,866**		108,087		123,347
Operating revenue		**380,325**		385,672		392,632
Provision for loan losses		**93,545**		190,759		57,456
Non-interest expenses		**254,320**		256,376		249,682
Net income (loss) before payment in lieu of tax		**32,460**		(61,463)		85,494
Payment in lieu of tax		**7,466**		(14,137)		19,664
Net income (loss)	**$**	**24,994**	$	(47,326)	$	65,830
Net income before provisions[1] *($ in thousands)*						
Operating revenue	**$**	**380,325**	$	385,672	$	392,632
Less: income from asset-backed commercial paper		**(7)**		(14,146)		(30,946)
Less: non-interest expense		**(254,320)**		(256,376)		(249,682)
Net income before provisions	**$**	**125,998**	$	115,150	$	112,004
Financial position *($ in thousands)*						
Net loans	**$**	**40,381,101**	$	40,350,157	$	38,239,676
Total assets	**$**	**47,673,328**	$	46,757,278	$	43,510,577
Total risk weighted assets	**$**	**33,427,257**	$	33,927,048	$	33,022,038
Total deposits	**$**	**32,650,009**	$	30,862,289	$	31,046,581
Equity	**$**	**3,122,749**	$	3,109,820	$	3,065,542
Key performance measures *(%)*						
Return on average assets		**0.21**		(0.41)		0.61
Operating revenue growth[2]		**(3.1)**		3.2		12.4
Other income to operating revenue		**27.6**		28.0		31.4
Operating expense growth[2]		**1.9**		3.6		8.6
Operating leverage		**(5.0)**		(0.38)		3.8
Efficiency ratio		**66.9**		66.5		63.6
Net interest spread		**2.44**		2.49		2.63
Loan losses to average loans		**0.93**		1.9		0.61
Net loan growth[2]		**5.6**		7.1		11.2
Total deposit growth[2]		**5.2**		0.89		8.4
Return on average risk weighted assets		**0.30**		(0.56)		0.82
Growth in assets under administration[2]		**8.4**		7.0		19.6
Tier 1 capital ratio[3]		**9.1**		8.9		9.0
Total capital ratio[3]		**13.2**		13.7		10.7
Other information						
Investor Services' assets under administration *($ in thousands)*	**$**	**14,966,513**	$	14,650,720	$	13,804,272
New Alberta customers		**10,280**		1,381		15,583
Team members[4]		**5,030**		5,065		5,240

[1] A non-GAAP (Generally accepted accounting principles) measure.
[2] Measures are calculated by comparing current quarter balances against the same quarter of the previous year.
[3] Calculated in accordance with the Alberta Superintendent of Financial Institutions (ASFI) capital requirements guidelines.
[4] Number of team members includes casual and commissioned.

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 position for the three months ended June 30, 2016 and is dated August 11, 2016. The MD&A should be read in conjunction with the unaudited interim condensed consolidated financial statements and related notes for the period ended June 30, 2016 as well as the audited consolidated financial statements and MD&A for the year ended March 31, 2016.

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Management's Discussion and Analysis (Unaudited)

Economic Outlook

During the quarter, oil prices surpassed US $45 per barrel with production falling and increased demand in Asia. However, uncertainty surrounding production and demand, combined with unstable financial markets could result in continued price volatility into the fall. The price of West Texas Intermediate (WTI) is expected to average US $48 per barrel for the remainder of the year with an average of US $50 per barrel in 2017.

Unfortunately, this means that investment in oil and gas projects continues to deteriorate and Alberta will see more layoffs throughout the summer. Total employment in Alberta has fallen by 45,000, with unemployment rising to 7.9%. Although job losses are slowing down, many full-time jobs may continue to be replaced by lower paying, part-time jobs. Unemployment is expected to peak during 2016 with a drop to 7.6% during 2017.

The energy sector continues to result in lower housing starts and interprovincial migration. However, Alberta's retail sector has shown signs of stability with its highest level of activity since last year and is expected to benefit from the Fort McMurray fire cleanup. The weak Canadian dollar continues to benefit the agriculture, forestry and tourism sectors.

We currently expect a real GDP contraction of 1.9% for 2016, but expect GDP growth of 2.0% during 2017.

Net Income

For the quarter ended June 30, 2016, ATB earned net income of $25.0 million, which is a $72.3 million (152.8%) increase from the $47.3 million loss last quarter, but is a $40.8 million (62.0%) decrease from the $65.8 million earned in the same quarter last year. The provision for loan losses continues to be the major driver for volatility, as it decreased by $97.2 million (51.0%) over last quarter, but increased by $36.1 million (62.8%) over the same quarter last year.

ATB's income before provision for loan losses is $126.0 million, a $10.8 million (9.4%) increase from last quarter, and a $14.0 million (12.5%) increase from the same quarter last year. Despite the current economy, ATB continues to demonstrate its ability to perform well. Income before provision for loan losses, a non-GAAP[1] measure, is defined as follows:

	For the three months ended		
As at	**June 30**	March 31	June 30
($ in thousands)	**2016**	2016	2015
Operating revenue	**$ 380,325**	$ 385,672	$ 392,632
Less: income from asset-backed commercial paper	**(7)**	(14,146)	(30,946)
Less: non-interest expense	**(254,320)**	(256,376)	(249,682)
Total	**$ 125,998**	$ 115,150	$ 112,004

[1]Generally accepted accounting principles

Operating Revenue

Total operating revenue consists of net interest income and other income. Operating revenue ended the quarter at $380.3 million, with $275.4 million in net interest income and $104.9 million in other income. The change from last quarter resulted from a combined decrease of $9.9 million (3.3%) from net interest income, insurance income and financial instruments at fair value being partially offset by a $2.6 million (29.2%) and $1.6 million (4.4%) increase in net gains on derivative financial instruments and revenue from Investor Services. When compared to the same quarter last year, operating revenue decreased by $12.3 million (3.1%). This is due to a $22.5 million (77.2%) decrease in net gains on financial instruments measured at fair value partially offset by a $6.2 million (2.3%) and $2.3 million (6.4%) increase in net interest income and revenue from Investor Services.

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Net Interest Income

Net interest income represents the difference between interest earned on assets, such as loans and securities, and interest paid on liabilities, such as deposits. Net interest income is $275.5 million this quarter, $2.1 million (0.8%) lower than last quarter, but is $6.2 million (2.3%) higher than the same time last year. The decrease over last quarter is primarily driven by a combination of a shift towards more expensive fixed-date deposits from lower yielding demand deposits and increases in yields on our deposits. This is partially offset by growth in our personal and residential mortgage loans. Compared to the same quarter last year, a combined growth of $3.7 billion (5.4%) in loans and deposit balances and a decline in deposit yields primarily drove the increase.

Net Interest Spread Earned

The net interest spread is the ratio of net interest income to average interest-earning assets. This is an important measure to ATB as it is indicative of how profitable our lending business is.

For the quarter ended June 30, 2016, net interest spread is 2.44%, lower than the 2.49% attained last quarter and the 2.63% achieved during the same quarter last year. The decrease from last quarter is driven by lower yields across all of our loan products and slight increases in yields on both our demand and fixed term deposits resulting from the competitive marketplace. Partially offsetting these decreases were lower rates for our wholesale borrowing expenses.

The decline in net interest spread from the same quarter last year is due to increases in residential mortgages and business loans, but at lower yields as legacy loans continue to renew at lower rates. Additionally, the continual shift in deposit mix towards more expensive fixed-date deposits also contributed to the decline in net interest spread.

Additional information on ATB's exposure to interest rate risk as at June 30, 2016 is provided in the liquidity risk section of Management's Discussion and Analysis. Specifically, based on ATB's current interest rate risk modeling, it is estimated that a one-percentage point increase in prime would, over the following twelve month period, increase ATB's net interest income by $36.8 million, while a one-percentage point decrease would result in a $47.7 million decrease to net interest income. The impact of movements in interest rates is moderately higher than last quarter as the growth in loans has outpaced the growth in interest sensitive deposits which together has increased interest rate risk. ATB is currently well within its $73 million approved interest rate risk management policy.

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Management's Discussion and Analysis (Unaudited)

Net Interest Income

	For the three months ended					
	June 30, 2016 vs. March 31, 2016			June 30, 2016 vs. June 30, 2015		
	Increase (decrease) due to changes in			Increase (decrease) due to changes in		
($ in thousands)	volume	rate	net change	volume	rate	net change
Assets						
Interest-bearing deposits with financial institutions, and securities	$ 594	$ 209	$ 803	$ 2,825	$ (2,407)	$ 418
Loans						
Business	1,679	(1,418)	261	15,917	(4,294)	11,623
Residential mortgages	1,024	(315)	709	9,104	(8,452)	652
Personal	(30)	401	371	(687)	(2,092)	(2,779)
Other	486	(2,630)	(2,144)	684	1,387	2,071
Allowance for loan losses	-	-	-	-	-	-
Total loans	3,159	(3,963)	(804)	25,018	(13,451)	11,567
Change in interest income	$ 3,753	$ (3,754)	$ (1)	$ 27,843	$ (15,858)	$ 11,985
Liabilities						
Deposits						
Demand	$ (584)	$ 864	$ 280	$ (911)	$ (3,662)	$ (4,573)
Fixed-term	1,319	869	2,188	4,427	(3,588)	839
Total deposits	735	1,733	2,468	3,516	(7,250)	(3,734)
Wholesale borrowings	2,259	(3,519)	(1,260)	8,382	(3,254)	5,128
Collateralized borrowings	1,648	(779)	869	6,111	(2,143)	3,968
Securities sold under repurchase agreements	48	(1)	47	1	59	60
Subordinated debentures	(2)	3	1	465	(75)	390
Change in interest expense	$ 4,688	$ (2,563)	$ 2,125	$ 18,475	$ (12,663)	$ 5,812
Change in net interest income	$ (935)	$ (1,191)	$ (2,126)	$ 9,369	$ (3,195)	$ 6,173

Other Income

Other income consists of all operating revenue not classified as net interest income. ATB recorded $104.9 million this quarter, which is $3.2 million (3.0%) less than the $108.1 million recorded in the prior quarter. This is a result of a $4.0 million (53.0%) decrease in insurance income resulting from higher claims experienced in RFS and B&Ag, and a $14.3 million (92.5%) decrease due to ATB no longer realizing gains on our asset-backed commercial paper (ABCP). Partially offsetting the decreases is a $2.6 million (29.2%) increase in net gains on derivative financial instruments resulting from higher revenue earned from our client trading desk, and a $1.6 million (4.4%) increase in Investor Services revenue.

