

Financial Highlights

Current results compared to the first quarter of fiscal year 2009-2010:

- * Net income of \$35.8 million, up 40.5%
- * Total assets of \$26.2 billion, down 1.1%.
- * Loans (including securitized mortgages, net of provisions) of \$24.5 billion, up 5.6%.
- * Deposits (excluding wholesale deposits) of \$20.8 billion, up 0.44%.
- * Investor Services assets under administration and management of \$5.1 billion, up 22.3%.
- * Operating revenue (excluding ABCP) of \$224.4 million, up 6.6%.
- * Efficiency ratio (non-interest expenses as a percentage of operating revenues), worsened from 77.2% to 77.9%.

Higher interest rates, solid loan portfolio boost ATB's first-quarter profits by 40.5 per cent

Edmonton – First-quarter profits at ATB Financial (ATB) grew 40.5 per cent, as the organization saw improvements to both net interest income and provisions for credit losses.

Net income for the quarter ending June 30, 2010 was \$35.8 million, up \$10.3 million from last year's first quarter.

Adjusted net income, which excludes payment in lieu of tax and last year's first-quarter recovery on asset-backed commercial paper, was up 60 per cent to \$46.5 million.

Net loans, including securitized mortgages, were up 5.6 per cent over June 30, 2009 to \$24.5 billion, while an increasingly competitive deposit market led to a slight increase in retail deposits, to \$20.8 billion.

Operating revenue increased 6.6 per cent to \$224.4 million which was driven largely by a 7.0 per cent increase in net interest income.

ATB's increase in net income was prompted mainly by better margins due to higher interest rates, and a sharp decrease in its provision for credit losses, down \$16.0 million to \$3.0 million.

Dave Mowat, ATB Financial's President and CEO, said the results were solid and encouraging as Alberta's economy continues to improve.

"The good news is that ATB is not seeing the kind of credit losses we might have reasonably expected given the recent volatility in Alberta's economy," Mowat said.

"We stood by Albertans throughout the recent economic cycle, we did more business, and it was good business. That mix of prudent lending and support for Alberta businesses and individuals is paying off in improved results for our organization."

Operational Highlights

Retail Financial Services (RFS) – ATB's largest line of business includes branches and agencies throughout Alberta. Assets, primarily consisting of loans, stood at \$15.3 billion at the end of the first quarter. Operating revenue was \$105.4 million. Comparables to last year's first quarter are not available, as 2009-10 results for this line comprised both RFS and a new line of business, Independent Business and Agriculture. ATB opened its largest branch in the province in Red Deer, and a new branch in downtown Lethbridge, located in the renovated Paramount theatre building.

Independent Business and Agriculture financial services (IB&Ag) – This line of business, newly created this quarter, provides services to Alberta's small businesses, farmers and

other agriculture customers. Its assets stood at \$3.8 billion at the end of the first quarter. Operating revenue was \$63.1 million.

Corporate Financial Services (CFS) – This line of business provides services to Alberta's mid- and senior-market companies in three sub-lines – Energy, Commercial, and Food & Forestry. Due to the challenges of the economy, CFS's assets declined by \$354.5 million, or 6.3 per cent, over the last year. However, operating revenue increased over last year by \$7.4 million, or 14.2 per cent.

ATB Investor Services (IS) – This line of business is responsible for growing and protecting wealth for more than 51,100 customers. At the end of the first quarter, client assets under IS's management and administration reached \$5.1 billion, up \$0.9 billion from last year's first quarter, or 22.3 per cent.

ATB in the Community – In May 2010, ATB received wide notice for its new Junior ATB program, which sees students learn financial literacy, leadership skills and the power of saving money in real working bank "branches" in two Edmonton elementary schools. ATB hopes to expand the program throughout Alberta. To launch its five-year partnership with the Art Gallery of Alberta, ATB sponsored the 7th Alberta Biennial of Contemporary Art at the gallery.

About ATB Financial – ATB Financial is the largest Alberta-based financial institution, with assets of \$26.2 billion. It provides Retail Financial Services, Independent Business and Agriculture Financial Services, Investor Services, and Corporate Financial Services to more than 680,000 Albertans in 242 communities. It provides service through 166 branches and 131 agencies, telephone and Internet banking, a Customer Contact Centre, and Automated Banking Machines. ATB Financial was established in 1938 and has been a provincial Crown corporation since 1997. ATB has been named one of Canada's 50 Best Employers by Report on Business Magazine, one of the 75 Best Workplaces in Canada by the Great Place to Work Institute, and one of Canada's Top 100 Employers and Alberta's Top 50 Employers by Mediacorp Canada Inc.



Bob Splane
Chairman of the Board



Dave Mowat
President & CEO

Interim Consolidated Balance Sheet

(unaudited)

	As at June 30 2010	As at Mar 31 2010	As at June 30 2009
(\$ in thousands)			
Assets			
Cash resources			
Cash	\$ 227,649	\$ 179,424	\$ 159,996
Interest-bearing deposits with financial institutions	1,292,158	675,576	2,122,030
	1,519,807	855,000	2,282,026
Securities (note 6)	921,015	1,158,900	1,183,743
Loans			
Residential mortgages	7,822,210	7,989,004	7,452,857
Business	8,973,380	8,722,605	9,197,464
Personal	5,493,614	5,446,028	5,110,071
Credit card	617,169	599,379	565,800
Allowance for credit losses (note 7)	(219,158)	(222,413)	(206,233)
	22,687,215	22,534,603	22,119,959
Other			
Premises and equipment	187,349	188,831	174,939
Derivative financial instruments (note 8)	176,269	226,509	255,258
Software and other intangibles	228,470	201,767	126,523
Other assets	464,904	263,408	319,248
	1,056,992	880,515	875,968
	\$ 26,185,029	\$ 25,429,018	\$ 26,461,696
Liabilities and equity			
Deposits			
Personal	\$ 10,496,594	\$ 10,427,133	\$ 10,828,097
Business and other	10,306,810	9,544,040	9,883,368
Wholesale	2,621,892	2,607,994	3,030,868
	23,425,296	22,579,167	23,742,333
Other liabilities			
Securities sold under repurchase agreements	-	-	297,829
Derivative financial instruments (note 8)	123,311	146,892	150,590
Other liabilities	515,719	623,432	471,789
	639,030	770,324	920,208
Capital investment notes (note 13)	224,523	224,994	-
Subordinated debentures	67,467	45,176	45,176
Equity			
Retained earnings	1,813,006	1,777,223	1,675,222
Accumulated other comprehensive income	15,707	32,134	78,757
	1,828,713	1,809,357	1,753,979
	\$ 26,185,029	\$ 25,429,018	\$ 26,461,696

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

Interim Consolidated Statement of Income

(unaudited)

