# PUTTING PEOPLE FIRST

**2009 Annual Report**

Tyronne-Marc
**ATB Oliver Village**

ATB Financial®
*Where there's a way®*

ATB Financial is an Alberta-based financial institution operating in three lines of business: Personal and Business Financial Services, Corporate Financial Services, and Investor Services.

With assets of $26.5 billion, ATB Financial is the largest Alberta-based deposit-taking financial institution. Over 5,000 associates provide financial products and services to over 670,000 customers in 244 Alberta communities through a distribution network of 164 branches, 133 agencies, and a Customer Contact Centre. A full range of wealth management products and services are provided under the banner of ATB Investor Services. ATB Financial was established in 1938 as Province of Alberta Treasury Branches and has been a provincial Crown corporation since 1997.

# THE FACES OF ATB

At ATB Financial, we put people first. Our associates find ways to change the lives of our customers, one dream at a time. Our associates and our customers are the true faces of ATB, which is why we're featuring them in the pages of our annual report.

Jordan
**ATB Corporate Office**

# PUTTING PEOPLE FIRST

2008 and 2009 will be long remembered as a time of economic volatility. It has created challenges for Albertans and the businesses they operate… and for ATB too. But this period, while difficult, will also be a time for ATB to shine. That's because when you build your business on 70-plus years of strong relationships—inside and out—customers and associates don't leave. Instead they band together and work harder to tough it out. And they rely on local Alberta intelligence and know-how to help them make good decisions.

After much of what we all took for granted a year ago changed very quickly, ATB Financial still stands as a financial institution with customer ties that survive all economic cycles. Our earnings have come under short-term pressure, our fundamentals are strong, and we are poised to weather whatever the economy brings… right beside our customers.

Thanks for trusting us. With relationships built on such a solid foundation, we can only get stronger.

Named one of the

**50 best employers**

in Canada, one of the top 40 companies to work for in Alberta, and one of the top 75 great places to work in Canada

Over

**$2.5 million and 8,600 hours**

to communities across the province in charitable donations, fundraising, and volunteer time

Over

**670,000**

customers and

**5,000**

associates

ATB Investor Services voted

**#1**

in customer service

Opened

**7 new branches**

including one at SAIT Polytechnic

Unveiled

**"Branch of the Future"**

design to truly put people first


Mary
**ATB Olds**

# SERVING PEOPLE
## THROUGH THREE LINES OF BUSINESS

In 2008–09, ATB Financial's 5,000-plus associates served over 670,000 customers through our three lines of business: Personal and Business Financial Services, Corporate Financial Services, and Investor Services.

## PBFS puts personal, small business, and agriculture customers first.

Personal and Business Financial Services

### Financial solutions at your convenience

As ATB's largest line of business, we offer 164 branches and 133 agencies with approximately 3,500 associates across Alberta. We're everywhere. That's because we aim to be number one in Alberta in retail banking, card services, and independent small business and agriculture banking, and know that our success comes from serving our customers where they live. We come to you, not the other way around.

### World-class customer service

To us, world-class customer service goes beyond a pleasant smile and a cordial demeanour. It also means understanding and anticipating your needs. That's why in 2008–09 we dedicated resources to help us better understand your expectations of a financial services provider in general, and better understand your dreams and how ATB can help fulfill them. Understanding your needs also means offering you a variety of ways to do your banking. That's why we extend beyond the branch network to offer telephone banking, a Customer Contact Centre, direct sales, Internet banking through ATBOnline, mortgage brokers, and mobile mortgage specialists. Have we mentioned our new "Branch of the Future" design? We conducted research with customers and associates and modelled a number of branches based on the results. Check out Calgary's 17th Avenue branch to see how we'll truly put people first (no lineups, for starters!).

### Dedicated associates who go above and beyond

It's one thing to say your associates really care. It's another to deliver on that promise. Last year our dedicated associates proved just how much they care when they delivered home-cooked meals to farmers working the fall harvest as part of our Customer Appreciation Week events. That's just one example of how our associates go the extra mile to serve you and your unique needs.

### Competitive products and services to help your dreams come true

For all our products and services, we distinguish ourselves through fully trained associates, consistent credit decisions, competitive product offerings, and Alberta-based decision-making. That Alberta-based thinking is woven into all our products and financial services. In fiscal 2009, for example, we launched Farmland Financing, a highly flexible loan product that anticipates the changing needs of Alberta's primary producers. We also increased the number of front-line associates serving our small business and agriculture customers to improve our customers' access to our services.

**What happened when PBFS put people first last year?**

- We opened seven new branches, including the first opened by a major financial institution on an Alberta post-secondary campus, at SAIT Polytechnic.
- We introduced the Tax-Free Savings Account.
- We delivered random acts of kindness for Customer Appreciation Week.
- We brought more awareness to younger potential customers through innovative programs like myatb.ca, ATB street teams, and targeted marketing.
- We scored 79% in associate engagement.
- Our deposit growth exceeded expectations as more business owners and agricultural producers chose ATB as their primary financial institution.

**PBFS will continue putting people first by…**

opening new branches in new or growing neighbourhoods across the province, developing products and services that assist specific segments of our population, and implementing processes that anticipate and accommodate the varied needs of our customers. To better serve our personal and business financial customers, in 2009–10 PBFS will be split into two: Retail Financial Services (RFS) and Business and Agricultural Financial Services (B&AFS).

## CFS puts mid-market and senior-market business customers first.

Corporate Financial Services

### Financial solutions to help you achieve your business goals

With operations throughout Alberta, CFS provides financial solutions in loans, derivatives, cash management, and deposits. Thanks to our local market knowledge, we can offer solid, Alberta-focused industry expertise in commercial, energy, real estate, and food and forestry sectors, with speed, understanding, and experience.

### Industry experts with local Alberta knowledge

CFS is organized into three key sectors of specialization—energy, commercial (including real estate), and food and forestry—to ensure businesses only work with experienced relationship management teams who are intimate with that industry. Then we take it one step further, ensuring those teams are also experts in those industries in Alberta. This specialized focus enables us to match our associates' expertise with yours, and thus create a unique and synergistic relationship.

### World-class technology, products, and capabilities

This past year, despite a challenging economy and a credit crunch, our loan book grew by nearly $1.7 billion, well above our expectations. To us, that means our products and capabilities matched the needs of our customers. We also set the foundation to adopt and implement a new core banking system, with industry-leading cash-management capabilities to meet needs we don't currently meet and help our teams improve workflow to enable our interactions with our customers to be much more effective.

### Partners who are committed to long-term relationships

We believe strong relationships distinguish the market leaders in financial services. The best products, services, and capabilities are nothing without the eagerness to get to know you and your business. At ATB, our value comes from putting your needs first, understanding how best to support you in business today, and anticipating your needs in the future.

**What happened when CFS put people first last year?**

- When the global banking system withdrew market liquidity, CFS's average loans grew by $721 million over the fiscal year.
- CFS average deposits increased by $775 million.
- We achieved our highest-ever score on customer satisfaction.
- We scored 78% in associate engagement.

**CFS will continue putting people first by…**

making sure our customers see increased value in what we do, encouraging our best people to get even closer to their existing customers, and evolving and strengthening our industry-specific market and client knowledge.

## ATBIS puts investing customers first.

ATB Investor Services

### Quality advice on a personal level

People dream on different levels. Whether owning a new car, buying a first home, or working through the complexities of a financially secure retirement, we start with your dream and help you find ways to fulfill it. That means we need to understand your challenges, too. In short, it's our business to help you achieve your goals.

Our approach is working. In 2008–09, we were voted number one in customer service compared to the other big-five banks' investor services operating in Alberta. Considering the economic climate, we think that proves our advice-driven way of doing business is both valuable and valued.

### Investment products and services for all market segments

We offer a complete range of investment products and advice for both new and experienced investors. We can do this because we hire associates with local knowledge and market segment expertise. Our supporting staff and training programs also ensure that our people have the skills and knowledge to give the best advice. So whether an investor is dreaming of putting her kids through medical school or considering her options for an early retirement, we have the products, services, and support to help her do both.

### Industry experts where you need them

We believe all Albertans should have access to investment advice where and when they need it. And while we know many of our customers don't live in big cities, we think access should be easy for everyone. That's why in 2008–09 we launched the ATB Connect pilot project to use technology to connect financial advisors to customers all over the province.

### The foundation for long-term relationships

Communication is a critical part of a successful relationship. So our associates communicate the outcomes of different investment strategies with you to help you understand your current financial goals and plans and what's possible with the right investment strategies. Last year we spent three times as much time with our clients as in previous years, discussing their investments and helping them understand their investment choices.

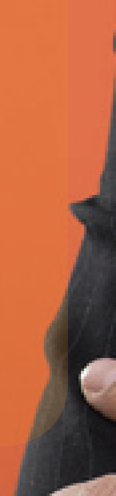
**What happened when ATBIS put people first last year?**

- ATBIS was rated number one in customer service compared to the big-five banks' investor services operating in Alberta.
- We achieved top-level associate engagement scores of 82%.
- We retained 96% of customer assets at a time when many investors were pulling out of the marketplace.
- We added 1,500 clients to now serve over 47,000 Albertans.
- We generated over $1.2 billion in gross sales.

**ATBIS will continue putting people first by…**

keeping the lines of communication open, increasing the number of financial advisors, expanding our ways to put you in touch with the investment experts you need, enhancing our products and services, investing in technology, and ensuring the best people are working with us to give you the best advice.

In spite of a challenging economy, ATB Financial saw record growth in loans and deposits in 2008–09—a clear sign that ATB is more committed than ever to helping Albertans and Alberta businesses.




Steven
**ATB Calgary 6th Avenue**

## SUPPORTING OUR EFFORTS TO PUT PEOPLE FIRST

ATB's support services are key to helping all our lines of business stay focused on putting people first. Some serve this cause more obviously and directly than others, but all are ultimately in place to serve customers seamlessly and make ATB a sustainable organization that can continue putting people first over the long term.

## People and Marketing

To demonstrate our renewed commitment to putting people first, ATB restructured in 2008–09 to combine business units with a shared and vested interest in people. By people we mean our own associates, our current and future customers, and our Alberta communities. By combining Human Resources, Marketing, and Communications and Corporate Responsibility under one roof, ATB acknowledges the importance of our relationships with all Albertans. This department—that, in a nutshell, builds awareness and acquires new customers, engages associates, and explains all ATB's goings-on to everyone—supports all lines of business to help put and keep people, both customers and associates, at the forefront of everything we do.

## Alberta Intelligence and Innovation

In 2008–09, ATB created Alberta Intelligence and Innovation to accelerate innovation at ATB. Although we've barely started, we're excited about the future value we can bring to ATB and especially to our customers. Through AI, we'll combine current expertise across the organization, mine data we already have, leverage our recently expanded business intelligence tools to integrate systems across the organization to "talk" to each other, and ultimately turn the results into a strategic advantage that distinguishes us from competitors. AI will tackle the most important questions generated directly by the line of business leaders and seek insightful answers by bringing together teams of research professionals. These insights will drive innovation across the organization as we find creative ways to address the most pressing financial needs of Albertans.

## Information Technology and Service Delivery

Over the past year, ITSD has made significant progress in infrastructure refresh activities in preparation for implementing a new core banking system in the spring of 2010. ITSD adopted a services framework for managing information technology—one that makes us proactive instead of reactive, by delivering high-performance services and capabilities that are aligned with business needs. ITSD also mapped out the process for implementing a services framework that will evolve over time—with a focus of operating as an excellent internal services provider—to provide a cost-effective and valuable catalogue of services to business unit customers.

## Risk Management

During the year, ATB created a new chief risk officer position and consolidated risk management functions to help systematically and proactively identify, measure, manage, control, and report on all significant financial, operational, strategic, and reputational risks inherent across all operations. Through our comprehensive enterprise risk management approach, ATB can cultivate greater "risk awareness" and a more disciplined approach to risk management throughout the organization. Our associates will have a strong understanding of our credit philosophy and risk tolerance, and apply it in a way that reinforces our reputation for putting our customers first—in good and bad times—while also protecting the interests of ATB.

## Finance and Administration

Finance and Administration—with its sub-units of Finance, Treasury, Legal Services, Central Services, and Facilities, Real Estate and Procurement—is focused on building an effective, financially sound organization, which is even more critical in uncertain economic times. In 2008–09, like always, we employed disciplined, sound, and effective business practices and policies to support our lines of business, to manage risk, and to help build customers' confidence. We were strategic and thoughtful about managing costs and capital, while ensuring that we maintained and enhanced our competitive position and invested wisely for our future.

**What happened when our supporting services put people first last year?**

- We were recognized as one of the 50 best employers in Canada, one of the top 40 companies to work for in Alberta, and one of the top 75 great places to work in Canada.
- Despite the current economic environment, in 2008–09 we exceeded our targets for customer satisfaction across the organization by 15%, which shows that we have the right people helping our customers.
- Organization-wide, we decreased associate turnover and inspired an increase in associate engagement to 78% (up six percentage points from the previous year).
- We sponsored dozens of community events and causes and donated approximately $2.5 million and over 8,600 hours of ATB associate time.

**Our supporting services will continue putting people first by…**

raising awareness about ATB across the province; building strong and consistent leadership, helping our lines of business to increase market share and customer satisfaction and loyalty, improving the financial performance of ATB, rolling out innovative recognition and pay programs, realizing the benefits of our infrastructure refresh activities, managing the new core transformation initiative, and protecting the interests of all stakeholders.


Rick & Shirley
ATB Customers

# AT THE CORE OF IT ALL

In 2007–08, ATB Financial launched a major new initiative to transform our core business tools and processes, tools that were designed in the 1970s and installed in the 1980s. What might seem like an isolated information technology project will in fact be ATB's biggest and most tangible effort to date to put people first by transforming our entire banking system. That's because this core transformation initiative (Core) will provide functionality and agility and therefore increase associate satisfaction, enhance the customer experience, and improve both our efficiency and effectiveness. In other words, it will transform the way ATB does business.

## ATB's Core Transformation Initiative

### Enhanced customer experience

Core's implementation will be smooth from an external perspective, and customers will feel the very tangible benefits of Core over the long term. They will notice faster service, more integrated banking channels, and new products and services, including cash-management capabilities for our business banking customers. They will also notice more personalized service from associates.

### Improved efficiency and effectiveness

Through Core, ATB will gain a technological advantage over our competitors; enjoy a reliable, scalable, and flexible information technology environment; and improve our speed in getting products and services to market. Those efficiencies, when passed along to associates and ultimately to customers, will translate into improved products and services delivered to customers, through better coordinated and integrated distribution channels. All of these business enhancements will mean ATB can continue putting people first over the long term.

### Increased associate engagement and satisfaction

Core will give ATB a modern, efficient, and flexible set of tools. This leading-edge technology will standardize and streamline most of ATB's current business processes, allowing our associates to use their talent and time more efficiently and focus more of their day on the most rewarding aspects of their work—serving our customers.

**What happened when Core put people first last year?**

- ATB committed to becoming the first North American implementer of SAP for banking after successful implementations in South Africa, Australia, and England.
- We completed over 200 information workshops with associates.
- We began reviewing and documenting all processes within ATB and over 600 ATB roles to determine how they'll be impacted by Core.
- We began developing a comprehensive plan from launch through project end that addresses leadership alignment, people readiness, communication, and training.
- We substantially completed the technical solution "blueprint" phase and initiated the "build" phase.
- Ken Casey, executive vice-president for ATB's Core transformation, was named "one of the North American financial industry's top innovators" by *Banking Technology News*.

**Core will continue putting people first by…**

testing and deploying the SAP for Banking Solutions and SAP Business Suite software; training associates on new systems and processes; assessing, testing, and employing new business processes; clearly communicating project status and milestones to associates; and continuing to engage ATB leaders so they embrace Core and lead the way. Core will prepare to go live in the spring of 2010, but our efforts won't end there. Going forward, ATB will strive to stretch Core's capabilities to its limits, introduce more and better products and services to our customers, and capitalize on the advantage over competitors that Core will afford us.

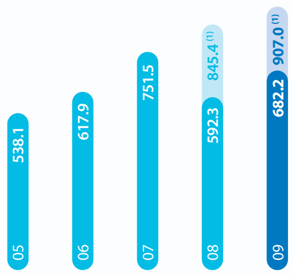

Jim & Shannon
ATB Customers

# ATB FINANCIAL
# 2008–2009 HIGHLIGHTS

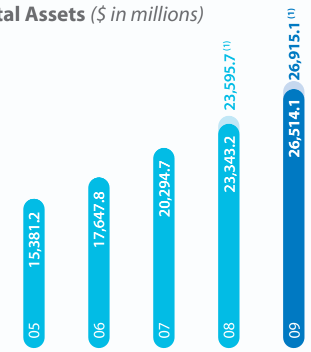
| *For the years ended March 31* | **2009 (1)** | **2009** | 2008 | 2007 | 2006 | 2005 |
|---|---|---|---|---|---|---|
| **Operating results** ($ in thousands) | | | | | | |
| Net interest income | | **$ 647,345** | $ 659,410 | $ 571,805 | $ 462,251 | $ 398,746 |
| Other income | | **259,682** | 185,995 | 179,661 | 155,621 | 139,308 |
| Operating revenue before the undernoted | | **907,027** | 845,405 | 751,466 | 617,872 | 538,054 |
| Provision for loss on asset-backed commercial paper | | **(224,816)** | (253,133) | - | - | - |
| Total operating revenue | | **682,211** | 592,272 | 751,466 | 617,872 | 538,054 |
| Provision for (recovery of) credit losses | | **42,712** | 12,906 | (5,211) | 688 | (14,594) |
| Non-interest expenses | | **633,087** | 549,381 | 482,289 | 418,463 | 365,335 |
| Net income | | **$ 6,412** | $ 29,985 | $ 274,388 | $ 198,721 | $ 187,313 |
| **Financial position** ($ in thousands) | | | | | | |
| Net loans | | **$ 21,602,235** | $ 19,443,517 | $ 16,994,329 | $ 14,846,694 | $ 13,137,917 |
| Total assets | | **$ 26,514,143** | $ 23,343,153 | $ 20,294,718 | $ 17,647,815 | $ 15,381,232 |
| Total deposits | | **$ 23,881,246** | $ 21,175,716 | $ 18,252,838 | $ 15,870,308 | $ 13,840,032 |
| Equity | | **$ 1,758,684** | $ 1,668,452 | $ 1,623,383 | $ 1,348,995 | $ 1,150,274 |
| **Key performance measures** (%) | | | | | | |
| Return on average assets | **0.93** | **0.03** | 0.14 | 1.44 | 1.20 | 1.27 |
| Operating revenue growth | **7.29** | **15.19** | (21.18) | 21.62 | 14.83 | 4.77 |
| Other income to operating revenue | **28.63** | **38.06** | 31.40 | 23.91 | 25.19 | 25.89 |
| Operating expense growth | | **15.24** | 13.91 | 15.25 | 14.54 | 12.18 |
| Efficiency ratio | **69.80** | **92.80** | 92.76 | 64.18 | 67.73 | 67.90 |
| Net interest spread | | **2.69** | 3.07 | 3.06 | 2.85 | 2.76 |
| Credit losses to average loans | | **0.21** | 0.07 | (0.03) | 0.00 | (0.12) |
| Net impaired loans to total gross loans | | **(0.54)** | (0.61) | (0.62) | (0.66) | (0.59) |
| Net loan growth | | **11.10** | 14.41 | 14.47 | 13.01 | 8.30 |
| Total asset growth | **14.07** | **13.58** | 15.02 | 15.00 | 14.74 | 7.52 |
| Total deposit growth | | **12.78** | 16.01 | 15.01 | 14.67 | 6.17 |
| **Other information** | | | | | | |
| Investor Services' assets under management and administration ($ in thousands) | | **$ 3,878,178** | $ 4,037,418 | $ 3,716,420 | $ 2,454,234 | $ 1,303,417 |
| Branches | | **164** | 157 | 154 | 150 | 148 |
| Agencies | | **133** | 134 | 134 | 135 | 131 |
| ABMs | | **264** | 251 | 244 | 233 | 227 |
| Associates (head count) (2) | | **5,060** | 4,764 | 4,332 | 3,964 | 3,566 |

*(1) Excludes provision for loss on asset-backed commercial paper. (Refer to Note 8 of the Consolidated Financial Statements.)*
*(2) Includes casual and commissioned associates.*

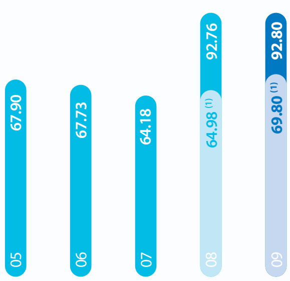
**Operating Revenue** *($ in millions)*



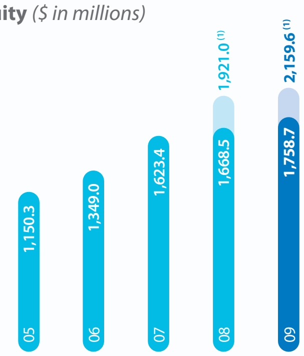

**Total Assets** *($ in millions)*



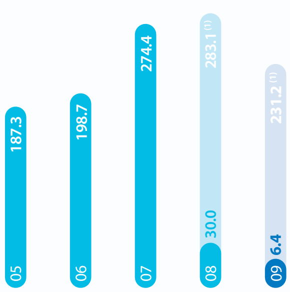

**Efficiency Ratio** *(in %)*



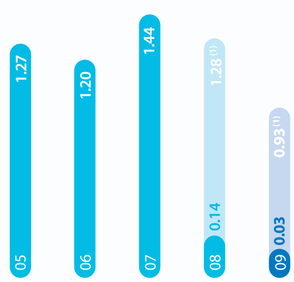

**Equity** *($ in millions)*




**Net Income** *($ in millions)*




**Return on Average Assets** *(in %)*




*(1) Excludes provision for loss on asset-backed commercial paper.*

# MESSAGE FROM BOB SPLANE
## CHAIRMAN OF THE BOARD

At ATB Financial, we put Albertans first. We know Albertans and we know their businesses. In tougher economic times, customers need support from people who they know and trust, and we meet those needs.

Because we are becoming the go-to financial institution in Alberta, last year our deposits and lending books grew substantially despite the global financial turmoil. We successfully introduced our tax-free savings account. We updated and opened new branches. And we invested a tremendous amount of capital and time in new information technology (the Core transformation project) so we can provide our customers with state-of-the-art services.

We must not only weather the current financial storm, but we must stay healthy and grow to meet the needs of current and new customers, while supporting our associates who are the face of ATB.

Our customers' needs are greater today than they were yesterday or last year and so, as a board, we must assure them that our governance practices are based on the highest ethical standards. To continue to grow, we have to assure them that we are vigilant and we guard against the excesses that have diminished the reputations of some global financial institutions.

And our associates need to hear a positive tone from the top of the organization. They need to know that they are needed and appreciated. And they must be assured that their jobs are important to us and to the customers they serve.

Going forward, we will ensure that our ethical standards and governance practices are implemented through a renewed emphasis on enterprise risk management. We identify our risks, prioritize them, and mitigate them on a day-to-day basis.

We are also enhancing the board's capabilities in terms of finance and energy industry skills by welcoming three new board members. I am confident that their unique skills and experience will complement and strengthen our board going forward.

To our outgoing members—Robert (Bob) Clark, Brian Hesje, and Norman (Skip) McDonald—thank you for your years of hard work, wisdom, and experience. ATB would not be what it is today without your unique and invaluable contributions.

Bob Splane
Chairman of the Board

# MESSAGE FROM DAVE MOWAT
## PRESIDENT AND CEO

As life gets busier and more complicated, the more difficult it can be to remember one's priorities. One of our proudest legacies at ATB Financial is that for more than 70 years, despite change, despite the uncontrollables, and despite the ups and downs of life and of business, ATB has not strayed from its number-one priority: putting Albertans first.

That's because at ATB, we know that it's the people—our customers and our associates—that determine our success. We understand that in order to produce the best financial results, whether in strong or weak economic times, we must strive to consistently create value for our customers, for our associates, and for our organization.

For our customers, creating value means ATB taking the time to understand their individual needs, and having strong products and services to anticipate and meet those needs. For our associates, creating value means striving to design jobs and create a culture where people can do their best work. For our organization, creating value means investing in the future and maintaining our vision, in all economic circumstances. And to all three, it means making personal and professional dreams come true.

It's no surprise that this past year has been a tough one for financial institutions. From declining profitability to increasing uncertainty in the banking industry as a whole, we faced challenges from all sides of our business last year. We have made tough decisions to manage our expenses, but by staying focused on what creates success, our people and our customers, we have maintained our key strategies and stuck to our goals.

In fact, our greatest accomplishment from the past year is our ability to be there for Albertans. In turbulent times people are looking for leadership and things they can rely on.

We are doing that by:

- Being proactive and listening to our customers. We can then anticipate rather than react to their needs.
- Being open, active communicators. We communicate often, openly, and fully and we let our associates and our customers know what the issues are and how we can combat them together.
- Being forward thinkers. For example, Core—our initiative to transform our banking system and processes to improve functionality—is a large financial investment and one that many would be tempted to abandon when times are tough. But we know that full implementation of this critical transformation will serve our customers, associates, and organization well into the future.

It's during tougher economic times that skills, resources, and knowledge, rolled up into a relationship, become more and more valuable—which is why it's our goal to improve all three to strengthen the relationship and the value we provide.

I want to thank the board members, associates, and customers for their trust and belief in the ATB vision. Alberta is quite an amazing place with a special breed of people who are proud of being a little different and even doing things the hard way. While we may be tempted to focus on the numbers, we know it's you, the people, who drive our success. Like Albertans, we thrive on the challenge of being a special breed of "bank"—one that also isn't afraid of a little hard work and of being different.

Dave Mowat
President and CEO


Robert & Nada
ATB Customers

# FULFILLING OUR CORPORATE SOCIAL RESPONSIBILITY

For more than 70 years, ATB Financial and its associates have proudly supported worthy causes across hundreds of Alberta communities. In 2008–09, ATB gave approximately $2.5 million to community organizations and not-for-profit groups in Alberta, through corporate and branch charitable donations, community fundraising programs, and associate volunteerism. On top of that, ATB sponsored a number of organizations and community events across the province.

ATB community investments touch almost every community in Alberta, either directly or indirectly. Through supporting programs for children and youth, fundraising for children's hospitals, and participating in a wide range of charitable causes and events, ATB associates demonstrate a strong commitment to their communities and their province.

Here's where we gave of our time and money over the last year:

### Corporate Charitable Donations: $0.6 Million

Corporate donations are made with the intent that the entire province benefits from ATB's generosity.

The most significant portion of ATB's corporate donation budget in 2008–09 supported **United Way** agencies across Alberta. ATB contributed an additional 50% to all funds pledged by associates to any of the 10 United Way campaigns across Alberta. The corporate portion for this year totalled a record $204,300.

Major donations during the year included **Junior Achievement** (Calgary and Edmonton), the **Calgary Health Trust**, and the **Centre for Family Literacy**.

As part of our sponsorship commitment through the **ATB Financial Classic**, ATB contributes money toward a charity for every birdie and eagle attained by Canadian Tour golf professionals. Last year, ATB donated $23,560 to the **STARS Foundation**.

For any associate who volunteers at least 40 hours of personal time for a not-for-profit group through the **ATB Community Stars** program, ATB donates $200 to that organization and awards a golf shirt to the associate. In 2008–09, 159 associates received awards, meaning at least 6,300 associate volunteer hours were invested in communities across Alberta. In addition, quarterly draws generated another $1,000 for Community Stars not-for-profit beneficiaries and four organizations. In total, $35,800 was given to community groups across rural and urban Alberta through the Community Stars program.

### Corporate Fundraising Dollars Raised: $1.3 Million

Every year, ATB organizes corporate fundraising programs involving ATB associates and customers across the province. Monies raised from these efforts were contributed by ATB associates and customers, and are distinct from ATB's corporate charitable donations.

For fiscal 2008–09, ATB's major fundraising programs included the following:

- **Teddy for a Toonie** (benefits the Alberta Children's Hospital in Calgary and the Stollery Children's Hospital in Edmonton) – $629,910
- **United Way** (associate contributions and silent auction proceeds from all 10 Alberta United Way campaigns, excluding corporate matching) – $406,988
- **The Edmonton Christmas Bureau** – $50,000

### ATB-Supported Associate Volunteerism: $0.4 Million (Value of Hours Given)

ATB associates across the province demonstrate their tremendous compassion and commitment to their communities though numerous volunteer and charitable causes. During 2008–09, ATB began to track their efforts by collecting data on volunteerism done during regular work hours. For 2008–09, more than 8,600 associate hours went toward supporting community initiatives in youth education, health, environment, and sports and recreation.

Associates in Calgary and Edmonton participated in the **Financial Day of Caring** to support United Way agencies in both cities. Associates volunteered their services during the regular workday, and ATB gave them the day off with pay. In total, 1,027 hours went to support the **McCauley Seniors Centre** in Edmonton and the **Ogden House Seniors House** in Calgary.

ATB actively supports **Habitat for Humanity**. In 2008–09, Corporate Financial Services supported the **Maryland Heights** project in Calgary by providing 1,184 associate hours.

Last year, ATB associates in the Edmonton area were strong supporters of **Hair Massacure**, a customer-initiated event that raises awareness and funding for children with cancer. More than 60 associates participated, from dying their hair pink to volunteering at the event.

### ATB Branch Community Contributions: $0.4 Million

Each ATB region and branch manages a business development budget, a portion of which is allocated to local community initiatives. Work began in 2008–09 to better track those contributions. For 2008–09, ATB branches contributed more than $416,000 toward local community initiatives in youth education, health, environment, and sports and recreation.

### Corporate Sponsorships: $3.5 Million

ATB engages in sponsorships to support business objectives related to awareness and market share, and as visible expressions of investment that benefits the community and ATB. In 2008–09, ATB's corporate sponsorship program focused on three areas:

- Arts and culture
- Sports
- Health and wellness

The newest addition to ATB's sponsorship portfolio is a four-year partnership with the **Edmonton Oilers**. ATB committed $1.5 million to the partnership last year. Both organizations have strong traditions of outstanding community involvement and charity work. In December 2008, ATB and the Oilers partnered to fundraise in support of **The Edmonton Christmas Bureau**. The campaign raised $50,000 (noted in the donations report).