When compared to the same quarter last year, other income decreased by $18.5 million (15.0%) primarily driven by gains no longer realized this quarter on our ABCP. This is partially offset by an increase of $2.3 million (6.4%) in Investor Services revenue primarily due to a $1.2 billion (8.4%) increase in assets under administration.

Credit Quality

During the quarter, ATB recorded a provision for loan losses of $93.5 million, which is $97.2 million (51.0%) lower than the $190.8 million recorded last quarter, but is $36.1 million (62.8%) higher than the $57.5 million recorded for the same quarter last year. This expense is recorded to recognize the net of write-offs, recoveries and required changes to the allowance (both collective and individual) over the quarter. The current quarter's expense includes a $1.3 million increase to the collective allowance, a $66.3 million decrease from last quarter's $67.6 million expense, and $17.7 million less than the $19.0 million expense recorded at this time last year. The collective provision for the quarter is the lowest it has been in recent quarters, as the overall quality of the portfolio in prior quarters felt the impact from the deteriorating economic conditions in the province and plummeting oil prices. However, with oil prices this quarter remaining relatively stable, declining loan balances and additional specific provisions recorded, the collective allowance grew at a slower rate than prior quarters.

The individual allowance had a net increase of $92.3 million this quarter, which is $30.9 million less than the $123.2 million increase recorded last quarter, but is $53.9 million more than the $38.4 million expense recorded at the same time last year.

The specific provision reflects the beginning of the economic downturn last June with it peaking in March. With oil prices stabilizing, the provision this quarter has decreased. However, a number of high value loans in the exploration and production portfolio became impaired this quarter, along with small increases in RFS and B&Ag, resulted in an increase in the specific provision of $47.9 million. While there was only one significant write-off in CFS, personal loans continue to have large write-offs, adding $44.4 million to the loan loss provision for a total of $92.3 million.

Although low oil prices continue to have a negative impact on our loan portfolio, management remains confident in the overall quality of the portfolio, supported by our strong credit- and loss-limitation practices. As at June 30, 2016, gross impaired loans of $690 million comprises 1.7% of the total loan portfolio (compared to 1.5% at March 31, 2016 and 0.70% at June 30, 2015).

Non-Interest Expenses

Non-interest expenses consist of all expenses incurred by ATB except for interest expenses and the provision for loan losses. For the quarter ended June 30, 2016, total non-interest expenses were $254.3 million, a slight decrease from last quarter's expense. Although salaries and employee benefits increased by $7.9 million (6.3%) due to increased incentive pay and other related costs, this is offset by a $10.5 million (52.1%) decrease in other expenses due to one-time costs relating to our credit card portfolio in the last quarter as well as a decrease in Achievement Note expenses.

Compared to the same quarter last year, non-interest expenses increased by $4.6 million (1.9%). This is primarily due to a $3.3 million (30.6%) increase in software and other intangibles amortization, resulting from continued system enhancements.

The efficiency ratio is the ratio of non-interest expenses to operating revenue (net interest income before provision for loan losses, plus other income). A lower ratio is indicative of higher efficiency at generating income. For the quarter ended June 30, 2016, ATB reported an efficiency ratio of 66.9% compared to 66.5% last quarter and 63.6% in the same quarter of the prior year. The increase over last quarter is driven by a $5.3 million (1.4%) decrease in operating revenue with non-interest expenses decreasing only $2.1 million (0.8%). The $4.6 million (1.8%) growth in non-interest expenses combined with a $12.3 million (3.2%) decrease in operating revenue led to the ratio worsening from the same time last year.

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Review of Business Segments
ATB has organized its operations and activities around the following four areas of expertise:

- Retail Financial Services (RFS) comprises the branch, agency and ABM networks and provides financial services to individuals.
- Business and Agriculture (B&Ag) provides financial services to independent business and agricultural customers.
- Corporate Financial Services (CFS) provides financial services to mid-sized and large corporate borrowers.
- Investor Services (ATBIS) provides wealth management solutions, including retail brokerage, mutual funds, portfolio management, and investment advice.

The strategic service units are comprised of business units of a corporate nature, such as investment, risk management, asset/liability management, and treasury operations, as well as expenses, collective allowances, and recoveries for loan losses not expressly attributed to any area of expertise.

Retail Financial Services (RFS)

	For the three months ended		
	June 30	March 31	June 30
($ in thousands)	**2016**	2016	2015
Net interest income	**$ 112,342**	$ 113,976	$ 111,980
Other income	**19,473**	23,093	21,178
Operating revenue	**131,815**	137,069	133,158
Provision for loan losses	**19,770**	21,866	19,407
Non-interest expenses	**118,395**	110,608	115,729
Net (loss) income	**$ (6,350)**	$ 4,595	$ (1,978)
Total assets	**$ 21,454,412**	$ 21,244,658	$ 20,416,287
Total liabilities	**$ 12,664,861**	$ 12,701,875	$ 12,119,509

RFS experienced a loss of $6.4 million this quarter. Compared to the prior quarter and same period last year, net income decreased by $10.9 million (238.2%) and $4.4 million (221.0%), respectively. The decrease is driven by a combination of lower other income and higher non-interest expenses. The provision for loan losses decreased this quarter after peaking at the end of last year and is relatively consistent with the same quarter last year.

The $5.3 million (3.8%) and $1.3 million (1.0%) decrease in operating revenue from last quarter and the same time last year is a direct result of insurance revenue being lower than it had been in previous quarters. Slow balance sheet growth this quarter contributed to lower net interest income compared to last quarter, but net interest income is consistent with the same quarter last year. In addition, loan spreads have decreased since the same quarter last year by 0.16%, while deposit spreads have slightly increased resulting in a negative impact on net interest income.

The provision for loan losses this quarter is $19.8 million, decreasing from the $21.9 million recorded last quarter, but is $0.4 million higher than the $19.4 million recorded at this time last year. This reflects the stabilizing oil prices with loan losses peaking at the end of last year with a high number of write-offs for both personal loans and consumer credit cards. Compared to the prior quarter, write-offs are significantly lower.

Non-interest expenses for the quarter are $118.4 million, an increase of $7.8 million (7.0%) over both last quarter's expense of $110.6 million, and $2.7 million (2.3%) more than the same time last year. The main drivers for the increase this quarter are primarily related to higher expenses for the Friendship Pays customer acquisition campaign.

The loan portfolio ended the quarter at $21.5 billion, growing by $210 million (1.0%) over the prior quarter and $1.0 billion (5.1%) over the same time last year. The majority of the increase is attributable to residential mortgages despite fewer house starts during the quarter.

The deposits balance decreased slightly by $37 million (0.3%) from last quarter, but is $545 million (4.5%) higher than the same quarter last year. All deposit types experienced considerable growth over the last year with personal retail deposits, personal high interest savings accounts (HISA) and personal fixed date deposits increasing by $177 million (2.8%), $117 million (25.5%) and $94 million (3.6%) respectively. Since last quarter, deposits have started a downward trend with business retail deposits experiencing the largest decrease of $47 million (16.2%).

Business and Agriculture (B&Ag)

	For the three months ended		
($ in thousands)	**June 30 2016**	March 31 2016	June 30 2015
Net interest income	**$ 70,615**	$ 74,182	$ 71,739
Other income	**15,307**	14,773	15,098
Operating revenue	**85,922**	88,955	86,837
Provision for loan losses	**5,132**	20,341	5,341
Non-interest expenses	**52,658**	51,389	53,338
Net income	**$ 28,132**	$ 17,225	$ 28,158
Total assets	**$ 7,507,938**	$ 7,384,520	$ 6,854,531
Total liabilities	**$ 9,430,849**	$ 9,097,122	$ 9,478,177

Net income for the quarter is $28.1 million, a $10.9 million (63.3%) improvement over the prior quarter. The increase over the prior quarter is due to a lower provision for loan losses partially offset by lower operating revenue and higher non-interest expenses. The current quarter results are consistent with the same time last year, with the decrease in operating revenue slightly outpacing the decreases in both the provision for loan losses and non-interest expenses.

Operating revenue for the quarter is $85.9 million, a $3.1 million (3.4%) decrease over last quarter and $0.9 million (1.1%) decrease over the $86.8 million at this time last year mainly due to compressed loan spread. On the other hand, deposit spreads have remained largely consistent, resulting in a combined negative impact to net interest income. The decrease in net interest income is partially offset by a small increase in other income from higher business service charges and merchant revenue.

The provision for loan losses this quarter is $5.1 million, a significant decrease from the $20.3 million recorded last quarter, and is comparable to the $5.3 million recorded at this time last year. The provision reflects the impact of the weak economy on the portfolio, with loan losses peaking at the end of last fiscal year and decreasing in the current quarter with oil prices bottoming out over the last few months. As a result, there were fewer write-offs and lower specific and collective provisions this quarter, with the most significant decrease coming from the collective allowance as the deterioration of the loan portfolio's credit quality and impairments have slowed.

Non-interest expenses saw a small increase of $1.3 million (2.5%) from last quarter, but are $0.7 million (1.3%) lower than this time last year. The small increase over last quarter is due mainly to higher employee expenses, along with data processing and occupancy costs.

Loans for the quarter stood at $7.5 billion, an increase of $123 million (1.7%) over the prior quarter. This is driven by a $67 million (1.6%) increase in independent business loans, with the real estate rental and leasing followed by the accommodation and food service sector being the strongest sectors. Agriculture loans, driven by farm land financing and revolving loans, grew by $47 million (1.7%), with business credit cards also contributing an additional $15 million (5.6%). The $653 million (9.5%) growth in loans over the same time last year follows the same trend, with independent business loans and agriculture loans both increasing by $353 million (8.9%) and $276 million (10.9%), with credit cards adding another $12 million (4.6%).

Deposits ended the quarter at $9.4 billion, a $334 million (3.7%) increase from the prior quarter. This is a result of a $314 million increase (25.4%) in business fixed date deposits, a $99 million (56.1%) increase in personal fixed date deposits and a $73 million (1.1%) increase in business retail deposits. Partially offset the growth is a $151 million (22.1%) decrease in business HISA. Compared to the same time last year, deposits decreased by $47 million (0.5%) due to a $131 million (19.7%) decrease in business HISA and a $129 million (7.7%) decrease in business fixed date deposits. These decreases are partially offset by increases of $161 million (137.8%) in personal fixed date deposits and $47 million (0.7%) in business retail deposits.