(\$ in thousands)	For the three months ended		
	June 30 2010	Mar 31 2010	June 30 2009
Interest income			
Loans	\$ 245,755	\$ 237,654	\$ 243,317
Interest-bearing deposits with financial institutions	3,873	6,202	8,825
Securities	2,702	1,988	2,827
	252,330	245,844	254,969
Interest expense			
Deposits	77,979	79,116	93,807
Capital investment notes	2,378	2,359	-
Subordinated debentures	499	498	574
Securities sold under repurchase agreements	-	-	321
	80,856	81,973	94,702
Net interest income	171,474	163,871	160,267
Other income			
Service charges	17,117	18,904	17,360
Card fees	12,753	12,460	11,610
Investor Services	12,626	11,987	9,690
Credit fees	6,171	4,570	5,317
Securitization (loss) income (note 5)	(5,241)	(2,145)	7,451
Insurance	2,516	2,085	3,918
Foreign exchange	1,407	3,530	2,217
Sundry	806	748	408
Gain (loss) on derivative financial instruments, net	4,794	1,223	(7,733)
	52,949	53,362	50,238
Operating revenue before the undernoted	224,423	217,233	210,505
Recovery of loss on asset-backed commercial paper (note 6)	-	-	4,031
Total operating revenue	224,423	217,233	214,536
Provision for credit losses (note 7)	3,049	9,405	19,050
Non-interest expenses			
Salaries and employee benefits (note 10)	98,689	96,193	91,107
Data processing	18,505	16,045	18,912
Premises and occupancy, including amortization	17,228	22,389	16,009
Professional and consulting costs	8,762	9,233	6,660
Marketing and supplies	5,955	9,271	6,207
Deposit guarantee fee	5,803	3,702	6,207
Software and other intangibles amortization	5,518	5,154	5,607
Communication	5,087	6,033	4,409
Equipment, including amortization	5,559	6,792	4,070
ATB agencies	2,029	1,994	2,059
Other	1,768	940	1,162
	174,903	177,746	162,409
Net income before payment in lieu of tax	46,471	30,082	33,077
Payment in lieu of tax (note 12)	10,688	6,919	7,608
Net income	\$ 35,783	\$ 23,163	\$ 25,469

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

Interim Consolidated Statement of Comprehensive Income

(unaudited)

<i>For the three months ended</i>	June 30	Mar 31	June 30
<i>(\$ in thousands)</i>	2010	2010	2009
Net income	\$ 35,783	\$ 23,163	\$ 25,469
Other comprehensive income (loss)			
Changes in unrealized losses on available-for-sale securities and interest-bearing deposits with financial institutions, net of cash flow hedges	(197)	(1,328)	(8,846)
Reclassification to net income in respect of available-for-sale securities and interest-bearing deposits with financial institutions	-	9	-
Net (losses) gains on derivative financial instruments designated as cash flow hedges	(7,813)	(1,958)	1,085
Reclassification to net income in respect of derivative financial instruments designated as cash flow hedges	(8,417)	(12,221)	(22,413)
Other comprehensive loss	(16,427)	(15,498)	(30,174)
Comprehensive income (loss)	\$ 19,356	\$ 7,665	\$ (4,705)

Interim Consolidated Statement of Changes in Equity

(unaudited)

<i>As at</i>	June 30	Mar 31	June 30
<i>(\$ in thousands)</i>	2010	2010	2009
Retained earnings			
Balance at beginning of the year	\$ 1,777,223	\$ 1,649,753	\$ 1,649,753
Net income	35,783	127,470	25,469
Balance at end of the year	1,813,006	1,777,223	1,675,222
Accumulated other comprehensive income			
Balance at beginning of the year	32,134	108,931	108,931
Other comprehensive loss	(16,427)	(76,797)	(30,174)
Balance at end of the year	15,707	32,134	78,757
Equity	\$ 1,828,713	\$ 1,809,357	\$ 1,753,979

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

Interim Consolidated Statement of Cash Flows

(unaudited)

(\$ in thousands)	For the three months ended		
	June 30 2010	Mar 31 2010	June 30 2009
Cash flows from operating activities			
Net income	\$ 35,783	\$ 23,163	\$ 25,469
Adjustments to determine net cash flows:			
Provision for credit losses	3,049	9,405	19,050
Amortization of premises and equipment	8,892	10,495	6,723
Amortization of software and other intangibles	5,518	5,154	5,607
Net change in accrued interest receivable and payable	(8,842)	(2,159)	6,616
Net change in derivative financial instruments	10,428	(11,863)	5,179
Recovery of loss on asset-backed commercial paper	-	-	(4,031)
Gain on sale of securitized residential mortgage loans (note 5)	(6,491)	(126)	(13,037)
Change in provision for payment in lieu of tax	(27,387)	6,919	7,608
Net change in cheques and other items in transit	(52,500)	(124,100)	(60,000)
Change in prepayments and other receivables	(84,299)	6,720	15,034
Change in due to clients, brokers, and dealers	(6,951)	9,752	6,867
Change in deposit guarantee fee payable	(16,934)	3,702	(21,797)
Change in accounts payable and accrued liabilities	(94,117)	149,313	71,756
Other items, net	(10,581)	11,897	1,742
Net cash (used in) provided by operating activities	(244,432)	98,272	72,786
Cash flows from financing activities			
Net change in deposits	850,131	(921,625)	(134,660)
Issuance (repayment) of subordinated debentures	22,291	-	(11,837)
Change in capital investment notes	(471)	(558)	-
Change in securities sold under repurchase agreements	-	-	11,425
Net cash provided by (used in) financing activities	871,951	(922,183)	(135,072)
Cash flows from investing activities			
Net change in interest-bearing deposits with financial institutions	(616,626)	319,289	393,639
Purchase of securities	(1,352,323)	(752,193)	(178,746)
Proceeds from securities	1,590,007	598,714	215,276
Net change in loans, excluding securitization	(652,374)	(196,522)	(753,258)
Proceeds from loan securitizations	491,653	5,009	219,298
Purchases of premises, equipment, software, and other intangibles	(39,631)	(55,140)	(27,651)
Net cash (used in) investing activities	(579,294)	(80,843)	(131,442)
Net increase (decrease) in cash	48,225	(904,754)	(193,728)
Cash at beginning of quarter	179,424	1,084,178	353,724
Cash at end of quarter	\$ 227,649	\$ 179,424	\$ 159,996
Supplementary cash flow information:			
Amount of interest paid during the period	\$ 89,146	\$ 86,381	\$ 108,819

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

Notes to the Interim Consolidated Financial Statements

For the three months ended June 30, 2010 (\$ in thousands)

(unaudited)

1. Basis of Presentation

These unaudited interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements for the year ended March 31, 2010, as set out on pages 96 to 135 of the 2010 Annual Report.

These interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles using the same significant accounting policies outlined in the notes to the consolidated financial statements for the year ended March 31, 2010.