Another new sponsorship in 2008 was the **ATB Financial Golf Day in Alberta**, aimed at promoting the game at a grassroots level. Junior golf clinics were hosted in 10 communities across the province, where young golf enthusiasts received tips from Canadian Tour and PGA of Alberta golf professionals.

The second annual **ATB Financial Classic** at the Cottonwood Golf Course in Calgary represented another major ATB sponsorship. ATB's charity of choice at the Classic was **STARS Air Ambulance**.

ATB sponsored various other events in Edmonton, Calgary, and mid-city markets, including **International Street Performers Festivals** in Edmonton, Red Deer, and Grande Prairie; the **Lethbridge Dragonboat Festival**; and the **Ponoka Stampede**.

Other initiatives supported by ATB business units across Alberta included the following:

- Corporate Financial Services supported the **provincial 4H** conference, as well as **Partners for Tomorrow** seminars.
- Corporate Financial Services supported the **TELUS Open** and the **Top 40 under 40**, a program recognizing exceptionally talented young people across Canada and Alberta.
- Personal Business and Financial Services supported the **Alberta Export Awards** and **Small Business Week**.
- Investor Services supported **Calgary Edge School** and **Hockey Alberta**.

ATB understands Albertans and has an enduring commitment to them, their communities, and the difference we make in their lives. That's what makes ATB different. Some 70 years of history proves it, and this year's results prove it, too.

Amanpreet
**ATB Corporate Office**

# CORPORATE GOVERNANCE

Alberta Treasury Branches (ATB) is a Crown corporation with regulatory requirements similar to the chartered banks and credit unions. To act effectively in the public interest, ATB operates in a commercially competitive manner and subscribes to the same standard of corporate governance practices as its competitors.

The current Board continues its strong commitment to ethical governance, which evolves with a changing economic and social environment and supports commercially viable and sustainable operations. ATB periodically examines Canadian best practices in corporate governance and ethical business conduct for both Crown and publicly traded corporations. The Board then determines which practices are appropriate for ATB, approves relevant policies, and oversees management in implementing appropriate practices.

The strength of ATB's governance practices comes from its voluntary adoption of best practices, including endorsement of the actions found in the corporate governance guidelines for publicly traded companies. One major element of good corporate governance is full disclosure of all corporate governance activities. As such, ATB makes the following governance documents publicly available on its website:

- The Code of Conduct and Ethics for Directors
- The terms of reference for the Board and its standing committees, and the Board Charter, which governs the required competencies and responsibilities of Board members
- A corporate statement of governance practices, which compares ATB's governance practices for the Board and Audit Committee to the CSA Corporate Governance Guidelines contained in National Instrument 58-101 and Multilateral Instrument 52-110
- The Shareholder Memorandum of Understanding with the Minister of Finance and Enterprise, including the required public accountability documents such as quarterly and annual financial statements (including management's discussion and analysis)
- Any policies required or recommended by regulatory authorities related to corporate governance practices approved by the Board, including the Communication and Disclosure Policy, the Corporate Social Responsibility Statement, the Safe Disclosure Policy, and the Enterprise Risk Management Policy
- Directors' Independence Standards and the Report on Directors' Independence
- The annual Disclosure of Directors' Attendance at Board and Committee Meetings, and individual directors' annual compensations

The Board has also been instrumental in developing standards for ethical business conduct for associates since adoption of the first Code of Conduct in 1998. The Ethics Committee monitors ethical issues within the corporation and annual confirmation of the compliance process. This management committee reports to the Governance and Conduct Review Committee of the Board. ATB has implemented an online Code of Conduct training program for all associates. From senior managers to front-line staff, everyone is required to complete the program in order to reinforce the values expected from all who work at ATB. The Board has also displayed leadership in developing ethical governance through adoption of its own Code of Conduct, which supplements the requirements of the Alberta Treasury Branches Act and the Related Party Bylaw #2. The Board members also annually confirm their compliance to the Code of Conduct.

To further enhance the ethics process and provide anonymity, the Board has approved a Safe Disclosure Policy. Implementation of this policy includes arrangements with an external service provider to manage all email and telephone complaints, and to monitor and report on subsequent investigations and issues resolution.

The Board of ATB also adopted a legal and regulatory compliance policy pursuant to the Legislative Compliance Management Guideline implemented by Alberta Finance and Enterprise. The key focus of the guideline and related policy is on implementing a compliance framework, including a formal report to the Minister of Finance and Enterprise by the directors pursuant to section 23.2 of the Alberta Treasury Branches Regulation. The most recent report, for the year ended March 31, 2008, was made in September 2008.

The Board conducts an annual evaluation of the effectiveness of its activities, including an assessment of committee performance and a peer-assessment process with respect to individual director performance, which includes private meetings with each director and a full report to the Board of Directors by the Board Chair.

ATB, under direction from the Audit Committee, continues to work toward voluntary compliance with the audit requirements of the Canadian Investor Confidence Guidelines. This includes an annual assessment of the Audit Committee's effectiveness in accordance with such guidelines.

In February 2008, the Government of Alberta released its Public Agencies Governance Framework in response to the recommendations of a three-person panel appointed to review the accountability of government agencies, boards, and commissions, as well as the appointment and governance processes. With the adoption in the spring of 2008 of a new Board-appointment process that involves the public advertising of Board vacancies and the implementation of 10-year tenure limits as existing appointments expire, ATB complies with these important aspects of the framework.

The continued commitment of the Board to ethical business practices and best practices in corporate governance, including transparency and accountability in ATB's operations as a Crown corporation, ensures that all Albertans can be proud of ATB's achievements, reputation, and contribution to the province of Alberta.

In June 2008 legislation to amend the Alberta Treasury Branches Act was passed. One amendment formalizes the role of the Minister of Finance and Enterprise as the supervisor for ATB Financial. The powers of the Minister as supervisor include the examination of the business and affairs of ATB to ensure compliance with legislation, to ensure ATB is in a sound financial condition, and to require ATB to implement any measure the Minister considers necessary to maintain or improve its financial safety and soundness.

# MANAGEMENT'S DISCUSSION AND ANALYSIS – INTRODUCTION AND INDEX

This section of the annual report presents management's discussion and analysis (MD&A) of the consolidated results of operations and financial condition of ATB Financial for the year ended and as at March 31, 2009. The MD&A is current as of May 1, 2009, and, unless otherwise indicated, all amounts presented are reported in thousands of Canadian dollars and are derived from the consolidated financial statements prepared in accordance with Canadian Generally Accepted Accounting Principles (GAAP). These statements may be found beginning on page 99 of this annual report.



Alberta Treasury Branches (operating as ATB Financial or ATB) is not a chartered bank under the Bank Act of Canada but is a financial institution incorporated under Alberta statute and operates in Alberta only. Any reference to the term *banking* in this annual report is intended to convey a general description of the financial services provided by ATB to its customers. For more details, refer to the History and Regulatory Framework section of this MD&A.

## Caution Regarding Forward-Looking Statements

This annual report includes forward-looking statements. ATB 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, our strategies or actions planned to achieve those objectives, targeted and expected financial results, and the outlook for our 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 our legislative or regulatory environment; changes in ATB's markets; technological changes; changes in general economic conditions, including fluctuations in interest rates, commodity prices, 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 have an adverse effect 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 statements contained in this report.

# INTRODUCTION TO ATB

## Overview

**Where there's a way®**. ATB Financial is a full-service financial institution headquartered in Edmonton, Alberta, Canada. ATB commenced operations in 1938 and, today, with total assets of $26.5 billion, is the largest Alberta-based deposit-taking financial institution.

ATB is a cornerstone in communities throughout Alberta. In fact, we are the sole financial institution in more than 100 Alberta communities. Our access points currently include 164 branches and 133 agencies in 244 communities throughout the province, plus our own Customer Contact Centre in Calgary. Services are also available through 264 automated banking machines (ABMs) across the province, Internet banking, and telephone banking. A workforce of more than 5,000 associates provides Personal and Business Financial Services, Corporate Financial Services, and Investor Services to over 670,000 Albertans and Alberta-based businesses.

## History and Regulatory Framework

ATB was established in 1938 by the Government of Alberta to extend basic financial services to Albertans, and our first branch, located in Rocky Mountain House, opened in September of that year. ATB became a provincial Crown corporation on October 8, 1997, under the authority of the Alberta Treasury Branches Act, Chapter A-37, 1997, and Alberta Treasury Branches Regulation 187/1997 (the ATB Act and ATB Regulation, respectively). In January 2002, we launched our new corporate identity, ATB Financial. This identity confirms the business we are in—providing a full range of financial services across Alberta—and reconfirms our commitment to the people of our province.

As Crown corporations, ATB and our subsidiaries operate under a regulatory framework established pursuant to the provisions of the ATB Act and ATB Regulation. The legislation was modelled on the statutes and regulations governing other Canadian financial institutions and is updated periodically. The Alberta Minister of Finance and Enterprise has also approved a number of guidelines similar to those issued by the Office of the Superintendent of Financial Institutions, which supervises federally regulated deposit-taking institutions. A memorandum of understanding between the Alberta Minister of Finance and Enterprise and ATB provides policy guidance to ATB in conducting our affairs in accordance with the expectations of the Government of Alberta. We also operate within the framework of other Alberta provincial legislation affecting the operations of provincial Crown corporations and providing consumer protection and privacy. Certain ATB companies that provide investor services are also subject to regulatory oversight by the Mutual Fund Dealers Association of Canada, the Investment Industry Regulatory Organization of Canada, or the Alberta Securities Commission.

ATB operates under the direction of a board of directors appointed by the Lieutenant Governor in Council and has investment, liquidity, and risk standards broadly comparable to other Canadian financial institutions.

## Overview of Strategy and Priorities

### Our Strategic Direction

The past fiscal year has been characterized by substantial change. People's investment and retirement funds have eroded significantly. The price of oil, a factor so critical to Alberta, has plummeted from a high of US$147 a barrel to a low of US$33, creating a ripple effect throughout the provincial economy—cancelled oil sands projects, more layoffs, less spending, and more bankruptcies.

The financial sector has been a big part of the economic turmoil—starting with the downturn in the U.S. subprime mortgage market and quickly spreading to financial markets around the globe. Terms like "financial crisis" and "credit crunch" are now part of everyday vocabulary. Leading financial institutions in the U.S. that appeared to be rock solid have either closed their doors or been rescued by substantial government funding. While Canada's financial system is expected to do relatively better than that of other countries, we are not immune to the turmoil of the economic downturn.

We know ATB is a special place and our challenge is to crystallize what has made us successful to date and what will make us successful for the next 70 years. Over the 2010–2014 planning period, ATB will continue to expand and revitalize our product and service offerings, to experience substantial growth in our now four core lines of business:

- Retail Financial Services
- Business and Agricultural Financial Services
- Corporate Financial Services
- Investor Services

### Our Key Strategies

ATB continues to pursue three key strategies for the 2010–2014 fiscal years:

- Making ATB a great place to work
- Creating solutions and value for our customers
- Building an effective, financially sound organization

These strategies are reflected in the planned allocation of our resources and/or within ongoing and planned projects.

# ECONOMIC OUTLOOK

*All references to years contained in the Economic Outlook and Implications for ATB section are to calendar years, unless otherwise stated.*

## Economic Outlook and Implications for ATB

As an Alberta-based financial institution, ATB regularly monitors the provincial, national, and international economies and considers their potential to impact ATB's customers and our operations. The recent performance of the Alberta economy is outlined in the table below:

**Alberta Economy at a Glance**

| | Reference period | | Year/year |
|---|---|---|---|
| **Unemployment (seasonally adjusted)** | **Apr 2009** | 6.00% | +270 bps |
| **Housing starts (seasonally adjusted, annualized rate)** | **Apr 2009** | 12,400 | (59.2)% |
| **Building permits ($ millions, seasonally adjusted)** | **Mar 2009** | 697 | (30.9)% |
| **Manufacturing sales ($ millions, seasonally adjusted)** | **Mar 2009** | 4,721 | (14.1)% |
| **New motor vehicle sales (# vehicles, seasonally adjusted)** | **Mar 2009** | 14,946 | (30.4)% |
| **Consumer Price Index** | **Apr 2009** | 120.4 | (0.7)% |
| **Retail trade ($ millions, seasonally adjusted)** | **Mar 2009** | 4,567 | (12.2)% |
| **Wholesale trade ($ millions, seasonally adjusted)** | **Mar 2009** | 5,123 | (6.4)% |

### Alberta Economy at a Glance

Our outlook for the upcoming fiscal year and beyond, prepared as of April 24, 2009, is as follows:

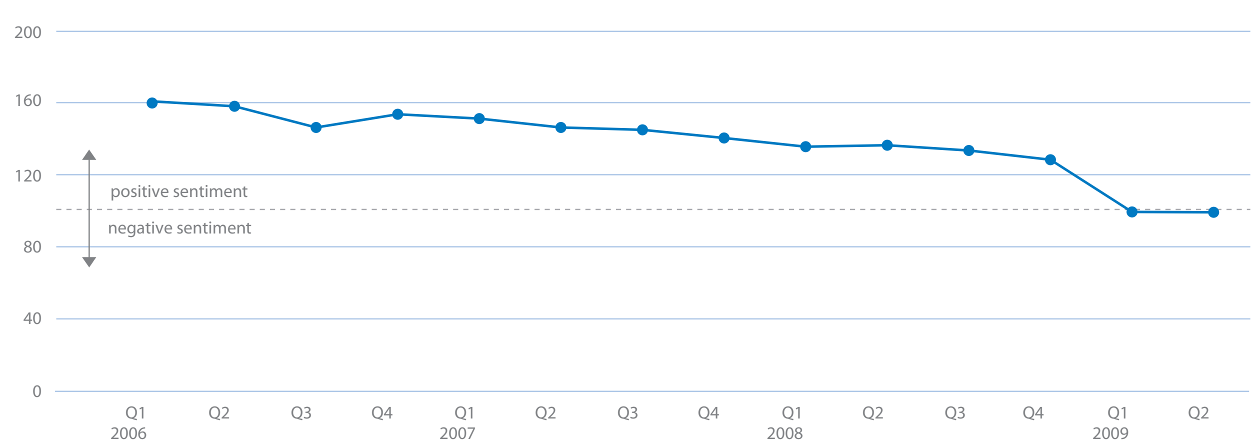
While the global economic situation changed dramatically during the final quarter of 2008, there has been some encouraging stabilization over the first quarter of 2009. Although it is far too soon to suggest that the global recession is nearing an end, we hope that the very worst is now behind us.

Alberta originally appeared to be somewhat insulated from the global downturn; however, it is now clear that the province is by no means immune. Alberta entered recession in 2008 with real GDP contracting by 0.2% during the 2008 calendar year. The provincial recession is expected to persist into 2009 with real GDP potentially falling by as much as 2.0% during the year. The pain will be felt across most sectors of the economy, with those exposed to sales in the U.S. and to residential construction under particular pressure. Energy prices have declined substantially from highs reached in the summer of 2008 and a strong economic recovery in Alberta remains contingent on the eventual recovery of these commodity prices.

### Business Confidence

According to the ATB Financial Business Sentiments Index™ (BSI), Alberta businesses' sentiment declined steadily throughout 2008, but may have reached a "floor" in early 2009. The BSI is based on a survey of over 400 Alberta businesses in sectors that typically lead the economy. Scores under 100 denote a contracting economy and scores over 100 denote an expanding economy, with a maximum score of 200, meaning all participants expect their business to expand.

**Alberta Business Sentiments Index**




*Source: ATB Financial Business Sentiments Index, March 19, 2009. Data is seasonally adjusted.*

The BSI dropped sharply to 99.7 in the first quarter of 2009, but has remained at this "neutral" positioning in the second quarter, with a reading of 99.5.

The sectors with the weakest sentiment in the second quarter of 2009 were construction (with a seasonally adjusted BSI reading of 79.9) and oil and gas (81.6). The most optimistic sectors were transportation and warehousing (118.2) and manufacturing (112.7).

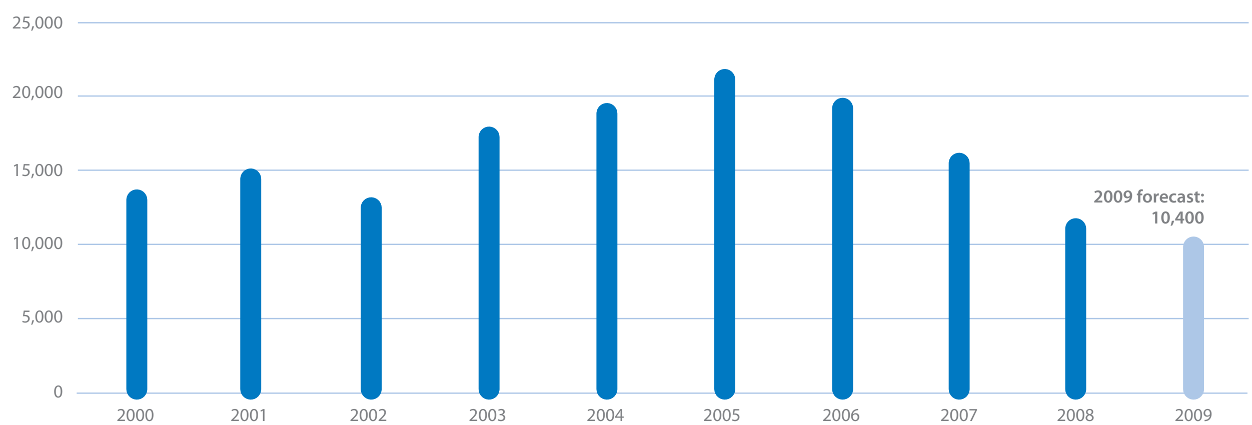
## Oil and Gas

Crude oil prices have recovered some of the extreme losses experienced during the second half of 2008. After falling to a low of US$33 per barrel, crude prices are now hovering close to US$50 (still well below the highs reached in the summer of 2008).

Natural gas prices followed crude oil's decline over the past nine months, but, unlike oil, they have seen no price recovery. AECO prices are currently around the Cdn$3.60/GJ range, from early summer highs of just over Cdn$11.00/GJ.

Alberta's drilling activity has contracted considerably in 2009 due to the convergence of weak prices, a new royalty regime, and credit difficulties (particularly for junior oil and gas companies). As well, oil sands activity has been curtailed with multiple announcements of project delays, scaling back, and outright cancellations (including refineries and upgraders). Given the tightness of supply that still characterizes the longer-term global oil market, as well as reductions in supply from OPEC, West Texas Intermediate crude could rebound to the US$60–$70 range by the end of 2009.

**Alberta Total Oil and Gas Well Drilling**




*Source: CAPP, and Petroleum Services Association of Canada '08 and '09.*

## Agriculture

Crop prices followed the price correction seen in virtually every commodity market in 2008, falling from record highs in 2008 to much lower levels in early 2009. Cash flow for Alberta crop producers has moderated with these lower prices.

Moisture conditions in April were adequate throughout most of the province, which bodes well for a good start to the 2009 crop year. However, weather conditions are always unpredictable and the favourable environment in the spring means little if conditions do not hold up through to harvest.

Livestock prices are stable, albeit at tepid levels, and recent declines in feed and energy costs will help hog and cattle farmers' profit margins. Exporters will benefit from the softer Canadian dollar. Regions of the province more heavily exposed to livestock may be somewhat impaired. Farm businesses and services related to the farm sector enjoyed a better-than-average year in 2008, but 2009 could be considerably weaker.

## Currency Exchange Rates

With the outlook for the global economy under pressure and aggregate global risk levels rising precipitously, there was a substantial worldwide repatriation of funds to U.S. treasuries during the fourth quarter of 2008. This repatriation, combined with the sharp drop in commodity prices, caused the Canadian dollar to decline in the fall of 2008. Since that time, the Canadian dollar has traded in a stable range of between US$0.77 and US$0.83.

Although the U.S. dollar has been strong relative to all global currencies, prospects may be somewhat more bullish for the Canadian dollar over the medium to long term. The Canadian fiscal situation is very positive relative to that in the U.S., where large deficits are likely for years to come. As the global economy begins to gain traction in 2010 and commodity prices potentially recover, the Canadian dollar is poised to gain ground against the U.S. dollar.

In Alberta, the softer dollar has muted some of the impact of the collapse in commodity prices and is providing some welcome relief for exporters. Sectors that are benefiting directly from the weaker dollar include forestry, oil and gas, agriculture, and manufacturing.

## Interest Rates

The U.S. Federal Reserve cut rates late in 2008 to an unprecedented low range of 0% to 0.25%, and rates have remained at this level. Citing extremely poor economic fundamentals, persistent financial market turbulence, an American housing sector in crisis, and consumers strapped for credit, the Federal Reserve brushed aside any remaining fears of inflation and chopped rates to rock bottom. It has also engaged in various forms of quantitative easing, by purchasing U.S. federal government debt (thus increasing the money supply and pressuring long-term borrowing rates lower).

The Bank of Canada has also cut rates aggressively over the past several months and, on April 21, 2009, the overnight lending rate was cut to a record-low 0.25%. Canada's banks failed to match the December 75-basis-point (bps) reduction in the overnight rate, reducing prime rates by only 50 bps. In a less-than-optimistic press release accompanying the April 21, 2009, rate cut, the Bank of Canada suggested that Canada's economy will contract by 3.0% this year, and will recover to growth of only 2.8% in 2010. These forecasts are significantly lower than previous forecasts, issued only three months ago.

As well, the Bank of Canada said rates are very unlikely to be increased until the middle of 2010—an unusually blunt statement and one that underscores its view of the severity of this recession.

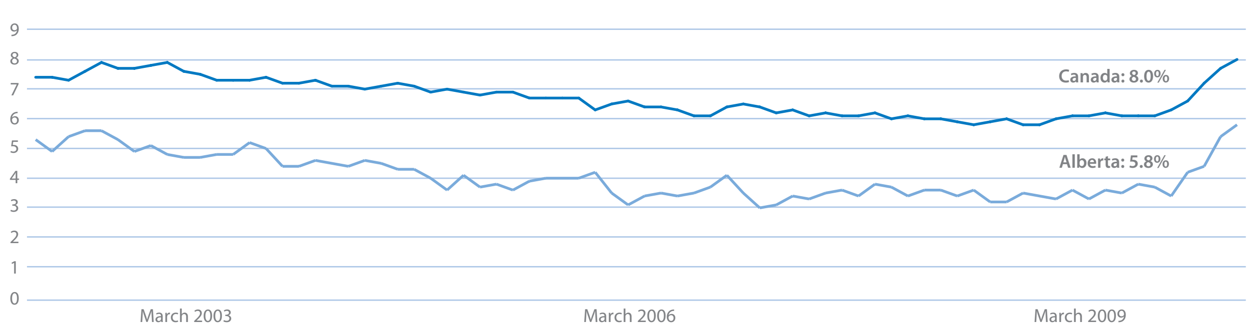
## Labour Market

The labour market in Alberta has softened considerably over the past few months. The unemployment rate has risen to 5.8%, up from the mid-3% only a few months ago. Employment in the province has declined by 38,600 jobs so far in 2009, and there has been a relative shift toward part-time positions. The heaviest losses have been in the oil and gas extraction, manufacturing, and construction sectors—typically the most volatile employment sectors and ones that witnessed significant increases over the 2005–2007 period.

Despite the softer job market, the unemployment rate remains well below the North American average. Wages and earnings in Alberta remain comparatively high, with average weekly earnings nearly 16% higher than the national average.

**Unemployment Rate**

*(% seasonally adjusted)*

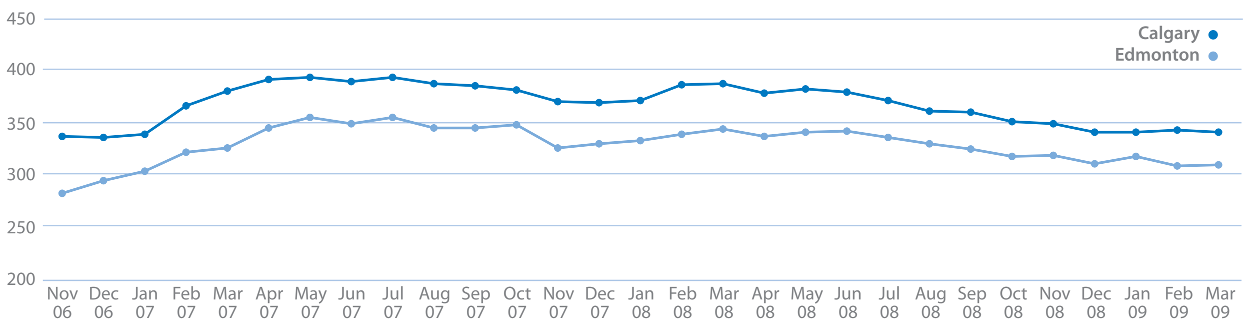



*Source: Statistics Canada, The Daily, April 9, 2009.*

## Housing Starts and Real Estate

The real estate situation in Canada has weakened, yet remains in significantly better shape than in the U.S. According to the Canadian Real Estate Association, housing prices nationally have fallen from $313,000 in March 2008 to $288,000 in March 2009, a drop of about 8%. Even with the decreases, there is less indication of a serious real estate bubble than in the U.S. American homebuyers will also face much higher down payments and tighter credit-qualifying standards.

**Calgary and Edmonton Home Prices**
*($ in thousands)*




*Source: Calgary Real Estate Board, Realtors' Association of Edmonton.*
*Prices for Calgary are median residential sales price. Prices for Edmonton are average residential sales price.*

Alberta housing prices have fallen from an average of about $365,000 in March 2008 to $328,000 in March 2009 (-10.1%).

Housing starts in Alberta have fallen from a record-setting year of 48,000 new starts in 2007 to 12,900 starts in March 2009 (annualized rate). The housing market experienced some "overbuild" in 2007 with more "spec" homes built than could be sold quickly. Now the market is slowly coming back into balance. Homebuilders now have to discount prices on new homes and offer more generous incentives. The situation remains very uncertain, but the inventory of unsold homes has started to fall, and prices in major Alberta markets have stabilized. With the combination of great selection, improved affordability, and very low mortgage costs, some interest could be returning to the market this spring and summer.

## Growth Prospects

Alberta's economy has been negatively affected by severely lower commodity prices, tighter credit conditions, and the U.S. recession, and will, in all likelihood, experience an economic contraction in 2009. Nonetheless, the province remains reasonably well positioned to bounce back from recession more quickly than in most other parts of North America.

## Challenges

The most significant challenge facing Alberta's economy in 2009 is the weakness in conventional oil and gas drilling. Not only will this severely reduce direct employment and investment in the province, it is already dampening indirect activity in manufacturing, business and personal services, and the food and accommodation sectors (particularly in areas heavily dependent on this drilling activity). The pull-back in oil sands projects has also reduced activity in the Fort McMurray region and related manufacturing throughout the province.

The credit situation is being felt across the province, especially as non-conventional sources of credit have dried up. However, while there is evidence that the price of borrowing has increased and that certain sectors are seeing tighter terms and conditions, the extent to which Alberta is suffering a credit crunch should not be exaggerated. The situation in Alberta remains much more favourable than in the U.S.

Other risks include the weakening labour market, which could impair consumer confidence. So far, consumers in Alberta remain fairly buoyant (all things considered). Yet if the labour situation deteriorates much more, there may be negative implications for the retail and housing markets in the province.

## Implications for ATB

The slowdown in Alberta's economy presents a number of challenges to ATB. Mortgage activity will soften, although relatively high wages and earnings growth could mitigate the downside. Small businesses may find fewer growth or expansion opportunities, which could reduce demand for loans. The weaker economy may result in higher credit loss provisions for ATB.

## 2008–09 Performance and 2009–10 Objectives

Excluding the provision for loss on asset-backed commercial paper (ABCP), we met or exceeded our goal on five measures and failed to achieve our goal on three measures. Detailed analysis of our 2008–09 consolidated operating results and our financial position as at March 31, 2009, may be found beginning on pages 51 and 59, respectively.

| Performance measure | 2008–09 goal | 2008–09 results achieved, excluding ABCP provision | 2009–10 goal (1) |
|---|---|---|---|
| Return on average assets | 1.0% to 1.1% | **0.93% (under goal)** | 0.3% to 0.4% |
| Net interest spread | 2.9% to 3.0% | **2.69% (under goal)** | 2.3% to 2.4% |
| Other income as a percentage of total operating revenue | 23% to 25% | **28.6% (exceeded goal)** | 28% to 30% |
| Operating revenue growth | 7% to 9% | **7.3% (met goal)** | -4% to -6% |
| Credit losses as a percentage of average loans | 0.1% to 0.2% | **0.21% (under goal)** | 0.2% to 0.3% |
| Non-interest expenses to operating revenue (efficiency ratio) | 67% to 70% | **69.8% (met goal)** | 79% to 82% |
| Performing loan growth (2) | 10% to 12% | **16.0% (exceeded goal)** | 6% to 8% |
| Retail deposit growth | 4% to 6% | **17.8% (exceeded goal)** | 6% to 8% |

*(1) These objectives are before tax and ABCP provisions or recovery. We anticipate a payment in lieu of tax for the 2009–10 fiscal year, and we expect the charge to be comparable to other financial institutions.*
*(2) Excludes the impact of mortgage securitization.*

**Overall, we expect net income before a payment in lieu of tax and any additional provision or recovery for ABCP for the 2009–10 fiscal year to be between $100 million and $110 million**. This 2009–10 net income forecast is down from the $231.2 million earned in the 2008–09 year (before the impact of the provision for loss on ABCP, which reduced net income to $6.4 million). For the 2009–10 fiscal year, we anticipate continued growth in retail deposits and performing loans. However, the growth expected in our loan and deposit balances is not expected to compensate for the decrease anticipated in net interest spread to be earned over the 2009–10 year. The decrease in net interest spread will be driven by a lower bank prime lending rate and extremely competitive deposit markets. This decrease is the primary reason for the expected rise in our efficiency ratio in 2009–10 from the levels achieved in 2008–09. (Refer to the Review of 2008–09 Consolidated Operating Results section of this MD&A for a more detailed analysis of these expectations.)