Corporate Financial Services (CFS)

	For the three months ended		
($ in thousands)	**June 30 2016**	March 31 2016	June 30 2015
Net interest income	**$ 81,718**	$ 83,802	$ 79,141
Other income	**20,595**	14,607	15,272
Operating revenue	**102,313**	98,409	94,413
Provision for loan losses	**68,643**	148,552	32,708
Non-interest expenses	**26,151**	23,581	25,817
Net income (loss)	**$ 7,519**	$ (73,724)	$ 35,888
Total assets	**$ 11,313,482**	$ 11,881,375	$ 10,952,227
Total liabilities	**$ 9,892,855**	$ 8,418,943	$ 8,778,881

Net income for the quarter is $7.5 million, a significant improvement over the loss recorded last quarter, but is $28.4 million (79.0%) lower than the same time last year. This is a reflection of the current economic environment and the volatility around loan loss provisions. Excluding the impact from loan loss provisions, net income is $76.2 million for the quarter, an increase of $1.3 million (1.8%) over last quarter's $74.9 million, and by $7.6 million (11.0%) over the $68.6 million earned at the same time last year. Both increases are driven by stronger operating revenue, partially offset by an increase in expenses.

Operating revenue increased $3.9 million (4.0%) over last quarter to $102.3 million. This is a direct result of an increase in other income specifically from financial markets revenue as client hedging and foreign exchange activity increased. Net interest income is lower from last quarter due to a combination of our loan portfolio experiencing a compressed spread and a higher spread on deposits. Compared to the same quarter last year, operating revenue is $7.9 million (8.4%) higher again due to our financial markets revenue, but had an increase in net interest income due to higher loan volumes offsetting the lower yields.

The recent provision for loan loss has been more volatile than before due to the negative impact of the low commodity prices on our customers. The provision for loan losses this quarter is $68.6 million, a decrease of $79.9 million (53.8%) over the $148.6 million recorded last quarter, but is $35.9 million (109.9%) higher than the $32.7 million recorded at the same time last year. The decrease is mainly attributed to lower specific and collective loan loss provisions recorded as the overall quality of the portfolio deteriorated at a slower rate. This quarter's provision is higher than the $32.7 million at this time last year due to increases in specific allowances and write offs, partially offset by lower collective provisions again driven by the negative impact of low commodity prices.

Non-interest expenses have increased $2.6 million (10.9%) from the $23.6 million spent last quarter. Compared to the same time last year, non-interest expenses have remained constant with a focus on cost efficiencies.

The loan portfolio decreased by $568 million (4.8%) over last quarter, but grew $361 million (3.3%) over the same time last year to end the quarter at $11.3 billion. The decrease from last quarter is driven by a decline in our energy related loans, but is partially offset by an increase in real estate loans. The year over year growth is driven by real estate loans that offset the reduction in our energy portfolio.

Deposit balances at June 30, 2016 are $9.9 billion, a $1.5 billion (17.5%) increase versus last quarter, and a $1.1 billion (12.7%) increase over the same quarter last year. The increase reflects the continued focus that we have on sourcing deposits.

Management's Discussion and Analysis (Unaudited)

Investor Services

	For the three months ended		
	June 30	March 31	June 30
($ in thousands)	**2016**	2016	2015
Net interest income	**$ 105**	$ 106	$ 112
Other income	**40,082**	38,419	37,621
Operating revenue	**40,187**	38,525	37,733
Non-interest expenses	**29,655**	28,529	28,833
Net income before payment in lieu of tax	**10,532**	9,996	8,900
Payment in lieu of tax	**2,422**	2,297	2,048
Net income	**$ 8,110**	$ 7,699	$ 6,852
Total assets	**$ 143,005**	$ 131,093	$ 143,382
Total liabilities	**$ 103,414**	$ 94,612	$ 110,447

Net income increased by $0.4 million (9.1%) to $8.1 million from the prior quarter, and by $1.3 million (18.4%) when compared to the same quarter last year. The increase from the prior quarter is due to higher revenue in Compass management fees with favourable market returns increasing Compass asset balances. When compared to the same quarter last year, operating revenue, driven primarily from revenue earned on assets under administration, outpaced the slight growth in non-interest expense.

The proprietary Compass portfolio reached 72.2% of total assets under administration, an increase from 71.1% last quarter and 70.1% the same quarter last year. This is primarily driven by Compass balance growth of $393 million (2.9%) outpacing total asset growth of $316 million (2.2%).

The $1.1 million (4.0%) and $0.8 million (2.9%) increase in non-interest expenses over last quarter and the same quarter last year is primarily driven by higher costs related to the increased asset balances.

Assets under administration ended the quarter at $15.0 billion, increasing by $316 million (2.2%) when compared to the prior quarter, and $1.2 billion (8.4%) when compared to the same quarter last year. While markets have been favourable the local economic environment has proved to be a challenge in acquiring assets.

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Statement of Financial Position

Total Assets

ATB's total assets at June 30, 2016 are $47.7 billion, an increase of $0.9 billion (2.0%) over the prior quarter. The growth is primarily driven by a $785 million (21.0%) increase in securities at fair value through net income, with the remaining increase due to a $137 million (44.1%) increase in cash held. As a result of ATB's liquidity position at the end of the quarter, ATB held $402 million (100.0%) in securities purchased under reverse repurchase agreements. These increases were offset by a $352 million (49.9%) reduction in interest-bearing deposits with financial institutions.

The $4.2 billion (9.6%) increase over last year is a result of increases of $2.1 billion (5.6%) in net loans and $1.8 billion (68.9%) in securities measured at fair value through net income, due to increased activity on Treasury bills and bonds, and an increase of $402 million (100.0%) from securities purchased under reverse repurchase agreements.

Asset-Backed Commercial Paper (ABCP)

As at June 30, 2016, ATB continues to hold a $407 million portfolio of long-term third party and bank-sponsored ABCP after a $35 million repayment during the quarter. The estimated fair value of the remaining notes is $406 million. The overall value of ATB's ABCP holdings is estimated to be 99.9% of cost, consistent with last quarter's valuation.

Loans

Net loans grew by $31 million (0.1%) over the quarter. The small growth in net loans is primarily driven by a $163 million (1.1%) increase in residential mortgage loans in RFS, followed by a $77 million (1.7%) increase in independent business loans led by the real estate and accommodation and food services sectors. In addition, agriculture loans in B&Ag, driven by farm land financing and revolving loans, grew by $47 million (1.7%). These increases were offset by a $266 million (2.2%) decrease in commercial loans.

The $2.1 billion (5.6%) growth over the same quarter last year is driven by a $1.1 billion (8.3%) increase in residential mortgage loans in RFS, a $314 million (2.9%) increase in commercial loans in CFS, and a $353 million (8.9%) and $276 million (10.9%) increase in independent business and agriculture loans in B&Ag.

Total Liabilities

ATB has three principal sources of funding – personal and business deposits, wholesale borrowings, which consist primarily of bearer deposit notes and mid-term notes issued by the Government of Alberta, and collateralized borrowings, consisting of securitized residential mortgages and credit card receivables. Total liabilities stood at $44.6 billion as at June 30, 2016, which is an increase of $0.9 billion (2.1%) over last quarter. This is primarily driven by an increase in business deposits of $1.7 billion (9.4%), offset by a decrease of $0.8 billion (15.6%) in wholesale borrowings.

The $4.1 billion (10.2%) increase over the same quarter last year is the result of a $1.6 billion (5.2%) growth in deposits, an increase in wholesale borrowings of $1.3 billion (42.3%), resulting from ATB's liquidity position, and a $1.3 billion (42.3%) increase in collateralized borrowings.

Deposits

Personal and business deposits stood at $32.7 billion as at June 30, 2016. This is an increase of $1.8 billion (5.8%) over the prior quarter and $1.6 billion (5.2%) over the same quarter last year. The vast majority of the change over the prior quarter related to a $1.3 billion (15.4%) increase in fixed date deposits, and a $0.8 billion (6.3%) increase in business retail deposits in CFS as a result of two large amortizing deposits this quarter. The increases are offset by a decrease of $200 million (15.3%) in both business and personal HISA.

Compared to the same time last year, the growth is attributable to the same factors, with business retail deposits in CFS increasing by $1.7 billion (41.2%), partially offset by a $300 million (3.0%) and $131 million (19.7%) decrease in fixed date deposits and business HISA respectively.

Wholesale Borrowings

Wholesale borrowings are used as a source of funds to supplement deposits in supporting lending activities and can fluctuate quarter to quarter. The agreement with the Government of Alberta currently limits the total volume of such borrowings to $7.0 billion. The balance as at June 30, 2016 is $4.3 billion, a $0.8 billion (15.6%) decrease from last quarter, but is a $1.3 billion (42.3%) increase over the same period last year. During the quarter, $400 million associated with a maturing floating rate note and $350 million in Canadian bearer deposit notes were not renewed as ATB focused on debt repayment.

Collateralized Borrowings

Collateralized borrowings, which represent ATB's participation in the Canada Mortgage Bond (CMB) program and securitization of credit card receivables, stood at $5.6 billion at June 30, 2016, $134 million (2.4%) higher than last quarter and $1.3 billion (28.6%) more than last year. The increase from the prior quarter and same quarter last year is a result of additional long-term issuances that did not replace matured bonds. During the current quarter, ATB entered into three new CMBs totaling $392 million with only one $250 million bond maturing during the quarter. In addition, the balance of secured credit card receivables increased by $15 million.

Accumulated Other Comprehensive Income

Accumulated other comprehensive income for the quarter is $69 million. An increase of $23 million in the defined pension liability, driven primarily by a decrease in bond yields unfavourably impacting the pension plans was partially offset by an $11 million increase in swaps used in hedging relationships as a result of lower interest rates, for a net decrease of $12 million from the prior quarter.

Capital Management

ATB measures, manages, and reports capital to ensure that it meets the minimum levels set out by its regulator, the Alberta Superintendent of Financial Institutions, while supporting the continued growth of its business and building value for its owner.

As a Crown corporation, ATB and its subsidiaries operate under a regulatory framework established pursuant to the *Alberta Treasury Branches Act* and associated regulations and guidelines. The capital adequacy requirements for ATB are defined in a guideline authorized by the Government of Alberta's President of Treasury Board and Minister of Finance, which was modelled after guidelines governing other Canadian deposit-taking institutions. ATB's minimum Tier 1 capital requirement is 7%, and the total capital requirement is the greater of 10% of risk-weighted assets or 5% of total assets.