2. Financial Instruments

a) Carrying Value and Fair Value

Financial assets and financial liabilities can be measured at fair value or amortized cost, depending on their classification under the Financial Instrument Recognition and Measurement Accounting standards. The following table summarizes ATB's financial instrument classifications and provides their carrying value and fair value using the valuation methods and assumptions outlined in the consolidated financial statements for the year ended March 31, 2010:

As at (\$ in thousands)	June 30, 2010								March 31, 2010	
	Held-for-trading assets and liabilities measured at fair value	Designated as held-for-trading assets and liabilities measured at fair value	Available-for-sale instruments measured at fair value	Loans and receivables measured at amortized cost	Financial liabilities measured at amortized cost	Derivatives designated for hedge accounting	Total carrying value	Total carrying value		
Financial assets										
Cash	\$ 227,649	\$ -	\$ -	\$ -	\$ -	\$ -	227,649	\$ 179,424 ⁽¹⁾		
Interest-bearing deposits with financial institutions	-	1,279,158	13,000	-	-	-	1,292,158	675,576 ⁽¹⁾		
Securities	-	839,348	81,667	-	-	-	921,015	1,158,900 ⁽¹⁾		
Loans										
Residential mortgages	-	-	-	7,822,210	-	-	7,822,210	7,989,004		
Business	-	-	-	8,973,380	-	-	8,973,380	8,722,605		
Personal	-	-	-	5,493,614	-	-	5,493,614	5,446,028		
Credit card	-	-	-	617,169	-	-	617,169	599,379		
Allowance for credit losses	-	-	-	(219,158)	-	-	(219,158)	(222,413)		
	-	-	-	22,687,215	-	-	22,687,215	22,534,603 ⁽²⁾		
Other										
Derivative financial instruments	124,188	-	-	-	-	52,081	176,269	226,509		
Other assets	-	-	-	338,041	-	-	338,041	198,000		
	124,188	-	-	338,041	-	52,081	514,310	424,509 ⁽¹⁾		
Financial liabilities										
Deposits										
Personal	-	-	-	-	(10,496,594)	-	(10,496,594)	(10,427,133)		
Business and other	-	-	-	-	(10,306,810)	-	(10,306,810)	(9,544,040)		
Wholesale	-	-	-	-	(2,621,892)	-	(2,621,892)	(2,607,994)		
	-	-	-	-	(23,425,296)	-	(23,425,296)	(22,579,167) ⁽³⁾		
Other										
Derivative financial instruments	(116,399)	-	-	-	-	(6,912)	(123,311)	(146,892)		
Other liabilities	-	(7,545)	-	-	(474,127)	-	(481,672)	(587,592)		
	(116,399)	(7,545)	-	-	(474,127)	(6,912)	(604,983)	(734,484) ⁽¹⁾		
Capital investment notes	-	-	-	-	(224,523)	-	(224,523)	(224,994) ⁽⁴⁾		
Subordinated debentures	-	-	-	-	(67,467)	-	(67,467)	(45,176) ⁽⁵⁾		

⁽¹⁾ Fair value estimated to equal carrying value.

⁽²⁾ Fair value of loans estimated to be \$23,526,047 (March 31, 2010: \$23,247,279).

⁽³⁾ Fair value of deposits estimated to be \$23,392,868 (March 31, 2010: \$22,521,706).

⁽⁴⁾ Fair value of capital investment notes estimated to be \$232,222 (March 31, 2010: \$230,073).

⁽⁵⁾ Fair value of subordinated debentures estimated to be \$70,167 (March 31, 2010: \$46,874).

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 5 to the consolidated financial statements for the year ended March 31, 2010.

As at June 30, 2010

(\$ in thousands)

	Level 1	Level 2	Level 3	Total
Financial assets				
Interest-bearing deposits with financial institutions				
Available-for-sale securities		\$ 13,000	\$ -	\$ 13,000
Held-for-trading securities	200,000	1,079,158	-	1,279,158
Securities				
Available-for-sale securities	6,232	20,794	54,641	81,667
Held-for-trading securities	-	227,292	612,056	839,348
Other assets				
Derivative financial instruments	-	176,269	-	176,269
Total financial assets	206,232	1,516,513	666,697	2,389,442
Financial liabilities				
Other liabilities				
Derivative financial instruments	-	(123,161)	(150)	(123,311)
Other liabilities	-	-	(7,545)	(7,545)
Total financial liabilities	\$ -	\$ (123,161)	\$ (7,695)	\$ (130,856)

As at March 31, 2010

(\$ in thousands)

	Level 1	Level 2	Level 3	Total
Financial assets				
Interest-bearing deposits with financial institutions				
Available-for-sale securities	\$ 200,060	\$ 475,516	\$ -	\$ 675,576
Securities				
Available-for-sale securities	6,227	481,704	60,273	548,204
Held-for-trading securities	-	-	610,696	610,696
Other assets				
Derivative financial instruments	-	226,509	-	226,509
Total financial assets	206,287	1,183,729	670,969	2,060,985
Financial liabilities				
Other liabilities				
Derivative financial instruments	-	(146,674)	(218)	(146,892)
Other liabilities	-	-	(7,350)	(7,350)
Total financial liabilities	\$ -	\$ (146,674)	\$ (7,568)	\$ (154,242)

3. Risk Management

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

Credit Risk

Credit risk is the potential for financial loss in the event that a borrower or counterparty fails to repay a loan or otherwise honour their financial or contractual obligations. Examples of typical products bearing credit risk include retail and commercial loans, guarantees, and letters of credit. ATB's risk management practices and key measures are disclosed in the Risk Management section of the MD&A in the 2010 Annual Report.

Key measures as at June 30, 2010 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, 2010, without taking into account any non-cash collateral held or any other credit enhancements.

As at (\$ in thousands)		June 30 2010		March 31 2010
Financial assets ⁽¹⁾	\$	25,316,616	\$	24,698,900
Other commitments and off-balance sheet items		11,666,882		12,092,398
Total credit risk	\$	36,983,498	\$	36,791,298

⁽¹⁾ Includes derivatives stated net of collateral held and master netting agreements

In addition to the previous table, ATB is exposed to credit risk on its holdings of \$1,292,158 in interest-bearing deposits with financial institutions and \$921,015 in securities (as detailed in note 6).

Credit Quality

ATB's loan portfolio consists of the following:

As at (\$ in thousands)					June 30, 2010		March 31, 2010
		Gross loans	Specific allowances	General allowances	Net carrying value		Net carrying value
Residential mortgages	\$	7,822,210	\$ 927	\$ 10,489	\$ 7,810,794	\$	7,977,129
Personal		5,493,614	8,286	30,182	5,455,146		5,407,210
Credit card		617,169	-	21,486	595,683		577,077
Agricultural		1,359,969	930	13,494	1,345,545		1,316,619
Independent business		2,370,743	6,255	49,193	2,315,295		2,311,964
Commercial		5,242,668	1,694	76,222	5,164,752		4,944,604
	\$	22,906,373	\$ 18,092	\$ 201,066	\$ 22,687,215	\$	22,534,603

Impaired Loans

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

As at (\$ in thousands)					June 30, 2010		March 31, 2010
		Gross impaired loans	Specific allowances	Net carrying value		Net carrying value	
Residential mortgages	\$	67,722	\$ 927	\$ 66,795	\$	67,954	
Personal		28,813	8,286	20,527		21,291	
Agricultural		5,175	930	4,245		3,223	
Independent business		26,102	6,255	19,847		19,255	
Commercial		5,981	1,694	4,287		3,463	
	\$	133,793	\$ 18,092	\$ 115,701	\$	115,186	

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 (\$ in thousands)		June 30, 2010				March 31, 2010	
	Residential mortgages	Business	Personal	Credit card ⁽¹⁾	Total	Total	
Up to one month	\$ 124,455	\$ 79,977	\$ 43,153	\$ 38,854	\$ 286,439	\$ 238,512	
Over one month up to two months	19,917	10,905	10,025	8,962	49,809	37,463	
Over two months up to three months	3,061	1,306	3,651	3,499	11,517	17,965	
Over three months	2,429	5,573	1,557	5,420	14,979	18,012	
Total past due but not impaired	\$ 149,862	\$ 97,761	\$ 58,386	\$ 56,735	\$ 362,744	\$ 311,952	

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

Industry Concentration

ATB is inherently exposed to significant concentrations of credit risk as its customers are all participants in the Alberta economy, which in the past has shown strong growth and occasional sharp declines. ATB manages its credit risk through diversification of its credit portfolio by limiting concentrations to single borrowers, industries, and geographic regions of Alberta. As at June 30, 2010, no single industry segment represents more than 22.7% (March 31, 2010: 22.3%) of total gross business loans, and no single borrower represents more than 0.29% (March 31, 2010: 0.32%) of the total gross loan portfolio.