# ASSET-BACKED COMMERCIAL PAPER

## Description of ABCP and the Market Disruption

Asset-backed commercial paper (ABCP) is a short-term investment typically issued with a term of between 30 and 90 days. It differs from other types of commercial paper in that it is issued by trusts—either structured by banks (bank-sponsored ABCP) or by independent brokers (third-party-sponsored or non-bank-sponsored ABCP). The proceeds from the trusts' issuance are used to acquire a diverse pool of assets ranging from traditional assets (car loans, credit card receivables, mortgages), high-risk assets (subprime U.S. residential mortgages) to synthetic assets (derivatives, usually credit default swaps). Based on the fact that the underlying assets are usually longer term, while the investment is short term in nature, there is an inherent mismatch in cash flows. Repayment of the short-term paper is partially funded by cash flow from the underlying assets, but mostly from the issuance of new paper and thus from the dependence that the investments continue to roll. To compensate for this cash flow mismatch, most trusts have a liquidity line (usually provided by a major bank) that is in place to cover cash flow differences in times of market disruption.

In August 2007, concern over the U.S. subprime crisis and other market issues in the United States caused investors in Canada to question the quality of the ABCP that they were purchasing and, ultimately, to cease purchasing new paper. As a result, the trusts could not make payments to investors as their investments matured. When the trusts attempted to draw on their liquidity lines, some of the liquidity-line providers took the position that the necessary conditions had not been met to draw under the line.

The crisis in August 2007 had follow-on effects on other investments and, as a result, certain bank-sponsored ABCP investments faced similar liquidity issues in the fourth quarter of 2007–08. ATB's exposure to this type of investment is significantly less than that resulting from our investments in non-bank-sponsored ABCP.

At the time of the market disruption, ATB held $1.2 billion of third-party-sponsored ABCP, and $85.8 million of bank-sponsored ABCP. When ATB purchased these investments, they were rated R-1 (high) by the Dominion Bond Rating Service (their highest rating issued for ABCP) and complied with the criteria of ATB's investment policy. $255.0 million of the total amount held by ATB was acquired from ATB Investor Services Inc. and ATB Investment Management Inc. (two ATB subsidiaries) in order to protect our customer's interests.

## Description of Restructuring

### Third-Party ABCP – Montreal Accord

A group of investors and financial institutions, including ATB, has been working towards the restructuring of certain third-party ABCP since August 2007. This restructuring effort, which has come to be known as the Montreal Accord, resulted in the successful restructuring of the third-party ABCP on January 21, 2009. The main result was the exchange of the original notes with terms of 30 to 90 days for new longer-term floating rate notes that more closely match the maturities of the underlying assets.

Other key results of the restructuring include the following:

- Three new legal structures in the form of trusts (called master asset vehicles—MAV 1, MAV 2, and MAV 3) were created.
- The series of ABCP supported in whole or in part by synthetic assets were either pooled into MAV 1 or MAV 2. MAV 1 was formed for investors who elected (and had the required credit rating) to self-fund the required margin-funding facility (MFF) (see below). MAV 2 was formed for investors who elected to obtain the required MFF from a third party for a fee.
- The series of ABCP secured exclusively by either traditional or ineligible assets were siloed from other assets in MAV 3.
- MFFs were created to support possible collateral calls under MAV 1 and MAV 2. The majority of the assets in MAV 1 and MAV 2 are leveraged super-senior trades. As the name implies, these trades employ leverage, whereby the amount originally invested is posted as collateral to support the beneficiary of the credit protection, with the level of the credit protection being a multiple of the collateral. For example, $10 million in collateral may support $100 million in credit protection. Leveraged super-senior trades have attachment points, which represent the level of losses that must be reached on a group of reference assets before a payment relative to the credit protection is due. If the level of actual losses starts to approach the attachment point, then the beneficiary of the credit protection may require additional collateral. These MFFs provide a mechanism through which this additional collateral can be provided.
- Spread-loss triggers will be used to trigger the collateral calls of the leveraged super-senior trades.
- An 18-month moratorium was established on collateral calls, which means there can be no collateral calls on the qualifying leveraged superior-senior trades. Three trades included in the Montreal Accord have been excluded from this moratorium.
- The Governments of Canada, Alberta, Ontario, and Quebec (as well as one of the MAV 1 participants) provided a senior MFF for the first 19 months following the restructure.

Subsequent to the January 21, 2009, restructure, two of the three trades excluded from the 18-month moratorium and the MFF made a call for additional collateral. ATB and others decided to not pledge additional collateral for these trades and, as a result, the trades were terminated. This resulted in ATB's holdings under MAV 1 being reduced by $29.7 million.

ATB's investment in third-party-sponsored ABCP restructured under the Montreal Accord is made up of the following:

| *As at March 31, 2009*<br>*($ in thousands)* | Cost | Fair value | Spread over bankers' acceptance rate | Expected maturity | Credit rating |
|---|---|---|---|---|---|
| Synthetic assets | | | | | |
| Class A-1 | $ 421,216 | $ 284,560 | 0.30% | Dec 2016 | A |
| Class A-2 | 384,916 | 256,222 | 0.30% | Dec 2016 | A |
| Class B | 65,623 | 15,607 | 0.30% | Dec 2016 | - |
| Class C | 26,961 | - | - | Dec 2016 | - |
| **Total synthetic assets** | **$ 898,716** | **$ 556,389** | | | |
| Traditional assets | 74,737 | 72,385 | 0.40% | Sept 2016 | - |
| Ineligible assets | 27,244 | - | - | - | - |
| **Total Montreal Accord** | **$ 1,000,697** | **$ 628,774** | | | |

As at March 31, 2009, the A-1 and A-2 notes have a rating of A while the other notes are all unrated.

## Other Third-Party ABCP

ATB has a $34.8-million investment in White Knight Trust. This investment restructured in December 2007 and is currently rated BBB.

| *As at March 31, 2009*<br>*($ in thousands)* | Cost | Fair value | Spread over bankers' acceptance rate | Expected maturity | Credit rating |
|---|---|---|---|---|---|
| White Knight Trust | $ 34,770 | $ 26,403 | 1.55% | Dec 2016 | BBB |
| **Total third-party-sponsored** | **$ 34,770** | **$ 26,403** | | | |

## Bank-Sponsored ABCP

ATB has investments in two bank-sponsored ABCP trusts: Apex Trust and Superior Trust. Apex Trust restructured in May 2008 and is currently unrated. Superior Trust originally restructured in July 2008 and restructured again in December 2008.

| *As at March 31, 2009*<br>*($ in thousands)* | Cost | Fair value | Spread over bankers' acceptance rate | Expected maturity | Credit rating |
|---|---|---|---|---|---|
| Sitka Trust | $ 27,846 | $ 20,174 | 0.00% | Dec 2016 | - |
| Sitka Trust | 6,154 | 3,713 | 0.00% | Sept 2016 | - |
| Superior Trust | 33,021 | 22,513 | 0.35% | Sept 2016 | AA |
| **Total bank-sponsored** | **$ 67,021** | **$ 46,400** | | | |

### Impact of Restructuring

Except for the traditional notes held under the Montreal Accord, all of ATB's ABCP investments have been classified as held for trading (HFT). As a result, they are carried at fair value with any changes in the estimates being recorded through the income statement.

Given that there remains no active market for similar ABCP, ATB has developed a valuation model, in accordance with Canadian Institute of Chartered Accountants (CICA) guidelines, to determine its best estimate of the fair value of these investments as at March 31, 2009. This model includes certain key assumptions; consequently, the ultimate fair value of the investment may vary significantly from the current estimate. (Refer to the Accounting Policies and Estimates section of this MD&A and Note 8 to the statements for additional information on the valuation of ABCP.)

Realized losses of $43.1 million and a fair value adjustment of $181.7 million have resulted in a $224.8 million negative impact to ATB's income statement for fiscal 2009. This is significant to ATB, as it resulted in a reduction in net income from $231.2 million to $6.4 million. The fact that the majority of the ABCP investment is classified as HFT means there may be continued income statement volatility based on the changing value of the ABCP.

Another impact of the restructuring is the requirement to provide a MFF in support of the leveraged super-senior trades. ATB's share of this margin-funding credit commitment is $551.5 million. ATB will receive no direct compensation for providing this commitment. It is possible, if the spread-loss triggers of the leveraged super-senior trades are breached and the mark-to-market valuation of the underlying trades have decreased, that ATB will be required to fund additional collateral under this facility. Any additional amounts funded under this facility will earn interest at a rate based on the bankers' acceptance rate. Advances under this facility will rank senior to the current collateral held. (Refer to Note 8 to the statements for additional information on the valuation of ABCP.)

## REVIEW OF 2008–09 CONSOLIDATED OPERATING RESULTS

*All references to years contained in this section are to fiscal years, unless otherwise stated.*

### Asset-Backed Commercial Paper

For the year ended March 31, 2009, ATB has recognized a provision for loss on asset-backed commercial paper (ABCP) of $224.8 million. **Where applicable, ATB's consolidated operating results are reported inclusive and exclusive of this provision; however, for clarity, the commentary below refers to the operating results exclusive of ABCP, in order to provide more representative information about ongoing business operations**. (Refer to the Asset-Backed Commercial Paper section and to Note 8 to the statements for further details on ABCP.)

### Operating Results – Overview and Key Performance Measures

For the year ended March 31, 2009, or the 2008–09 fiscal year, ATB earned net income (NI) excluding the provision for ABCP ("adjusted NI") of $231.2 million, down 18.3% from the $283.1 million earned in 2007–08. This decrease from the prior year reflects a reduction in net interest income (NII) of $12.1 million, an increase in ATB's provision for credit losses of $29.8 million, together with an increase in non-interest expenses (NIE) of $83.7 million. Partially offsetting this, other income (OI) increased $73.7 million.

#### Return on Average Assets

Return on average assets (ROAA) excluding the provision for loss on ABCP ("adjusted ROAA") for the 2008–09 fiscal year was 0.93%, down from 1.28% in 2007–08. This was a result of adjusted net income decreasing by 18.3%, only partially offset by an increase in average-earning assets of nearly 13.0%, reflecting the net interest spread compression facing ATB in light of increased market competition and the lower prime rate environment.

### Return on Average Assets

| *For the years ended March 31* | | | 2009 vs 2008 | | | |
|---|---|---|---|---|---|---|
| *($ in thousands)* | **2009** | Increase (decrease) | | 2008 | 2007 |
| Net income | **$ 6,412** | $ (23,573) | (78.62)% | $ 29,985 | $ 274,388 |
| Net income (excluding provision for loss on ABCP) | **$ 231,228** | $ (51,890) | (18.33)% | $ 283,118 | $ 274,388 |
| Average total assets | **$ 24,996,808** | $ 2,865,749 | 12.95% | $ 22,131,059 | $ 19,100,127 |
| Return on average assets | **0.03%** | (0.11)% | (78.57)% | 0.14% | 1.44% |
| Return on average assets (excluding provision for loss on ABCP) | **0.93%** | (0.35)% | (27.34)% | 1.28% | 1.44% |

#### Outlook for Fiscal Year 2009–10 – Return on Average Assets

We are targeting a ROAA of between 0.3% and 0.4% for fiscal 2009–10. This target is based on anticipated NI of $100 million to $110 million and average total assets in excess of $26.9 billion. These objectives reflect our expectations for decreased NII (as forecast portfolio growth will not be able to compensate for an expected decrease in net spreads earned), as well as continued growth in OI, offset by increased credit losses and NIE.

### Operating Results – Other Key Performance Measures

| | | 2009 | | | | |
|---|---|---|---|---|---|---|
| *(in %)* | 2010 Target | [1] | **Actual** | **Target** | 2008 Actual | 2007 Actual |
| Net interest spread on average earning assets | 2.3 - 2.4 | | **2.69** | **2.9 - 3.0** | 3.07 | 3.06 |
| Other income to operating revenue | 28 - 30 | **28.6** | **38.1** | **23 - 25** | 31.4 | 23.9 |
| Non-interest expenses to operating revenue (efficiency ratio) | 79 - 82 | **69.8** | **92.8** | **67 - 70** | 92.8 | 64.2 |
| Credit losses to average loans | 0.2 - 0.3 | | **0.21** | **0.1 - 0.2** | 0.07 | (0.03) |

*(1) Excludes provision for loss on asset-backed commercial paper.*

Net interest spread earned for 2008–09 on average interest-earning assets was 2.69%, which is below the year's target range of 2.9% to 3.0% and down 38 basis points from the prior year's spread of 3.07%. This movement in net interest spread as compared to the prior year is a reflection of both a downward trend in average prime rate and increased competition for deposits due to the liquidity crisis experienced over the year. For the fiscal year 2008–09, spreads are compressed for all prime-based products. (Refer to the Net Interest Income section of this MD&A for further analysis of NII and spread.)

OI as a percentage of operating revenue excluding ABCP ("adjusted operating revenue") increased during 2008–09. This change is largely attributable to ATB's securitization program that was successfully launched at the start of fiscal year 2008–09. In the first year of securitization of its loan portfolio, ATB securitized over $1.0 billion in mortgages and recognized securitization income of over $53.8 million, representing 20.7% of total other income.

ATB's ABCP-exclusive efficiency ratio, or the ratio of NIE to adjusted operating revenue, was 69.8% for the 2008–09 fiscal year, compared to last year's ratio of 65.0%. NIE increased by 15.2%, while adjusted operating revenue grew by 7.3%, resulting in the deterioration in the efficiency ratio. (Refer to the Non-Interest Expense section of this MD&A for further analysis of NIE.)

ATB's provision for credit losses this year, measured as a percentage of average net loans outstanding during the year, was 0.21%, higher than both the 2008–09 plan and the prior year's ratio of 0.07%. In general terms, the Alberta economy is weakening, and as a result, we have seen an increase in consumer delinquency and impairments within certain credit portfolios. Despite these increases, credit-quality indicators remain at levels marginally above historically low trend lines. In addition, while consumer impairments have seen recent increases, these types of credit exposures typically have higher levels of recovery and, subsequently, lower incurred losses. While some softening in credit quality is evident, the overall loan portfolio is holding up well relative to historical values and the observed results of ATB's competition.

## Operating Revenue

Operating revenue consists of net interest income (NII) and other income (OI).

| *For the years ended March 31* | | 2009 vs 2008 | | | |
|---|---|---|---|---|---|
| *($ in thousands)* | **2009** | Increase (decrease) | | 2008 | 2007 |
| Net interest income | **$ 647,345** | $ (12,065) | (1.83)% | $ 659,410 | $ 571,805 |
| Other income | **259,682** | 73,687 | 39.62% | 185,995 | 179,661 |
| Operating revenue before the undernoted | **907,027** | 61,622 | 7.29% | 845,405 | 751,466 |
| Provision for loss on ABCP | **(224,816)** | 28,317 | 11.19% | (253,133) | - |
| Total operating revenue | **$ 682,211** | $ 89,939 | 15.19% | $ 592,272 | $ 751,466 |

Adjusted operating revenue for the 2008–09 fiscal year increased by $61.6 million or 7.3% from the prior year, driven most significantly by an increase in OI of $73.7 million, or 39.6%. This growth was primarily driven by securitization income generated through our mortgage securitization program, although NII decreased by approximately $22.9 million as a result of this program. Net interest spread earned on interest-earning assets declined year over year. (Refer to the Net Interest Income section of this MD&A for additional analysis of NII and spread.)

**Outlook for Fiscal Year 2009–10 – Operating Revenue**

Our expectation for next fiscal year is a contraction of operating revenue by 4% to 6%. This target reflects expected reductions in NII (driven by reduced growth in interest-earning assets being overshadowed by a significant reduction in forecasted net spread) that exceeds the impact of other income growth (driven by a recovery in our Investor Services business and continued strength in MasterCard revenue growth). The revenue derived from securitization is expected to remain similar to that experienced in 2008–09. However, the securitization of a portion of our interest-earning assets will also be reflected in a reduction of our fiscal 2009–10 NII by $15.0 million.

## Net Interest Income

Net interest income (NII) represents the difference between interest earned on assets, such as securities and loans, and interest paid on liabilities, such as deposits.

### Net Interest Income, Margin, and Spread Earned

| | Average balances | | | Interest | | | Average rate (%) | | |
|---|---|---|---|---|---|---|---|---|---|
| *($ in thousands)* | **2009** | 2008 | 2007 | **2009** | 2008 | 2007 | **2009** | 2008 | 2007 |
| **Assets** | | | | | | | | | |
| Interest-bearing deposits with financial institutions, and securities | **$ 3,327,432** | $ 3,103,569 | $ 2,714,742 | **$ 95,814** | $ 146,719 | $ 118,208 | **2.88** | 4.73 | 4.35 |
| Loans | | | | | | | | | |
| Residential mortgages | **7,704,727** | 7,407,194 | 6,651,201 | **395,995** | 390,247 | 337,920 | **5.14** | 5.27 | 5.08 |
| Personal | **4,546,414** | 3,601,243 | 2,956,707 | **243,705** | 229,485 | 200,095 | **5.36** | 6.37 | 6.77 |
| Other | **8,478,976** | 7,357,302 | 6,355,000 | **459,473** | 536,113 | 422,059 | **5.42** | 7.29 | 6.64 |
| | **20,730,117** | 18,365,739 | 15,962,908 | **1,099,173** | 1,155,845 | 960,074 | **5.30** | 6.29 | 6.01 |
| Total earning assets | **24,057,549** | 21,469,308 | 18,677,650 | **1,194,987** | 1,302,564 | 1,078,282 | **4.97** | 6.07 | 5.77 |
| Non-earning assets | **939,259** | 661,751 | 422,477 | **-** | - | - | **-** | - | - |
| Total assets | **$ 24,996,808** | $ 22,131,059 | $ 19,100,127 | **$ 1,194,987** | $ 1,302,564 | $ 1,078,282 | **4.78** | 5.89 | 5.65 |
| **Liabilities and equity** | | | | | | | | | |
| Deposits | | | | | | | | | |
| Demand | **$ 5,481,447** | $ 5,200,385 | $ 4,875,267 | **$ 38,481** | $ 69,176 | $ 58,911 | **0.70** | 1.33 | 1.21 |
| Notice | **3,816,109** | 2,898,565 | 2,219,771 | **71,879** | 84,447 | 55,140 | **1.88** | 2.91 | 2.48 |
| Fixed term | **13,446,302** | 11,861,135 | 10,155,232 | **434,448** | 486,358 | 389,092 | **3.23** | 4.10 | 3.83 |
| Total deposits | **22,743,858** | 19,960,085 | 17,250,270 | **544,808** | 639,981 | 503,143 | **2.40** | 3.21 | 2.92 |
| Non-interest-bearing liabilities | **434,993** | 387,353 | 286,615 | **-** | - | - | **-** | - | - |
| Securities sold under repurchase agreements | **25,268** | - | - | **218** | - | - | **0.86** | - | - |
| Subordinated debentures | **60,823** | 70,979 | 67,960 | **2,616** | 3,173 | 3,334 | **4.30** | 4.47 | 4.91 |
| Equity | **1,731,866** | 1,712,642 | 1,495,282 | **-** | - | - | **-** | - | - |
| Total liabilities and equity | **$ 24,996,808** | $ 22,131,059 | $ 19,100,127 | **$ 547,642** | $ 643,154 | $ 506,477 | **2.19** | 2.91 | 2.65 |
| Net interest margin | **n/a** | n/a | n/a | **$ 647,345** | $ 659,410 | $ 571,805 | **2.59** | 2.98 | 2.99 |
| Net interest spread | **n/a** | n/a | n/a | **n/a** | n/a | n/a | **2.69** | 3.07 | 3.06 |

*Net Interest Margin*

Net interest margin is the ratio of net interest income (NII) to average total assets. Net interest margin decreased from 2.98% last year to 2.59% for 2008–09.

*Net Interest Spread*

Net interest spread ("spread") is a key performance measure we use to evaluate our financial performance, and is the ratio of net interest income (NII) to average interest-earning assets. ATB's spread for fiscal 2008–09 was 2.69% compared to a targeted range of 2.9% to 3.0% and a fiscal 2007–08 level of 3.07%. The shortfall was due to decreasing prime rates and strong competition for deposits. Prime rates decreased by 275 basis points this year, beginning at 5.25% and ending at only 2.5%.

### Changes in Net Interest Income

| | 2009 vs 2008 | | | 2008 vs 2007 | | |
|---|---|---|---|---|---|---|
| | 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 | $ 6,446 | $ (57,351) | $ (50,905) | $ 18,382 | $ 10,129 | $ 28,511 |
| Loans | | | | | | |
| Residential mortgages | 15,292 | (9,544) | 5,748 | 39,829 | 12,498 | 52,327 |
| Personal | 50,665 | (36,445) | 14,220 | 41,072 | (11,682) | 29,390 |
| Other | 60,783 | (137,423) | (76,640) | 73,036 | 41,018 | 114,054 |
| Total loans | 126,740 | (183,412) | (56,672) | 153,937 | 41,834 | 195,771 |
| Change in interest income | $ 133,186 | $ (240,763) | $ (107,577) | $ 172,319 | $ 51,963 | $ 224,282 |
| **Liabilities** | | | | | | |
| Deposits | | | | | | |
| Demand | $ (1,973) | $ 32,668 | $ 30,695 | $ (4,325) | $ (5,940) | $ (10,265) |
| Notice | (17,283) | 29,851 | 12,568 | (19,776) | (9,531) | (29,307) |
| Fixed term | (51,217) | 103,127 | 51,910 | (69,949) | (27,317) | (97,266) |
| Total deposits | (70,473) | 165,646 | 95,173 | (94,050) | (42,788) | (136,838) |
| Securities sold under repurchase agreements | (218) | - | (218) | - | - | - |
| Subordinated debentures | 436 | 121 | 557 | (135) | 296 | 161 |
| Change in interest expense | $ (70,255) | $ 165,767 | $ 95,512 | $ (94,185) | $ (42,492) | $ (136,677) |
| Change in net interest income | $ 62,931 | $ (74,996) | $ (12,065) | $ 78,134 | $ 9,471 | $ 87,605 |

As presented in the preceding table, the largest driver of the decline in NII over the 2008–09 year (as measured by dollars contributed, not by percentage of increase) was the significant decrease in the rates earned on our loan portfolio. Contribution from increased volumes was not able to outpace the declining contribution from reduced rates of interest earned in every major component of our loan portfolio.

#### Outlook for Fiscal Year 2009–10 – Net Interest Spread

Our target for next fiscal year is to earn net interest spread in the range of 2.30% to 2.40%, down from this past year's results. This target reflects our expectation that the Canadian prime interest rate will hold constant at the historically low levels of 2.25% throughout the fiscal year due to the weak economic environment. This contrasts with 2008–09, when the average daily prime interest rate was 4.1%. This low interest rate environment is also expected to continue to migrate client borrowing from fixed-rate to the traditionally leaner-spread variable-rate products. Additionally, competition for deposits within the industry is expected to persist well into the year, which will sustain spread compression on deposit products.

### Other Income

Other income (OI) consists of all operating revenue not classified as net interest income (NII), except for ATB's provision for asset-backed commercial paper, which is disclosed as a separate line item within operating revenue.

| *For the years ended March 31* | | 2009 vs 2008 | | | |
|---|---|---|---|---|---|
| *($ in thousands)* | **2009** | Increase (decrease) | | 2008 | 2007 |
| Service charges | **$ 69,748** | $ (143) | (0.20)% | $ 69,891 | $ 68,241 |
| Securitization income | **53,809** | 53,809 | 100.00% | - | - |
| Card fees | **44,942** | 9,178 | 25.66% | 35,764 | 27,919 |
| Investor Services | **36,749** | (1,678) | (4.37)% | 38,427 | 28,526 |
| Insurance | **22,346** | 10,821 | 93.89% | 11,525 | 10,789 |
| Credit fees | **11,240** | 613 | 5.77% | 10,627 | 29,738 |
| Gains on derivative financial instruments, net | **10,597** | 8,064 | 318.36% | 2,533 | 1,776 |
| Foreign exchange | **10,043** | (1,720) | (14.62)% | 11,763 | 8,625 |
| Sundry | **208** | (5,257) | (96.19)% | 5,465 | 4,047 |
| | **$ 259,682** | $ 73,687 | 39.62% | $ 185,995 | $ 179,661 |

OI was $259.7 million for fiscal 2008–09, an increase of $73.7 million or 39.6% compared to last year's $186.0 million. This growth was driven by securitization, which is new to ATB this fiscal year. The second-largest contributor to the 2008–09 OI was a $10.8-million increase in insurance income. The increase is largely due to better-than-expected operating results under the loan protection program, due to increasing loan volumes and penetration rates, as well as stronger underwriting results.

Another factor in the 2008–09 growth was the $9.2-million increase in card fees earned, reflecting the continued success of our MasterCard business.

Investor Services' fees fluctuate as a function of the growth and market performances of client assets.

The foreign exchange component of OI decreased $1.7 million in 2008–09. This decrease was due to the weakening of the Canadian dollar against the U.S. dollar.

The ratio of OI to adjusted operating revenue was 28.6%, an increase from 22.0% last year.

ATB's ratio of OI to operating revenue is expected in the short to medium term to continue to be significantly less than that of all the major Canadian banks, as ATB does not generate revenue from trading, investment banking, or major brokerage activities. ATB is actively pursuing strategies to improve this ratio over the next five years.

**Outlook for Fiscal Year 2009–10 – Other Income as a Percentage of Total Operating Revenue**

Our targeted ratio of other income (OI) to operating revenue for the upcoming 2009–10 fiscal year is 28% to 30%. This target reflects our expectation that there will be growth in OI of 3% to 5% (excluding ABCP), predominantly through Investor Services fees and continued growth in MasterCard revenue. The increase in this ratio is accentuated by the fact that NII is expected to reflect a lower interest rate environment, resulting in a 9% to 11% reduction in NII.

## Provision for (Recovery of) Credit Losses

ATB's results for the 2008–09 fiscal year reflect a $42.7-million provision for credit losses as compared to $12.9 million for the prior year. The increase in our net provision was driven by an increase in new specific provisions of $14.6 million, and a $12.7-million net increase in the general loan loss allowance (GLLA).

| *For the years ended March 31* | | 2009 vs 2008 | | | |
|---|---|---|---|---|---|
| *($ in thousands)* | **2009** | Increase (decrease) | | 2008 | 2007 |
| New specific provisions | **$ 28,922** | $ 14,644 | 102.56% | $ 14,278 | $ 11,607 |
| Reversal of previous allowances | **(6,312)** | 1,198 | 15.95% | (7,510) | (8,341) |
| Recoveries of prior write-offs | **(3,742)** | 1,303 | 25.83% | (5,045) | (5,205) |
| Specific provisions for credit losses | **18,868** | 17,145 | 995.07% | 1,723 | (1,939) |
| General allowance | **23,844** | 12,661 | 113.22% | 11,183 | (3,272) |
| | **$ 42,712** | $ 29,806 | 230.95% | $ 12,906 | $ (5,211) |
| Provision as a percentage of average net loans | **0.21%** | 0.14% | 200.00% | 0.07% | (0.03)% |

The ratio of the annual provision for credit losses to average total loans was 0.21% for fiscal 2008–09, exceeding 2007–08, which was 0.07%, as the impact from the economic downturn was beginning to be felt in this area. Up until recently, ATB has benefited from the strength of the Alberta economy and the resulting positive credit environment. Some increase in the level of impaired loans and provisions was experienced in the latter part of 2008–09. ATB has always and will continue to maintain an emphasis on strong credit and effective loss-limitation practices, which serve to minimize our credit loss experience. (ATB's provision for credit losses and our approach to credit risk management is further discussed in the Risk Management section of this MD&A.)

**Outlook for Fiscal Year 2009–10 – Credit Losses as a Percentage of Average Loans**

Our expectation for fiscal 2009–10 is for our credit loss experience to edge slightly higher in the face of economic uncertainty for both business and personal banking financial services. Accordingly, we are targeting the ratio of credit losses to average loan balances to fall in the range of 0.20% to 0.30%.

## Non-Interest Expenses and Efficiency

Non-interest expenses (NIE) consist of all expenses incurred by ATB except for interest expense, provision for (recovery of) credit losses, and ATB's provision for loss on asset-backed commercial paper.

| *For the years ended March 31* | | 2009 vs 2008 | | | |
|---|---|---|---|---|---|
| *($ in thousands)* | **2009** | Increase (decrease) | | 2008 | 2007 |
| Salaries and employee benefits | **$ 333,028** | $ 35,624 | 11.98% | $ 297,404 | $ 258,192 |
| Data processing | **73,622** | 6,410 | 9.54% | 67,212 | 60,176 |
| Premises and occupancy | **55,418** | 7,587 | 15.86% | 47,831 | 43,078 |
| Marketing and supplies | **29,760** | 1,264 | 4.44% | 28,496 | 19,432 |
| Professional and consulting | **33,320** | 4,293 | 14.79% | 29,027 | 26,816 |
| Equipment and software | **33,897** | 11,726 | 52.89% | 22,171 | 20,275 |
| Deposit guarantee fee | **29,417** | 9,207 | 45.56% | 20,210 | 14,156 |
| Communication | **18,685** | 153 | 0.83% | 18,532 | 14,793 |
| ATB agencies | **8,492** | (847) | (9.07)% | 9,339 | 8,255 |
| Other | **17,448** | 8,289 | 90.50% | 9,159 | 17,116 |
| | **$ 633,087** | $ 83,706 | 15.24% | $ 549,381 | $ 482,289 |
| Efficiency ratio | **92.80%** | 0.04% | 0.04% | 92.76% | 64.18% |
| Efficiency ratio (excluding provision for loss on ABCP) | **69.80%** | 4.81% | 7.41% | 64.98% | 64.18% |

NIE amounted to $633.1 million for fiscal 2008–09, an increase of $83.7 million or 15.2% compared to the 2007–08 total of $549.4 million.

The most significant increase this year was in salaries and employee benefits costs (including wages, variable compensation, and training), which increased by $35.6 million. The increase reflects planned increases in compensation levels, along with increased staffing levels to support the growth in our three lines of business. On a head-count basis, our total number of associates on the payroll increased by 6.2% during the year.