As at June 30, 2016, ATB had a Tier 1 capital ratio of 9.1% and a total capital ratio of 13.2%, both exceeding our regulatory requirements.

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Credit Risk

Credit risk is the potential for financial loss in the event that a borrower or counterparty fails to repay a loan or otherwise honor their financial or contractual obligations. Examples of typical products bearing credit risk include retail and commercial loans, guarantees, and letters of credit.

Key measures as at June 30, 2016 are outlined below.

Total Credit Exposure

The amounts shown in the table below best represent ATB's maximum exposure to credit risk as at June 30, 2016, without taking into account any non-cash collateral held or any other credit enhancements.

As at		**June 30**		March 31
($ in thousands)		**2016**		2016
Financial assets[1]	**$**	**46,550,210**	$	45,665,911
Other commitments and off-balance-sheet items		**18,845,989**		19,294,279
Total credit risk	**$**	**65,396,199**	$	64,960,190

[1] Includes derivatives stated net of collateral held and master netting agreements.

Industry Concentration

ATB is inherently exposed to significant concentrations of credit risk as its customers all participate in the Alberta economy, which in the past has shown strong growth and occasional sharp declines. ATB manages its credit through diversification of its credit portfolio by limiting concentrations to single borrowers, industries, and geographic regions of Alberta. As at June 30, 2016, commercial real estate is the largest single industry segment at $5.0 billion (March 31, 2016: commercial real estate $4.7 billion). This represents no more than 26.5% (March 31, 2016: 24.7%) of total gross business loans. The outstanding principal for the single largest borrower is $97 million (March 31, 2016: $88 million), which represents no more than 0.24% (March 31, 2016: 0.21%) of the total gross loan portfolio.

Real Estate Secured Lending

Residential mortgages and home equity lines of credit (HELOC) are secured by residential properties. The following table presents a breakdown of the amounts and percentages of insured and uninsured residential mortgages and HELOCs:

As at			**June 30, 2016**			March 31, 2016	
($ in thousands)							
Residential mortgages	Insured	**$**	**6,803,852**	**47.0%**	$	6,728,099	47.0%
	Uninsured	**$**	**7,681,522**	**53.0%**		7,590,557	53.0%
Total residential mortgages		**$**	**14,485,374**	**100.0%**		14,318,656	100.0%
Home equity lines of credit	Uninsured	**$**	**3,546,192**	**100.0%**		3,566,365	100.0%
Total home equity lines of credit		**$**	**3,546,192**	**100.0%**		3,566,365	100.0%
Total	**Insured**	**$**	**6,803,852**	**37.8%**	$	6,728,099	37.6%
	Uninsured	**$**	**11,227,714**	**62.2%**	$	11,156,922	62.4%

The following table shows the percentage of ATB's residential mortgage portfolio that fall within various amortization period ranges:

As at	**June 30 2016**	March 31 2016
< 25 years	**71.8%**	71.6%
25–30 years	**24.0%**	23.6%
30–35 years	**4.2%**	4.8%
Total	**100.0%**	100.0%

The following table provides a summary of ATB's average loan-to-value ratio for newly originated and acquired uninsured residential mortgages and HELOC products:

As at	**June 30 2016**	March 31 2016
Residential mortgages	**0.68**	0.65
Home equity lines of credit	**0.55**	0.49

ATB performs stress-testing on its residential mortgage portfolio as part of its overall stress-testing program to assess the impact of an economic downturn. Severe changes in house prices, interest rates, and unemployment levels are among the factors considered in our testing. ATB considers potential losses in its residential mortgage portfolio under such scenarios to be manageable given the portfolio's high proportion of insured mortgages and low loan-to-value ratio.

Market Risk

Market risk is the risk that ATB may incur a loss due to adverse changes in interest rates, foreign exchange rates, and equity or commodity market prices. ATB's risk management practices and key measures are disclosed in note 23 to the consolidated financial statements for the year ended March 31, 2016 and the Risk Management section of the MD&A in the 2016 Annual Report.

A description of ATB's key market risks and their measurement as at June 30, 2016 is outlined below:

Interest rate risk

Interest rate risk is the risk of a negative impact on ATB's net interest income due to changes in market 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).

Interest Rate Sensitivity

The following table provides the potential impact of an immediate and sustained 100- and 200-basis-point increase and decrease in interest rates on ATB's net interest income as applied against ATB's core balance sheet over the following twelve month period:

As at *($ in thousands)*	**June 30 2016**	March 31 2016
Increase in interest rates of:		
100 basis points	**$ 36,763**	$ 43,323
200 basis points	**71,696**	85,353
Decrease in interest rates of:		
100 basis points[1]	**(47,688)**	(64,577)
200 basis points[1]	**(42,239)**	(57,242)

[1] Certain aspects of the decrease in interest rate scenarios are constrained by interest rate floors when appropriate.

The potential impact of a 100- and 200-basis-point change is well within our interest rate risk management policy of $73 million and $126 million, respectively.

Foreign-exchange risk

Foreign-exchange risk is the potential risk of loss resulting from fluctuations in foreign-exchange rates. This 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. ATB manages its foreign-currency exposure through foreign-exchange forward contracts. The board-approved foreign-exchange principal limit is $50 million. ATB is within its limit as at June 30, 2016.

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Equity and commodity price risks

Equity price risk arises when ATB offers deposit products where the rate of return is linked to changes in the value of equity securities or equity market indices. ATB uses equity-linked derivatives to hedge the associated risk exposure on these products. Equity risk is subject to Board-approved limits. ATB has no material net exposure as at June 30, 2016, and such exposures have historically been insignificant.

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

Liquidity Risk

Liquidity risk is the risk of ATB being unable to meet its known financial commitments when they come due and being unable to meet unexpected cash requirements at a reasonable cost. As with other similar financial institutions, ATB's risk arises from fluctuations in cash flows from lending, deposit-taking, investing, and other activities. These commitments are generally met through cash flows supplemented by investment assets readily convertible to cash, or through ATB's capacity to borrow.

As at June 30, 2016, the liquidity coverage ratio (LCR) is 128% (March 31, 2016: 105%) versus a board-approved minimum level of 80%, and the intermediate-term available funding (ITAF) minimum coverage ratio is 153% (March 31, 2016:125%), versus a board-approved minimum level of 70%.

ATB determines and manages its liquidity needs using a wide range of financial products and borrowing programs to ensure stable and well-diversified sources of funding.

The cash outflows for ATB's sources of funding could occur earlier than indicated in the following table describing ATB's funding sources:

As at *($ in thousands)*	**Within 1 year**	**1–2 years**	**2–3 years**	**3–4 years**	**4–5 years**	**Over 5 years**	**June 30 2016 Total**	March 31 2016 Total
Mid-term notes	**$ 1,000,102**	**$ 997,682**	**$ 199,472**	**$ 199,425**	**$ -**	**$ 295,352**	**$ 2,692,033**	$ 2,691,436
Floating rate notes	**-**	**-**	**-**	**-**	**-**	**-**	**-**	399,994
Bearer deposit notes	**1,569,870**	**-**	**-**	**-**	**-**	**-**	**1,569,870**	1,956,314
Mortgage-backed securities	**199,203**	**241,297**	**993,694**	**1,043,565**	**1,085,385**	**1,569,057**	**5,132,201**	5,012,768
Credit card securitization	**500,000**	**-**	**-**	**-**	**-**	**-**	**500,000**	485,000
Subordinated debentures	**58,280**	**73,122**	**82,564**	**98,176**	**32,299**	**-**	**344,441**	371,441
Total funding	**$ 3,327,455**	**$ 1,312,101**	**$ 1,275,730**	**$ 1,341,166**	**$ 1,117,684**	**$ 1,864,409**	**$ 10,238,545**	$ 10,916,953
Of which:								
Secured	**$ 699,203**	**$ 241,297**	**$ 993,694**	**$ 1,043,565**	**$ 1,085,385**	**$ 1,569,057**	**$ 5,632,201**	$ 5,497,768
Unsecured	**2,628,252**	**1,070,804**	**282,036**	**297,601**	**32,299**	**295,352**	**4,606,344**	5,419,185
Total funding	**$ 3,327,455**	**$ 1,312,101**	**$ 1,275,730**	**$ 1,341,166**	**$ 1,117,684**	**$ 1,864,409**	**$ 10,238,545**	$ 10,916,953

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ATB Financial™

Interim Condensed Consolidated Statement of Financial Position

(Unaudited)

As at		**June 30**	March 31	June 30
($ in thousands)	Note	**2016**	2016	2015
Assets				
Cash resources				
Cash		**$ 447,912**	$ 310,844	$ 338,800
Interest-bearing deposits with financial institutions		**352,667**	704,317	800,530
		800,579	1,015,161	1,139,330
Securities	6			
Securities measured at fair value through net income		**4,532,443**	3,747,323	2,684,268
Securities available for sale		**175**	182	263
		4,532,618	3,747,505	2,684,531
Securities purchased under reverse repurchase agreements		**401,889**	-	-
Loans	7			
Business		**19,049,433**	19,199,157	17,677,569
Residential mortgages		**14,485,374**	14,318,656	13,362,059
Personal		**6,651,970**	6,614,996	6,722,580
Credit card		**712,828**	690,204	698,019
		40,899,605	40,823,013	38,460,227
Allowance for loan losses	8	**(518,504)**	(472,856)	(220,551)
		40,381,101	40,350,157	38,239,676
Other assets				
Derivative financial instruments	9	**681,432**	765,653	546,666
Property and equipment		**372,501**	378,332	388,691
Software and other intangibles		**265,030**	270,972	275,038
Other assets		**238,178**	229,498	236,645
		1,557,141	1,644,455	1,447,040
Total assets		**$ 47,673,328**	$ 46,757,278	$ 43,510,577
Liabilities and equity				
Liabilities				
Deposits				
Personal		**$ 13,197,491**	$ 13,088,145	$ 12,660,239
Business and other		**19,452,518**	17,774,144	18,386,342
		32,650,009	30,862,289	31,046,581
Other liabilities				
Wholesale borrowings		**4,261,903**	5,047,744	2,994,694
Collateralized borrowings	10	**5,632,201**	5,497,768	4,380,473
Derivative financial instruments	9	**442,690**	573,084	387,172
Other liabilities		**1,219,335**	1,295,132	1,026,500
		11,556,129	12,413,728	8,788,839
Securities sold under repurchase agreements		**-**	-	200,099
Subordinated debentures		**344,441**	371,441	409,516
Total liabilities		**44,550,579**	43,647,458	40,445,035
Equity				
Retained earnings		**3,053,499**	3,028,505	2,986,205
Accumulated other comprehensive income		**69,250**	81,315	79,337
Total equity		**3,122,749**	3,109,820	3,065,542
Total liabilities and equity		**$ 47,673,328**	$ 46,757,278	$ 43,510,577