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 our capacity to borrow.

ATB's risk management practices and key measures are disclosed in the Risk Management section of the MD&A in the 2010 Annual Report. As at June 30, 2010, ATB maintained a liquidity level in excess of the Board-approved minimum levels.

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 25 to the consolidated financial statements for the year ended March 31, 2010 and the Risk Management section of the MD&A in the 2010 Annual Report.

A description of ATB's key market risks and their measurement as at June 30, 2010 is outlined below:

Interest rate risk

Interest rate risk is the risk of a negative impact on ATB's net interest income (NII) 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 basis point increase and decrease in interest rates on ATB's net income:

As at (\$ in thousands)	June 30 2010	March 31 2010
Increase in interest rates of:		
100 basis points	\$ 56,478	\$ 60,583
200 basis points	113,365	122,154
Decrease in interest rates of:		
100 basis points	(52,714)	(37,918)
200 basis points	\$ (63,725)	\$ (52,628)

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 net foreign currency exposure daily by ensuring that U.S. dollar and British pound sterling net exposures are kept within approved risk limits. For all other currencies, exposures are immediately offset with other counterparties. As at June 30, 2010, ATB's net foreign currency exposure was within policy thresholds.

Equity and commodity risk

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, 2010, and such exposures have historically been immaterial.

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.

4. Capital Disclosure

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

As a Crown corporation, ATB and its subsidiaries operate under a regulatory framework established pursuant to the Alberta Treasury Branches Act and associated regulations and guidelines. The capital adequacy requirements for ATB are defined in a guideline authorized by the Minister of Finance and Enterprise, 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 notional capital and eligible portions of the general allowance for credit losses, subordinated debentures, and capital investment notes (to a maximum of \$500,000). Notional capital reduces by 25% of net income each quarter.

As at June 30, 2010, ATB has exceeded both the total capital requirements and the Tier 1 capital requirement of the Capital Adequacy Guideline.

As at (\$ in thousands)	June 30 2010	March 31 2010
Tier 1 capital		
Retained earnings	\$ 1,813,006	\$ 1,777,223
Tier 2 capital		
Eligible portions of:		
Subordinated debentures	33,658	9,076
Capital investment notes	179,619	179,995
General allowance for credit losses	179,276	172,657
Notional capital	559,187	568,133
	951,740	929,861
Total regulatory capital	\$ 2,764,746	\$ 2,707,084
Total risk-weighted assets	\$ 20,488,637	\$ 19,732,223
Risk-weighted capital ratios		
Tier 1 capital ratio	8.8%	9.0%
Total regulatory capital ratio	13.5%	13.7%

5. Securitization

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

ATB securitizes residential mortgage loans through the creation of MBS. Gains on the sale of loans or MBS are recognized in other income on the consolidated statement of income. Upon sale, ATB recognizes a retained interest in the securitized mortgages. The retained interest consists of the discounted value of the future mortgage interest and principal reinvestment receipts less the fixed interest payments due on the CMB. Retained interests are classified as available-for-sale securities and subject to periodic impairment review.

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

Determination of the gain on sale and the value of the retained interest are based on fair values. Fair values are based on quoted market values, when available. When quoted market values are not available, ATB determines fair value based on the present value of expected future cash flows using management's best estimates of key assumptions, such as weighted average life of the loans, prepayment rates, excess spread, expected credit losses, and discount rates commensurate with the risks involved. ATB is exposed to prepayment and reinvestment risk relative to the retained interest asset.

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

The following table summarizes the residential mortgage loans securitized by ATB:

<i>For the three months ended</i> <i>(\$ in thousands)</i>	June 30 2010	March 31 2010	June 30 2009
Proceeds, net of transaction fees	\$ 491,653	\$ 5,009	\$ 219,298
Retained interests	13,890	2	13,240
Deferred servicing revenue	(3,397)	-	(1518)
	502,146	5,011	231,020
Residential mortgages securitized and sold	495,655	4,885	217,983
Gain on sale, net of transaction fees	\$ 6,491	\$ 126	\$ 13,037

The following table summarizes the impact of securitization activities on the consolidated statement of income:

<i>For the three months ended</i> <i>(\$ in thousands)</i>	June 30 2010	March 31 2010	June 30 2009
Gain on sale, net of transaction fees	\$ 6,491	\$ 126	\$ 13,037
Servicing revenues	1,323	1,630	514
Other securitization loss	(13,055)	(3,901)	(6,100)
Securitization income	\$ (5,241)	\$ (2,145)	\$ 7,451

The following table outlines the key assumptions used to measure the fair value of the retained interest:

<i>As at</i>	June 30 2010	March 31 2010	June 30 2009
Expected weighted average life of mortgage pool in months	40.4	40.8	40.2
Prepayment rate	15.0%	15.0%	15.0%
Excess spread	1.9%	2.1%	2.7%
Discount rate	3.3%	3.3%	3.1%

6. Securities

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

<i>As at</i> <i>(\$ in thousands)</i>	June 30 2010			March 31 2010
	Less than 1 year	From 1-5 years	Over 5 years	Total carrying value
Available-for-sale securities				
Issued or guaranteed by the Canadian federal or provincial government	\$ 10,071	\$ -	\$ -	\$ 10,071
Commercial paper				
Third-party-sponsored ABCP	-	-	2,847	2,847
Retained interest in securitization	-	51,794	-	51,794
Other	6,232	10,723	-	16,955
Total available-for-sale securities	16,303	62,517	2,847	81,667
Held-for-trading securities				
Issued or guaranteed by the Canadian federal or provincial government	227,292	-	-	227,292
Commercial paper				
Third-party-sponsored ABCP	-	-	566,017	566,017
Bank-sponsored ABCP	-	16,708	29,331	46,039
Total held-for-trading securities	227,292	16,708	595,348	839,348
Total securities	\$ 243,595	\$ 79,225	\$ 598,195	\$ 921,015

Gross unrealized gains (losses) on available-for-sale securities and interest bearing deposits with financial institutions are presented in the following table:

<i>As at June 30, 2010</i> <i>(\$ in thousands)</i>	Cost or amortized cost	Gross unrealized gains	Gross unrealized losses	Carrying value
Available-for-sale securities				
Issued or guaranteed by the Canadian federal or provincial government	\$ 10,071	\$ -	\$ -	\$ 10,071
Commercial paper				
Third-party-sponsored ABCP	3,323	-	(476)	2,847
Retained interest in securitization	48,811	2,983	-	51,794
Other	16,955	-	-	16,955
Total available-for-sale securities	79,160	2,983	(476)	81,667
Interest-bearing deposits with financial institutions	13,000	-	-	13,000
Total available-for-sale investments	\$ 92,160	\$ 2,983	\$ (476)	\$ 94,667

Asset-Backed Commercial Paper

As outlined in note 9 to the consolidated financial statements for the year ended March 31, 2010, 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).