Data-processing fees increased by $6.4 million this year, in line with expectations. Equipment and software increased by $11.7 million over the prior year, of which $10.7 million relates to increased amortization costs for computer hardware and software.

ATB pays a deposit guarantee fee to the Government of Alberta in compensation for the unlimited principal and interest guarantee it provides to our depositors. The fee is assessed on total deposits outstanding as at the end of each fiscal year, both retail and wholesale. The fee payable on deposits is consistent with the Canada Deposit Insurance Corporation's (CDIC's) risk-based premium methodology. In 2008–09, ATB recognized a $29.4-million deposit guarantee expense, an increase of $9.2 million or 45.6% over 2007–08. This increase is a function of both increased deposits and increases in the associated fees.

### Efficiency Ratio

The efficiency ratio is the ratio of non-interest expenses (NIE) to adjusted operating revenue. We use this ratio as a key measure of our expense efficiency—the lower the ratio, the better the efficiency. Our efficiency ratio (excluding provision for loss on ABCP) was 69.8% for the 2008–09 fiscal year. Although this was an increase from last year's ratio of 65.0%, it is within our targeted range of 67% to 70%.

**Outlook for Fiscal Year 2009–10 – Efficiency Ratio**

We have targeted the efficiency ratio for fiscal 2009–10 to be within a range of 79% to 82%. This reflects our plan to invest in growth initiatives—enhancing customer-facing technology, strengthening our support infrastructure, and implementing ATB's core transformation initiative (Core)—that are consistent with the long-term strategic direction of the organization. This investment will continue to be a focus even though revenue generation for the organization will prove to be more challenging; ultimately, this will put upward pressure on our efficiency ratio over the next two to three years as we undertake these significant endeavours. We expect a substantial increase in productivity following completion of these initiatives.

# REVIEW OF MARCH 31, 2009, CONSOLIDATED FINANCIAL POSITION

*All references to years contained in this section are to fiscal years, unless otherwise stated.*

## Financial Position – Overview and Key Performance Measures

**Key Performance Measures**

| | | 2009 | | | |
|---|---|---|---|---|---|
| *(in %)* | **2010 Target** | Actual | Target | 2008 Actual | 2007 Actual |
| Performing loan growth | 6 to 8 (1) | 16.0(1) | 10 to 12 (1) | 14.4 | 14.4 |
| Personal and business deposit growth | 6 to 8 | 17.8 | 4 to 6 | 7.3 | 13.8 |

*(1) Excludes the impact of the securitization program.*

### Key Performance Measures

ATB's financial position is driven by the performance of our loan and deposit portfolios, which make up the majority of our balance sheet. Being Alberta-based, ATB's loans and deposits balances are impacted by the performance of the provincial economy as well as the interest rate environment. Prime interest rates have been unsteady, decreasing by 275 basis points over the course of the year, which has negatively impacted prime-based loan products.

ATB achieved record growth in its performing loan book, which grew 16.0% to $22.7 billion in fiscal 2008–09. This exceeded the year's target range of 10% to 12%. Given the economic downturn and falling house prices during fiscal 2008–09, growth in residential mortgages and agricultural and small business loans was constrained as compared to prior years. Continued strong growth in home equity line of credit (HELOC) balances and a higher-than-expected rise in the commercial loan portfolios contributed to ATB exceeding its targeted growth for the year. Notable growth was experienced in the commercial loan portfolio. Despite economic turmoil throughout the year, ATB remained in the commercial loan market—offering competitive rates to clients, thereby increasing its commercial portfolio. ATB's loan portfolio is analyzed in detail in the Risk Management section of this MD&A and Note 9 to the statements.

Recent economic uncertainty has led to record deposit growth at ATB, with total retail balances increasing by $3.2 billion compared to the prior year. The rate of growth for personal and business deposits was an unprecedented 17.8%, exceeding by far the targeted range of 4% to 6% and prior year's rate of 7.3%. The deterioration of the equity markets and increased rates offered in the Canadian marketplace for conventional deposit products contributed to many investors shifting investments away from equities and mutual funds toward traditional deposit accounts that offer both safety and flexibility.

## Total Assets

ATB's total assets were over $26.5 billion as at March 31, 2009, an increase of almost $3.2 billion or 13.6% from $23.3 billion as at March 31, 2008. This increase in total assets was driven primarily by growth in our performing loan portfolio, which increased by $2.2 billion over the 2008–09 fiscal year.

### Liquid Assets – Cash and Securities

Liquidity level is defined as the percentage of total assets represented by liquid assets. For a financial institution, maintaining a sufficient pool of liquid assets is essential. ATB's liquid assets consist of cash resources and securities.

| *As at March 31* | | 2009 vs 2008 | | | |
|---|---|---|---|---|---|
| *($ in thousands)* | **2009** | Increase (decrease) | | 2008 | 2007 |
| Cash and items in transit | **$ 2,897,013** | $ 877,216 | 43.43% | $ 2,019,797 | $ 1,095,614 |
| Securities [(1)] | **129,794** | (199,807) | (60.62)% | 329,601 | 1,684,821 |
| Total liquid assets | **$ 3,026,807** | $ 677,409 | 28.83% | $ 2,349,398 | $ 2,780,435 |
| As a percentage of total assets | **11.42%** | 1.35% | 13.42% | 10.06% | 13.70% |

*(1) Includes unencumbered liquid securities.*

ATB's liquidity level increased from 10.06% as at March 31, 2008, to 11.42% as at March 31, 2009, which is within our required range of 10% to 12%.

As part of its liquidity management program, ATB began securitizing a portion of its insured portfolio of mortgages in 2008–09.

To support our participation in Canadian clearing and payment systems, a portion of our liquid assets are pledged as collateral. (Refer to Notes 7 and 19 to the statements for details.) Commencing this fiscal year, ATB has also sold securities under repurchase agreements.

Our liquid resources are sufficient to support our business plan for the fiscal year ended March 31, 2010.

Our liquidity risk and related management strategies are discussed in greater detail in the Risk Management section of this MD&A.

### Loans, Net of Allowances for Credit Losses

Loans, net of allowances for credit losses, increased by $2.2 billion from the previous year to $21.6 billion as at March 31, 2009. This overall increase in net loans represents 11.1% growth over last year. Our loan portfolio and the related allowances for credit losses are discussed in greater detail in the Risk Management section of this MD&A.

#### Loans and Allowances

| *As at March 31* | | 2009 vs 2008 | | | |
|---|---|---|---|---|---|
| *($ in thousands)* | **2009** | Increase (decrease) | | 2008 | 2007 |
| Gross loans | **$ 21,795,412** | $ 2,190,125 | 11.17% | $ 19,605,287 | $ 17,148,163 |
| Less: specific allowances | **(16,323)** | (7,563) | (86.34)% | (8,760) | (12,007) |
| Loans, net of specific allowances | **21,779,089** | 2,182,562 | 11.14% | 19,596,527 | 17,136,156 |
| Less: general allowances | **(176,854)** | (23,844) | (15.58)% | (153,010) | (141,827) |
| Loans, net of allowances for credit losses | **$ 21,602,235** | $ 2,158,718 | 11.10% | $ 19,443,517 | $ 16,994,329 |

**Outlook for Fiscal Year 2009–10 – Performing Loan Growth**

We are targeting overall growth in our gross performing loan balance of 6% to 8% in 2009–10, based primarily on our expectation of more moderate commercial loan growth for the year. Additionally, the economic environment is expected to temper retail lending across product categories, even in light of an anticipated low interest environment persisting throughout the year. ATB has not adjusted its standards for granting credit, although we are very conscious of the additional support that our customers will require during these difficult times. We are currently ensuring our sales and credit associates continue to have the capacity to provide this support.

## Remaining Assets

ATB's remaining assets are composed primarily of premises and equipment (net of accumulated amortization), accrued interest receivable, derivative financial instruments, and other smaller amounts. (Refer to Notes 12, 13, and 18 to the statements for details.)

| *As at March 31* | | 2009 vs 2008 | | | |
|---|---|---|---|---|---|
| *($ in thousands)* | **2009** | Increase (decrease) | | 2008 | 2007 |
| Premises and equipment, net | **$ 286,141** | $ 77,266 | 36.99% | $ 208,875 | $ 177,561 |
| Accrued interest receivable | **133,917** | (43,700) | (24.60)% | 177,617 | 146,292 |
| Derivative financial instruments | **258,694** | 149,444 | 136.79% | 109,250 | 28,200 |
| Other | **134,638** | 4,059 | 3.11% | 130,579 | 167,901 |
| | **$ 813,390** | $ 187,069 | 29.87% | $ 626,321 | $ 519,954 |

The net balance for premises and equipment increased by $77.3 million over the course of 2008–09, up from the $31.3-million increase over the 2007–08 year. The 2008–09 increase reflects $124.1 million (2008: $64.0 million) of capital expenditures during the year. Lease and new build costs of $32.7 million (2008: $22.2 million) were due to new retail branch expansion and renovations, with one branch relocation and seven new branch openings in Edmonton, Calgary, Fort McMurray, and Grande Prairie. Computer equipment and software costs increased by $71.6 million (2008: $16.4 million), of which $42.5 million was related to the new core banking transformation initiative (Core) (2008: $1.5 million).

The decrease in accrued interest receivable is largely due to declining prime rates and net interest spread. This is partially offset by the increase in average interest-bearing assets.

The increase in derivative financial instruments primarily relates to the increase in fair value of certain interest rate swaps. These swaps increased in value by $113.6 million from the prior year, primarily due to decreasing interest rates.

### Outlook for Fiscal Year 2009–10 – Capital Expenditures

The 2009–10 capital expenditure budget continues to support ATB's strategy to enhance tools and facilities for our associates and our customers, while acknowledging that the economic downturn that occurred in calendar 2008 puts pressure on available financial resources. In response to the economic downturn, ATB will focus our resources on renovating branches in the rural areas and smaller urban centres. ATB will add one new retail branch to our network in Edmonton during 2009–10. We are forecasting completion and opening of four to six new branches in 2010–11.

Our most significant ongoing initiative is the core transformation initiative (Core) to replace our legacy banking system. Core was launched in 2007–08 and will not only replace our current banking and financial management system, but will transform the way we conduct business. The new system capabilities, combined with the opportunity to streamline our processes, will enable us to offer new and improved products and services and provide better value to our customers, while reducing our internal costs. The switch from the legacy system to Core is expected early in 2010–11.

ATB has initiated several other projects within its lines of business. The largest of these initiatives continues in PBFS, where all magnetic strip cards will be replaced by chip-enabled cards by December 31, 2010.

Total capital expenditures budgeted for the 2009–10 year are $181 million, including $88 million for Core, $30 million for facilities construction and renovations, $20 million for information technology infrastructure, $22 million for line-of-business development, and $21 million for enhancements to customer-facing and corporate-support technology, together with associated process improvements.

## Deposits

As is typical for any financial institution, ATB has two principal sources of deposits: our personal and business or commercial deposits, primarily sourced through our retail network, and our wholesale deposits, which consist primarily of bearer deposit notes and mid-term notes issued on our behalf by the Government of Alberta and sold to other financial institutions.

### Deposits by Category

| *As at March 31*<br>*($ in thousands)* | Payable on demand | Payable after notice | Payable on fixed date | Total | Percentage of total |
|---|---|---|---|---|---|
| **2009** | | | | | |
| Retail | | | | | |
| Personal | **$ 1,603,916** | **$ 3,154,013** | **$ 6,039,640** | **$ 10,797,569** | **45.21%** |
| Business and other | **4,067,659** | **2,141,341** | **3,949,290** | **10,158,290** | **42.54%** |
| Wholesale | **-** | **-** | **2,925,387** | **2,925,387** | **12.25%** |
| | **$ 5,671,575** | **$ 5,295,354** | **$ 12,914,317** | **$ 23,881,246** | **100.00%** |
| | **23.75%** | **22.17%** | **54.08%** | **100.00%** | |
| **2008** | | | | | |
| Retail | | | | | |
| Personal | $ 1,534,146 | $ 2,237,142 | $ 5,986,552 | $ 9,757,840 | 46.08% |
| Business and other | 3,710,531 | 1,091,533 | 3,233,526 | 8,035,590 | 37.95% |
| Wholesale | - | - | 3,382,286 | 3,382,286 | 15.97% |
| | $ 5,244,677 | $ 3,328,675 | $ 12,602,364 | $ 21,175,716 | 100.00% |
| | 24.77% | 15.72% | 59.51% | 100.00% | |

During 2008–09, total deposits increased to $23.9 billion.

Retail deposits grew by $3.2 billion or 17.8%, exceeding our 2008–09 targeted range of 4% to 6%. This growth reflects mixed performance across the deposit portfolio. Fixed-date deposit balances increased compared to a year ago, as did registered deposit balances. Personal retail deposits grew significantly, up $1.0 billion or 26.8%, from last year-end. Growth in business retail deposits (up $1.4 billion or 28.7%) and in money-desk deposits (up $0.2 billion or 6.9%) was healthy.

Our wholesale deposits are used as a source of funds to supplement retail deposits in supporting our lending activities, and the balances outstanding can fluctuate significantly over the course of each year to compensate for fluctuations in our retail deposit balances. Our operating agreement with the Government of Alberta currently limits the total volume of such deposits to $4.3 billion.

**Outlook for Fiscal Year 2009–10 – Growth in Retail Deposits**
We are targeting a retail deposit growth rate of 6% to 8% for 2009–10. The impact of the economic slowdown will directly affect deposit growth. The reduction in discretionary personal income coupled with decreased business activity will constrain deposit growth opportunities for the organization. Considering the similar reduction in expectations for loan growth, there should not be significant disequilibrium in ATB's loan funding capability.

## Remaining Liabilities

ATB's remaining liabilities are composed primarily of accrued interest payable, securities sold under repurchase agreements, derivative financial instruments, subordinated debentures, and other smaller amounts. (Refer to Notes 15, 16, and 18 to the statements for details.)

| *As at March 31* | | 2009 vs 2008 | | | |
|---|---|---|---|---|---|
| *($ in thousands)* | **2009** | Increase (decrease) | | 2008 | 2007 |
| Accrued interest payable | **$ 159,484** | $ (1,588) | (0.99)% | $ 161,072 | $ 156,675 |
| Securities sold under repurchase agreements | **286,404** | 286,404 | 100.00% | - | - |
| Derivative financial instruments | **127,518** | 45,128 | 54.77% | 82,390 | 8,629 |
| Subordinated debentures | **57,013** | (15,985) | (21.90)% | 72,998 | 72,242 |
| Other | **243,794** | 61,269 | 33.57% | 182,525 | 180,951 |
| | **$ 874,213** | $ 375,228 | 75.20% | $ 498,985 | $ 418,497 |

The decrease in accrued interest payable reflects decreased interest rates, only partially offset by overall growth in deposit balances and the increased costs of interest on such deposits driven by strong competition in the Alberta market.

ATB sold certain long-term securities under repurchase agreements in 2008–09. These transactions were entered into as an alternative to interest rate swaps. As at March 31, 2009, ATB has an obligation to repurchase $286.4 million of such securities within the next three months. The intent is to enter into new agreements upon their maturity.

As at March 31, 2009, ATB had recognized derivative financial instrument liabilities with a fair value of $127.5 million, compared to $82.4 million last year. This is primarily due to growth during the year.

The decrease in the balance of subordinated debentures outstanding at the end of fiscal 2008–09 reflects our annual obligation to the Government of Alberta for the deposit guarantee fee to repay debentures that matured during the year.

The increase in other remaining liabilities reflects an increase in accounts payable and accrued liabilities, and deposit guarantee fee payable, slightly offset by a decrease in cheques and other items in transit. The latter balances can fluctuate from one day to the next as part of normal business operations.

## Financial Instruments

As with all financial institutions, ATB's Consolidated Balance Sheet consists largely of financial instruments, and our operating results are driven by income and expenses related to financial instruments.

Using financial instruments exposes ATB to credit, counterparty, and various market risks, including interest risk, liquidity risk, currency risk, and equity or commodity price risk. These risks and how ATB manages them are discussed at length in the Risk Management section of this MD&A.

Details about how we determine the fair value of financial instruments are included in the Critical Accounting Policies and Estimates section of this MD&A. The difference between the fair value of financial instruments and values reported in the statements are detailed in Note 4 to the statements.

## Regulatory Capital

As at March 31, 2009, our regulatory capital was 12.9% of risk-weighted assets, up from 11.2% a year ago. ATB is in full compliance with the capital adequacy requirements under the ATB Regulation, which are modelled after the Basel I requirements of the Office of the Superintendent of Financial Institutions. Our calculations are determined by the ATB Regulation and a new Capital Adequacy Guideline approved by the Minister of Finance and Enterprise, effective March 31, 2009, which provides a transitional provision to credit ATB with notional (or deemed) capital of $600 million. Notional capital reduces by 25% of net income beginning April 1, 2009.

As set forth in the following table, our regulatory capital consists of retained earnings, eligible subordinated debt, a percentage of general loan allowance, and notional capital.

### Regulatory Capital and Capital Ratios

| *At as March 31* | | 2009 vs 2008 | | | |
|---|---|---|---|---|---|
| *($ in thousands)* | **2009** | Increase (decrease) | | 2008 | 2007 |
| Tier 1 capital | | | | | |
| Retained earnings | **$ 1,649,753** | $ 6,412 | 0.39% | $ 1,643,341 | $ 1,623,383 |
| Tier 2 capital | | | | | |
| Eligible portions of: | | | | | |
| Subordinated debentures | **-** | (29,512) | (100.00)% | 29,512 | 28,124 |
| General allowance for credit losses | **164,238** | 22,375 | 15.77% | 141,863 | 125,446 |
| Notional capital | **600,000** | 600,000 | 100.00% | - | - |
| | **764,238** | 592,863 | 345.94% | 171,375 | 153,570 |
| Total regulatory capital | **$ 2,413,991** | $ 599,275 | 33.02% | $ 1,814,716 | $ 1,776,953 |
| Total risk-weighted assets | **$ 18,770,083** | $ 2,557,210 | 15.77% | $ 16,212,873 | $ 14,336,656 |
| Risk-weighted capital ratios (%) | | | | | |
| Tier 1 capital ratio | **8.79%** | (1.35)% | (13.31)% | 10.14% | 11.32% |
| Total capital ratio | **12.86%** | 1.67% | 14.92% | 11.19% | 12.39% |
| Assets-to-capital multiple | **10.98** | (1.88) | (14.62)% | 12.86 | 11.42 |
| Capital-to-assets ratio | **9.11%** | 1.34% | 17.25% | 7.77% | 8.76% |

Our Tier 1 capital was 8.8% of risk-weighted assets, and total capital was 12.9% of risk-weighted assets as at March 31, 2009. ATB's minimum Tier 1 capital requirement is 7% and total capital requirement is 10%.

Total risk-weighted assets is determined by applying industry-standard weightings to ATB's on- and off-balance-sheet assets as follows:

**Risk-Weighted Assets**

| | | 2009 | | 2009 vs 2008 | | 2008 | | 2007 |
|---|---|---|---|---|---|---|---|---|
| *As at March 31* *($ in thousands)* | Risk-weighted percentage | **On- or off-balance-sheet value** | **Risk-weighted value** | Risk-weighted value increase (decrease) | | On- or off-balance-sheet value | Risk-weighted value | Risk-weighted value |
| Balance sheet amounts | | | | | | | | |
| Cash resources | 0–20 | **$ 2,870,213** | **$ 503,298** | $ 113,835 | 29.23% | $ 2,019,797 | $ 389,463 | $ 230,565 |
| Securities | 0–100 | **1,228,305** | **1,022,476** | (69,738) | (6.39)% | 1,253,518 | 1,092,214 | 1,647,310 |
| Residential mortgages | 0–100 | **7,307,908** | **2,391,822** | (44,065) | (1.81)% | 7,658,304 | 2,435,887 | 2,008,815 |
| Other loans | 0–100 | **14,294,327** | **13,162,940** | 2,316,987 | 21.36% | 11,785,213 | 10,845,953 | 9,343,020 |
| Other assets | 20–100 | **813,390** | **733,901** | 160,943 | 28.09% | 626,321 | 572,958 | 466,398 |
| Total balance sheet amounts | | **26,514,143** | **17,814,437** | 2,477,962 | 16.16% | 23,343,153 | 15,336,475 | 13,696,108 |
| Off-balance-sheet amounts | | | | | | | | |
| Guarantees and letters of credit | 50–100 | **10,653,602** | **846,686** | 19,069 | 2.30% | 9,342,494 | 827,617 | 617,724 |
| Derivative financial instruments | 20–50 | **5,969,194** | **108,960** | 60,179 | 123.37% | 3,480,056 | 48,781 | 22,824 |
| Total off-balance-sheet amounts | | **16,622,796** | **955,646** | 79,248 | 9.04% | 12,822,550 | 876,398 | 640,548 |
| Total risk-weighted assets | | **$ 43,136,939** | **$ 18,770,083** | $ 2,557,210 | 15.77% | $ 36,165,703 | $ 16,212,873 | $ 14,336,656 |

**Outlook for Fiscal Year 2009–10 – Regulatory Capital**

Over the upcoming 2009–10 fiscal year, we expect our capital levels to continue to exceed both our regulatory and internal policy requirements for prudent and responsible management of our business as a financial services institution.

## Off-Balance-Sheet Arrangements

In the normal course of operations as a financial institution, ATB participates in a variety of financial transactions that, under Canadian Generally Accepted Accounting Principles (GAAP), are either not recorded on the Consolidated Balance Sheet or are recorded at different amounts from the full notional or contract amount. These off-balance-sheet arrangements normally involve, among other risks, at least some element of market, credit, and liquidity risk and are discussed in further detail in the Risk Management section of this MD&A. Examples of such arrangements in which ATB participates include various derivative financial instruments, credit instruments, and other contractual obligations.

### Derivative Financial Instruments

ATB enters into over-the-counter derivative contracts in the normal course of business. These contracts are either used for ATB's own risk management purposes to manage exposure to fluctuations in interest rates, equity markets, and foreign exchange rates, or to facilitate our clients' own risk management programs.

Derivative financial instruments are accounted for on the Consolidated Balance Sheet at fair value, including those qualifying for hedge accounting. Although transactions in derivative financial instruments are expressed as notional values, it is the fair value and not the notional amount that is recorded on the Consolidated Balance Sheet. Notional amounts serve as points of reference only for calculating payments and do not truly reflect the credit risk associated with the financial instrument. Note 18 to the statements provides additional information on the types of derivatives used by ATB and the method of accounting for them.

## Credit Instruments

In the normal course of lending activities, ATB enters into various commitments to provide customers with sources of credit. These typically include credit commitments for loans and related credit facilities, including revolving facilities, lines of credit, overdraft, credit card authorized limits, etc. To the extent that a customer's authorized limit on a facility exceeds their outstanding balance drawn as at March 31, 2009, we consider the undrawn portion to represent a credit commitment.

For demand facilities, we still consider the undrawn portion to represent a commitment to our customer; however, the terms of the commitment are such that ATB could adjust the credit exposure if circumstances warranted doing so. Accordingly, from a risk management perspective, these demand facilities are considered to represent a lesser exposure than facilities that have extended commitment terms. For a detailed description of these arrangements, including the maximum amount of additional credit ATB may be obligated to extend as at March 31, 2009 (and the portion thereof that relates to demand facilities), refer to Notes 5 and 19 to the statements.

## Contractual Obligations

During its normal daily operations, ATB enters into various contractual obligations to make future payments in respect of certain purchase transactions and operating leases. Details of these obligations are disclosed in Note 19 to the statements. We are also obligated to make future interest payments in respect of our subordinated debentures, as disclosed in Note 16 to the statements.

# REVIEW OF BUSINESS SEGMENTS

## Operating Results by Segment

ATB is organized into three customer-focused lines of business: Personal and Business Financial Services (PBFS), Corporate Financial Services (CFS), and Investor Services (ATBIS).

Results presented in the following schedule are based on ATB's internal financial reporting systems. The accounting policies used in preparing the schedules are consistent with those followed in preparing the consolidated financial statements, as is disclosed in the notes to the statements, with the exception of financial instruments standards and Accounting Guideline 4-related adjustments, which are recorded at the other business unit (corporate) level only. (Note: Because these lines of business are based on ATB's internal management structure, they may not be directly comparable to those of other financial institutions.)

| *($ in thousands)* | Personal and Business Financial Services | Corporate Financial Services | Investor Services | Other business units | Total |
|---|---|---|---|---|---|
| **For the year ended March 31, 2009** | | | | | |
| Net interest income | $ 474,645 | $ 97,952 | $ 5,251 | $ 69,497 | $ 647,345 |
| Other income | 135,669 | 36,760 | 35,928 | 51,325 | 259,682 |
| Provision for loss on ABCP | - | - | - | (224,816) | (224,816) |
| Provision for credit losses | 16,504 | 23,545 | - | 2,663 | 42,712 |
| Non-interest expenses | 476,112 | 29,507 | 50,149 | 77,319 | 633,087 |
| Net income (loss) | $ 117,698 | $ 81,660 | $ (8,970) | $ (183,976) | $ 6,412 |
| **Increase (decrease) from 2008** | | | | | |
| Net interest income | $ 7,780 | $ 19,734 | $ (1,563) | $ (38,016) | $ (12,065) |
| Other income | 8,846 | 16,820 | (3,095) | 51,116 | 73,687 |
| Provision for loss on ABCP | - | - | - | 28,317 | 28,317 |
| Provision for (recovery of) credit losses | (1,731) | 23,884 | - | 7,653 | 29,806 |
| Non-interest expenses | 45,065 | 2,551 | 6,687 | 29,403 | 83,706 |
| Net income (loss) | $ (26,708) | $ 10,119 | $ (11,345) | $ 4,361 | $ (23,573) |
| **For the year ended March 31, 2008** | | | | | |
| Net interest income | $ 466,865 | $ 78,218 | $ 6,814 | $ 107,513 | $ 659,410 |
| Other income | 126,823 | 19,940 | 39,023 | 209 | 185,995 |
| Provision for loss on ABCP | - | - | - | (253,133) | (253,133) |
| Provision for (recovery of) credit losses | 18,235 | (339) | - | (4,990) | 12,906 |
| Non-interest expenses | 431,047 | 26,956 | 43,462 | 47,916 | 549,381 |
| Net income (loss) | $ 144,406 | $ 71,541 | $ 2,375 | $ (188,337) | $ 29,985 |
| **For the year ended March 31, 2007** | | | | | |
| Net interest income | $ 423,176 | $ 62,515 | $ 5,127 | $ 80,987 | $ 571,805 |
| Other income | 119,462 | 14,901 | 28,969 | 16,329 | 179,661 |
| Provision for loss on ABCP | - | - | - | - | - |
| (Recovery of) provision for credit losses | (8,699) | 12,003 | - | (8,515) | (5,211) |
| Non-interest expenses | 385,403 | 19,279 | 36,069 | 41,538 | 482,289 |
| Net income (loss) | $ 165,934 | $ 46,134 | $ (1,973) | $ 64,293 | $ 274,388 |

### Determination of Segmented Reporting

The manner in which ATB determines the revenues, expenses, assets, and liabilities attributable to the various lines of business is disclosed in Note 23 to the statements.

The net interest income (NII), other income (OI), and non-interest expenses (NIE) reported for each line may also include certain interline charges. The net effects of the internal funds transfer pricing and interline charges, if any, are offset by amounts reported for other business units.

## Personal and Business Financial Services

### Overview

Personal Business and Financial Services (PBFS) encompasses 164 branches and 133 agencies with approximately 3,500 associates. It is ATB's largest line of business and a combination of many sub-businesses: retail, financial services, credit cards, and business and agricultural financial services. PBFS's channel diversity extends beyond the branch network to telephone banking, a Customer Contact Centre, direct sales, Internet banking, and mortgage brokers. PBFS is focused on serving retail and independent business and agricultural customers with borrowings of less than $5 million.

### Business Plan Summary

ATB remains heavily connected to our community and to Albertans through both widespread physical locations and focused community investment. We intend to continue to leverage this advantage by becoming even more connected to Albertans through a deeper knowledge of our province and our customers. To better serve our personal and business financial customers in the future, in 2009–10 PBFS will be divided into Retail Financial Services (RFS) and Business and Agricultural Financial Services (B&AFS).

Competition in retail financial services continues to be strong and growing. All major financial institutions are increasing their capital spending in Alberta and most are also expanding their branch networks. We are competing for both customers and human resources. Our business is customer-focused and relationship-based and we complete a high volume of transactions; therefore, large growth in volume requires more associates. We will overcome the tight Alberta labour market by investing heavily in technology and automating transactional processing to reduce the human resource requirement. ATB's core business transformation initiative (Core) offers RFS a tremendous opportunity to deliver new innovative products and services through more effective and automated channels. The way we do business will change significantly, to provide better customer experiences more efficiently. During this transformation we will build the foundation to enable RFS to ramp up its growth and revenue significantly. Once the transformation is completed, we will be positioned to outperform market growth.

We will continue to serve customers successfully through our RFS associates. We will have the best leaders working with us—leaders who others want to follow. We will continue to be highly service oriented. We are known for finding ways to "get it done" for our clients. RFS will contribute to ATB's success by providing a superior experience for customers, offering our customers products and services of value, and employing highly developed, efficient processes.

### 2008–09 Accomplishments

In 2008–09, PBFS continued developing products and services that are relevant to our Alberta customers, streamlining processes, and listening to what our customers are saying. Additionally, we dedicated resources to assist PBFS in understanding not only the expectations Albertans have of their financial services provider but also their dreams and how ATB can assist in fulfilling them.

During two Customer Appreciation Week events, we challenged all branches to come up with an act of kindness for customers, people in the community, or a local charity. Associates from across the province stepped up and the response to the challenge was overwhelming. ATB celebrated its 70th anniversary during our September Customer Appreciation Week by giving away two 2009 Toyota Camry Hybrid cars and eight $1,000 WestJet travel vouchers.

Our customers said they appreciate the advice we provide and that they want more of it. Therefore, we are developing various forms of associate training to ensure we consistently exceed our customers' expectations.