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

ATB Financial™

Interim Condensed Consolidated Statement of Income

(Unaudited)

			For the three months ended	
($ in thousands)	Note	**June 30 2016**	March 31 2016	June 30 2015
Interest income				
Loans		**$ 391,919**	$ 392,723	$ 380,352
Securities measured at fair value through net income		**7,650**	7,036	6,730
Interest-bearing deposits with financial institutions		**1,129**	940	1,631
		400,698	400,699	388,713
Interest expense				
Deposits		**76,714**	74,199	80,389
Collateralized borrowings		**27,172**	26,303	23,204
Wholesale borrowings		**18,417**	19,677	13,289
Subordinated debentures		**2,936**	2,935	2,546
		125,239	123,114	119,428
Net interest income		**275,459**	277,585	269,285
Other income				
Investor Services		**37,967**	36,364	35,673
Service charges		**17,103**	16,445	16,988
Card fees		**13,027**	12,369	13,348
Credit fees		**10,939**	11,597	10,501
Insurance		**3,590**	7,637	4,559
Foreign exchange		**3,061**	3,497	1,787
Net gains on derivative financial instruments		**11,490**	8,891	10,370
Net gains on financial instruments at fair value through net income		**6,658**	10,392	29,179
Sundry		**1,031**	895	942
		104,866	108,087	123,347
Operating revenue		**380,325**	385,672	392,632
Provision for loan losses	8	**93,545**	190,759	57,456
Non-interest expenses				
Salaries and employee benefits		**133,777**	125,841	134,597
Data processing		**24,687**	21,978	24,103
Premises and occupancy, including depreciation		**23,046**	24,332	22,194
General and administrative		**17,603**	19,782	18,247
Professional and consulting costs		**11,753**	14,821	11,957
Deposit guarantee fee		**10,295**	7,470	9,520
Software and other intangibles amortization		**14,295**	13,113	10,947
Equipment, including amortization		**6,456**	6,200	6,343
ATB agencies		**2,767**	2,709	2,702
Other		**9,641**	20,130	9,072
		254,320	256,376	249,682
Net income (loss) before payment in lieu of tax		**32,460**	(61,463)	85,494
Payment in lieu of tax	11	**7,466**	(14,137)	19,664
Net income (loss)		**$ 24,994**	$ (47,326)	$ 65,830

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

Interim Condensed Consolidated Statement of Comprehensive Income
(Unaudited)

						For the three months ended
		June 30		March 31		June 30
($ in thousands)		**2016**		2016		2015
Net income (loss)	**$**	**24,994**	$	(47,326)	$	65,830
Other comprehensive loss						
Items that may be reclassified subsequently to profit or loss:						
Unrealized net gains on available-for-sale financial assets:						
Unrealized net gains arising during the period		**-**		52		6
Net gains reclassified to net income		**-**		(4)		(5)
Unrealized net gains (losses) on derivative financial instruments designated as cash flow hedges:						
Unrealized net gains (losses) arising during the period		**27,592**		40,595		(15,023)
Net gains reclassified to net income		**(16,278)**		(16,920)		(15,548)
Items that will not be reclassified to profit or loss:						
Remeasurement of defined benefit plan liabilities		**(23,379)**		(40,842)		22,095
Other comprehensive loss		**(12,065)**		(17,119)		(8,475)
Comprehensive income (loss)	**$**	**12,929**	$	(64,445)	$	57,355

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

Interim Condensed Consolidated Statement of Changes in Equity
(Unaudited)

						For the three months ended
		June 30		March 31		June 30
($ in thousands)		**2016**		2016		2015
Retained earnings						
Balance at beginning of the period	**$**	**3,028,505**	$	3,075,831	$	2,920,375
Net income (loss)		**24,994**		(47,326)		65,830
Balance at end of the period		**3,053,499**		3,028,505		2,986,205
Accumulated other comprehensive income						
Available for sale financial assets						
Balance at beginning of the period		**-**		(48)		(133)
Other comprehensive income		**-**		48		1
Balance at end of the period		**-**		-		(132)
Derivative financial instruments designated as cash flow hedges						
Balance at beginning of the period		**161,886**		138,211		161,083
Other comprehensive income (loss)		**11,314**		23,675		(30,571)
Balance at end of the period		**173,200**		161,886		130,512
Defined benefit plan liabilities						
Balance at beginning of the period		**(80,571)**		(39,729)		(73,138)
Other comprehensive (loss) income		**(23,379)**		(40,842)		22,095
Balance at end of the period		**(103,950)**		(80,571)		(51,043)
Accumulated other comprehensive income		**69,250**		81,315		79,337
Equity	**$**	**3,122,749**	$	3,109,820	$	3,065,542

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

ATB Financial™

Interim Condensed Consolidated Statement of Cash Flows

(Unaudited)

			For the three months ended			
		June 30		March 31		June 30
($ in thousands)		**2016**		2016		2015
Cash flows from operating activities:						
Net income	**$**	**24,994**	$	(47,326)	$	65,830
Adjustments for non-cash items and others:						
Provision for loan losses		**93,545**		190,759		57,456
Depreciation and amortization		**29,241**		27,627		24,789
Net gains on financial instruments at fair value through net income		**(6,658)**		(10,392)		(29,179)
Adjustments for net changes in operating assets and liabilities:						
Loans		**(106,228)**		(498,937)		(565,608)
Deposits		**1,787,720**		(807,406)		457,702
Derivative financial instruments		**(34,859)**		12,848		5,762
Prepayments and other receivables		**(4,942)**		8,897		(13,252)
Due to clients, brokers and dealers		**12,980**		6,554		38,822
Deposit guarantee fee payable		**(35,134)**		12,113		(32,015)
Accounts payable and accrued liabilities		**(36,755)**		(63)		(229,362)
Liability for payment in lieu of tax		**(24,832)**		(14,137)		(78,513)
Net interest receivable and payable		**(18,819)**		19,808		(3,812)
Change in accrued pension-benefit liability		**24,517**		40,350		(20,737)
Others, net		**(27,589)**		(46,389)		(965)
Net cash provided (used in) by operating activities		**1,677,181**		(1,105,694)		(323,082)
Cash flows from investing activities:						
Change in securities measured at fair value through net income		**(793,998)**		(7,997)		(550,116)
Change in securities purchased under reverse repurchase agreements		**(401,889)**		-		500,094
Change in interest-bearing deposits with financial institutions		**351,650**		(232,262)		11,723
Purchases of property and equipment, software and other intangibles		**(17,468)**		(27,929)		(38,743)
Net cash (used in) investing activities		**(861,705)**		(268,188)		(77,042)
Cash flows from financing activities:						
Change in wholesale borrowings		**(785,841)**		1,085,605		(49,436)
Change in collateralized borrowings		**134,433**		378,501		106,293
Change in securities sold under repurchase agreements		**-**		-		200,099
Issuance of subordinated debentures		**(27,000)**		-		98,177
Net cash (used in) provided by financing activities		**(678,408)**		1,464,106		355,133
Net increase (decrease) in cash and cash equivalents		**137,068**		90,224		(44,991)
Cash at beginning of period		**310,844**		220,620		383,791
Cash at end of period	**$**	**447,912**	$	310,844	$	338,800
Net cash (used in) provided by operating activities include:						
Interest paid	**$**	**(141,812)**	$	(104,676)	$	(128,136)
Interest received	**$**	**398,453**	$	402,069	$	395,462

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

1. Nature of Operations

Alberta Treasury Branches (ATB) is an Alberta-based financial service provider engaged in retail and commercial banking, credit card services, wealth management and investment management services. ATB is an agent of the Crown in right of Alberta and operates under the authority of the *Alberta Treasury Branches Act* (the *ATB Act*), Revised Statutes of Alberta, 2000, chapter A-37. Under the *ATB Act*, ATB was established as a provincial Crown corporation governed by a Board of Directors appointed by the Lieutenant-Governor in Council. The address of the head office is 2100, 10020 – 100 Street Edmonton, Alberta, Canada.

ATB is exempt from Canadian federal and Alberta provincial income taxes but pays an amount to the provincial government designed to be in lieu of such a charge. (Refer to note 11.)

2. Significant Accounting Policies

Basis of Preparation

These Interim Condensed Consolidated Financial Statements are prepared in accordance with International Accounting Standard (IAS) 34 *Interim Financial Reporting* as issued by the International Accounting Standards Board (IASB) and the accounting requirements of the Alberta Superintendent of Financial Institutions (ASFI). The Interim Condensed Consolidated Financial Statements do not include all of the information required for complete annual consolidated financial statements and should be read in conjunction with ATB's 2016 annual consolidated financial statements. The accounting policies, methods of computation and presentation of these Interim Condensed Consolidated Financial Statements are consistent with the most recent annual consolidated financial statements. These Interim Condensed Consolidated Financial Statements were approved by the Audit Committee on August 11, 2016.

The Interim Condensed Consolidated Financial Statements are presented in Canadian dollars, and all values are rounded to the nearest thousand dollars, except when otherwise indicated.

These Interim Condensed Consolidated Financial Statements include the assets, liabilities, and results of operations and cash flows of ATB and its subsidiaries. All intercompany transactions and balances have been eliminated from the consolidated results.

Significant Accounting Judgments, Estimates and Assumptions

In the process of applying ATB's accounting policies, management has exercised judgment and has made estimates in determining amounts recognized in the Interim Condensed Consolidated Financial Statements. The most significant judgments and estimates made include the allowance for credit losses, the fair value of financial instruments, and assumptions underlying the accounting for employee benefit obligations as described in note 2 to ATB's 2016 annual consolidated financial statements.

3. Summary of Accounting Policy Changes

Change in Accounting Policies and Disclosures

In addition to the accounting policies disclosed in the 2016 annual consolidated financial statements, the following standard is required to be applied for periods beginning on or after January 1, 2016, and, unless otherwise indicated, has no effect on our financial performance:

IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortization

On April 1, 2016 ATB adopted the amendments to IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets*. The amendments provide additional guidance on how the depreciation or amortization of property, plant, equipment and intangible assets should be calculated. There was no impact to ATB's depreciation and amortization rates, calculation methods, and financial results.