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The table below provides a breakdown of the face value of ATB's ABCP holdings as at June 30, 2010:

As at June 30, 2010
(\$ in thousands)

	Cost	Coupon	Expected maturity	Credit rating
Third-party ABCP				
MAV 1				
Class A-1	\$ 413,636	0.30% ⁽¹⁾	Dec 2016	A
Class A-2	384,779	0.30% ⁽¹⁾	Dec 2016	A
Class B	65,600	0.30% ⁽¹⁾	Dec 2016	None
Class C	26,781	20.0% ⁽¹⁾	Dec 2016	None
Tracking notes for ineligible assets	26,338	Floating ⁽²⁾	July 2056	None
Total MAV 1	917,134			
MAV 3				
Tracking notes for traditional assets	5,426	Floating ⁽²⁾	Sept 2016	None
Total MAV 3	5,426			
Other	34,770	1.55% ⁽¹⁾	Dec 2016	B
Total third-party ABCP	957,330			
Bank-sponsored ABCP	67,021	0%–0.35% ⁽¹⁾	Dec 2013– Sept 2016	None–A
Total ABCP	\$ 1,024,351			

⁽¹⁾ Spread over bankers' acceptance rate.

⁽²⁾ Coupon rate floats based on the yield of the underlying assets.

The synthetic and ineligible assets restructured under the Montreal Accord were designated as held-for-trading while traditional assets have 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 AA (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 \$551.5 million, for which ATB does not receive a fee. The restructuring includes a moratorium that prevents collateral calls for 18 months from the restructuring date or July 2010 (on leveraged super-senior trades).

Valuation

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

As at

(\$ in thousands)

	March 31, 2010			Foreign	June 30, 2010		
	cost	estimated fair value	Note redemptions	exchange impact ⁽¹⁾	cost	estimated fair value	
MAV 1	\$ 915,774	\$ 550,054	\$ (353)	\$ 1,713	\$ 917,134	\$ 551,414	
MAV 3	5,806	3,227	(380)	-	5,426	2,847	
Other third-party sponsored ABCP	34,770	14,603	-	-	34,770	14,603	
Bank-sponsored ABCP	67,021	46,039	-	-	67,021	46,039	
Total ABCP	\$1,023,371	\$ 613,923	\$ (733)	\$ 1,713	\$ 1,024,351	\$ 614,903	

⁽¹⁾ MAV 1 includes securities with a carrying value of \$24,980 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 synthetic assets 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 various tranches of the CDX.IG index adjusted to reflect the lack of liquidity inherent in the notes.

Other Third-Party-Sponsored ABCP

ATB holds an investment of \$34.8 million of third-party-sponsored ABCP restructured outside the Montreal Accord. Consistent with last quarter Dominion Bond Rating Service (DBRS) currently rates this investment as B (high). ATB continues to estimate the fair value of this investment based on a review of the underlying assets in the trust.

Bank-Sponsored Asset-Backed Commercial Paper

As outlined in note 9 to the consolidated financial statements for the year ended March 31, 2010, 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.

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 \$33,000.

7. Allowance for Credit Losses

The allowance for credit losses recorded in the interim consolidated balance sheet is maintained at the level which management considers adequate to absorb credit-related losses for all on- and off-balance sheet items in ATB's credit portfolio as at the balance sheet date. The continuity of the allowance for credit losses is as follows:

As at and for the three months ended (\$ in thousands)	Specific			General			Total		
	June 30 2010	March 31 2010	June 30 2009	June 30 2010	March 31 2010	June 30 2009	June 30 2010	March 31 2010	June 30 2009
Balance at beginning of year	\$ 18,459	\$ 15,567	\$ 18,457	\$ 205,119	\$ 205,591	\$ 176,853	\$ 223,578	\$ 221,158	\$ 195,010
Writeoffs	(7,821)	(8,421)	(7,621)	-	-	-	(7,821)	(8,421)	(7,621)
Recoveries	1,684	1,436	1,151	-	-	-	1,684	1,436	1,151
Provision for credit losses	7,102	9,877	7,256	(4,053)	(472)	11,794	3,049	9,405	19,050
Balance at end of year	19,424	18,459	18,943	201,066	205,119	188,647	220,490	223,578	207,590
Less: allowance for cost of credit recovery included in other liabilities	1,332	1,165	1,357	-	-	-	1,332	1,165	1,357
Allowance for credit losses	\$ 18,092	\$ 17,294	\$ 17,586	\$ 201,066	\$ 205,119	\$ 188,647	\$ 219,158	\$ 222,413	\$ 206,233

8. Derivative Financial Instruments

ATB enters into various "over-the-counter" derivative contracts in the normal course of its business for two purposes – for its own risk-management program and to meet the needs of ATB customers.

Refer to note 20 to the consolidated financial statements for the year ended March 31, 2010 for a more complete description of ATB's derivative-related activities.

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

As at (\$ in thousands)	June 30, 2010			March 31, 2010		
	Notional amount	Assets	Liabilities	Notional amount	Assets	Liabilities
Corporate (non-trading) derivatives						
Cash flow hedges	\$ 1,467,000	\$ 52,082	\$ (6,912)	\$ 2,969,000	\$ 84,483	\$ (7,958)
Other	5,373,297	50,112	(8,950)	423,569	48,638	-
Client (trading) derivatives	1,987,423	71,924	(72,425)	2,196,309	93,278	(92,096)
Corporate foreign exchange forwards	157,258	2,151	-	610,223	110	(691)
Embedded derivatives						
Equity-and commodity-linked deposits	344,188	-	(34,874)	330,615	-	(45,930)
Other	39,350	-	(150)	40,177	-	(217)
	\$ 9,368,516	\$ 176,269	\$ (123,311)	\$ 6,569,893	\$ 226,509	\$ (146,892)

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 \$22,185 as at June 30, 2010 (March 31, 2010: \$15,545).

9. Guarantees and Pledged Assets

Guarantees represent an irrevocable obligation to make payments to a third party in certain situations. Guarantees include contracts or indemnities that contingently require ATB to make payments (either in the form of an asset or in the form of services) to another party based on changes in an asset, liability, or equity the other party holds; failure of a third party to perform under an obligating agreement; or failure of a third party to pay its indebtedness when due. The term of these guarantees varies according to the contract and normally does not exceed one year. In the event of a call on such commitments, ATB has recourse against the customer.

Significant guarantees provided by ATB to third parties include:

As at (\$ in thousands)	June 30, 2010	March 31, 2010
Loan guarantees and standby letters of credit	359,204	333,397
Notional principal amounts for the following:		
- Foreign exchange forward contracts	696,621	1,184,142
- Commodity forward contracts	1,448,060	1,622,390

In the ordinary course of business, ATB grants a security interest in certain collateral (including securities, interest-bearing deposits with financial institutions and loans and accounts) to the Bank of Canada in order to participate in clearing and payment systems and to have access to its facilities. ATB also pledges securities to Clearing and Depository Services Inc. in order to participate in a settlement-agent credit ring. The total amount pledged as at June 30, 2010 has a carrying value of \$431,863 (March 31, 2010: \$701,377).