ATB remained strong and competitive in the financial market. Our wide range of investment products offers competitive returns, flexibility, and diversification to help build customers' finances. We successfully launched the new Tax-Free Savings Account (TFSA), which offers Albertans another registered savings vehicle. We continue to offer a variety of deposit accounts to match unique needs, and we've created a 90-day satisfaction guarantee for those accounts. We continue to offer competitive mortgage rates and protect that rate for 90 days. Our loan products are flexible and customizable to help our customers achieve their individual goals.

Our marketing successes included the Summer Feet-on-the-Street Program, the acquisition of young new customers to ATB, and our fall and RRSP investment programs that leveraged new forecast-modelling abilities with our customer data. The launch of Loonie Man, fighting off arch-villain Tax Man, creatively targeted the young consumer to introduce the TFSA. Partnerships with two radio stations, the Bounce in Edmonton and Energy in Calgary, continued to build younger audience recognition of ATB Financial through sponsorship of our Beat-the-Bank promotions, concert series, Birthday Bash, and continuous advertising throughout the year.

#### 2009–10 Objectives

Challenges continue to revolve around two areas: building deeper relationships with our current customers through better use of market information systems and building positive awareness of ATB Financial with Albertans 30 and under, and then acquiring them as customers.

Creating a buzz about ATB is our goal with the younger group—we want to do things other financial institutions will not do. To offer a uniquely personal touch, we will expand on successes from the previous summer and expand our radio partnership programs to improve our target consumer connection. We will deepen relationships by working with the Alberta Intelligence and Innovation team and the sales groups and establish ongoing strategies to offer the right product at the right time to the right people. This will help us grow our customer base profitably over the long term.

ATB's unwavering support for Alberta small business was demonstrated by strong and steady loan growth throughout the year. Deposit growth exceeded expectations as more business owners and agricultural producers chose ATB as their primary financial institution. We are enhancing the services we deliver to small business and agriculture customers by introducing a dedicated Business and Agricultural Financial Services division at ATB. We have already launched Farmland Financing, a highly flexible loan product that anticipates the changing needs of Alberta's primary producers. ATB will continue to increase the number of front-line associates serving small business and agriculture customers to improve access to our services.

## Corporate Financial Services

#### Overview

As Corporate Financial Services (CFS) moves into fiscal 2010, the environment is much different from last year's. The past fiscal year saw an unprecedented change in economic climate, from continued growth across all industries to an abrupt slowdown starting in the U.S. and quickly becoming global.

Overall, CFS looks to fiscal 2010 as an opportunity to further strengthen existing client relationships. It is also an opportunity to attract some of Alberta's best companies who may be underserved given the current economic realities. In 2009–10, ATB will define itself as the industry player that is truly serving the needs of Albertans.

#### Business Plan Summary

At a high level, CFS will continue with its mandate to support and partner with Alberta companies. This means we are still open for business and that our number-one priority is to support and provide guidance to our clients and chosen markets. For existing clients, it means ATB will need to become even closer and be very risk aware. By understanding our clients intimately, including their business and industry operating environments, ATB will be in the best position to provide the expert advice required for us and our clients to manage through turbulent times. For the prospect market, ATB will continue to offer highly responsive relationships, which we believe will differentiate us in this current illiquid environment.

#### 2008–09 Accomplishments

As the global banking system withdrew market liquidity during 2008, ATB continued to fulfill its mandate. Within CFS, average loans grew by $721 million over the fiscal year. In addition, our customers' confidence in the strength of ATB gave rise to a corresponding increase of $775 million in CFS's average deposits. This led to a growth in operating revenue of $36.6 million, or 37.2%, despite of a year of turmoil in financial markets.

2008–09 was also a strong year from a non-financial metric perspective. Despite the current economic environment, CFS achieved its highest-ever score on client satisfaction and significantly increased associate engagement, from 78% in fiscal 2008 to 82% in fiscal 2009.

### 2009–10 Objectives

CFS will stay the course on our strategic plan. While the current market dynamics warrant a review of strategy, the strategies laid out in 2008–09 are as relevant today as they were when first developed. A central component of this strategy is the continued emphasis and expansion of our industry expertise—expertise that allows CFS to better support and capitalize on the sectors that drive our province.

For the coming fiscal year, CFS will continue to focus considerable efforts on supporting the Core transformation initiative. Successful execution of the transformation will allow CFS to expand its commitment to the shareholder, its associates, and its clients through accelerated delivery of highly anticipated solutions.

## Investor Services

### Overview

ATBIS has been the fastest-growing line of business at ATB since it was established as a separate line in fiscal 2002–03. As the wealth management arm of ATB, ATBIS is responsible for growing, protecting, and transferring wealth for ATBIS customers. We deliver unbiased investment advice, solid returns aligned with customer objectives, and attentive, dedicated personal service through our network of professional advisors committed to the "Your Life. Your Plan." promise. The continued development of ATB's wealth management business is a key component of ATB's corporate plan.

### Business Plan Summary

Referrals of existing ATB customers to ATBIS are critical for this line of business's growth, as it continues to build a quality team of advisors and specialists committed to the ATBIS value proposition of individualized investment plans and best-in-class portfolio solutions. ATBIS is focused on profitable growth while ensuring long-term customer retention. The plan for growth will be achieved through leveraging our unique value proposition and trusted brand to repatriate the investment assets of ATB customers who may still deal with our competitors, and through acquiring new customers by obtaining referrals from our existing ATBIS customers.

To date, key areas of focus have been expanding the advisory team, enhancing our advisory and service offering, and building strong and scalable operational and risk management infrastructure. These areas continue to be priorities going forward, with additional focus on enhanced technology for our advisors and customers and improving the quality and efficiency of the ATBIS offering to the mass market segment.

Now is a genuine opportunity to grow this area of our business. "Drive for Number One" continues to be our mantra. We have rapidly acquired market share and have received top customer-satisfaction ratings, and will continue to expand our service delivery model to continue this trend. We plan to ramp up our number of financial advisors across the province while other investment companies stand still or shrink. We will continue to invest strategically in people, premises, and technology, so we become the market leader in Alberta within the five-year planning horizon.

### 2008–09 Accomplishments

Client assets declined by $159.2 million during the year to $3.9 billion as at March 31, 2009. The 3.9% decline in client assets, compared to last year's growth of 8.6%, was primarily due to market conditions (equity markets' negative performance and increased redemptions by consumers), and compared favourably to the industry, which contracted by 28% over the same period. Gross sales remained at a healthy $1.2 billion and ATBIS continued to increase its customer base, adding 1,500 clients to now serve over 47,000 Albertans.

As expected, given the volatility of the market combined with a shift by clients to a more conservative investment asset mix, our revenue year over year declined by 10.2%. Meanwhile our expenses increased by 15.4% year over year as we continued our investments in infrastructure improvements and grew our advisor force by 8%. ATBIS associate engagement achieved the level of the best employers in Canada despite challenging market conditions. Our high levels of customer satisfaction also increased slightly during the year, a positive reflection of our commitment to dedicated personal service.

### 2009–10 Objectives

Our objectives for 2009–10 are focused around ATBIS's strategic priorities:

- Building the best team in Alberta. We will attract people with the right attributes and character for our unique ATB culture. Once we find a fit, we will commit to retaining our associates for the long term through effective training, support, and development and through innovative and competitive compensation plans. By increasing our number of advisors, ensuring management can support exponential growth, and having strong specialists and support staff to service our expanding customer and product base, our growth will be consistent and organic.
- Benefiting Albertans across all market segments. Much of ATBIS's success has been in attracting and meeting the needs of mid-market customers, with good inroads into the high-net-worth and institutional customer segments. This year we also plan to focus on expanding our ability to reach under-serviced Albertans and communities. We will focus on developing cost-effective ways to reach these investors. We also plan to expand our small- to mid-sized institutional segment (e.g., foundations) that can benefit from a manager-of-manager approach.
- Providing world-class advice and solutions. ATBIS's approach of using well-diversified investment portfolios that match client objectives will continue. We will continue to enhance the quality of portfolio analytics and financial planning tools used by our advisors in analyzing clients' current investments and providing an overall plan that best suits their objectives. We plan to increase our understanding of pre-retirees and retirees to offer products that best meet their needs. Additionally, we will apply our proprietary understanding of the drivers of customer satisfaction research in recruiting and training methods. We also plan to add depth to the Compass investment management team.
- Enhancing our efficient and scalable infrastructure. ATBIS has built solid account opening and trading, compliance, and financial reporting platforms; this year's emphasis will be on continued efficiency enhancements. The main infrastructure focus will be on developing a comprehensive plan for using technology to enhance service levels and efficiency.
- Supplementing organic growth with acquisitions. If the right partners can be found to enhance ATBIS's ability to deliver against its strategic plan, ATBIS will supplement its organic growth plan through acquisitions.

## Other Business Units

### Overview

ATB's other business units are dedicated to supporting our three lines of business and include corporate or head-office business units whose results are either not directly attributable to an operating segment or are strictly corporate in nature. These other business units provide effective and efficient service to our internal partners and develop and enhance corporate-wide enablers for success in the line-of-business segments.

## People and Marketing

### Business Plan Summary

ATB believes in putting people first. By people, we mean our own associates, our current and future customers, and our Alberta communities. To do this well, this business unit focuses relentlessly on ATB leadership, maintaining top-employer levels of associate engagement, offering competitive rewards that are aligned with associate business performance, supporting effective change management to support ATB's core transformation initiative (Core), building the ATB brand, maintaining positive shareholder relations, evolving existing shared services into value-add consolidated services, and gaining market share for the organization.

### 2008–09 Accomplishments

In 2009, ATB Financial was recognized as one of the 50 best employers in Canada, one of the top 40 companies to work for in Alberta, and one of the top 75 great places to work in Canada. That recognition reflects our continuing commitment to our associates—a commitment to make ATB a great place to work and a place where associates can thrive, develop their skills and talents, provide outstanding service to customers, and help make their dreams come true.

### 2009–10 Objectives

Objectives for the upcoming 2009–10 fiscal year include the following:

- Increasing brand awareness in the eyes of associates and customers alike. We will make sure the ATB brand is well known throughout the province and the financial services industry and that it reflects the actual experience of ATB's customers.
- Emphasizing current initiatives to expand our presence in the media, tell the ATB story, and enhance our reputation.
- Employing a more structured and organized approach to building on our tradition of supporting communities and charitable causes across the province.
- Continuing to invest strategically in sponsorships and support important community initiatives.
- Ensuring that associates are well informed and engaged, given the right information to understand our challenges, and given the tools to address those challenges. We will supply associates with innovative and leading-edge communications vehicles to provide their feedback and ideas.

## Alberta Intelligence and Innovation

### Business Plan Summary

Alberta Intellegence and Innovation (AI) will combine current ATB expertise with new business intelligence tools to help the organization discover how to best serve Albertans through world-class financial products and services.

### 2008–09 Accomplishments

AI was newly created in the later part of 2008–09. In our first year, we did the following:

- Set up the business unit and created a framework of business objectives for serving ATB.
- Established the Customer Insights group to focus on understanding the "voice of our client."
- Established and grew the Marketing Information team, which is responsible for supporting our campaign management function for our lines of business. This group uses analytical software to predict consumer behaviour and aptitude to adopt various marketing programs that ATB launches throughout the year.

### 2009–10 Objectives

Objectives for the upcoming 2009–10 fiscal year include the following:

- Understanding the Alberta consumer marketplace in order to help our lines of business meet the needs of our clients.
- Conducting surveys, using focus groups, and leveraging our knowledge of our clients through interactions and through third-party research on Alberta and Albertans.
- Leveraging our Alberta intelligence to enable more targeted campaigns and a broader understanding of the needs of our clients and prospects to offer better customer solutions.

## Information Technology and Service Delivery (ITSD)

### Business Plan Summary

This business unit's mandate is to manage information technology throughout the ATB organization.

### 2008–09 Accomplishments

Over the 2008–09 fiscal year, ITSD made significant progress in implementing the basic building blocks of our five-year information technology strategic plan.

### 2009–10 Objectives

Objectives for the upcoming 2009–10 fiscal year include the following:

- Realizing the benefits of our infrastructure refresh activities, in preparation for implementing Core. These refresh activities impact everything from how we are organized to our outsourcing strategy and to our key relationships with IBM, TELUS, and SAP.
- Continuing to adopt a services framework for managing information technology, while supporting Core. The new framework will make information technology proactive instead of reactive, by delivering high-performance services and capabilities that are aligned with business needs.

## Risk Management

### Business Plan Summary

This business unit's mandate is to provide a disciplined and systematic means to proactively identifying, measuring, managing, controlling, and reporting on all significant financial, operational, strategic, and reputational risks inherent across all ATB operations. For more information on ATB's risk management function, please refer to the Risk Management section of this MD&A.

### 2008–09 Accomplishments

Significant accomplishments over the 2008–09 fiscal year included creating the chief risk officer role and consolidating risk management functions at ATB.

### 2009–10 Objectives

Strategic objectives for the upcoming 2009–10 fiscal year include the following:

- Promoting a clear understanding of risk and ATB's tolerance toward risk
- Creating clear direction on risk management responsibility and accountability
- Providing adequate and effective risk management training
- Providing timely and effective risk-related information and tools
- Creating dynamic compliance and assurance policies and practices

## Finance and Administration

### Business Plan Summary

Finance and Administration will become a high-performing internal service centre for ATB and is focused on building an effective, financially sound organization. This group includes Finance, Treasury, Legal Services, Central Services, and Facilities, Real Estate and Procurement.

### 2008–09 Accomplishments

Significant accomplishments over the 2008–09 fiscal year included:

- Increasing associate engagement scores from 62% to 71%
- Participating in the successful restructure of asset-backed commercial paper (ABCP)
- Making significant progress on ATB's long-term real estate strategy for Edmonton and Calgary—one that considers workplace trends of the future and understands what associates need and want
- Raising $1 billion through a newly developed securitization program

### 2009–10 Objectives

Our strategic priorities for the upcoming 2009–10 fiscal year include the following:

- Continuing to build a highly skilled and engaged team of associates
- Building a high-performance service culture
- Improving our business and treasury processes
- Improving financial performance
- Completing the development and execution of ATB's real estate strategy
- Protecting the interests of all stakeholders

# ACCOUNTING POLICIES AND ESTIMATES

## Significant Accounting Policies

ATB's significant accounting policies are outlined beginning in Note 2 and then throughout the remainder of the Notes to the consolidated financial statements ("the statements"). These policies are essential to understanding and interpreting the financial results presented in this MD&A and in the statements. Please refer to the notes to the statements, beginning on page 106 of this annual report, for specific accounting policies.

## Critical Accounting Estimates

Certain accounting estimates made by management during the preparation of the statements are considered critical in that management is required to make significant estimates and judgments considered to be subjective or complex about matters that are inherently uncertain. It is possible that significantly different amounts could have been reported if different estimates or judgments had been made. The following accounting policies require such estimates and judgments.

### Allowance for Credit Losses

The allowance for credit losses adjusts the net carrying value of loan assets to reflect the expectation of credit losses incurred as of the balance sheet date, whether specifically identified or not. In assessing credit losses incurred, management must rely on estimates and exercise judgment regarding matters for which the ultimate outcome is unknown. These include economic factors, developments affecting companies in particular industries, and specific issues with respect to individual borrowers.

Changes in circumstances may cause future assessments of credit risk to be materially different from current assessments and may require an increase or decrease in the allowance for credit losses. Further information on the process and methodology for determining the allowance for credit losses is contained in the Risk Management section of this MD&A and in Note 10 to the statements.

### Amortization of Premises and Equipment

The expense recognized for the amortization of premises and equipment depends on the estimated useful life and salvage value of such assets. Management has derived estimates for these values based on past experiences and its judgment regarding future expectations. If actual experience differs from management's estimates, amortization expense could increase or decrease in future years. Further information regarding our accounting for premises and equipment is contained in Note 12 to the statements.

### Assumptions Underlying the Accounting for Employee Future Benefits

ATB engages actuarial consultants in the valuation of pension-benefit obligations for our defined benefit pension plans based on assumptions determined by management. The most significant of these assumptions includes the long-term rate of return on pension assets, the rate of future compensation increases, discount rates for pension obligations, and the inflation rate. If actual experience differs from the assumptions made by management, our pension-benefit expense could increase or decrease in future years. Further information regarding our accounting for pension benefits is contained in Note 17 to the statements.

### Fair Value of Financial Instruments

The fair value of a financial instrument is the estimated amount at which ATB could exchange a financial instrument in an arm's-length transaction with a willing party under no compulsion to act. For those instruments with an available market price, fair value is established by reference to the last traded price prior to the balance sheet date. Many of ATB's financial instruments lack such an available trading market, and the associated fair values represent management's best estimates of the current value of the instruments, taking into account changes in market rates or credit risk that have occurred since their origination. The most significant and challenging fair value estimate this year relates to ATB's holdings of asset-backed commercial paper (ABCP).

### Valuation of Asset-Backed Commercial Paper

Although the Montreal Accord successfully restructured in January 2009 (and the other non-bank- sponsored and bank-sponsored ABCP investments restructured previously), there is still no active market for this type of investment. Therefore, ATB, in accordance with Canadian Institute of Chartered Accountants (CICA) guidance, has estimated the fair value of these investments as at March 31, 2009, using a discounted cash flow model.

ATB's valuation was based on conditions at March 31, 2009, and the key assumption in the valuation model was the market discount rate. The discount rate was determined by reference to the CDX.IG index. This index of credit default swaps is composed of 125 investment-grade corporate credits. The underlying names are similar to the underlying names of the leveraged super-senior trades in master asset vehicle (MAV) 1. The discount rates for the various notes were adjusted based on the rating of the actual note and the level of subordination of cash flows.

The current fair value is significantly different from the fair value estimated at March 31, 2008. The main reason for this difference is the increasing credit spreads and the downgrade of the provisional rating of the A-1 and A-2 notes from AA to A. Prior to restructuring, the fair value of the MFF was included in the fair value of the investment. As at March 31, 2009, the fair value of the MFF has been recognized in other liabilities.

There remains continued uncertainty regarding the amount and timing of cash flows and the value of the assets that underlie each of the ABCP trusts. Consequently, the ultimate fair value of these assets may vary significantly from current estimates and the magnitude of any such difference could be material to ATB's financial results. (Refer to Note 8 for additional information on ABCP.)

## Current-Year Changes in Accounting Policies

The adoption of these standards had no impact on accounting or measurement of financial instruments or capital.

### Capital Disclosures

*CICA Handbook* section 1535, Capital Disclosures, requires ATB to disclose certain qualitative and quantitative information regarding objectives, policies, and processes for the management of capital as well as compliance with externally imposed capital requirements. This standard was adopted prospectively as of April 1, 2008. Note 6 to the consolidated financial statements includes information related to this standard.

### Financial Instruments – Disclosures and Presentation

*CICA Handbook* sections 3862, Financial Instruments – Disclosures, and 3863, Financial Instruments – Presentation replace section 3861, Financial Instruments – Disclosure and Presentation, and provide enhanced disclosure requirements relative to financial instruments. Specifically, they require additional disclosure about the nature and extent of risks associated with financial instruments and how those risks are managed. This enhanced disclosure is provided in Note 5 and in a number of other notes to the consolidated financial statements (Notes 4, 8, 18, and 19).

## Future Changes in Accounting Policies

### Goodwill and Intangible Assets

In February 2008, the CICA issued *CICA Handbook* section 3064, Goodwill and Intangible Assets, that will take effect for ATB beginning April 1, 2009. It will replace section 3062, Goodwill and Other Intangible Assets, and section 3450, Research and Development Costs, and establish the standard for the recognition, measurement, and disclosure of goodwill and intangible assets. The impact of this new standard will be applied retrospectively with restatement of prior periods, if required, and reflected in our financial statements for the quarter ending June 30, 2009.

### International Financial Reporting Standards

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

In 2008, ATB established an IFRS team and hired an external IFRS advisor. We completed an IFRS diagnostic in August 2008 that highlighted the key differences between GAAP and IFRS, and used this to develop a project plan that focused on accounting policies, financial statement adjustments, financial statements, system updates, and training.

### Accounting Policies

In areas where there is a significant difference between GAAP and IFRS, accounting policy decisions will be brought forward to the Audit Committee. Policy decisions for any new standards will be made as the new standards are released and analyzed.

The areas currently identified with the most significant differences between GAAP and IFRS are loan-loss provisioning, securitization/de-recognition criteria, and accounting for post-employment benefits.

### Financial Statement Adjustments

We have not yet completed the examination of the significant and insignificant differences between GAAP and IFRS to be able to quantify and disclose the impact of the transition from GAAP to IFRS on our financial results.

### Presentation and Disclosure

IFRS will impact the presentation and disclosure requirements of our financial statements. During 2009–10, sample financial statements reflecting IFRS presentation and disclosure requirements will be provided to the Audit Committee. Sample financial statements will be updated for any new standards as the new standards are released and analyzed.

### Training

The IFRS team has developed a training plan to provide training to the Audit Committee, Board of Directors, Finance, Credit, Human Resources, and to executive management. This training has already commenced and will continue throughout the project.

# REGULATORY AND COMPLIANCE

## Overview

ATB and its subsidiaries are provincial Crown corporations operating under the authority of the Alberta Treasury Branches Act, RSA Chapter A-37 (ATB Act) and the Alberta Treasury Branches Regulation 187/1997 (ATB Regulation), as amended. ATB and its subsidiaries follow capital adequacy, investment, liquidity, and risk management standards broadly comparable to federally regulated financial institutions. (Our investment, lending, liquidity, and hedging policies are described in the Risk Management section of this MD&A.)

The ATB Regulation provides specific regulatory requirements in the areas of liquidity, hedging, investments, related-party transactions, and lending policies. This regulatory framework is supplemented by specific guidelines regarding capital adequacy, liquidity, the prudent-person approach, derivatives best practices, outsourcing, and legislative compliance management. In June 2004, the ATB Regulation was amended to include a requirement for ATB to report to the Minister of Finance and Enterprise on its compliance with the ATB Act, the ATB Regulation, and the guidelines. The process associated with the preparation of this report has now become entrenched as part of the operational processes of ATB.

In addition to the ATB Act and the ATB Regulation, ATB's four subsidiaries are subject to the Alberta Securities Act and the Alberta Insurance Act. They follow stringent and comprehensive compliance regimes under independent regulatory oversight to ensure daily operations comply with the requirements of their respective governing bodies:

- ATB Securities Inc. operates under the jurisdiction of the Investment Industry Regulatory Organization of Canada (IIROC).
- ATB Investment Services Inc. is subject to the Mutual Fund Dealers Association of Canada (MFDA) and the Alberta Securities Commission (ASC).
- ATB Investment Management Inc. operates under the jurisdiction of the ASC.
- ATB Insurance Advisors Inc. is subject to the Alberta Insurance Council.

ATB and all of its subsidiaries place significant emphasis on compliance with all applicable laws and regulations.

## Privacy

ATB has been subject to Alberta's Personal Information Protection Act (PIPA) since January 2004. PIPA governs the collection, use, and disclosure of personal information by organizations in a manner that recognizes both the right of an individual to have his or her personal information protected or to request access to his or her personal information, as well as the need for organizations to collect, use, or disclose personal information for purposes that are reasonable.

ATB's *Privacy Code* outlines ATB's commitment to protecting an individual's privacy. An individual's acknowledgement and consent for how ATB uses personal information to conduct business is defined in our *Privacy Statement*, also known as the *Personal Information Collection, Use, and Disclosure Statement*. ATB's *Privacy Code* and *Privacy Statement* are designed to comply with applicable privacy legislation, including Alberta's PIPA.

## Anti-Money-Laundering

ATB is subject to the federal Proceeds of Crime (Money Laundering) and Terrorist Financing Act, and other applicable laws relating to preventing money laundering, to economic sanction programs, and to monitoring suspicious activity.

ATB has established policies, procedures, and controls designed to ensure compliance with the laws and regulations in which we operate. Such efforts include the development of Know Your Customer standards, associate training, and other requirements as outlined by the Financial Transactions and Reports Analysis Centre of Canada (FINTRAC).

ATB will continue to conduct its business in conformity with the highest ethical standards and will adhere to all applicable laws and regulations.

## Internal Controls over Financial Reporting

In 2004–05, ATB's Board approved a voluntary initiative for ATB to bring its internal controls over financial reporting into substantial compliance with the requirements of the Canadian investor confidence rules (commonly referred to as C-SOX). ATB is not a "reporting issuer" required to comply with C-SOX, as it has not issued publicly traded equity securities and its debt securities are exempt.

# RISK MANAGEMENT

## Overview

ATB provides comprehensive personal and corporate financial services within the Province of Alberta; accordingly, we face exposure to a broad range of financial, business, and regulatory risks. ATB operates in a dynamic and increasingly competitive environment with substantial regulatory requirements and growing client and market expectations. ATB's mandated focus on the Alberta market implies an increased level of geographic and industrial (credit) concentration risk.

ATB has made a strong commitment to manage risk strategically with the objective of increasing and protecting shareholder value. Effective governance mitigates risk and creates opportunities for success, supporting ATB's vision to be a leading financial services provider within Alberta, while ensuring continuation as a safe and sound financial institution.

The recent peak and retraction of commodity prices, particularly oil and gas, has had a significant impact on the Alberta economy and on consumer and corporate business environments. A number of large energy capital projects have been deferred or cancelled, drilling and service activity has significantly declined, and residential real estate prices have softened. Although credit risk has increased, the province and ATB remain positioned to endure and succeed under current conditions.

## Risk Appetite

ATB's governance structure, enterprise risk management framework, and Board-approved risk policies reflect a conservative risk philosophy and risk profile appropriate to our structure, size, and regional nature. The ATB Board has approved risk tolerances for credit portfolio exposure and established tolerances for acceptable levels of impairment and loan losses.

## Enterprise Risk Management Framework

ATB continues to develop and implement an enhanced Enterprise Risk Management (ERM) framework. ERM is comprised of coordinated activities to direct and control ATB's enterprise-wide risk for the purpose of increasing ATB's short- and long-term value for ATB's shareholder. Our ERM approach works from the top down—we consider risks to ATB's strategic objectives and then consider risk management activities for successive levels of the organization.

We believe ERM should:

- Include upside risk exploitation, rather than just downside risk mitigation. As a result, anything impacting the strategic business plan is in scope.
- Address all sources of risk, including operational and reputational risk, rather than just financial or credit risk.
- Reflect the correlation-adjusted enterprise-wide impact of risks, rather than just the impact of risks on a stand-alone basis. This implies the need for much more than traditional risk management within functional silos.
- Encourage measurement of risk using long-term value-based metrics, rather than just current period metrics such as earnings.
- Involve a cultural shift and a change in day-to-day business decision-making and processes.

Our ERM framework aims to achieve an appropriate balance between realizing opportunities for gains while minimizing losses. It is designed to make ERM an integral part of our management practices and an essential element of our corporate governance. It recognizes that ERM is an iterative process, which consists of steps that, when undertaken in sequence, encourage continuous improvement in decision-making across the institution and facilitate continuous improvement in individual and organizational performance.

Upon full implementation of our ERM framework, ATB will have enhanced risk infrastructure and culture, which will enhance our ability to continuously apply at all levels of ATB a logical and systematic method of establishing the context for risk management, identifying, analyzing, evaluating, treating, monitoring, and communicating risks associated with ATB's strategic objectives and enterprise business plan.

To be most effective, ERM must be embedded into ATB's philosophy, practices, and business processes so everyone within ATB becomes involved in managing risk.

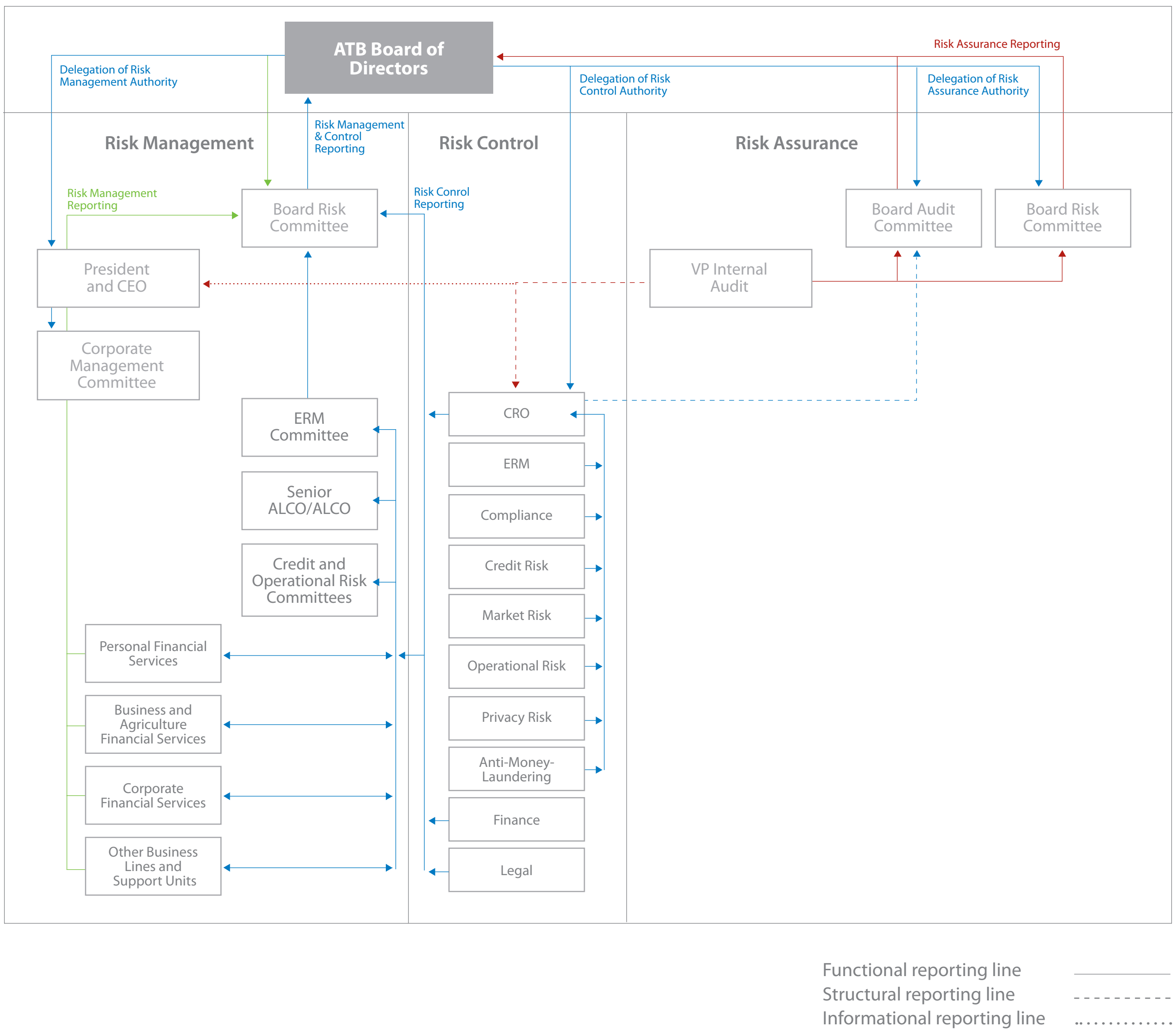
## Risk Management Governance and Structure

Ultimate responsibility for risk management lies with ATB's Board of Directors, according to the three-tier risk governance framework set out below. It shows who is responsible for risk management, risk control, and risk assurance, and divides up duties between those who take on risk, those who control risk, and those who provide assurance. Authority for risk management flows from the Board to the CEO and from the CEO to the heads of business lines and support units.