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Future Accounting Changes

The following standards have been issued but are not yet effective on the date of issuance of ATB's Interim Condensed Consolidated Financial Statements. ATB is currently assessing the impact of the application of these standards and will adopt them when they become effective.

IFRS 9 Financial Instruments

On July 24, 2014, the IASB issued the final version of IFRS 9 *Financial Instruments*, which replaces the guidance in IAS 39 *Financial Instruments: Recognition and Measurement*. The final version includes guidance on the classification and measurement of financial assets and liabilities, impairment, and hedge accounting.

The standard uses a single business model approach to determine whether a financial asset is measured at amortized cost or fair value. Financial assets will be measured at fair value through profit or loss unless certain conditions are met for measurement at amortized cost or at fair value through other comprehensive income. The classification and measurement of liabilities remain mostly unchanged from IAS 39.

A new single impairment model is introduced on all financial instruments subject to impairment accounting. The expected loan loss model replaces the current incurred loss model and is based on a forward-looking approach. The model first requires the recognition of loan losses based on a 12-month time horizon where there has not been a significant increase in credit risk since initial recognition. It also requires an amount equal to the lifetime expected losses where there has been a significant increase in credit risk since initial recognition.

IFRS 9 also introduces a new hedge accounting model that expands on the scope of hedge and hedging items to which hedge accounting can be applied. The new model changes the effectiveness testing requirements and does not allow for voluntarily hedge de-designation.

In preparation for its adoption, ATB has established a dedicated project team led by members of Accounting, Information Technology, and Credit Risk. To ensure the accounting policies are compliant and the project remains on track and within budget, the project team provides regular updates to the steering committee which is accountable to the project sponsor.

ATB's implementation plan outlines the expected times to assess the standard, blueprint, develop and test. ATB has reviewed the standard and performed a preliminary assessment of its impact on both credit risk and financial reporting. Work is underway to develop the necessary policies and procedures to address the standard's requirements. ATB will continue to monitor industry interpretations to ensure the project remains aligned with our commitment to an on-time implementation.

ATB is currently assessing the impact of the standard, which is effective for annual periods beginning on or after January 1, 2018.

IFRS 15 Revenue From Contracts With Customers

On September 11, 2015, the IASB published *Effective Date of IFRS 15* which deferred the effective date of IFRS 15 *Revenue from Contracts with Customers*, which replaces all existing IFRS revenue requirements. The standard clarifies the principles for recognizing revenue and cash flows arising from contracts with customers.

ATB is currently assessing the impact of the amendments, which must be applied retrospectively for annual periods beginning on or after January 1, 2018.

IFRS 16 Leases

On January 13, 2016, the IASB published a new standard, IFRS 16 *Leases* bringing leases for lessees under a single model and eliminating the distinction between operating and finance leases. Lessor accounting however remains largely unchanged.

ATB is currently assessing the impact of adopting this amendment, which is effective for annual periods beginning on or January 1, 2019. Earlier application is permitted if IFRS 15 *Revenue from Contracts with Customers* has also been applied.

IAS 7 Statement of Cash Flows
On January 28, 2016, the IASB published amendments to IAS 7 *Statement of Cash Flows* intended to improve information about an entity's financing activities by providing additional disclosure about the change in liabilities arising from financing activities.

ATB is currently assessing the impact of adopting this amendment, which is effective for annual periods beginning on or after January 1, 2017, with earlier application being permitted.

4. Financial Instruments

a. Classification and Carrying Value

The following tables summarize the classification, carrying value and fair value of ATB's financial instruments as at June 30, 2016 and March 31, 2016.

As at June 30, 2016 *($ in thousands)*	Carrying Value						
	Held-for-trading assets and liabilities measured at fair value	Designated at fair value through net income	Available-for-sale instruments measured at fair value	Loans and receivables measured at amortized cost	Financial liabilities measured at amortized cost	Derivatives designated for hedge accounting	Total carrying value
Financial assets							
Cash	$ -	$ -	$ -	$ 447,912	$ -	$ -	$ 447,912 [1]
Interest-bearing deposits with financial institutions	-	352,667	-	-	-	-	352,667 [1]
Securities	-	4,532,443	175	-	-	-	4,532,618 [1]
Securities purchased under reverse repurchase agreements	-	-	-	401,889	-	-	401,889 [1]
Loans							
Business	-	-	-	19,049,433	-	-	19,049,433
Residential mortgages	-	-	-	14,485,374	-	-	14,485,374
Personal	-	-	-	6,651,970	-	-	6,651,970
Credit card	-	-	-	712,828	-	-	712,828
Allowance for loan losses	-	-	-	(518,504)	-	-	(518,504)
	-	-	-	40,381,101	-	-	40,381,101 [2]
Other							
Derivative financial instruments	431,456	-	-	-	-	249,976	681,432
Other assets	-	-	-	81,893	-	-	81,893
	431,456	-	-	81,893	-	249,976	763,325 [1]
Financial liabilities							
Deposits							
Personal	-	-	-	-	13,197,491	-	13,197,491
Business and other	-	-	-	-	19,452,518	-	19,452,518
	-	-	-	-	32,650,009	-	32,650,009 [3]
Other							
Wholesale borrowings	-	-	-	-	4,261,903	-	4,261,903 [4]
Collateralized borrowings	-	-	-	-	5,632,201	-	5,632,201 [5]
Derivative financial instruments	384,787	-	-	-	-	57,903	442,690 [1]
Other liabilities	-	-	-	-	1,078,648	-	1,078,648 [1]
	384,787	-	-	-	10,972,752	57,903	11,415,442
Subordinated debentures	-	-	-	-	344,441	-	344,441 [6]

[1] Fair value estimated to equal carrying value.
[2] Fair value of loans estimated to be $42,432,942.
[3] Fair value of deposits estimated to be $32,636,655.
[4] Fair value of wholesale borrowings estimated to be $4,318,018.
[5] Fair value of collateralized borrowings estimated to be $5,823,049.
[6] Fair value of subordinated debentures estimated to be $362,679.

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As at March 31, 2016 *($ in thousands)*	Carrying Value							
	Held-for-trading assets and liabilities measured at fair value	Designated at fair value through net income	Available-for-sale instruments measured at fair value	Loans and receivables measured at amortized cost	Financial liabilities measured at amortized cost	Derivatives designated for hedge accounting	Total carrying value	
Financial assets								
Cash	$ -	$ -	$ -	$ 310,844	$ -	$ -	$ 310,844	(1)
Interest-bearing deposits with financial institutions	-	704,317	-	-	-	-	704,317	(1)
Securities	-	3,747,323	182	-	-	-	3,747,505	(1)
Securities purchased under reverse repurchase agreements	-	-	-	-	-	-	-	(1)
Loans								
Business	-	-	-	19,199,157	-	-	19,199,157	
Residential mortgages	-	-	-	14,318,656	-	-	14,318,656	
Personal	-	-	-	6,614,996	-	-	6,614,996	
Credit card	-	-	-	690,204	-	-	690,204	
Allowance for loan losses	-	-	-	(472,856)	-	-	(472,856)	
	-	-	-	40,350,157	-	-	40,350,157	(2)
Other								
Derivative financial instruments	518,859	-	-	-	-	246,794	765,653	
Other assets	-	-	-	78,023	-	-	78,023	
	518,859	-	-	78,023	-	246,794	843,676	(1)
Financial liabilities								
Deposits								
Personal	-	-	-	-	13,088,145	-	13,088,145	
Business and other	-	-	-	-	17,774,144	-	17,774,144	
	-	-	-	-	30,862,289	-	30,862,289	(3)
Other								
Wholesale borrowings	-	-	-	-	5,047,744	-	5,047,744	(4)
Collateralized borrowings	-	-	-	-	5,497,768	-	5,497,768	(5)
Derivative financial instruments	517,433	-	-	-	-	55,651	573,084	(1)
Other liabilities	-	-	-	-	1,174,823	-	1,174,823	(1)
	517,433	-	-	-	11,720,335	55,651	12,293,419	
Subordinated debentures	-	-	-	-	371,441	-	371,441	(6)

[1] Fair value estimated to equal carrying value.
[2] Fair value of loans estimated to be $42,251,070.
[3] Fair value of deposits estimated to be $30,835,288.
[4] Fair value of wholesale borrowings estimated to be $5,102,899.
[5] Fair value of collateralized borrowings estimated to be $5,671,595.
[6] Fair value of subordinated debentures estimated to be $378,845.

b. Fair-Value Hierarchy

The following tables present the financial instruments ATB has recognized at fair value, classified using the fair-value hierarchy described in note 4 to the consolidated financial statements for the year ended March 31, 2016. Transfers between fair-value levels can result from additional, changes in, or new information regarding the availability of quoted market prices or observable market inputs. For the three months ended June 30, 2016 and the year ended March 31, 2016 there were no transfers of financial instruments between Levels 1 and 2, or into and out of Level 3.

As at June 30, 2016 *($ in thousands)*	Level 1	Level 2	Level 3	Total
Financial assets				
Interest-bearing deposits with financial institutions				
Designated at fair value through net income	**$ -**	**$ 352,667**	**$ -**	**$ 352,667**
Securities				
Designated at fair value through net income	**4,126,231**	**-**	**406,212**	**4,532,443**
Available for sale	**-**	**-**	**175**	**175**
Other assets				
Derivative financial instruments	**-**	**681,432**	**-**	**681,432**
Total financial assets	**$ 4,126,231**	**$ 1,034,099**	**$ 406,387**	**$ 5,566,717**
Financial liabilities				
Other liabilities				
Derivative financial instruments	**-**	**442,690**	**-**	**442,690**
Total financial liabilities	**$ -**	**$ 442,690**	**$ -**	**$ 442,690**

As at March 31, 2016 *($ in thousands)*	Level 1	Level 2	Level 3	Total
Financial assets				
Interest-bearing deposits with financial institutions				
Designated at fair value through net income	$ -	$ 704,317	$ -	$ 704,317
Securities				
Designated at fair value through net income	3,306,234	-	441,089	3,747,323
Available for sale	-	-	182	182
Other assets				
Derivative financial instruments	-	765,653	-	765,653
Total financial assets	$ 3,306,234	$ 1,469,970	$ 441,271	$ 5,217,475
Financial liabilities				
Other liabilities				
Derivative financial instruments	-	573,084	-	573,084
Total financial liabilities	$ -	$ 573,084	$ -	$ 573,084

ATB performs a sensitivity analysis for fair-value measurements classified in Level 3, substituting one or more reasonably possible alternative assumptions for the unobservable inputs. These sensitivity analyses are detailed in note 6 for the Asset-Backed Commercial Paper (ABCP) investments designated at fair value through net income. The sensitivity analysis for the available-for-sale ABCP resulted in an insignificant change in fair value.