10. Employee Future Benefits

ATB provides future pension benefits to current and past employees through a combination of defined benefit and defined contribution plans, but does not provide any other employee future benefits (discussed in note 19 to the consolidated financial statements for year ended March 31, 2010).

The pension benefit expense is included in salaries and employee benefits in the consolidated statement of income.

For the three months ended (\$ in thousands)	June 30, 2010	March 31, 2010	June 30, 2009
Pension benefit expense	\$ 8,763	\$ 10,924	\$ 5,195

11. Segmented Information

In previous years ATB has organized its operations and activities around the following three business segments or lines of business:

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

ATB has determined that the Personal and Business Financial Services line should be separated into two separate segments effective April 1, 2010:

- **Retail Financial Services** comprises the branch, agency, and ABM networks and provides financial services to individuals;
- **Independent Business and Agriculture Services** provides financial services to independent business, and agricultural customers.

The results for these new business segments are being reported separately effective April 1, 2010. Prior periods have not been restated as past information is not available for these new segments. The results for the previous Personal and Business Financial Services segment will continue to be reported in the current fiscal year for comparative purposes.

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.

Refer to note 26 of the consolidated financial statements for the year ended March 31, 2010 for additional detail on the method used to generate the segmented information.

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	Independent Business and		Personal and Business				
	Retail Financial Services	Agriculture Financial Services	Financial Services Sub-total	Corporate Financial Services	Investor Services	Other business units ⁽¹⁾	Total
<i>As at and for the three months ended (\$ in thousands)</i>							
June 30, 2010							
Net interest income (loss)	\$ 83,361	\$ 47,197	\$ 130,558	\$ 40,615	\$ 1,245	\$ (944)	\$ 171,474
Other income (loss)	22,042	15,870	37,912	18,775	11,912	(15,650)	52,949
Recovery of loss on ABCP	-	-	-	-	-	-	-
Total operating revenue (loss)	105,403	63,067	168,470	59,390	13,157	(16,594)	224,423
Provision for (recovery of) credit losses	6,589	2,260	8,849	(4,586)	-	(1,214)	3,049
Non-interest expenses	93,137	29,160	122,297	9,577	17,610	25,419	174,903
Income (loss) before payment in lieu of tax	5,677	31,647	37,324	54,399	(4,453)	(40,799)	46,471
Payment in lieu of tax	-	-	-	-	-	10,688	10,688
Net income (loss)	\$ 5,677	\$ 31,647	\$ 37,324	\$ 54,399	\$ (4,453)	\$ (51,487)	\$ 35,783
Total assets	\$ 15,311,112	\$ 3,846,854	\$ 19,157,966	\$ 5,240,627	\$ 36,750	\$ 1,749,686	\$ 26,185,029
Total liabilities	\$ 9,875,767	\$ 6,269,964	\$ 16,145,731	\$ 3,841,004	\$ 723,400	\$ 3,646,181	\$ 24,356,316
March 31, 2010							
Net interest income	-	-	\$ 122,262	\$ 40,353	\$ 1,186	\$ 70	\$ 163,871
Other income (loss)	-	-	37,942	10,627	11,217	(6,424)	53,362
Recovery of loss on ABCP	-	-	-	-	-	-	-
Total operating revenue (loss)	-	-	160,204	50,980	12,403	(6,354)	217,233
Provision for (recovery of) credit losses	-	-	12,961	(2,670)	-	(886)	9,405
Non-interest expenses	-	-	119,741	10,019	17,084	30,902	177,746
Income (loss) before payment in lieu of tax	-	-	27,502	43,631	(4,681)	(36,370)	30,082
Payment in lieu of tax	-	-	-	-	-	6,919	6,919
Net income (loss)	-	-	\$ 27,502	\$ 43,631	\$ (4,681)	\$ (43,289)	\$ 23,163
Total assets	-	-	\$ 18,863,167	\$ 5,012,210	\$ 39,800	\$ 1,513,841	\$ 25,429,018
Total liabilities	-	-	\$ 15,855,761	\$ 3,367,720	\$ 731,949	\$ 3,664,231	\$ 23,619,661
June 30, 2009							
Net interest income	-	-	\$ 112,722	\$ 34,322	\$ 1,229	\$ 11,994	\$ 160,267
Other income (loss)	-	-	40,627	17,679	8,813	(16,881)	50,238
Recovery of loss on ABCP	-	-	-	-	-	4,031	4,031
Total operating revenue (loss)	-	-	153,349	52,001	10,042	(856)	214,536
Provision for (recovery of) credit losses	-	-	10,557	9,778	-	(1,285)	19,050
Non-interest expenses	-	-	118,566	8,150	13,613	22,080	162,409
Income (loss) before payment in lieu of tax	-	-	24,226	34,073	(3,571)	(21,651)	33,077
Payment in lieu of tax	-	-	-	-	-	7,608	7,608
Net income (loss)	-	-	\$ 24,226	\$ 34,073	\$ (3,571)	\$ (29,259)	\$ 25,469
Total assets	-	-	\$ 17,529,677	\$ 5,595,170	\$ 40,796	\$ 3,296,053	\$ 26,461,696
Total liabilities	-	-	\$ 16,322,302	\$ 3,501,642	\$ 751,250	\$ 4,132,523	\$ 24,707,717

⁽¹⁾ Composed of business units of a corporate nature, such as investment, risk management, asset/liability management, and treasury operations, as well as expenses, general allowances, and recoveries for credit losses not expressly attributed to any line.

12. Payment in lieu of tax

Pursuant to the Alberta Treasury Branches Act, the Government of Alberta has the ability to assess a charge to ATB as prescribed by the Alberta Treasury Branches Regulation. The Alberta Treasury Branches Regulation defines the charge to be an amount equal to 23% of ATB's consolidated net income as reported in its audited annual financial statements. For the three months ended June 30, 2010, ATB has accrued a total of \$10,688 (June 30, 2009: \$7,608) 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 4).

13. Capital Investment Notes

Capital investment notes are five-year non-redeemable guaranteed notes issued to the general public that qualify under ATB's capital requirements as Tier 2 capital to a maximum of \$500,000. As at June 30, 2010, \$224,523 (March 31, 2010: \$224,994) of these notes were outstanding with a fixed rate of return of 4.25% and will mature in fiscal 2014-15.

14. Comparative amounts

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

15. Future Changes in Accounting Policies

Conversion to International Financial Reporting Standards

The Accounting Standards Board confirmed and communicated its decision to replace Canadian generally accepted accounting principles with International Financial Reporting Standards (IFRS) for publicly accountable enterprises with January 1, 2011 as the changeover date. The Public Sector Accounting Board confirmed that government business enterprises operating as self-sustaining commercial organizations should adhere to standards for publicly accountable enterprises (i.e. IFRS). ATB's consolidated financial statements will be prepared using IFRS for the year ended March 31, 2012, and will include comparative information for fiscal 2010-11. ATB has substantially completed the accounting design phase of its IFRS project, which includes a detailed analysis and evaluation of the IFRS standards relevant to ATB's consolidated financial statements. ATB expects to quantify the preliminary impact on the April 1, 2010, opening IFRS retained earnings by the third or fourth quarter of the current fiscal year (Refer to the Critical Accounting Policies and Estimates section of the MD&A in the 2010 Annual Report for more information).