The first tier of risk governance, risk management, is provided by the Board-appointed Risk Committee. The Board sets ATB's risk appetite and approves policies and frameworks covering risks with potential company-wide consequences and strategy for managing risk. The Board is supported by the CEO and the members of the Corporate Management Committee (CMC), who have primary responsibility for understanding and identifying the risks generated by their business lines and support units and managing those risks. The overriding goal of the first tier is to drive responsibility for risk management down to the level of risk-generating activities and functions.

The second tier, risk control, is provided by the Risk Committee, which is supported by the Risk Management, Finance, and Legal departments. These departments provide technical support and advice to assist in identifying and managing risk. Their roles include formulating and implementing risk policies and frameworks, developing risk assessment and analysis methodologies, as well as risk approval, risk monitoring, risk reporting, and escalation of risk issues relating to ATB's business lines and support units. The risk functions provide an independent challenge to all business lines and support units in respect of risk management and compliance and advise the business lines and support units when they are approaching risk limits.

The third tier, risk assurance, provides independent objective assurance on the effectiveness of the management and control of risk across the entire organization. This is provided through the Risk Committee and the Audit Committee and is supported by Internal Audit.



The key committees and roles and responsibilities of our risk management governance structure are summarized as follows:

*Board of Directors*

*Ultimate responsibility for risk rests with the Board, ATB's primary governing body. While retaining overall responsibility for risk, the Board delegates risk oversight to the Board Risk Committee and risk management to the CEO.*

**First Tier: Risk Management**

**Risk Committee**

The Board's Risk Committee reviews and recommends for Board approval ATB's ERM Policy and framework covering all key risks of ATB's operation (and specific policies and frameworks for certain key risks). It reviews and monitors the application and effectiveness of the policy and framework.

**Chief Executive Officer (CEO)**

The CEO receives delegated authority for risk management and control from the Board and is responsible for managing and controlling all risks across ATB. The CEO in turn delegates authority for risk management to executive management and responsibility for risk control to the CRO.

**Corporate Management Committee (CMC)**

The CEO is supported by the CMC, which comprises the heads of business lines and support units and direct reports of the CEO (executive management). CMC is a key governance forum that allows the CEO to discharge his management responsibilities. CMC is responsible for managing all risks.

**Enterprise Risk Management Committee**

The ERM Committee reviews and recommends for Risk Committee review ATB's ERM Policy and ERM framework, including all key risks of ATB's operation, and ensures effective application of the policy and framework across the organization.

**Senior Asset and Liability Committee (Senior ALCO)**

Senior ALCO is established by the CEO. It advises the CEO on all matters relating to ATB's balance sheet and helps the Chief Finance Officer discharge his responsibilities for asset and liability management. The committee oversees the risk management activities of the Finance department.

**Second Tier: Risk Control**

**Chief Risk Officer (CRO)**

The CRO operates under authority delegated by the CEO. The CRO, supported by the Risk Management department, is responsible for developing and implementing risk policies and frameworks within ATB and for ensuring appropriate control of all risks within ATB.

**Risk Management**

The Risk Management department is an independent risk control function that reports to the CRO. It works with the CRO to help the Board and executive management articulate their risk appetite and establish risk management policies and frameworks. It also helps the business lines and support units to operate within risk governance requirements and risk limits.

**Finance**

Finance is responsible for business planning, budgeting, forecasting, financial and treasury management, and the integrity of financial reporting.

**Legal Services**

Legal Services is responsible for controlling all of ATB's legal exposures, such as litigation.

**Third Tier: Risk Assurance**

**Audit Committee**

The Board's Audit Committee reviews the effectiveness of ATB's internal control policies and practices, including consideration of financial reporting.

**Risk Committee**

In addition to overseeing risk management and control, the Risk Committee also provides assurance to the Board that risks are being managed in line with Board-approved policies and frameworks and in compliance with legislative and regulatory requirements.

**Internal Audit**

The Internal Audit department supports the Audit Committee by providing independent and objective opinions on the effectiveness and integrity of ATB's risk governance arrangements. Internal Audit reports functionally to the Risk Committee and the Audit Committee and structurally to the CRO.

## Risk Management Enhancements

ATB has undertaken steps to enhance risk management, including:

- Appointing a chief risk officer with accountability for all aspects of risk within ATB, including enterprise risk, legal and regulatory risk, reputational risk, credit risk, market risk, and operational risk
- Expanding ATB's enterprise risk management department to enhance the development and implementation of the enterprise risk management framework
- Creating a Compliance department, including an independent chief compliance officer, to manage ATB's legislative compliance management framework
- Expanding middle office for risk management's role to enhance independence of market and credit risk management for derivative and investment exposures. (Independence will be extended to interest rate, foreign exchange, and liquidity risk management in the 2009–10 fiscal year.)
- Creating the Senior ALCO that is responsible for overseeing ATB's strategic management of interest rate risk, liquidity risk, funding, and other aspects of asset liability management

## Credit Risk

Credit risk is the potential for financial loss in the event of the failure by a borrower or counterparty to honour financial or contractual obligations, including retail and commercial loans, guarantees, letters of credit, derivative contracts, and corporate investments.

### Credit Risk Philosophy

ATB manages risks related to its lending activities through:

- Employing prudent policies and practices related to risk
- Monitoring to ensure ongoing compliance to ATB's risk policies and practices
- Ensuring the appropriate knowledge and skill set among managers who make lending decisions
- Optimizing loan growth while balancing risk, profits, and risk tolerance
- Ensuring accountability for managing risks within ATB

### Credit Risk Strategy

The credit risk management strategy is to maximize ATB's risk-adjusted rate of return by maintaining credit risk exposure within acceptable parameters. To do this effectively, we manage both the credit risk inherent in the entire portfolio as well as the risk in individual credits or transactions. The effective management of credit and portfolio risk is a critical component of the comprehensive approach to ERM and is essential to the long-term success of ATB.

ATB's credit risk strategy recognizes that ATB operates in a historically volatile economy and therefore must take measures to manage and moderate the potential variability of loan losses over the course of a full economic cycle. Credit risk strategies incorporate:

- A conservative approach to loan-loss allowances
- Early-warning systems to provide advance warning of changing risks
- Key portfolio risk indicators to actively maintain risk within the risk appetite levels approved
- Portfolio diversification strategies
- Stress-testing techniques to identify and understand the potential impact on credit quality or loss rates as a result of extreme economic events

### Impaired Loans

While ATB applies a disciplined approach to risk by continually monitoring all credit exposures, we also actively manage impaired accounts. Generally, a loan is classified as impaired when management believes there is no longer reasonable assurance of the timely collection of principal or interest. Loans are generally considered impaired when the loan principal or interest is 90 days or more past due from its contracted repayment date. Credit card loans are considered impaired when, for consumer balances, payments become 180 days past due, or, for non-consumer balances, payments are past due for three billing cycles (approximately 90 days).

A workout group with specialized expertise in collection management handles performing loans showing credit deterioration. Other skilled management teams manage the various non-performing loan portfolios to minimize risk and maximize recoveries. Specific allowances for impaired loans are established when it is determined that a loss is likely.

The following table indicates the distribution of net impaired loan balances across customer and industry segments:

### Impaired Loans

| *As at March 31*<br>*($ in thousands)* | **2009** | 2008 | 2007 |
|---|---|---|---|
| Individual loans | | | |
| Residential mortgages | **$ 29,959** | $ 13,896 | $ 12,714 |
| Personal | **16,312** | 6,697 | 5,471 |
| | **46,271** | 20,593 | 18,185 |
| Business and other | | | |
| Agricultural | **4,812** | 10,750 | 15,986 |
| Independent business, commercial, and other | **24,735** | 11,036 | 12,564 |
| | **29,547** | 21,786 | 28,550 |
| Gross impaired loans | **75,818** | 42,379 | 46,735 |
| Specific allowance for credit losses | **(16,323)** | (8,760) | (12,007) |
| | **59,495** | 33,619 | 34,728 |
| General allowance for credit losses | **(176,854)** | (153,010) | (141,827) |
| Net impaired loans | **$ (117,359)** | $ (119,391) | $ (107,099) |
| Net impaired loans as a percentage of gross loans | **(0.54%)** | (0.61%) | (0.62%) |
| Allowance for credit losses as a percentage of gross impaired loans | **254.8%** | 381.7% | 329.2% |

As indicated in the preceding table, gross impaired loans increased by $33.4 million or 78.9% to $75.8 million as at March 31, 2009, from $42.4 million a year prior. Total net impaired loans ended fiscal 2008–09 at net negative $117.4 million, as compared to net negative $119.4 million at the prior year-end.

The following table shows the components of year-to-year changes in net impaired loans:

### Changes in Net Impaired Loans

| *($ in thousands)* | **2009** | 2008 | 2007 |
|---|---|---|---|
| **Gross impaired loans** | | | |
| Balance at beginning of year | **$ 42,379** | $ 46,735 | $ 62,293 |
| Net additions (reductions) | **40,329** | 1,172 | (11,160) |
| Write-offs | **(6,890)** | (5,528) | (4,398) |
| Balance at end of year | **$ 75,818** | $ 42,379 | $ 46,735 |
| **Allowance for credit losses** | | | |
| Balance at beginning of year | **$ 161,770** | $ 153,834 | $ 161,204 |
| Provision for (recovery of) credit losses | **44,014** | 13,115 | (5,313) |
| Write-offs | **(16,350)** | (10,224) | (7,262) |
| Recoveries | **3,743** | 5,045 | 5,205 |
| Balance at end of year | **$ 193,177** | $ 161,770 | $ 153,834 |
| **Net impaired loans** | | | |
| Balance at beginning of year | **$ (119,391)** | $ (107,099) | $ (98,911) |
| Net change in gross impaired loans | **33,439** | (4,356) | (15,558) |
| Net change in allowance for credit losses | **(31,407)** | (7,936) | 7,370 |
| Balance at end of year | **$ (117,359)** | $ (119,391) | $ (107,099) |

## Credit Quality and Provisions for Credit Losses

Management records a provision for credit losses to bring the total loan-loss allowance to a level determined prudent and in line with our conservative guiding risk principles. The provision covers all probable credit-related losses that are believed to be within the credit portfolio as at the reporting date, but either attributable or not attributable to a specific borrower.

**Provisions for Credit Losses**

| *For the years ended March 31*<br>*($ in thousands)* | **2009** | 2008 | 2007 |
|---|---|---|---|
| Total credit losses (recoveries) charged to income | **$ 42,712** | $ 12,906 | $ (5,211) |
| As a percentage of average net loans | **0.21%** | 0.07% | (0.03% |

ATB uses the level of credit losses incurred, expressed as a percentage of average net loans, as a key measure and indicator of the credit quality of our loan portfolio. For the year ended March 31, 2009, our net provision for credit losses was 0.21% of average net loans, compared to 0.07% during 2008 and a recovery of 0.03% for 2007.

## Allowance for Credit Losses

The allowance for credit losses is maintained at a level management believes is sufficient to absorb probable losses in the loan and off-balance-sheet credit portfolios, while reflecting ATB's conservative risk philosophy and guidelines issued by the Office of the Superintendent of Financial Institutions. The total allowance for credit losses consists of three components: specific allowance, allocated general allowance, and unallocated general allowance.

Specific allowances are recorded when loans are identified as impaired. The specific allowances on non-consumer loans are established on a loan-by-loan basis for larger corporate and business clients, and on a pooled basis for smaller business and agri-business borrowers. The specific allowances on consumer loans are also calculated using a pooled methodology across homogenous products with a formula based on recent loss experience.

ATB's general loan-loss allowance program is intended to account for the variability of loan losses over the course of a full economic cycle. A prudent and conservative allowance for loan losses is stated as one of the components of ATB's conservative risk profile.

The allocated general allowance is management's best estimate of probable losses not yet specifically identified or attributable to a given borrower or client. This is calculated using quantitative models largely based on probabilities of client default and loss given default estimates. It may include an allowance for specific events that have occurred and will result in credit losses, but where such losses cannot yet be identified on an individual loan basis. A specific general allowance may be created where there is a material change in the credit environment that has not been adequately measured or captured in the inputs used in the above methods.

The unallocated general allowance is a qualitative estimate of the probable losses that have not been identified by either the specific or allocated general allowance. This section of the model is predominantly driven by consideration and examination of global and North American economic and business conditions over the medium term and the inferred effect of the same on portfolio quality and allowance levels.

A more detailed discussion of the methodologies used to determine the allowances for credit losses is provided in Note 10 to the statements.

## 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. Financial institutions such as ATB are exposed to market risk in day-to-day operations such as investing, lending, and deposit-taking.

### Interest Rate Risk

Interest rate risk is the risk of a negative impact on ATB's net interest income (NII) and market value of equity (MVE) due to changes in interest rates. Market value of equity represents the net present-value difference between the market value of our assets and the market value of our liabilities.

Interest rate risk results from differences in the re-pricing dates of ATB's assets and liabilities (re-pricing risk), non-parallel shifts in the yield curve (yield curve risk), when interest rate indices move at different rates or in different directions (basis risk), and embedded optionality in ATB's products (option risk). Some examples of ATB's product optionality are prepayment options in mortgages and early redemption features in fixed-date deposits.

The impact of changes in interest rates on ATB's NII will depend on the size and rate of change in interest rates and the size and maturity of the assets and liabilities. ATB uses derivative financial instruments, such as interest rate swaps, and other capital market alternatives, such as securities sold under repurchase agreements, to manage its interest rate risk.

Interest rate risk management encompasses the following:

- Developing and recommending interest rate risk management policies and limits
- Developing methods to measure and report interest rate risk
- Managing interest rate risk within approved limits
- Monitoring interest rate risk and ensuring compliance with policies
- Reviewing interest rate risk exposure with ALCO and Senior ALCO on a monthly basis, and with the Risk Committee of the Board on a quarterly basis

#### Risk Measurement

ATB measures interest rate risk monthly through gap analysis and net interest income and MVE rate-shock analysis. Gap analysis allocates interest-rate-sensitive assets and interest-rate-sensitive liabilities into categories according to their re-pricing date. Rate-shock analysis is a simulation of the impact of interest rate fluctuations on ATB's NII and MVE.

### 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's foreign exchange risk is primarily related to assets and liabilities denominated in U.S. dollars, as substantially all other foreign-currency-denominated transactions are settled in Canadian dollars through offsetting transactions.

Refer to Note 18 to the statements for details of foreign-exchange-related derivative contracts held as at March 31, 2009, and March 31, 2008.

#### Risk Measurement

Foreign exchange risk is monitored daily, continually corrected, and offset. We can mitigate foreign exchange risk by offsetting transactions, by managing maturity profiles, and through hedging activities. Foreign exchange risk is subject to Board-approved limits.

### 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. We use equity-linked derivatives to hedge our associated risk exposure on these products. Equity risk is managed within Board-approved limits.

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

Refer to Note 18 for details of equity- and commodity-related derivative contracts held as at March 31, 2009, and March 31, 2008.

### Use of Derivatives

ATB has traditionally used derivatives for managing our asset and liability positions and the risk associated with individual loan and deposit products offered to customers. We use several types of derivatives for this purpose, including interest rate swaps, options, equity- and commodity-linked options, and forward foreign exchange contracts. We refer to these contracts as our "corporate derivative portfolio."

ATB provides commodity and foreign exchange derivatives to customers, allowing them to hedge their existing exposure to commodity and/or foreign exchange risks. The client derivative portfolio is not used to generate trading income through active assumption of market risk, but rather is used to meet the risk management requirements of ATB customers. ATB does not accept any net exposure to such derivative contracts (except for related credit risk) as we either enter into offsetting contracts with other financial institution counterparties or, in the case of foreign currency contracts only, incorporate them into our own foreign exchange position.

All derivative transactions are stringently reviewed and managed within the policies approved by the Board. ATB employs appropriate segregation of duties to ensure that the market risk and counterparty exposure for the client and corporate derivative portfolios are managed and monitored daily within approved limits. Further, ALCO reviews all derivative transactions and our net position monthly.

The use of derivatives inherently involves credit risk due to the potential for counterparty default. To control this risk, we apply limits to each counterparty, and, when measuring our exposures, consider potential future exposure in connection with each contract and its current fair value.

### Potential Future Exposure

Potential future exposure (PFE) is the greatest possible amount of credit exposure that can be outstanding at any point over the term of that exposure, and it is calculated to a standard confidence level. In other words, throughout the term of a credit exposure, its value would vary based on market price, market volatility, etc., and PFE captures the largest expected amount that it would vary by over its term, and within a standard confidence level.

Customer counterparties are scrutinized through our regular credit risk management processes, and financial institution counterparties are limited, by policy, to those having a minimum long-term public credit rating of A-low/A3/A- or better. We also use credit mitigation techniques such as netting and requiring the counterparty to collateralize obligations above agreed thresholds to limit potential exposure. We are generally not exposed to credit risk for the full face value (notional amount) of derivative contracts, but only to the potential replacement cost if the counterparty defaults. This exposure is represented by the current replacement cost of all outstanding contracts in a favourable position.

## Liquidity Risk

Liquidity risk is the risk of ATB being unable to meet known financial commitments when they come due and being unable to meet unexpected cash requirements at a reasonable cost. As with 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 liquidity management policy ensures sufficient funds are available to sustain our ongoing operations, to meet our customers' needs (such as cash withdrawals or loan advances), and to satisfy other financial obligations. We take into account both our liquid assets on hand and our ability to raise additional funds at a reasonable cost to meet liquidity requirements.

We mitigate our liquidity risk by:

- Establishing prudent liquidity risk management policies combined with effective processes, monitoring, and management systems
- Conducting regular forecasting scenarios to ensure adequate liquidity is available to meet cash flow fluctuations and react to commitments
- Reporting liquidity regularly to ensure compliance with our limits and guidelines

We manage our liquidity by:

- Using a variety of funding sources for liquidity, primarily our retail deposit base
- Encouraging growth in deposits from individuals, which provide a stable source of funding over the long term
- Participating in Canadian financial markets through the issuance of short- and mid-term notes
- Maintaining a large holding of liquid assets in proportion to anticipated demand
- Establishing access to other sources of liquidity—including Receiver General term deposit auctions and short-term credit facilities with other financial institutions—that can be used on short notice if additional funds are required
- Maintaining a securitization program to raise funds through the sale of residential mortgages

## Operational Risk

Identification and management of operational risk is an integral component of enterprise risk management. ATB has adopted the definition of operational risk established by the Basel Committee on Banking Supervision in the Basel II Accord: Operational risk is "the risk of loss resulting from inadequate or failed internal processes, people, and systems, or from external events." This definition includes legal and regulatory risk, but excludes strategic and reputation risk.

Operational risks arise from business practices ATB has adopted, and can result in losses associated with execution and process management, clients, products and business practices, internal and external fraud, employment practices, workplace safety and business continuity planning, business disruption, and system failure.

ATB strives to employ a combination of quantitative and qualitative methods to achieve a balanced approach to operational risk management (ORM) organized in four main phases: risk identification, risk assessment, risk treatment, and risk monitoring and reporting.

The phases of risk identification, assessment, and treatment involve risk profiling of ATB based on business activities and potential operational risks as categorized by Basel II. The methodology is based on performing risk and control self-assessment workshops and is now being enhanced by using various other tools of risk identification and assessment to achieve a higher level of completeness and accuracy.

The risk monitoring and reporting phase includes the development of key risk indicators for monitoring of significant risk exposures and the development of a sound reporting structure. The Risk Management department reports significant operational risk exposures to senior management and the Board.

As ORM tools and methodologies in the financial industry continue to evolve, ATB will use various risk identification and assessment approaches concurrently to capture the major operational risk exposures of ATB that are often implicit and bundled with other risks. ATB will also continue to improve its overall risk management practices to ensure it is aligned with industry best practices.

Business Continuity Management (BCM) is a governance framework that is comprised of three distinct areas: BCM policy, business continuity planning, and emergency management. This framework is designed to make sure ATB can maintain business resiliency, service to its customers, and minimal monetary and operational impacts at a level acceptable to executive management, the Board of Directors, and third-party stakeholders.

## Reputational Risk

Reputational risk is the potential impairment of sound and safe practices and loss of confidence by stakeholders, caused by ATB, its directors, officers, or associates in undertaking activities or risks in contravention of legal and regulatory requirements of the ATB Act, ATB Regulation, Memorandum of Understanding, Alberta Superintendent of Financial Institutions (ASFI) Guidelines, and other applicable provincial and federal legislation.

The ASFI has issued a legislative compliance management guideline and the Board of Directors has approved the Legal and Regulatory Compliance Policy to manage reputational risk. ATB has designated an existing senior officer as chief risk officer and also has recently created a new independent chief compliance officer position reporting to the chief risk officer. A functioning Risk Management Compliance department has been structured to enhance effective compliance with ATB's legislative compliance management framework.

ATB follows an annual compliance reporting process required under section 23.2 of the ATB Regulation and has developed code of conduct, privacy, and anti-money-laundering programs to support compliance.

# QUARTERLY RESULTS

## Asset-Backed Commercial Paper

The Canadian market for third-party- and non-bank-sponsored asset-backed commercial paper (ABCP) suffered a liquidity disruption in 2007–08.

For the year ended March 31, 2009, ATB has recognized a provision for loss on ABCP of $224.8 million. (The net provision for loss on ABCP for the fourth quarter was $30.6 million). **Where applicable, ATB's consolidated quarterly operating results are reported inclusive and exclusive of this provision; however, for clarity, the commentary below refers to the operating results exclusive of ABCP**. (Refer to the Asset-Backed Commercial Paper section of this MD&A and Note 8 of the statements for further details on ABCP.)

## Review of 2008–09 Fourth-Quarter Operating Results

### Net Income

For the quarter ended March 31, 2009, ATB Financial earned net income (NI) excluding provision for ABCP ("adjusted NI") of $60.4 million, up slightly from the $60.1 million earned in the fourth quarter of 2007–08. This increase from the prior year's quarter reflects an increase in other income (OI) of $40.3 million (88.8%), partially offset by a decrease in net interest income (NII) of $16.0 million (9.6%). ATB's provision for credit losses was higher than the prior year's quarter by $3.6 million (137.4%), and non-interest expenses (NIE) were up $20.4 million (13.6%).

The adjusted NI of $60.4 million in the fourth quarter of 2008–09 was up $6.3 million (11.6%) from the $54.2 million earned in the third quarter of 2008–09. This increase from the prior quarter is primarily a result of increases in OI of $22.0 million (34.6%) and lower credit losses of $7.7 million (55.1%), partially offset by an increase in NIE of $11.8 million (7.5%) and a decrease in NII of $11.6 million (7.1%).

### Operating Revenue

Operating revenue in the fourth quarter, excluding provision for ABCP, increased by $24.3 million (11.5%) over the prior year's fourth quarter and by $10.4 million (4.6%) over the third quarter of 2008–09.

The year-over-year increase (from fourth quarter 2007–08 to fourth quarter 2008–09) includes a $40.3-million (88.8%) increase in OI and is partially offset by a decrease in NII of $16.0 million (9.6%). The increase in OI was primarily due to securitization income.

The net increase in operating revenue for the fourth quarter compared to the third quarter was $10.4 million (4.6%), the majority of which is attributable to increased OI of $22.0 million (34.6%), partially offset by reduced NII of $11.6 million (7.1%). The reduction in NII is attributable primarily to reductions in net interest spreads.

### Provision for Credit Losses

The increase from a provision of $2.6 million in the fourth quarter of 2007–08 to a provision of $6.2 million in the fourth quarter 2008–09 was largely due to an increase in the net specific write-offs and recoveries during the fourth quarter of 2008–09. The $7.7-million (55.1%) decrease over the third quarter of 2008–09 is attributed to a decrease in the general loan loss allowance (GLLA).

## Non-Interest Expenses and Efficiency Ratio

Non-interest expenses (NIE) for the fourth quarter were up $20.4 million (13.6%) from the fourth quarter of last year and up $11.8 million (7.5%) from the third quarter of this fiscal year. The majority of NIE categories increased from the prior year's fourth quarter, the most substantial being a $9.4-million increase in equipment and software costs (including amortization). Other significant increases were in deposit guarantee fee and salaries and employee benefits.

Equipment and software costs (including amortization) also increased substantially—by $7.6 million—from the third quarter to the fourth quarter of 2008–09. The other significant increase quarter to quarter was the deposit guarantee fee ($5.8 million).

ATB's efficiency ratio (excluding the provision for ABCP), measured as total NIE divided by total operating revenue, increased (or worsened) from 69.9% in the third quarter to 71.8% in the fourth quarter of 2008–09, with the change from the prior year's fourth quarter increasing (or worsening) from 70.5%.

## Net Income by Segment

Compared to the fourth quarter of the prior fiscal year, operating revenue in the fourth quarter was down across all business segments except for Corporate Financial Services (CFS), which recognized an increase of $10.9 million (or 44.2%) in operating revenue. Personal and Business Financial Services (PBFS) recognized a decrease of $1.9 million (1.3%) and Investor Services (ATBIS) experienced a decrease of $2.1 million (17.8%). These decreases were further exacerbated by increases in NIE in all segments. The provision for credit losses increased significantly ($3.6 million) for CFS, primarily due to growth, while decreasing slightly for PBFS ($0.4 million). CFS increased its NI by $7.0 million over the year. NI decreased by $15.2 million and $4.7 million in PBFS and IS, respectively.

Operating revenue was down for all business units for the fourth quarter compared to the third quarter. PBFS, CFS, and ATBIS recognized decreases in operating revenue amounting to $13.3 million (8.4%), $7.3 million (17.0%), and $0.2 million (2.0%), respectively. The provision for credit losses decreased for both CFS ($2.2 million) and PBFS ($2.9 million). NIE increased in all segments, except in other business units. NI was also down across all business units, showing decreases of $22.3 million (62.8%), $5.7 million (19.5%), and $1.2 million (43.3%) in PBFS, CFS, and IS, respectively.

# Review of Financial Position as at March 31, 2009

ATB's total assets ended the year at $26.5 billion, an increase of $3.2 billion (13.6%) over the fourth quarter of 2007–08 and $800.0 million (3.1%) more than the third quarter of 2008–09. From the fourth quarter of 2007–08 to the fourth quarter of 2008–09, residential mortgages decreased by $350.7 million (4.5%), personal loans increased by $837.5 million (20.5%), business loans increased by $1.6 billion (21.9%), and credit cards increased by $91.9 million (20.4%). The fourth-quarter results, as compared to the preceding third quarter, reflect large increases in business loans ($316.4 million) and personal loans ($172.5 million), with a large decrease in residential mortgages ($266.7 million).

Total retail deposits also increased in the fourth quarter of 2008–09, up $3.2 billion from the fourth quarter of 2007–08 and $742.0 million from the third quarter of 2008–09.

ATB's total equity as at March 31, 2009, was $1.8 billion, up $90.3 million from the end of the fourth quarter of 2007–08 and $49.2 million from the end of the third quarter of 2008–09, reflecting the NI earned over the periods and changes in other comprehensive income. The growth in equity was affected by the provision for loss on ABCP, which was $30.6 million for the fourth quarter of fiscal 2008–09 and $224.8 million for the year.