The following table presents the changes in fair value of Level 3 financial instruments for the three months ended June 30, 2016:

($ in thousands)	**Securities available for sale**	**Securities designated at fair value through net income**
Fair value as at March 31, 2016	$ 182	$ 441,089
Total realized and unrealized gains included in net income	-	7
Total realized and unrealized gains included in other comprehensive income	-	-
Sales and Settlements[1]	(7)	(34,884)
Fair value as at June 30, 2016	$ 175	$ 406,212
Change in unrealized (loss) included in income with respect to financial instruments held as at June 30, 2016	$ -	$ (11)

[1] There were no purchases or issuances made during the period.

The Interim Condensed Consolidated Statement of Income line item net gains on financial instruments at fair value through net income captures both realized and unrealized fair-value movements on all financial instruments designated at fair value and realized gains on securities available for sale.

5. Financial Instruments – Risk Management

ATB has included certain disclosures required by IFRS 7 in Management's Discussion and Analysis (MD&A) which is an integral part of the interim condensed financial statements. The use of financial instruments exposes ATB to credit, liquidity, market, and foreign exchange risk. ATB's risk management practices and key measures are disclosed in the Risk Management section of the MD&A in the 2016 Annual Report.

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6. Securities

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

As at *($ in thousands)*	Less than 1 year	From 1–5 years	Over 5 years	**June 30 2016** Total carrying value	March 31 2016 Total carrying value
Securities measured at fair value through net income					
Issued or guaranteed by the Canadian federal or provincial governments	**$ 2,367,245**	**$ 1,758,986**	**$ -**	**$ 4,126,231**	$ 3,287,239
Other securities	**-**	**-**	**-**	**-**	18,995
Commercial paper					
Third-party-sponsored ABCP	**377,255**	**-**	**-**	**377,255**	412,018
Bank-sponsored ABCP	**28,957**	**-**	**-**	**28,957**	29,071
Total securities measured at fair value through net income	**2,773,457**	**1,758,986**	**-**	**4,532,443**	3,747,323
Securities available for sale					
Commercial paper					
Third-party-sponsored ABCP	**175**	**-**	**-**	**175**	182
Total securities available for sale	**175**	**-**	**-**	**175**	182
Total securities	**$ 2,773,632**	**$ 1,758,986**	**$ -**	**$ 4,532,618**	$ 3,747,505

Asset-Backed Commercial Paper (ACBP)

The table below provides a breakdown of the face value of ATB's ABCP holdings:

As at June 30, 2016 *($ in thousands)*	**Cost**	**Coupon**	**Expected principal repayment**	**Credit rating**
Third-party ABCP				
MAV 1				
Class A-2	$ 285,096	0.30%[1]	Dec 2016	AA (low)
Class B	65,627	0.30%[1]	Dec 2016	A (high)
Class C	26,990	20.0%[1]	Dec 2016	BBB (low)
Total MAV 1	**377,713**			
MAV 3				
Tracking notes for traditional assets	175	Floating[2]	Sept 2016	None
Total MAV 3	**175**			
Total third-party ABCP	**377,888**			
Bank-sponsored ABCP	**28,971**	0%–0.35%[1]	Sept 2016	BBB–AA (high)
Total ABCP	**$ 406,859**			

[1] Spread over bankers' acceptance rate.

[2] Coupon rate floats based on the yield of the underlying assets.

Valuation

The continuity table below provides a breakdown of the fair value of ATB's ABCP holdings:

	March 31, 2016				**June 30, 2016**	
($ in thousands)	Cost	Estimated fair value	Note redemptions	Foreign exchange impact[1]	**Cost**	**Estimated fair value**
MAV 1	$ 377,724	$ 377,266	$ -	$ (11)	**$ 377,713**	**$ 377,255**
MAV 3	182	182	(7)	-	**175**	**175**
Other third-party sponsored ABCP	34,770	34,752	(34,770)	-	**-**	**-**
Bank-sponsored ABCP	29,085	29,071	(114)	-	**28,971**	**28,957**
Total ABCP	$ 441,761	$ 441,271	$ (34,891)	$ (11)	**$ 406,859**	**$ 406,387**

[1] MAV 1 includes securities with a carrying value of $2,003 (March 31, 2016: $2,014) denominated in U.S. funds.

There is no observable market price for the notes as at the balance sheet date; accordingly, ATB estimated the fair value of the various notes using a discounted cash flow method. The key assumption in this model is the market discount rate. The market discount rate is based on the CDX.IG index tranches adjusted by a 2.70% premium, where an increase in this premium would result in a decrease in fair value on certain notes held, to reflect the lack of liquidity inherent in these notes. The coupon rates, term to maturity, and anticipated cash flows have been based on the expected terms of each note.

MAV Notes

As outlined in note 7 to the consolidated financial statements for the year ended March 31, 2016, the investments subject to the Montreal Accord were restructured on January 21, 2009 and ATB exchanged its original notes for new longer-term floating-rate notes that more closely matched the maturities of the underlying assets. These notes were issued via new trusts called Master Assets Vehicles (MAV).

MAV 1, which includes synthetic and ineligible assets restructured under the Montreal Accord, is measured at fair value through net income while MAV 3, which includes traditional assets, has been classified as available-for-sale.

On restructuring, ATB recorded a liability in other liabilities to represent the estimated fair value of the self-funded margin funding facility (MFF) required as part of the restructuring. The MFF is in place to cover possible collateral calls on the leveraged super-senior trades underlying the MAV notes. Advances under this facility are expected to bear interest at a rate based on the bankers' acceptance rate. If ATB fails to fund any collateral under this facility, the notes held by ATB could be terminated or exchanged for subordinated notes. In order to continue to participate in MAV 1 and self-fund the MFF, ATB must maintain a credit rating equivalent to A (high) with at least two of four credit-rating agencies. If ATB does not maintain the required credit rating, it will be required to provide collateral or obtain the required commitment through another entity with a sufficiently high credit rating. ATB's share of the MFF credit commitment is $551,500, for which ATB does not receive a fee.

There have been no changes to the fair value of the MAV 1 notes for the three-month period ended June 30, 2016 (increase of $12,339 and decrease of $333,094 for the three-month period ended March 31, 2016 and June 30, 2015, respectively). During the quarter, DBRS increased the rating of the Class B notes from A to A (high).

The fair value of the MAV 3 notes have remained consistent for the three-month period (increase of $48 and $6 for the three-month period ended March 31, 2016 and June 30, 2015, respectively).

Other Third-Party-Sponsored ABCP

The $34,770 investment of third-party-sponsored ABCP restructured outside the Montreal Accord was fully repaid during the quarter.

Bank-Sponsored ABCP

As outlined in note 7 to the consolidated financial statements for the year ended March 31, 2016, ATB also holds investments in certain bank-sponsored commercial paper that were restructured similar to the Montreal Accord notes. These notes are valued using a discounted cash flow model similar to the technique used for the MAV synthetic assets.

There have been no changes to the fair value of the bank-sponsored notes for the three-month period ended June 30, 2016 (increase of $261 and $680 for the three-month period ended March 31, 2016 and June 30, 2015, respectively).

Measurement Uncertainty

The estimate of the fair value of the ABCP notes continues to be subject to significant risks and uncertainties including the timing and amounts of cash flows, market liquidity, the quality and term of the underlying assets including the possibility of margin calls and the future market for the notes. Accordingly, the fair value of the notes may change materially. A 1% increase in the discount rate will decrease the value of ATB's ABCP notes by approximately $1,696 (March 31, 2016: $2,856, June 30, 2015: $5,608).

7. Loans

Credit Quality

ATB's loan portfolio consists of the following:

As at June 30, 2016			**Allowances assessed**		
($ in thousands)		**Gross loans**	**Individually**	**Collectively**	**Net carrying value**
Business	**$**	**19,049,433**	**$ 272,700**	**$ 128,891**	**$ 18,647,842**
Residential mortgages		**14,485,374**	**4,447**	**6,290**	**14,474,637**
Personal		**6,651,970**	**32,971**	**45,396**	**6,573,603**
Credit card		**712,828**	**-**	**27,809**	**685,019**
Total	**$**	**40,899,605**	**$ 310,118**	**$ 208,386**	**$ 40,381,101**

As at March 31, 2016			Allowances assessed		
($ in thousands)		Gross loans	Individually	Collectively	Net carrying value
Business	$	19,199,157	$ 230,218	$ 132,835	$ 18,836,104
Residential mortgages		14,318,656	3,382	7,000	14,308,274
Personal		6,614,996	32,120	41,071	6,541,805
Credit card		690,204	-	26,230	663,974
Total	$	40,823,013	$ 265,720	$ 207,136	$ 40,350,157

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 timely collection of principal and interest:

As at					**June 30**	March 31
($ in thousands)					**2016**	2016
	Residential mortgages	**Business**	**Personal**	**Credit card[1]**	**Total**	Total
Up to one month	**$ 96,498**	**$ 286,307**	**$ 54,485**	**$ 33,364**	**$ 470,654**	$ 625,540
Over one month up to two months	**101,808**	**101,997**	**56,132**	**11,033**	**270,970**	217,429
Over two months up to three months	**9,095**	**8,550**	**11,288**	**4,276**	**33,209**	70,538
Over three months	**11,740**	**23,101**	**14,354**	**5,640**	**54,835**	25,678
Total past due but not impaired	**$ 219,141**	**$ 419,955**	**$ 136,259**	**$ 54,313**	**$ 829,668**	$ 939,185

[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.