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Caution regarding forward-looking statements

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

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

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

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

The following Management's Discussion and Analysis (MD&A) considers ATB's results of operations and financial condition for the three months ended June 30, 2010 and is dated August 18, 2010. The MD&A should be read in conjunction with the unaudited consolidated interim financial statements and related notes for the period ended June 30, 2010 as well as the audited consolidated financial statements and MD&A for the year ended March 31, 2010.

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Management's Discussion and Analysis

(Unaudited)

Adjusted Net Income¹

ATB earned adjusted net income of \$46.5 million for the first quarter ended June 30, 2010, up 54.5% from the \$30.1 million earned last quarter. Compared to a year ago, adjusted net income grew by \$17.4 million (or 60.0%) from \$29.0 million.

Adjusted net income increased significantly from the prior quarter mainly due to increased net interest income of \$7.6 million (or 4.6%), a decrease in provision for credit losses of \$6.4 million (or 67.6%), and a decrease in non-interest expenses of \$2.8 million (or 1.6%).

The significant increase in adjusted net income from the first quarter last year is a result of an increase in net interest income of \$11.2 million (or 7.0%), an increase in other income of \$2.7 million (or 5.4%), along with a decrease in the provision for credit losses of \$16.0 million (or 84.0%). These positive variances were partially offset by an increase in non-interest expenses of \$12.5 million (or 7.7%).

Net Interest Income

Net interest income increased to \$171.5 million this quarter, this is \$7.6 million (or 4.6%) higher than the prior quarter and \$11.2 million (or 7.0%) higher than the same quarter last year. This increase was driven by an improvement in net interest spread, which is currently 2.84%, compared to 2.69% last quarter and 2.54% from the first quarter last year. The improvement in spread over the first quarter of last year can be attributed to increased loan yields (in particular commercial loan yields) and changes in customer preference from term deposits to lower cost demand products. Relative to our most recent quarter, increases in commercial loan yields are still a factor as well as the initial action we are taking to hedge our balance sheet against interest rate volatility.

Looking forward, ATB expects that net interest income will continue to be better than the prior year, as interest rates are expected to increase. Any further increases though will be partially offset by the expectation that commercial loan yields will decrease as the economy continues to strengthen.

Additional information on ATB's exposure to interest rate risk as at June 30, 2010 is provided in note 3 to the unaudited interim consolidated financial statements. Specifically, based on ATB's current interest rate risk modeling, it is estimated that a one-percentage point increase in prime would increase ATB's net interest income by \$56.5 million over the following twelve month period.

Other Income – excluding ABCP

Other income was \$52.9 million for the first quarter ended June 30, 2010, a slight decrease of \$0.4 million (or 0.8%) compared to the prior quarter, and an increase of \$2.7 million (or 5.4%) compared to the first quarter last year.

Although the net change from the prior quarter was only \$0.4 million, there were two significant variances. Despite an increase in the volume of securitization activity, securitization income reduced by \$3.1 million. This decrease was driven by the tightening spread on newly securitized mortgages and the negative effect of mark to market revaluations of retained interests from previous securitization transactions. ATB expects securitization income to remain at low (possibly negative) levels for the remainder of the year. This decrease was offset by a \$3.5 million increase in derivative income over the same period.

The \$2.7 million increase in other income over the first quarter in the prior year is due to an increase in derivative income of \$12.5 million (driven by fair value adjustments on derivative instruments used for hedging purposes) and a \$2.9 million increase in Investor Services revenue (driven by increased volume of assets under administration). These increases were largely offset by a decline in securitization income of \$12.7 million (driven by the tightening of spreads on new securitization transactions and a decrease in the value of retained interests from previous transactions).

¹ Adjusted net income is a non-GAAP measure which excludes recovery (provision for loss) on asset-backed commercial paper (ABCP) and payment in lieu of tax (PILOT). (Refer to notes 6 and 12, respectively, of the consolidated financial statements.)

Management's Discussion and Analysis (continued)

Credit Quality

The provision for credit losses in the first quarter ended June 30, 2010 was \$3.1 million, this compares favourably to the \$9.4 million recorded last quarter and the \$19.1 million recorded in the first quarter last year. This decrease reflects the fact that impairment and loss levels have been better than originally expected and the quality of ATB's loan portfolio is improving in line with the improving economy.

ATB management expects the level of impaired loans to continue to fluctuate during the current economic recovery. At the end of the current quarter, total gross impaired loans were \$133.8 million, compared to \$132.5 million last quarter and \$114.1 million last year at this time. Although still on a negative trend, the total amount remains at an acceptable level and is less than 1% of the loan portfolio.

As of June 30, 2010, total current credit loss allowances exceeded impaired loans by \$85.4 million, this compares to \$89.9 million last quarter and \$92.2 million the first quarter in the prior fiscal year. The amount impaired does not directly translate into amounts to be written-off as ATB holds security in support of any current credit exposure. The expected write-offs relative to the currently impaired loans are reflected in the specific provisions for credit losses.

Overall, ATB management remain satisfied with the quality of the credit portfolio and expect that provisions for credit losses will be within the targeted range of 20 to 30 basis points of average loans for the year.

Non-Interest Expenses

Total non-interest expenses were \$174.9 million for the first quarter ended June 30, 2010. This represents a \$2.8 million (or 1.6%) decrease over the prior quarter and a \$12.5 million (or 7.7%) increase over the first quarter of the prior fiscal year.

The reduction in non-interest expense over the prior quarter was driven by lower costs relative to premises and marketing. The increase compared to last year was a result of increasing salary and employee benefits costs (driven by higher financial advisor costs and general salary increases) and increasing professional costs as ATB continues to invest in its Core transformation project.

The efficiency ratio, used as a measure of operating efficiency, is the ratio of non-interest expenses to operating revenue (net interest income before provision for credit losses, plus other income). A lower ratio is indicative of higher efficiency at generating income. For the first quarter ended June 30, 2010, ATB reported an efficiency ratio of 77.9% as compared to the 81.8% reported in the prior quarter and the 77.2% from the same quarter last year (all ratios reported exclude the impact of the ABCP provision). The current high ratio is consistent with management's expectations. The ratio is expected to remain at a high level as ATB continues to invest in its growth and Core initiatives. It is expected that productivity will increase substantially once these initiatives are completed.

Banking System Transformation

In May 2008, ATB launched a project to replace its outdated legacy banking technology with a new SAP® for Banking solution that will improve its ability to deliver leading-edge products and customer service. Cumulative spending on the project to June 30, 2010 is \$212.3 million (\$35.4 million in the current fiscal year). Although not committed contractually, ATB management intends to complete this project in fiscal 2011-12 and expects to spend an additional \$112.7 million. The final project costs may vary depending on the final implementation date now planned for April 2011.

Balance Sheet

Total assets were \$26.2 billion as at June 30, 2010, compared to \$25.4 billion last quarter and \$26.5 billion as at June 30, 2009. This represents an increase of \$759.0 million (or 3.0%) over the prior quarter and a decrease of \$273.7 million (1.0%) from the prior year's quarter.