## Quarterly Results – Summarized Financial Results

### Summarized Consolidated Balance Sheet

| | 2009 | | | | 2008 | | | |
|---|---|---|---|---|---|---|---|---|
| *As at:* | Q4 | Q3 | Q2 | Q1 | Q4 | Q3 | Q2 | Q1 |
| *($ in thousands)* | Mar-31-09 | Dec-31-08 | Sep-30-08 | Jun-30-08 | Mar-31-08 | Dec-31-07 | Sep-30-07 | Jun-30-07 |
| **Assets** | | | | | | | | |
| Cash resources and securities | $ 4,098,518 | $ 3,518,107 | $ 3,904,958 | $ 3,993,750 | $ 3,273,315 | $ 3,532,292 | $ 3,667,832 | $ 3,147,288 |
| Loans, net of allowances for credit losses: | | | | | | | | |
| Residential mortgages | 7,368,397 | 7,635,067 | 7,713,373 | 7,682,222 | 7,719,066 | 7,629,365 | 7,432,414 | 7,187,222 |
| Personal | 4,926,582 | 4,754,071 | 4,584,450 | 4,382,415 | 4,089,104 | 3,855,138 | 3,628,745 | 3,379,551 |
| Credit card | 541,940 | 542,908 | 520,048 | 479,693 | 450,007 | 453,267 | 417,806 | 402,560 |
| Business | 8,958,493 | 8,642,095 | 7,902,116 | 7,425,115 | 7,347,110 | 7,092,829 | 6,869,088 | 6,891,501 |
| Allowance for credit losses | (193,177) | (191,592) | (180,674) | (168,781) | (161,770) | (161,035) | (157,064) | (159,629) |
| | 21,602,235 | 21,382,549 | 20,539,313 | 19,800,664 | 19,443,517 | 18,869,564 | 18,190,989 | 17,701,205 |
| Other assets | 813,390 | 813,512 | 755,578 | 732,793 | 626,321 | 539,289 | 594,482 | 593,107 |
| **Total assets** | $ 26,514,143 | $ 25,714,168 | $ 25,199,849 | $ 24,527,207 | $ 23,343,153 | $ 22,941,145 | $ 22,453,303 | $ 21,441,600 |
| **Liabilities and equity** | | | | | | | | |
| Deposits | | | | | | | | |
| Personal | $ 10,797,569 | $ 10,374,510 | $ 9,947,279 | $ 9,820,724 | $ 9,757,840 | $ 9,486,877 | $ 9,353,166 | $ 9,279,148 |
| Business and other | 13,083,677 | 13,002,060 | 12,974,880 | 12,430,085 | 11,417,876 | 11,157,949 | 10,867,865 | 10,022,519 |
| | 23,881,246 | 23,376,570 | 22,922,159 | 22,250,809 | 21,175,716 | 20,644,826 | 20,221,031 | 19,301,667 |
| Other liabilities | 530,796 | 571,059 | 503,350 | 491,703 | 425,987 | 490,360 | 479,218 | 417,293 |
| Securities sold under | | | | | | | | |
| repurchase agreements | 286,404 | - | - | - | - | - | - | - |
| Subordinated debentures | 57,013 | 57,013 | 57,013 | 57,013 | 72,998 | 72,998 | 72,998 | 57,009 |
| Equity | 1,758,684 | 1,709,526 | 1,717,327 | 1,727,682 | 1,668,452 | 1,732,961 | 1,680,056 | 1,665,631 |
| **Total liabilities and equity** | $ 26,514,143 | $ 25,714,168 | $ 25,199,849 | $ 24,527,207 | $ 23,343,153 | $ 22,941,145 | $ 22,453,303 | $ 21,441,600 |

### Summarized Consolidated Statement of Income

| | 2009 | | | | 2008 | | | |
|---|---|---|---|---|---|---|---|---|
| *For the three months ended:* | Q4 | Q3 | Q2 | Q1 | Q4 | Q3 | Q2 | Q1 |
| *($ in thousands)* | Mar-31-09 | Dec-31-08 | Sep-30-08 | Jun-30-08 | Mar-31-08 | Dec-31-07 | Sep-30-07 | Jun-30-07 |
| Interest income | $ 262,181 | $ 303,145 | $ 319,789 | $ 309,872 | $ 330,160 | $ 339,225 | $ 330,833 | $ 302,346 |
| Interest expense | (111,157) | (140,537) | (153,105) | (142,843) | (163,181) | (174,503) | (162,009) | (143,461) |
| Net interest income | 151,024 | 162,608 | 166,684 | 167,029 | 166,979 | 164,722 | 168,824 | 158,885 |
| Other income | 85,634 | 63,629 | 58,435 | 51,984 | 45,358 | 45,976 | 46,379 | 48,282 |
| (Provision for) recovery of loss on | | | | | | | | |
| asset-backed commercial paper | (30,557) | (140,000) | (55,544) | 1,285 | (146,233) | (29,300) | (77,600) | - |
| Operating revenue | 206,101 | 86,237 | 169,575 | 220,298 | 66,104 | 181,398 | 137,603 | 207,167 |
| Provision for (recovery of) | | | | | | | | |
| credit losses | 6,244 | 13,911 | 13,917 | 8,640 | 2,630 | 5,113 | (1,434) | 6,597 |
| Non-interest expenses | 169,972 | 158,171 | 149,965 | 154,979 | 149,604 | 133,213 | 130,490 | 136,074 |
| **Net income (loss)** | $ 29,885 | $ (85,845) | $ 5,693 | $ 56,679 | $ (86,130) | $ 43,072 | $ 8,547 | $ 64,496 |

## Quarterly Results – Summarized Financial Results (continued)

### Consolidated Statement of Changes in Equity and Other Comprehensive Income

| | | | | 2009 | | | | 2008 |
|---|---|---|---|---|---|---|---|---|
| *For the three months ended:* | **Q4** | **Q3** | **Q2** | **Q1** | Q4 | Q3 | Q2 | Q1 |
| *($ in thousands)* | **Mar-31-09** | **Dec-31-08** | **Sep-30-08** | **Jun-30-08** | Mar-31-08 | Dec-31-07 | Sep-30-07 | Jun-30-07 |
| **Retained earnings at beginning of period** | **$ 1,619,868** | **$ 1,705,713** | **$ 1,700,020** | **$ 1,643,341** | $ 1,729,471 | $ 1,686,399 | $ 1,677,852 | $ 1,623,383 |
| Transition adjustment on adoption of new financial instruments accounting standards effective April 1, 2007 | - | - | - | - | - | - | - | (10,027) |
| Adjusted balance as at April 1 | **1,619,868** | **1,705,713** | **1,700,020** | **1,643,341** | 1,729,471 | 1,686,399 | 1,677,852 | 1,613,356 |
| Net income (loss) | **29,885** | **(85,845)** | **5,693** | **56,679** | (86,130) | 43,072 | 8,547 | 64,496 |
| **Retained earnings at end of period** | **1,649,753** | **1,619,868** | **1,705,713** | **1,700,020** | 1,643,341 | 1,729,471 | 1,686,399 | 1,677,852 |
| **Accumulated other comprehensive income (loss) at beginning of period** | **89,658** | **11,614** | **27,662** | **25,111** | 3,490 | (6,343) | (12,221) | - |
| Transition adjustment on adoption of new financial instruments accounting standards effective April 1, 2007 | - | - | - | - | - | - | - | 3,461 |
| Adjusted balance as at April 1 | **89,658** | **11,614** | **27,662** | **25,111** | 3,490 | (6,343) | (12,221) | 3,461 |
| Increase (decrease) in other comprehensive income | **19,273** | **78,044** | **(16,048)** | **2,551** | 21,621 | 9,833 | 5,878 | (15,682) |
| **Accumulated other comprehensive income (loss) at end of period** | **108,931** | **89,658** | **11,614** | **27,662** | 25,111 | 3,490 | (6,343) | (12,221) |
| **Equity** | **$ 1,758,684** | **$ 1,709,526** | **$ 1,717,327** | **$ 1,727,682** | $ 1,668,452 | $ 1,732,961 | $ 1,680,056 | $ 1,665,631 |

## Quarterly Segmented Results

### Consolidated Statement of Cash Flows

| | 2009 | | | | 2008 | | | |
|---|---|---|---|---|---|---|---|---|
| *For the three months ended:* | Q4 | Q3 | Q2 | Q1 | Q4 | Q3 | Q2 | Q1 |
| *($ in thousands)* | Mar-31-09 | Dec-31-08 | Sep-30-08 | Jun-30-08 | Mar-31-08 | Dec-31-07 | Sep-30-07 | Jun-30-07 |
| Net income (loss) | $ 29,885 | $ (85,845) | $ 5,693 | $ 56,679 | $ (86,130) | $ 43,072 | $ 8,547 | $ 64,496 |
| Adjustments to determine net cash flows | | | | | | | | |
| Provision for (recovery of) credit losses | 6,244 | 13,911 | 13,917 | 8,640 | 2,630 | 5,113 | (1,434) | 6,597 |
| Amortization | 19,766 | 9,510 | 8,877 | 8,642 | 8,226 | 7,950 | 8,398 | 8,092 |
| Net changes in accrued interest receivable and payable | 67,778 | (15,351) | (880) | (9,435) | (5,601) | (10,186) | (6,619) | (4,377) |
| Net changes in derivative financial instruments | (25,036) | (3,194) | (4,484) | (791) | (33,882) | 31,539 | 20,055 | (59) |
| Provision for (recovery of) loss on asset-backed commercial paper | 30,557 | 140,000 | 55,544 | (1,285) | 146,233 | 29,300 | 77,600 | - |
| Gain on sale of securitized residential mortgage loans | (25,153) | (14,267) | (7,561) | (6,330) | - | - | - | - |
| Other items, net | (39,334) | 142,544 | 32,730 | (23,191) | (75,819) | 67,435 | 50,955 | (1,658) |
| | 64,707 | 187,308 | 103,836 | 32,929 | (44,343) | 174,223 | 157,502 | 73,091 |
| **Cash flows from financing activities** | | | | | | | | |
| Net change in deposits | 515,212 | 453,004 | 670,003 | 1,074,638 | 535,226 | 424,193 | 917,347 | 1,062,994 |
| Issue of subordinated debentures | - | - | - | - | - | - | 15,990 | - |
| Repayment of subordinated debentures | - | - | - | (15,985) | - | - | - | (15,234) |
| Net change in securities sold under repurchase agreements | 286,404 | - | - | - | - | - | - | - |
| | 801,616 | 453,004 | 670,003 | 1,058,653 | 535,226 | 424,193 | 933,337 | 1,047,760 |
| **Cash flows from investing activities** | | | | | | | | |
| Net change in interest-bearing deposits with financial institutions | (345,497) | 503,054 | (72,917) | (671,854) | 85,970 | 175,591 | (1,055,266) | (116,954) |
| Purchase of investment securities | (626,260) | (132,384) | (1,137,707) | (876,301) | (2,125,008) | (2,629,727) | (3,029,079) | (4,844,882) |
| Proceeds from investment securities | 254,764 | 205,884 | 1,244,331 | 878,910 | 2,149,953 | 2,587,504 | 3,385,604 | 4,683,895 |
| Net change in loans, excluding securitization | (575,620) | (1,121,589) | (941,848) | (616,266) | (579,913) | (686,397) | (481,559) | (743,291) |
| Net porcceds from loan securitizations | 344,139 | 264,597 | 188,884 | 247,842 | - | - | - | - |
| Net purchases of premises and equipment | (39,164 | (28,771 | (32,978) | (23,148) | (23,472) | (18,336) | (10,692) | (11,480) |
| | (987,638) | (309,209) | (752,235) | (1,060,817) | (492,470) | (571,365) | (1,190,992) | (1,032,712) |
| Net (decrease) increase in cash | (121,315) | 331,103) | 21,604 | 30,765 | (1,587) | 27,051 | (100,153) | 88,139 |
| Cash at beginning of quarter | 475,039) | 143,936 | 122,332 | 91,567 | 93,154 | 66,103 | 166,256 | 78,117 |
| Cash at end of quarter | $ 353,724 | $ 475,039 | $ 143,936 | $ 122,332 | $ 91,567 | $ 93,154 | $ 66,103 | $ 166,256 |
| Supplementary cash flow information: | | | | | | | | |
| Amount of interest paid during the quarter | $ 102,264 | $ 158,849 | $ 136,600 | $ 151,516 | $ 160,044 | $ 182,004 | $ 148,313 | $ 148,397 |

## Quarterly Segmented Results

| For the three months ended: ($ in thousands) | Net interest Income | Other income | (Provision for) recovery of loss on ABCP | Operating revenue | Provision for (recovery of) credit losses | Non-interest expenses | Net income (loss) | Total assets | Total liabilities |
|---|---|---|---|---|---|---|---|---|---|
| **March 31, 2009** | | | | | | | | | |
| Personal and Business Financial Services | **$ 109,538** | **$ 34,983** | **$ -** | **$ 144,521** | **$ 1,759** | **$ 129,553** | **$ 13,209** | **$ 17,107,664** | **$ 16,135,022** |
| Corporate Financial Services | **28,126** | **7,357** | **-** | **35,483** | **4,289** | **7,812** | **23,382** | **5,436,071** | **3,837,884** |
| Investor Services | **1,604** | **7,894** | **-** | **9,498** | **-** | **13,552** | **(4,054)** | **20,168** | **831,274** |
| Other business units | **11,756** | **35,400** | **(30,557)** | **16,599** | **196** | **19,055** | **(2,652)** | **3,950,240** | **3,951,279** |
| Total | **$ 151,024** | **$ 85,634** | **$ (30,557)** | **$ 206,101** | **$ 6,244** | **$ 169,972** | **$ 29,885** | **$ 26,514,143** | **$ 24,755,459** |
| **December 31, 2008** | | | | | | | | | |
| Personal and Business Financial Services | $ 123,579 | $ 34,202 | $ - | $ 157,781 | $ 4,681 | $ 117,596 | $ 35,504 | $ 16,948,262 | $ 15,785,409 |
| Corporate Financial Services | 26,139 | 16,597 | - | 42,736 | 6,465 | 7,232 | 29,039 | 5,059,543 | 3,437,529 |
| Investor Services | 1,081 | 8,611 | - | 9,692 | - | 12,522 | (2,830) | 10,204 | 735,205 |
| Other business units | 11,809 | 4,219 | (140,000) | (123,972) | 2,765 | 20,821 | (147,558) | 3,696,159 | 4,046,499 |
| Total | $ 162,608 | $ 63,629 | $ (140,000) | $ 86,237 | $ 13,911 | $ 158,171 | $ (85,845) | $ 25,714,168 | $ 24,004,642 |
| **September 30, 2008** | | | | | | | | | |
| Personal and Business Financial Services | $ 123,040 | $ 34,107 | $ - | $ 157,147 | $ 4,608 | $ 111,695 | $ 40,844 | $ 16,496,121 | $ 15,495,780 |
| Corporate Financial Services | 22,775 | 5,967 | - | 28,742 | 9,020 | 7,109 | 12,613 | 4,430,531 | 2,979,294 |
| Investor Services | 1,064 | 9,613 | - | 10,677 | - | 12,068 | (1,391) | 7,178 | 598,876 |
| Other business units | 19,805 | 8,748 | (55,544) | (26,991) | 289 | 19,093 | (46,373) | 4,266,019 | 4,408,572 |
| Total | $ 166,684 | $ 58,435 | $ (55,544) | $ 169,575 | $ 13,917 | $ 149,965 | $ 5,693 | $ 25,199,849 | $ 23,482,522 |
| **June 30, 2008** | | | | | | | | | |
| Personal and Business Financial Services | $ 118,488 | $ 32,377 | $ - | $ 150,865 | $ 5,456 | $ 117,268 | $ 28,141 | $ 15,981,950 | $ 15,295,435 |
| Corporate Financial Services | 20,912 | 6,839 | - | 27,751 | 3,771 | 7,354 | 16,626 | 4,034,492 | 2,474,563 |
| Investor Services | 1,502 | 9,810 | - | 11,312 | - | 12,007 | (695) | 5,224 | 566,801 |
| Other business units | 26,127 | 2,958 | 1,285 | 30,370 | (587) | 18,350 | 12,607 | 4,505,541 | 4,462,726 |
| Total | $ 167,029 | $ 51,984 | $ 1,285 | $ 220,298 | $ 8,640 | $ 154,979 | $ 56,679 | $ 24,527,207 | $ 22,799,525 |
| **Year ended March 31, 2009** | **$ 647,345** | **$ 259,682** | **$ (224,816)** | **$ 682,211** | **$ 42,712** | **$ 633,087** | **$ 6,412** | **$ 26,514,143** | **$ 24,755,459** |

## Quarterly Segmented Results

| *For the three months ended:* *($ in thousands)* | Net interest Income | Other income | (Provision for) recovery of loss on ABCP | Operating revenue | Provision for (recovery of) credit losses | Non-interest expenses | Net income (loss) | Total assets | Total liabilities |
|---|---|---|---|---|---|---|---|---|---|
| **March 31, 2008** | | | | | | | | | |
| Personal and Business Financial Services | $ 115,346 | $ 31,040 | $ - | $ 146,386 | $ 2,174 | $ 115,839 | $ 28,373 | $ 15,474,620 | $ 14,776,994 |
| Corporate Financial Services | 19,983 | 4,631 | - | 24,614 | 632 | 7,613 | 16,369 | 3,960,815 | 2,153,106 |
| Investor Services | 2,007 | 9,547 | - | 11,554 | - | 10,934 | 620 | 4,078 | 548,877 |
| Other business units | 29,643 | 140 | (146,233) | (116,450) | (176) | 15,218 | (131,492) | 3,903,640 | 4,195,724 |
| Total | $ 166,979 | $ 45,358 | $ (146,233) | $ 66,104 | $ 2,630 | $ 149,604 | $ (86,130) | $ 23,343,153 | $ 21,674,701 |
| **December 31, 2007** | | | | | | | | | |
| Personal and Business Financial Services | $ 121,226 | $ 30,683 | $ - | $ 151,909 | $ 4,608 | $ 106,192 | $ 41,109 | $ 15,175,058 | $ 14,648,638 |
| Corporate Financial Services | 19,820 | 5,545 | - | 25,365 | 1,796 | 6,575 | 16,994 | 3,665,679 | 2,034,545 |
| Investor Services | 1,834 | 9,907 | - | 11,741 | - | 10,842 | 899 | 2,984 | 521,132 |
| Other business units | 21,842 | (159) | (29,300) | (7,617) | (1,291) | 9,604 | (15,930) | 4,097,424 | 4,003,869 |
| Total | $ 164,722 | $ 45,976 | $ (29,300) | $ 181,398 | $ 5,113 | $ 133,213 | $ 43,072 | $ 22,941,145 | $ 21,208,184 |
| **September 30, 2007** | | | | | | | | | |
| Personal and Business Financial Services | $ 119,243 | $ 32,327 | $ - | $ 151,570 | $ 7,425 | $ 106,082 | $ 38,063 | $ 14,648,487 | $ 14,550,779 |
| Corporate Financial Services | 19,719 | 5,190 | - | 24,909 | (6,657) | 6,432 | 25,134 | 3,508,425 | 1,939,830 |
| Investor Services | 1,641 | 9,919 | - | 11,560 | - | 10,524 | 1,036 | 2,782 | 511,270 |
| Other business units | 28,221 | (1,057) | (77,600) | (50,436) | (2,202) | 7,452 | (55,686) | 4,293,609 | 3,771,368 |
| Total | $ 168,824 | $ 46,379 | $ (77,600) | $ 137,603 | $ (1,434) | $ 130,490 | $ 8,547 | $ 22,453,303 | $ 20,773,247 |
| **June 30, 2007** | | | | | | | | | |
| Personal and Business Financial Services | $ 111,050 | $ 32,773 | $ - | $ 143,823 | $ 4,028 | $ 102,934 | $ 36,861 | $ 14,134,925 | $ 14,502,925 |
| Corporate Financial Services | 18,696 | 4,574 | - | 23,270 | 3,890 | 6,336 | 13,044 | 3,549,416 | 1,867,356 |
| Investor Services | 1,332 | 9,650 | - | 10,982 | - | 11,162 | (180) | 4,092 | 489,780 |
| Other business units | 27,807 | 1,285 | - | 29,092 | (1,321) | 15,642 | 14,771 | 3,753,167 | 2,915,908 |
| Total | $ 158,885 | $ 48,282 | $ - | $ 207,167 | $ 6,597 | $ 136,074 | $ 64,496 | $ 21,441,600 | $ 19,775,969 |
| **Year ended March 31, 2008** | $ 659,410 | $ 185,995 | $ (253,133) | $ 592,272 | $ 12,906 | $ 549,381 | $ 29,985 | $ 23,343,153 | $ 21,674,701 |

## Quarterly Results – Other Information

| *For the three months ended:* | 2009 Q4 | 2009 Q3 | 2009 Q2 | 2009 Q1 | 2008 Q4 | 2008 Q3 | 2008 Q2 | 2008 Q1 |
|---|---|---|---|---|---|---|---|---|
| *($ in thousands)* | **Mar-31-09** | **Dec-31-08** | **Sep-30-08** | **Jun-30-08** | Mar-31-08 | Dec-31-07 | Sep-30-07 | Jun-30-07 |
| **Allowance for credit losses** | | | | | | | | |
| Balance at beginning of quarter | **$ 194,526** | **$ 183,850** | **$ 172,131** | **$ 164,906** | $ 163,866 | $ 159,739 | $ 163,047 | $ 157,179 |
| Write-offs | **(6,596)** | **(4,228)** | **(3,023)** | **(2,503)** | (2,623) | (2,266) | (3,099) | (2,236) |
| Recoveries | **837** | **993** | **825** | **1,088** | 1,033 | 1,280 | 1,225 | 1,507 |
| Provision for (recovery of) credit losses | **6,244** | **13,911** | **13,917** | **8,640** | 2,630 | 5,113 | (1,434) | 6,597 |
| Balance at end of quarter | **195,011** | **194,526** | **183,850** | **172,131** | 164,906 | 163,866 | 159,739 | 163,047 |
| Less: Allowance for cost of credit recovery included in other liabilities | **1,834** | **2,934** | **3,176** | **3,350** | 3,136 | 2,831 | 2,675 | 3,418 |
| Balance at end of quarter | **$ 193,177** | **$ 191,592** | **$ 180,674** | **$ 168,781** | $ 161,770 | $ 161,035 | $ 157,064 | $ 159,629 |
| **Employee future benefits** | | | | | | | | |
| Net pension-benefit expense | **$ 5,780** | **$ 5,433** | **$ 5,070** | **$ 5,726** | $ 3,606 | $ 3,191 | $ 5,388 | $ 5,076 |
| **Key performance measures (in %)** | | | | | | | | |
| Operating revenue growth (1) | **211.78** | **(52.46)** | **23.23** | **6.34** | (66.26) | (6.08) | (25.95) | 17.35 |
| Operating revenue growth (1) (3) | **11.45** | **7.38** | **4.61** | **5.72** | 8.36 | 9.09 | 15.81 | 17.35 |
| Net interest margin (2) | **2.36** | **2.52** | **2.69** | **2.81** | 2.93 | 2.87 | 3.07 | 3.07 |
| Net interest spread on average earning assets (2) | **2.47** | **2.63** | **2.78** | **2.90** | 3.01 | 2.98 | 3.17 | 3.14 |
| Other income to operating revenues | **41.55** | **73.78** | **34.46** | **23.60** | 68.62 | 25.35 | 33.70 | 23.31 |
| Other income to operating revenues (3) | **36.18** | **28.12** | **25.96** | **23.74** | 21.36 | 21.82 | 21.55 | 23.31 |
| Non-interest expense to operating revenue | **82.47** | **183.41** | **88.44** | **70.35** | 226.32 | 73.44 | 94.83 | 65.68 |
| Non-interest expense to operating revenue (3) | **71.82** | **69.91** | **66.62** | **70.76** | 70.46 | 63.22 | 60.64 | 65.68 |
| Return on average assets (2) | **0.47** | **(1.33)** | **0.09** | **0.95** | (1.51) | 0.75 | 0.16 | 1.25 |
| Return on average assets (2) (3) | **0.94** | **0.84** | **0.99** | **0.93** | 1.05 | 1.26 | 1.56 | 1.25 |
| Operating expense growth (1) | **13.61** | **18.74** | **14.92** | **13.89** | 10.43 | 9.48 | 16.49 | 20.28 |
| Net impaired loans to total gross loans | **(0.54)** | **(0.59)** | **(0.58)** | **(0.59)** | (0.61) | (0.57) | (0.53) | (0.65) |
| Credit losses to average loans (2) | **0.12** | **0.26** | **0.27** | **0.18** | 0.05 | 0.11 | (0.03) | 0.15 |
| Loan growth (1) | **11.10** | **13.32** | **12.91** | **11.86** | 14.41 | 14.39 | 13.51 | 15.64 |
| Loan growth (4) | **16.14** | **16.81** | **15.23** | **13.24** | 14.41 | 14.39 | 13.51 | 15.64 |
| Deposit growth (1) | **12.78** | **13.23** | **13.36** | **15.28** | 16.01 | 15.95 | 16.25 | 13.74 |
| Asset growth (1) | **13.58** | **12.09** | **12.23** | **14.39** | 15.02 | 15.67 | 16.21 | 14.09 |

*(1) Calculated over trailing one-year period.*
*(2) Calculated as average over trailing three-month period.*
*(3) Excludes provision for (recovery of) loss on asset-backed commercial paper.*
*(4) Disclosed inclusive of securitized mortgages.*

## Consolidated Balance Sheet

| *As at March 31* *($ in thousands)* | 2009 | 2008 | 2007 | 2006 | 2005 | 2004 | 2003 | 2002 | 2001 | 2000 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | | | | |
| **Cash resources** | | | | | | | | | | |
| Cash | **$ 353,724** | $ 91,567 | $ 78,117 | $ 77,454 | $ 26,279 | $ 101,281 | $ 72,750 | $ 120,061 | $ 139,896 | $ 81,114 |
| Interest-bearing deposits with financial institutions | **2,516,489** | 1,928,230 | 1,017,497 | 976,671 | 927,244 | 956,727 | 579,607 | 752,269 | 752,519 | 494,903 |
| | **2,870,213** | 2,019,797 | 1,095,614 | 1,054,125 | 953,523 | 1,058,008 | 652,357 | 872,330 | 892,415 | 576,017 |
| **Securities** | **1,228,305** | 1,253,518 | 1,684,821 | 1,381,444 | 932,511 | 854,997 | 578,850 | 807,793 | 926,180 | 692,453 |
| **Loans, net of allowance for credit losses** | | | | | | | | | | |
| Residential mortgages | **7,368,397** | 7,719,066 | 6,965,985 | 6,378,725 | 5,818,780 | 5,378,595 | 4,961,459 | 4,428,527 | 3,980,759 | 3,652,135 |
| Business | **8,958,493** | 7,347,110 | 6,712,420 | 5,825,602 | 5,106,655 | 4,818,228 | 4,979,212 | 4,420,018 | 4,088,618 | 3,988,761 |
| Personal | **4,926,582** | 4,089,104 | 3,101,429 | 2,483,980 | 2,093,423 | 1,857,028 | 1,689,679 | 1,529,848 | 1,502,712 | 1,362,141 |
| Credit card | **541,940** | 450,007 | 368,329 | 319,591 | 287,253 | 270,098 | 235,865 | 195,900 | 150,752 | 94,771 |
| Allowance for credit losses | **(193,177)** | (161,770) | (153,834) | (161,204) | (168,194) | (192,896) | (174,733) | (173,730) | (168,589) | (164,233) |
| | **21,602,235** | 19,443,517 | 16,994,329 | 14,846,694 | 13,137,917 | 12,131,053 | 11,691,482 | 10,400,563 | 9,554,252 | 8,933,575 |
| **Other** | | | | | | | | | | |
| Premises and equipment | **286,141** | 208,875 | 177,561 | 134,479 | 110,067 | 93,016 | 81,322 | 74,661 | 74,183 | 63,616 |
| Derivative financial instruments | **258,694** | 109,250 | 28,200 | 27,437 | 32,420 | 32,197 | 39,825 | 38,652 | 30,650 | 18,577 |
| Other assets | **268,555** | 308,196 | 314,193 | 203,636 | 214,794 | 136,539 | 140,159 | 159,811 | 174,852 | 147,874 |
| | **813,390** | 626,321 | 519,954 | 365,552 | 357,281 | 261,752 | 261,306 | 273,124 | 279,685 | 230,067 |
| | **$ 26,514,143** | $ 23,343,153 | $ 20,294,718 | $ 17,647,815 | $ 15,381,232 | $ 14,305,810 | $ 13,183,995 | $ 12,353,810 | $ 11,652,532 | $ 10,432,112 |
| **Liabilities and equity** | | | | | | | | | | |
| **Deposits** | | | | | | | | | | |
| Payable on demand | **$ 5,671,575** | $ 5,244,677 | $ 5,143,729 | $ 4,492,175 | $ 3,596,652 | $ 3,120,136 | $ 2,396,930 | $ 2,363,524 | $ 1,875,454 | $ 1,656,730 |
| Payable after notice | **5,295,354** | 3,328,675 | 2,584,039 | 1,893,787 | 1,358,758 | 1,124,359 | 1,507,233 | 1,561,329 | 1,437,830 | 1,353,069 |
| Payable on a fixed date | **12,914,317** | 12,602,364 | 10,525,070 | 9,484,346 | 8,884,622 | 8,790,625 | 8,192,748 | 7,500,357 | 7,605,579 | 6,914,827 |
| | **23,881,246** | 21,175,716 | 18,252,838 | 15,870,308 | 13,840,032 | 13,035,120 | 12,096,911 | 11,425,210 | 10,918,863 | 9,924,626 |
| **Other** | | | | | | | | | | |
| Securities sold under repurchase agreements | **286,404** | - | - | - | - | - | - | - | - | - |
| Derivative financial instruments | **127,518** | 82,390 | 8,629 | 1,271 | 2,542 | 20 | 300 | 910 | - | - |
| Other liabilities | **403,278** | 343,597 | 337,626 | 355,662 | 322,665 | 262,293 | 250,431 | 305,475 | 282,118 | 227,329 |
| | **817,200** | 425,987 | 346,255 | 356,933 | 325,207 | 262,313 | 250,731 | 306,385 | 282,118 | 227,329 |
| **Subordinated debentures** | **57,013** | 72,998 | 72,242 | 71,579 | 65,719 | 45,416 | 45,416 | 30,182 | 17,444 | 7,519 |
| **Equity** | **1,758,684** | 1,668,452 | 1,623,383 | 1,348,995 | 1,150,274 | 962,961 | 790,937 | 592,033 | 434,107 | 272,638 |
| | **$ 26,514,143** | $ 23,343,153 | $ 20,294,718 | $ 17,647,815 | $ 15,381,232 | $ 14,305,810 | $ 13,183,995 | $ 12,353,810 | $ 11,652,532 | $ 10,432,112 |