Impaired Loans

Impaired loans including the related allowances are as follows:

As at June 30, 2016					
($ in thousands)		**Gross impaired loans**		**Allowances individually assessed**	**Net carrying value**
Business	**$**	**555,909**	**$**	**272,700**	**$ 283,209**
Residential mortgages		**63,045**		**4,447**	**58,598**
Personal		**70,624**		**32,971**	**37,653**
Total	**$**	**689,578**	**$**	**310,118**	**$ 379,460**

As at March 31, 2016					
($ in thousands)		Gross impaired loans		Allowances individually assessed	Net carrying value
Business	$	469,051	$	230,218	$ 238,833
Residential mortgages		51,005		3,382	47,623
Personal		72,316		32,120	40,196
Total	$	592,372	$	265,720	$ 326,652

8. Allowance for Loan Losses

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

For the three months ended		**June 30**		March 31
($ in thousands)		**2016**		2016
Collectively assessed				
Balance at beginning of the period	**$**	**207,136**	$	139,545
Provision for loan losses		**1,250**		67,591
Balance at end of the period		**208,386**		207,136
Individually assessed				
Balance at beginning of the period	**$**	**265,720**	$	172,114
Writeoffs and recoveries		**(44,407)**		(26,272)
Discount of cash flows on impaired loans		**(3,490)**		(3,290)
Provision for loan losses		**92,295**		123,168
Balance at end of the period		**310,118**		265,720
Total	**$**	**518,504**	$	472,856

9. Derivative Financial Instruments

The fair value of derivative financial instruments, segregated between contracts in a favourable position (i.e., having positive fair value) and contracts in an unfavourable position (i.e., having negative fair value) consists of the following:

			June 30, 2016				March 31, 2016
As at	**Notional**			Notional			
($ in thousands)	**amount**	**Assets**	**Liabilities**	amount	Assets	Liabilities
Over-the-counter contracts						
Interest rate contracts						
Interest rate swaps	**$ 21,461,370**	**$ 302,857**	**$ (118,492)**	$ 20,593,339	$ 300,597	$ (119,296)
Other	**1,039,226**	**53,894**	**(38,272)**	961,540	49,064	(35,015)
Foreign exchange contracts						
Forwards	**3,259,215**	**37,908**	**(31,130)**	2,292,874	35,952	(52,828)
Cross-currency swaps	**1,604,232**	**44,896**	**(29,690)**	353,265	30,819	(29,406)
Forward contracts						
Commodities	**1,963,317**	**241,877**	**(225,106)**	1,827,096	349,221	(336,539)
Total	**$ 29,327,360**	**$ 681,432**	**$ (442,690)**	$ 26,028,114	$ 765,653	$ (573,084)

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 $80,321 as at June 30, 2016 (March 31, 2016: $433,125).

Refer to note 10 to the consolidated financial statements for the year ended March 31, 2016 for a more complete description of ATB's derivative-related activities.

10. Collateralized Borrowings

Canada Mortgage Bond (CMB) Program

ATB periodically securitizes residential mortgage loans by selling loans in the form of mortgage backed securities through the Canada Mortgage Bond (CMB) program. The terms of this transaction do not meet the derecognition criteria as outlined in IAS 39 *Financial Instruments: Recognition and Measurement*, therefore it is accounted for as a collateralized borrowing.

Credit Card Securitization

ATB entered into a program with another financial institution to securitize credit card receivables to obtain additional funding. This program allows ATB to borrow up to 85% of the amount of credit card receivables pledged. The secured credit card receivables remain on ATB's Interim Condensed Consolidated Statement of Financial Position and have not been transferred as they do not qualify for derecognition. Should the amount securitized not adequately support the program, ATB will be responsible for funding this shortfall.

The following table presents the carrying amount of ATB's residential mortgage loans, credit card receivables, and assets pledged as collateral for the associated liability recognized in the Interim Condensed Consolidated Statement of Financial Position:

As at		**June 30**		March 31
($ in thousands)		**2016**		2016
Principal value of mortgages pledged as collateral	**$**	**4,985,379**	$	4,773,222
ATB mortgage-backed securities pledged as collateral through repurchase agreements		**140,537**		232,629
Principal value of credit card receivables pledged as collateral		**642,171**		584,729
Total	**$**	**5,768,087**	$	5,590,580
Associated liabilities	**$**	**5,632,201**	$	5,497,768

11. Payment in Lieu of Tax

For the three months ended June 30, 2016, ATB accrued a total of $7,466 (June 30, 2015: $19,664) for payment in lieu of tax. The payment in lieu of tax will be settled by issuing subordinated debentures until ATB's Tier 2 notional capital is eliminated (Refer to note 12.) The payment in lieu of tax is calculated as 23% of net income reported under IFRS.

12. Capital Management

ATB measures and reports capital adequacy to ensure that it meets the minimum levels set out by its regulator, Alberta Treasury Board and Finance, while supporting the continued growth of its business.

As a Crown corporation, ATB and its subsidiaries operate under a regulatory framework established pursuant to the *Alberta Treasury Branches Act* and associated regulations and guidelines. The capital adequacy requirements for ATB are defined in a guideline authorized by the President of Treasury Board and Minister of Finance, which was modelled after guidelines governing other Canadian deposit-taking institutions. ATB's minimum Tier 1 capital requirement is 7%, and the total capital requirement is the greater of 10% of risk-weighted assets or 5% of total assets. Risk weights are established for various on-balance-sheet and off-balance-sheet assets according to the degree of credit risk. Tier 1 capital consists of retained earnings, and Tier 2 capital consists of subordinated debentures, wholesale borrowings, eligible portions of the collective allowance for loan losses, and notional capital. Wholesale borrowings became eligible as Tier 2 capital as of December 2015 as a result of an amendment to the capital requirements guideline. Effective March 30, 2009, $600,000 of notional (or deemed) capital was made available to ATB. This amount reduces by 25% of net income each quarter.

As at June 30, 2016, ATB has exceeded both the total capital requirements and the Tier 1 capital requirement of the Capital Adequacy Guideline.

As at		**June 30**		March 31
($ in thousands)		**2016**		2016
Tier 1 capital				
Retained earnings	**$**	**3,053,499**	$	3,028,505
Tier 2 capital				
Eligible portions of:				
Subordinated debentures		**201,283**		168,985
Wholesale borrowings		**700,000**		980,000
Collective allowance for loan losses		**208,386**		207,136
Notional capital		**249,064**		255,312
Total Tier 2 capital		**1,358,733**		1,611,433
Total capital	**$**	**4,412,231**	$	4,639,938
Total risk-weighted assets	**$**	**33,427,257**	$	33,927,048
Risk-weighted capital ratios				
Tier 1 capital ratio		**9.1%**		8.9%
Total capital ratio		**13.2%**		13.7%

13. Segmented Information

ATB has organized its operations and activities around the following four areas of expertise:

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

The four identified segments differ in products and services offered, but are all within the same geographic region as virtually all of ATB's operations are limited to customers within the Province of Alberta.

The strategic service units are comprised of business units of a corporate nature, such as investment, risk management, asset/liability management, and treasury operations, as well as expenses, collective allowances, and recoveries for loan losses not expressly attributed to any particular area of expertise.

Refer to note 26 to the consolidated financial statements for the year ended March 31, 2016 for additional detail on the method used to generate the segmented information.

For the three months ended ($ in thousands)	Retail Financial Services	Business and Agriculture	Corporate Financial Services	Investor Services	Strategic Service Units	Total
June 30, 2016						
Net interest income	**$ 112,342**	**$ 70,615**	**$ 81,718**	**$ 105**	**$ 10,679**	**$ 275,459**
Other income	**19,473**	**15,307**	**20,595**	**40,082**	**9,409**	**104,866**
Total operating revenue	**131,815**	**85,922**	**102,313**	**40,187**	**20,088**	**380,325**
Provision for loan losses	**19,770**	**5,132**	**68,643**	**-**	**-**	**93,545**
Non-interest expenses	**118,395**	**52,658**	**26,151**	**29,655**	**27,461**	**254,320**
(Loss) income before payment in lieu of tax	**(6,350)**	**28,132**	**7,519**	**10,532**	**(7,373)**	**32,460**
Payment in lieu of tax	**-**	**-**	**-**	**2,422**	**5,044**	**7,466**
Net (loss) income	**$ (6,350)**	**$ 28,132**	**$ 7,519**	**$ 8,110**	**$ (12,417)**	**$ 24,994**
Total assets	**$ 21,454,412**	**$ 7,507,938**	**$ 11,313,482**	**$ 143,005**	**$ 7,254,491**	**$ 47,673,328**
Total liabilities	**$ 12,664,861**	**$ 9,430,849**	**$ 9,892,855**	**$ 103,414**	**$ 12,458,600**	**$ 44,550,579**
March 31, 2016						
Net interest income	$ 113,976	$ 74,182	$ 83,802	$ 106	$ 5,519	$ 277,585
Other income	23,093	14,773	14,607	38,419	17,195	108,087
Total operating revenue	137,069	88,955	98,409	38,525	22,714	385,672
Provision for loan losses	21,866	20,341	148,552	-	-	190,759
Non-interest expenses	110,608	51,389	23,581	28,529	42,269	256,376
Income before payment in lieu of tax	4,595	17,225	(73,724)	9,996	(19,555)	(61,463)
Payment in lieu of tax	-	-	-	2,297	(16,434)	(14,137)
Net income (loss)	$ 4,595	$ 17,225	$ (73,724)	$ 7,699	$ (3,121)	$ (47,326)
Total assets	$ 21,244,658	$ 7,384,520	$ 11,881,375	$ 131,093	$ 6,115,632	$ 46,757,278
Total liabilities	$ 12,701,875	$ 9,097,122	$ 8,418,943	$ 94,612	$ 13,334,906	$ 43,647,458
June 30, 2015						
Net interest income	$ 111,980	$ 71,739	$ 79,141	$ 112	$ 6,313	$ 269,285
Other income	21,178	15,098	15,272	37,621	34,178	123,347
Total operating revenue	133,158	86,837	94,413	37,733	40,491	392,632
Provision for loan losses	19,407	5,341	32,708	-	-	57,456
Non-interest expenses	115,729	53,338	25,817	28,833	25,965	249,682
(Loss) income before payment in lieu of tax	(1,978)	28,158	35,888	8,900	14,526	85,494
Payment in lieu of tax	-	-	-	2,048	17,616	19,664
Net (loss) income	$ (1,978)	$ 28,158	$ 35,888	$ 6,852	$ (3,090)	$ 65,830
Total assets	$ 20,416,287	$ 6,854,531	$ 10,952,227	$ 143,382	$ 5,144,150	$ 43,510,577
Total liabilities	$ 12,119,509	$ 9,478,177	$ 8,778,881	$ 110,447	$ 9,958,021	$ 40,445,035

14. Comparative Amounts

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

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