ATB's loan portfolio increased slightly, with an increase of \$152.6 million (or 0.7%) from the prior quarter and an increase of \$567.3 million (or 2.6%) over the prior fiscal year. At June 30, 2010, net loans stood at \$22.7 billion.

Management's Discussion and Analysis (continued)

ATB's loan portfolio continues to remain quite volatile in the face of increased competition now that the credit crisis has eased. Net loan growth excluding securitization was 5.6% for fiscal 2011 compared to 6.2% last quarter and 15.7% for June 2009. Management expects performing loan balances to continue to increase by approximately 6.5% to 8.5% throughout the current fiscal year.

Business and retail deposits stood at \$20.8 billion as at June 30, 2010. This represents an increase of \$832.2 million (or 4.2%) over the prior quarter and an increase of \$91.9 million (or 0.5%) over the prior year. ATB management continues to focus on deposit attraction and retention strategies in order to increase the level of deposits this fiscal year.

At June 30, 2010, ATB's wholesale deposits were \$2.6 billion, a slight increase of \$13.9 million over the prior quarter and a decrease of \$409.0 million over the prior year. Wholesale deposits act as a source of funds to supplement ATB's retail deposits. The Government of Alberta approved an increase in the limit for these deposits to \$5.5 billion this quarter from the previous limit of \$4.3 billion.

Accumulated comprehensive income has decreased from \$32.1 million last quarter to \$15.7 million in the current quarter, reflecting the net temporary decrease in fair value of certain financial instruments.

Asset Backed Commercial Paper

As at June 30, 2010, ATB held a portfolio of long-term asset-backed commercial paper with a face value of \$1.0 billion, a fair value of \$614.9 million and an expected maturity of between 3.5 and 6.5 years. This includes \$957.3 million (\$568.9 million fair value) of third-party-sponsored ABCP and \$67.0 million (\$46.0 million fair value) of bank-sponsored ABCP.

With the exception of the traditional notes, which have been classified as available-for-sale, all of ATB's investment in ABCP has been classified as held-for-trading. As a consequence it is required to be marked to market each quarter with the resulting valuation adjustment being recorded in the income statement.

There continues to be no observable market price for these notes as at the balance sheet date, accordingly, ATB has estimated the fair value of the majority of the ABCP notes using a discounted cash flow methodology. The key assumption in this model is the market discount rate. The market discount rate is based on the various tranches of the CDX.IG index adjusted to reflect the lack of liquidity inherent in the notes. Consistent with the prior quarter, the valuation of ineligible tracking notes, traditional tracking notes and the other non-MAV third party sponsored ABCP was based on ATB's review of the underlying assets.

The overall value of ATB's ABCP holdings is estimated to be 60.0% of cost; this is the same valuation as last quarter. 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.

For additional details on these notes and the associated risks and obligations refer to note 9 to the consolidated March 31, 2010 year-end financial statements.

Segmented Information

As detailed in note 12 to the interim consolidated financial statements, ATB has restructured the Personal and Business Financial Services (PBFS) business segment in order to better meet the needs of its customers. Specifically, the segment has been divided into two new segments – Retail Financial Services (RFS) which is focused on providing financial services to individuals; and Independent Business and Agriculture (IB & Ag) which is focused on providing financial services to independent business and agricultural customers. As a result of this change ATB now has four major business lines comprising of RFS, IB & Ag, Corporate Financial Services (CFS), and Investor Services. A fifth line, designated Other Business Units, is made up of business units of a corporate nature, and includes expenses, general allowances, and recoveries not expressly attributed to any line of business.

Management's Discussion and Analysis (continued)

Although the current year's results have been presented for the two new business segments, ATB is not able to present comparatives with this current split. For this reason, the following discussion will compare the combined results for RFS and IB & Ag to the past results for PBFS. PBFS recorded an asset growth of \$294.8 million (or 1.6%) over the prior quarter and a significant increase of \$1.6 billion (or 9.3%) year over year. This growth in assets translated into increases in net income for the current fiscal year. Net income was \$37.3 million for the current quarter, representing an increase of \$9.8 million (or 35.7%) over the prior quarter and increase of \$13.1 million (or 54.1%) over prior year's first quarter.

While CFS managed to increase its asset base quarter over quarter by \$228.4 million (or 4.6%), total assets decreased year over year by \$354.5 million (or 6.3%). Despite these fluctuations in assets, CFS recorded net income of \$54.4 million for the current quarter, representing an increase of \$10.8 million (or 24.7%) quarter over quarter and a \$20.3 million (or 59.7%) over the prior year's quarter.

As observed over the prior quarters, Investor Services continues to be a fast growing line of business, increasing its assets under management and administration to \$5.1 billion, an increase of 22.3% over the same period last year. This increase in assets under management and administration did not translate into increased net income, as Investor Services recorded a net loss of \$4.5 million for the current quarter compared to a loss of \$3.6 million last year at this time. Investor Services expect to be profitable during fiscal 2012 as they begin to realize the benefits of the strategic investments made in the business.

Highlights

(unaudited)

For the three months ended (\$ in thousands)	June 30 2010	March 31 2010	June 30 2009
Operating results			
Net interest income	\$ 171,474	\$ 163,871	\$ 160,267
Other income	52,949	53,362	50,238
Total operating revenue	224,423	217,233	210,505
Provision for (recovery of) credit losses	3,049	9,405	19,050
Non-interest expenses ⁽³⁾	174,903	177,746	162,409
Adjusted net income ⁽¹⁾	46,471	30,082	29,046
Recovery (provision for loss) on asset-backed commercial paper	-	-	4,031
Payment in lieu of tax	10,688	6,919	7,608
Net income	\$ 35,783	\$ 23,163	\$ 25,469
Financial position			
Net loans	\$ 22,687,215	\$ 22,534,603	\$ 22,119,959
Total assets	\$ 26,185,029	\$ 25,429,018	\$ 26,461,696
Total deposits	\$ 23,425,296	\$ 22,579,167	\$ 23,742,333
Equity	\$ 1,828,713	\$ 1,809,357	\$ 1,753,979
Key performance measures (%)⁽²⁾			
Return on average assets	0.73	0.48	0.44
Operating revenue growth	6.6	(8.2)	(3.9)
Other income to operating revenue	23.6	24.6	23.9
Operating expense growth	7.7	4.6	4.8
Efficiency ratio	77.9	81.8	77.2
Net interest spread	2.84	2.69	2.54
Credit losses to average loans	0.05	0.17	0.35
Net impaired loans to total gross loans	(0.37)	(0.40)	(0.41)
Net loan growth	2.6	4.3	11.7
Net loan growth ⁽³⁾	5.6	6.2	15.7
Total asset growth ⁽³⁾	(1.0)	(4.0)	8.5
Total deposit growth	(1.3)	(5.5)	6.7

⁽¹⁾ Adjusted net income is a non-GAAP measure which excludes recovery (provision for loss) on asset-backed commercial paper (ABCP) and payment in lieu of tax (PILOT).

⁽²⁾ Excludes the recovery (provision for loss) on ABCP and PILOT.

⁽³⁾ Excludes the impact of securitization.

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