# Consolidated Statement of Income

| *For the years March 31* *($ in thousands)* | 2009 | 2008 | 2007 | 2006 | 2005 | 2004 | 2003 | 2002 | 2001 | 2000 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Interest income** | | | | | | | | | | |
| Loans | **$ 1,099,173** | $ 1,155,845 | $ 960,074 | $ 748,741 | $ 657,838 | $ 695,106 | $ 657,374 | $ 669,422 | $ 726,242 | $ 644,255 |
| Securities | **34,986** | 71,883 | 71,593 | 35,630 | 20,188 | 22,268 | 18,613 | 34,697 | 43,355 | 28,085 |
| Interest-bearing deposits with financial institutions | **60,828** | 74,836 | 46,615 | 30,298 | 21,857 | 23,227 | 21,537 | 35,326 | 40,229 | 31,401 |
| | **1,194,987** | 1,302,564 | 1,078,282 | 814,669 | 699,883 | 740,601 | 697,524 | 739,445 | 809,826 | 703,741 |
| **Interest expense** | | | | | | | | | | |
| Deposits | **544,808** | 639,981 | 503,143 | 348,994 | 297,791 | 340,627 | 330,896 | 372,243 | 446,959 | 371,561 |
| Subordinated debentures | **2,616** | 3,173 | 3,334 | 3,424 | 3,346 | 2,690 | 2,468 | 1,619 | 898 | 309 |
| Securities sold under repurchase agreements | **218** | - | - | - | - | - | - | - | - | - |
| | **547,642** | 643,154 | 506,477 | 352,418 | 301,137 | 343,317 | 333,364 | 373,862 | 447,857 | 371,870 |
| **Net interest income** | **647,345** | 659,410 | 571,805 | 462,251 | 398,746 | 397,284 | 364,160 | 365,583 | 361,969 | 331,871 |
| **Other income** | | | | | | | | | | |
| Service charges | **69,748** | 69,891 | 68,241 | 64,275 | 60,227 | 58,174 | 54,277 | 50,406 | 49,050 | 46,462 |
| Investor Services | **36,749** | 38,427 | 28,526 | 17,994 | 8,632 | 3,276 | 1,594 | 1,265 | 732 | 270 |
| Card fees | **44,942** | 35,764 | 27,919 | 23,649 | 18,599 | 15,636 | 13,892 | 12,679 | 10,182 | 7,182 |
| Foreign exchange | **10,043** | 11,763 | 8,625 | 7,451 | 6,689 | 5,930 | 5,314 | 5,153 | 5,489 | 3,659 |
| Insurance | **22,346** | 11,525 | 10,789 | 10,150 | 11,468 | 4,119 | 3,798 | 3,499 | 4,384 | 3,796 |
| Credit fees | **11,240** | 10,627 | 29,738 | 30,068 | 29,525 | 28,216 | 26,520 | 25,581 | 17,238 | 17,677 |
| Sundry | **208** | 5,465 | 4,047 | 996 | 606 | 921 | 2,047 | 2,626 | 2,000 | 15,514 |
| Derivative income | **10,597** | 2,533 | 1,776 | 1,038 | 3,562 | - | - | - | - | - |
| Securitization income | **53,809** | - | - | - | - | - | - | - | - | - |
| | **259,682** | 185,995 | 179,661 | 155,621 | 139,308 | 116,272 | 107,442 | 101,209 | 89,075 | 94,560 |
| **Operating revenue before the undernoted** | **907,027** | 845,405 | 751,466 | 617,872 | 538,054 | 513,556 | 471,602 | 466,792 | 451,044 | 426,431 |
| Provision for loss on asset-backed commercial paper | **(224,816)** | (253,133) | - | - | - | - | - | - | - | - |
| **Total operating revenue** | **682,211** | 592,272 | 751,466 | 617,872 | 538,054 | 513,556 | 471,602 | 466,792 | 451,044 | 426,431 |
| **Provision for (recovery of) credit losses** | **42,712** | 12,906 | (5,211) | 688 | (14,594) | 15,859 | (43,211) | 21,095 | 20,969 | (41,821) |
| **Non-interest expenses** | | | | | | | | | | |
| Salaries and employee benefits | **333,028** | 297,404 | 258,192 | 221,270 | 190,876 | 169,156 | 161,491 | 147,766 | 136,018 | 112,661 |
| Communications and electronic processing | **92,307** | 85,744 | 74,969 | 67,287 | 58,915 | 55,316 | 53,607 | 49,224 | 46,086 | 45,032 |
| Premises and equipment, including amortization | **89,315** | 70,002 | 63,353 | 56,547 | 54,073 | 50,574 | 46,922 | 42,904 | 42,314 | 38,676 |
| Professional and consulting costs | **33,320** | 29,027 | 26,816 | 22,350 | 13,627 | 12,462 | 12,297 | 8,450 | 8,426 | 11,063 |
| Marketing and supplies | **29,760** | 28,496 | 19,432 | 17,948 | 15,156 | 12,561 | 12,346 | 9,780 | 10,508 | 11,030 |
| Deposit guarantee fee | **29,417** | 20,210 | 14,156 | 15,236 | 15,784 | 11,836 | 15,985 | 15,234 | 12,739 | 9,925 |
| ATB agencies | **8,492** | 9,339 | 8,255 | 7,119 | 6,155 | 5,748 | 5,725 | 5,277 | 4,713 | 4,329 |
| Other | **17,448** | 9,159 | 17,116 | 10,706 | 10,749 | 8,020 | 7,536 | 9,136 | 7,802 | 7,046 |
| | **633,087** | 549,381 | 482,289 | 418,463 | 365,335 | 325,673 | 315,909 | 287,771 | 268,606 | 239,762 |
| **Net income** | **$ 6,412** | $ 29,985 | $ 274,388 | $ 198,721 | $ 187,313 | $ 172,024 | $ 198,904 | $ 157,926 | $ 161,469 | $ 228,490 |

## Consolidated Statement of Changes in Equity and Other Comprehensive Income

| ($ in thousands) | 2009 | 2008 | 2007 | 2006 | 2005 | 2004 | 2003 | 2002 | 2001 | 2000 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Retained earnings at beginning of year** | **$ 1,643,341** | $ 1,623,383 | $ 1,348,995 | $ 1,150,274 | $ 962,961 | $ 790,937 | $ 592,033 | $ 434,107 | $ 272,638 | $ 44,148 |
| Transition adjustment on adoption of new financial instruments accounting standards effective April 1, 2007 | - | (10,027) | - | - | - | - | - | - | - | - |
| Adjusted balance as at April 1 | **1,643,341** | 1,613,356 | 1,348,995 | 1,150,274 | 962,961 | 790,937 | 592,033 | 434,107 | 272,638 | 44,148 |
| Net income | **6,412** | 29,985 | 274,388 | 198,721 | 187,313 | 172,024 | 198,904 | 157,926 | 161,469 | 228,490 |
| **Retained earnings at end of year** | **1,649,753** | 1,643,341 | 1,623,383 | 1,348,995 | 1,150,274 | 962,961 | 790,937 | 592,033 | 434,107 | 272,638 |
| **Accumulated other comprehensive income at beginning of year** | **25,111** | - | - | - | - | - | - | - | - | - |
| Transition adjustment on adoption of new financial instruments accounting standards effective April 1, 2007 | - | 3,461 | - | - | - | - | - | - | - | - |
| Adjusted balance as at April 1 | **25,111** | 3,461 | - | - | - | - | - | - | - | - |
| Increase in other comprehensive income | **83,820** | 21,650 | - | - | - | - | - | - | - | - |
| **Accumulated other comprehensive income at end of year** | **108,931** | 25,111 | - | - | - | - | - | - | - | - |
| **Equity** | **$ 1,758,684** | $ 1,668,452 | $ 1,623,383 | $ 1,348,995 | $ 1,150,274 | $ 962,961 | $ 790,937 | $ 592,033 | $ 434,107 | $ 272,638 |

## Consolidated Statement of Cash Flows

| *For the years ended March 31* *($ in thousands)* | **2009** | 2008 | 2007 | 2006 | 2005 | 2004 | 2003 | 2002 | 2001 | 2000 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Cash flows from operating activities** | | | | | | | | | | |
| Net income | **$ 6,412** | $ 29,985 | $ 274,388 | $ 198,721 | $ 187,313 | $ 172,024 | $ 198,904 | $ 157,926 | $ 161,469 | $ 228,490 |
| Adjustments to determine net cash flows: | | | | | | | | | | |
| Provision for (recovery of) credit losses | **42,712** | 12,906 | (5,211) | 688 | (14,594) | 15,859 | (43,211) | 21,095 | 20,969 | (41,821) |
| Amortization | **46,795** | 32,666 | 29,218 | 27,886 | 25,862 | 24,676 | 20,107 | 17,419 | 16,379 | 14,041 |
| Net changes in accrued interest receivable and payable | **42,112** | (26,783) | 2,217 | (2,620) | (10,263) | 9,138 | 12,604 | 4,867 | 14,233 | (3,255) |
| Net changes in derivative financial instruments | **(33,505)** | 17,653 | 6,595 | 3,712 | 2,299 | 7,348 | (1,783) | (7,092) | (12,073) | (8,634) |
| Provision for loss on asset-backed commercial paper | **224,816** | 253,133 | - | - | - | - | - | - | - | - |
| Gain on sale of securitized residential mortgage loans | **(53,311)** | - | - | - | - | - | - | - | - | - |
| Other items, net | **112,749** | 40,913 | (130,810) | 46,775 | (7,620) | 6,344 | (47,996) | 33,531 | 13,578 | (15,293) |
| Net cash provided by operating activities | **388,780** | 360,473 | 176,397 | 275,162 | 182,997 | 235,389 | 138,625 | 227,746 | 214,555 | 173,528 |
| **Cash flows from financing activities** | | | | | | | | | | |
| Net change in deposits | **2,712,857** | 2,939,760 | 2,382,530 | 2,030,276 | 804,912 | 938,209 | 671,701 | 506,347 | 994,237 | 902,316 |
| Issuance of subordinated debentures | **-** | 15,990 | 13,401 | 15,785 | 27,822 | - | 15,234 | 12,738 | 9,925 | 7,519 |
| Repayment of subordinated debentures | **(15,985)** | (15,234) | (12,738) | (9,925) | (7,519) | - | - | - | - | - |
| Net change in securities sold under repurchase agreements | **286,404** | - | - | - | - | - | - | - | - | - |
| Net cash provided by financing activities | **2,983,276** | 2,940,516 | 2,383,193 | 2,036,136 | 825,215 | 938,209 | 686,935 | 519,085 | 1,004,162 | 909,835 |
| **Cash flows from investing activities** | | | | | | | | | | |
| Net change in interest-bearing deposits with financial institutions | **(587,214)** | (910,659) | (40,826) | (49,427) | 29,483 | (377,120) | 172,662 | 250 | (260,374) | (56,474) |
| Purchase of investment securities | **(2,772,652)** | (12,628,696) | (19,156,941) | (11,008,614) | (7,910,221) | (7,802,340) | (6,653,500) | (8,595,386) | (6,762,829) | (5,100,139) |
| Proceeds from investment securities | **2,583,889** | 12,806,956 | 18,853,564 | 10,559,681 | 7,832,707 | 7,526,193 | 6,882,443 | 8,713,773 | 6,531,860 | 4,938,394 |
| Net change in loans, excluding securitization | **(3,255,323)** | (2,491,160) | (2,142,424) | (1,709,465) | (992,270) | (455,430) | (1,247,708) | (867,406) | (641,646) | (854,978) |
| Net proceeds from loan securitizations | **1,045,462** | - | - | - | - | - | - | - | - | - |
| Net purchases of premises and equipment | **(124,061)** | (63,980) | (72,300) | (52,298) | (42,913) | (36,370) | (26,768) | (17,897) | (26,946) | (23,486) |
| Net cash used in investing activities | **(3,109,899)** | (3,287,539) | (2,558,927) | (2,260,123) | (1,083,214) | (1,145,067) | (872,871) | (766,666) | (1,159,935) | (1,096,683) |
| **Net increase (decrease) in cash** | **262,157** | 13,450 | 663 | 51,175 | (75,002) | 28,531 | (47,311) | (19,835) | 58,782 | (13,320) |
| **Cash at beginning of year** | **91,567** | 78,117 | 77,454 | 26,279 | 101,281 | 72,750 | 120,061 | 139,896 | 81,114 | 94,434 |
| **Cash at end of year** | **$ 353,724** | $ 91,567 | $ 78,117 | $ 77,454 | $ 26,279 | $ 101,281 | $ 72,750 | $ 120,061 | $ 139,896 | $ 81,114 |
| Supplementary cash flow information: | | | | | | | | | | |
| Amount of interest paid during the year | **$ 549,229** | $ 638,758 | $ 483,563 | $ 355,715 | $ 307,942 | $ 341,462 | $ 335,260 | $ 378,411 | $ 401,759 | $ 359,661 |

# CONSOLIDATED FINANCIAL STATEMENTS INDEX

# Statement of Responsibility for Financial Reporting

The consolidated financial statements of Alberta Treasury Branches (ATB Financial or ATB) and all other information contained in the annual report, including management's discussion and analysis of ATB's operating results and financial position (MD&A), have been prepared and presented by management, who are responsible for the integrity and fair presentation of the information therein. The consolidated financial statements have been prepared in accordance with Canadian Generally Accepted Accounting Principles.

Other financial information presented in this annual report is consistent with that in the consolidated financial statements. The consolidated financial statements, the MD&A, and related financial information presented in this annual report reflect amounts determined by management based on informed judgments and estimates as to the expected future effects of current events and transactions with appropriate consideration to materiality.

Management is responsible for the design and maintenance of an accounting and financial reporting system along with the supporting systems of internal controls designed to provide reasonable assurance as to the reliability of financial information, that transactions are properly authorized and recorded, and liabilities are recognized, and to ensure ATB's assets are appropriately safeguarded. These controls include written policies and procedures, the careful selection and training of qualified staff, a corporate code of conduct, and the establishment of organizational structures with well-defined delegations of authority that provide appropriately defined divisions of responsibilities and accountabilities for performances.

The Vice-President Internal Audit and his team of internal auditors periodically review and evaluate all aspects of ATB's operations and, in particular, its systems of internal controls. The Vice-President Internal Audit has full and unrestricted access to, and meets regularly with, the Audit Committee to discuss the results of his team's work.

The Board of Directors, acting through the Audit Committee, oversees management's responsibilities for ATB's financial reporting and systems of internal control. The Audit Committee reviews the consolidated financial statements and other financial information presented in the quarterly and annual reports, as well as any issues related to them, with both management and the external auditors before recommending the consolidated financial statements for approval to the Board. Their review of the consolidated financial statements includes an assessment of key management estimates and judgments material to the financial results. The Audit Committee also assesses the effectiveness of internal controls over the accounting and financial reporting systems.

The Auditor General of Alberta has been engaged to perform an independent, external audit of these consolidated financial statements in accordance with Canadian generally accepted auditing standards and has expressed his opinion in the report following. The Auditor General has full and unrestricted access to the Audit Committee and meets with them periodically, both in the presence and absence of management, to discuss their audit, including any findings as to the integrity of ATB's financial reporting processes and the adequacy of our systems of internal controls.

**Bob Splane**

Chairman of the Board
Edmonton, Alberta
May 19, 2009

**Dave Mowat**

President and Chief Executive Officer
Edmonton, Alberta
May 19, 2009

**Jim McKillop**

Chief Financial Officer
Edmonton, Alberta
May 19, 2009

# Auditor's Report

*The official version of this Report of the Auditor General, and the information the Report covers, is in printed form.*

**To the Minister of Finance and Enterprise:**

I have audited the Consolidated Balance Sheet of Alberta Treasury Branches as at March 31, 2009, and the Consolidated Statements of Income, Changes in Equity and Other Comprehensive Income, and Cash Flows for the year then ended. These consolidated financial statements are the responsibility of Alberta Treasury Branches' management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these consolidated financial statements present fairly, in all material respects, the financial position of Alberta Treasury Branches as at March 31, 2009, and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

*Original Signed by Fred J. Dunn, FCA*
Auditor General

Edmonton, Alberta
May 19, 2009

# Consolidated Balance Sheet

| *As at March 31*<br>*($ in thousands)* | 2009 | 2008 |
|---|---|---|
| **Assets** | | |
| **Cash resources** *(Note 7)* | | |
| Cash | $ 353,724 | $ 91,567 |
| Interest-bearing deposits with financial institutions | 2,516,489 | 1,928,230 |
| | 2,870,213 | 2,019,797 |
| **Securities** *(Note 8)* | 1,228,305 | 1,253,518 |
| **Loans** *(Notes 9 and 10)* | | |
| Residential mortgages | 7,368,397 | 7,719,066 |
| Business | 8,958,493 | 7,347,110 |
| Personal | 4,926,582 | 4,089,104 |
| Credit card | 541,940 | 450,007 |
| Allowance for credit losses | (193,177) | (161,770) |
| | 21,602,235 | 19,443,517 |
| **Other** | | |
| Premises and equipment (*Note 12)* | 286,141 | 208,875 |
| Derivative financial instruments *(Note 18)* | 258,694 | 109,250 |
| Other assets *(Note 13)* | 268,555 | 308,196 |
| | 813,390 | 626,321 |
| | $ 26,514,143 | $ 23,343,153 |
| **Liabilities and equity** | | |
| **Deposits** *(Note 14)* | | |
| Personal | $ 10,797,569 | $ 9,757,840 |
| Business and other | 10,158,290 | 8,035,590 |
| Wholesale | 2,925,387 | 3,382,286 |
| | 23,881,246 | 21,175,716 |
| **Other liabilities** | | |
| Securities sold under repurchase agreements | 286,404 | - |
| Derivative financial instruments *(Note 18)* | 127,518 | 82,390 |
| Other liabilities *(Note 15)* | 403,278 | 343,597 |
| | 817,200 | 425,987 |
| **Subordinated debentures** (*Note 16)* | 57,013 | 72,998 |
| **Equity** | | |
| Retained earnings | 1,649,753 | 1,643,341 |
| Accumulated other comprehensive income *(Note 22)* | 108,931 | 25,111 |
| | 1,758,684 | 1,668,452 |
| | $ 26,514,143 | $ 23,343,153 |

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

Approved by the Board:

**Bob Splane**
Chairman of the Board

**Brian McCook**
Chairman of the Audit Committee

# Consolidated Statement of Income

| *For the years ended March 31* *($ in thousands)* | 2009 | 2008 | 2007 |
|---|---|---|---|
| **Interest income** | | | |
| Loans | $ 1,099,173 | $ 1,155,845 | $ 960,074 |
| Interest-bearing deposits with financial institutions | 60,828 | 74,836 | 46,615 |
| Securities | 34,986 | 71,883 | 71,593 |
| | 1,194,987 | 1,302,564 | 1,078,282 |
| **Interest expense** | | | |
| Deposits | 544,808 | 639,981 | 503,143 |
| Subordinated debentures | 2,616 | 3,173 | 3,334 |
| Securities sold under repurchase agreements | 218 | - | - |
| | 547,642 | 643,154 | 506,477 |
| **Net interest income** | 647,345 | 659,410 | 571,805 |
| **Other income** | | | |
| Service charges | 69,748 | 69,891 | 68,241 |
| Credit fees | 11,240 | 10,627 | 29,738 |
| Investor Services | 36,749 | 38,427 | 28,526 |
| Card fees | 44,942 | 35,764 | 27,919 |
| Foreign exchange | 10,043 | 11,763 | 8,625 |
| Insurance | 22,346 | 11,525 | 10,789 |
| Sundry | 208 | 5,465 | 4,047 |
| Gains on derivative financial instruments, net | 10,597 | 2,533 | 1,776 |
| Securitization income *(Note 11)* | 53,809 | - | - |
| | 259,682 | 185,995 | 179,661 |
| **Operating revenue before the undernoted** | 907,027 | 845,405 | 751,466 |
| Provision for loss on asset-backed commercial paper *(Note 8)* | (224,816) | (253,133) | - |
| **Total operating revenue** | 682,211 | 592,272 | 751,466 |
| **Provision for (recovery of) credit losses** *(Note 10)* | 42,712 | 12,906 | (5,211) |
| **Non-interest expenses** | | | |
| Salaries and employee benefits *(Notes 17 and 20)* | 333,028 | 297,404 | 258,192 |
| Data processing | 73,622 | 67,212 | 60,176 |
| Premises and occupancy, including amortization | 55,418 | 47,831 | 43,078 |
| Marketing and supplies | 29,760 | 28,496 | 19,432 |
| Professional and consulting costs | 33,320 | 29,027 | 26,816 |
| Equipment and software, including amortization | 33,897 | 22,171 | 20,275 |
| Deposit guarantee fee | 29,417 | 20,210 | 14,156 |
| Communication | 18,685 | 18,532 | 14,793 |
| ATB agencies | 8,492 | 9,339 | 8,255 |
| Other | 17,448 | 9,159 | 17,116 |
| | 633,087 | 549,381 | 482,289 |
| **Net income** | $ 6,412 | $ 29,985 | $ 274,388 |

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

# Consolidated Statement of Changes in Equity and Other Comprehensive Income

| *($ in thousands)* | Retained earnings | Accumulated other comprehensive income (loss) | Total equity |
|---|---|---|---|
| **Equity as at March 31, 2008** | $ 1,643,341 | $ 25,111 | $ 1,668,452 |
| **Net income for the year ended March 31, 2009** | 6,412 | - | 6,412 |
| **Other comprehensive income (loss) for the year ended March 31, 2009** | | | |
| Change in unrealized gains and (losses) on available-for-sale securities and interest-bearing deposits with financial institutions, net of cash flow hedges | - | 5,751 | 5,751 |
| Reclassification to earnings in respect of available-for-sale securities and interest-bearing deposits with financial institutions | - | 7,257 | 7,257 |
| Changes in gains and (losses) on derivative financial instruments designated as cash flow hedges | - | 104,377 | 104,377 |
| Reclassification to earnings of gains and (losses) on cash flow hedges | - | (33,565) | (33,565) |
| | - | 83,820 | 83,820 |
| **Comprehensive income for the year ended March 31, 2009** | | | 90,232 |
| **Equity as at March 31, 2009** | $ 1,649,753 | $ 108,931 | $ 1,758,684 |
| | | | |
| Equity as at March 31, 2007 | $ 1,623,383 | $ - | $ 1,623,383 |
| Transition adjustment on adoption of new financial instruments accounting standards effective April 1, 2007 | (10,027) | 3,461 | (6,566) |
| Adjusted balance as at April 1, 2007 | 1,613,356 | 3,461 | 1,616,817 |
| Net income for the year ended March 31, 2008 | 29,985 | - | 29,985 |
| Other comprehensive income (loss) for the year ended March 31, 2008 | | | |
| Change in unrealized gains and (losses) on available-for-sale securities and interest-bearing deposits with financial institutions, net of cash flow hedges | - | (543) | (543) |
| Reclassification to earnings in respect of available-for-sale securities and interest-bearing deposits with financial institutions | - | (3) | (3) |
| Changes in gains and (losses) on derivative financial instruments designated as cash flow hedges | - | 16,543 | 16,543 |
| Reclassification to earnings of gains and (losses) on cash flow hedges | - | 5,653 | 5,653 |
| | - | 21,650 | 21,650 |
| Comprehensive income for the year ended March 31, 2008 | | | 51,635 |
| Equity as at March 31, 2008 | $ 1,643,341 | $ 25,111 | $ 1,668,452 |

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

# Consolidated Statement of Cash Flows

| *For the years ended March 31* *($ in thousands)* | 2009 | 2008 | 2007 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Net income | $ 6,412 | $ 29,985 | $ 274,388 |
| Adjustments to determine net cash flows: | | | |
| Provision for (recovery of) credit losses | 42,712 | 12,906 | (5,211) |
| Amortization | 46,795 | 32,666 | 29,218 |
| Net changes in accrued interest receivable and payable | 42,112 | (26,783) | 2,217 |
| Net changes in derivative financial instruments | (33,505) | 17,653 | 6,595 |
| Provision for loss on asset-backed commercial paper | 224,816 | 253,133 | - |
| Gain on sale of securitized residential mortgage loans | (53,311) | - | - |
| Other items, net | 112,749 | 40,913 | (130,810) |
| Net cash provided by operating activities | 388,780 | 360,473 | 176,397 |
| **Cash flows from financing activities** | | | |
| Net change in deposits | 2,712,857 | 2,939,760 | 2,382,530 |
| Issuance of subordinated debentures | - | 15,990 | 13,401 |
| Repayment of subordinated debentures | (15,985) | (15,234) | (12,738) |
| Net change in securities sold under repurchase agreements | 286,404 | - | - |
| Net cash provided by financing activities | 2,983,276 | 2,940,516 | 2,383,193 |
| **Cash flows from investing activities** | | | |
| Net change in interest-bearing deposits with financial institutions | (587,214) | (910,659) | (40,826) |
| Purchase of investment securities | (2,772,652) | (12,628,696) | (19,156,941) |
| Proceeds from investment securities | 2,583,889 | 12,806,956 | 18,853,564 |
| Net change in loans, excluding securitization | (3,255,323) | (2,491,160) | (2,142,424) |
| Net proceeds from loan securitizations | 1,045,462 | - | - |
| Net purchases of premises and equipment | (124,061) | (63,980) | (72,300) |
| Net cash used in investing activities | (3,109,899) | (3,287,539) | (2,558,927) |
| **Net increase in cash** | 262,157 | 13,450 | 663 |
| Cash at beginning of year | 91,567 | 78,117 | 77,454 |
| **Cash at end of year** | $ 353,724 | $ 91,567 | $ 78,117 |
| | | | |
| Supplementary cash flow information: | | | |
| Amount of interest paid during the year | $ 549,229 | $ 638,758 | $ 483,563 |

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

## 1. Authority

Alberta Treasury Branches (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.

ATB is exempt from Canadian federal and Alberta provincial income taxes. Its primary business is providing financial services within Alberta.

## 2. Basis of Presentation

Management has prepared these consolidated financial statements in accordance with Canadian Generally Accepted Accounting Principles (GAAP).

### Use of Estimates and Assumptions

The preparation of financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of balance sheet assets and liabilities and the disclosure of contingent assets and liabilities as at the balance sheet date, as well as the reported amounts of revenues and expenses during the reported period. Actual results could differ significantly from these estimates, and the impact of any such differences will be recorded in future periods.

The most significant amounts and disclosures where ATB must make estimates include the allowances for credit losses, the fair value of financial instruments, asset securitization, amortization of premises and equipment, assumptions underlying the accounting for employee future benefit obligations, and the provision for contingencies.

### Basis of Consolidation

These consolidated financial statements include the assets, liabilities, and results of operations and cash flows of ATB and its subsidiaries. All inter-company transactions and balances have been eliminated from the consolidated results.

The following wholly owned subsidiaries, created for the purpose of offering investor services, are established by Order in Council and incorporated under the Business Corporations Act (Alberta):

- ATB Investment Services Inc., incorporated October 3, 1997
- ATB Investment Management Inc., incorporated August 21, 2002
- ATB Securities Inc., incorporated February 6, 2003
- ATB Insurance Advisors Inc., incorporated July 21, 2006

### Translation of Foreign Currencies

Assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the exchange rate in effect as at the balance sheet date. Operating revenue and expenses related to foreign currency transactions are translated using the average exchange rate for the period. Realized and unrealized gains and losses arising from these translations are included in foreign exchange in the Consolidated Statement of Income.

### Classification and Measurement of Financial Instruments

ATB classifies financial instruments as held for trading (HFT), held to maturity (HTM), available for sale (AFS) or loans and receivables for all financial assets, and as either held for trading (HFT) or other liabilities for all financial liabilities. On initial recognition, financial assets and liabilities are recognized at fair value. Any subsequent valuation of financial instruments is based on their classification as disclosed in the notes to the consolidated financial statements. Financial instruments classified as HFT or AFS are measured at fair value. Those financial instruments classified as HTM, loans and receivables, and other liabilities are valued at amortized cost using the effective-interest-rate method.

#### Held for Trading

Financial assets and liabilities classified as HFT are measured on the Consolidated Balance Sheet at fair value, with changes in fair value (unrealized gains or losses) recorded in net income in the Consolidated Statement of Income. Unrealized gains and losses from changes in fair value or realized gains or losses on disposal are accounted for as other income. Any interest earned (or incurred) continues to be recognized on an accrual basis as interest income (or expense).

A financial asset or liability may also be irrevocably designated as HFT under the fair value option when it is first recognized. Financial instruments accounted for under the fair value option are measured at fair value and any changes in fair value are recorded in other income in the Consolidated Income Statement.

### Available for Sale

Financial assets classified as AFS are measured on the Consolidated Balance Sheet at fair value, with changes in fair value (unrealized gains or losses), including any foreign exchange component, being recognized in other comprehensive income rather than net income. Unrealized gains and losses from changes in fair value are not ordinarily recognized in income but are recognized in accumulated other comprehensive income (AOCI) until maturity or sale, when the cumulative gain or loss on disposal is transferred to the Consolidated Statement of Income as other income. In the event of an other-than-temporary impairment in fair value, the impairment in fair value of the asset is recognized in net income in the period of impairment. Any interest is recognized on an accrual basis as interest income.

### Held to Maturity

ATB may classify non-derivative financial assets as HTM if the assets have fixed or determinable payments, a fixed term to maturity, and if ATB has the ability and intention to hold the assets to maturity. HTM assets are measured at amortized cost using the effective-interest-rate method.

### Loans and Receivables

Financial assets classified as loans and receivables are accounted for at amortized cost using the effective-interest-rate method.

### Financial Liabilities

Financial liabilities, except for derivatives, are measured at amortized cost using the effective-interest-rate method unless classified as HFT (or designated as such under the fair value option).

### Effective Yield

Origination, restructuring and renegotiation fees, and incremental direct costs relating to the origination of loans are deferred as received and amortized into income using the effective-interest-rate method. This method incorporates management's best estimate regarding expected future cash flows and the impact of off-market interest rates in the determination of amortized costs.

### Comprehensive Income and Accumulated Other Comprehensive Income

Comprehensive income includes net income and other comprehensive income. For ATB, other comprehensive income includes net unrealized gains and losses on securities and interest-bearing deposits with financial institutions classified as AFS and changes in fair value of the effective portion of cash flow hedging derivative financial instruments.

Amounts recognized in other comprehensive income will eventually be reclassified to the Consolidated Statement of Income and reflected in net income as gains or losses once securities and interest-bearing deposits with financial institutions classified as AFS mature or are sold, any existing other-than-temporary impairments are recognized, or as cash flow hedging derivative financial instruments become ineffective.

### Securities Sold under Repurchase Agreements

Securities sold under repurchase agreements are treated as collateralized borrowings. Interest expense is accrued and recorded on the Consolidated Income Statement.

### Other

ATB recognizes investment transactions relating to its securities portfolio on a settlement date basis.

### Other Significant Accounting Policies

Other significant accounting policies followed in preparing these consolidated financial statements are disclosed throughout the following notes, along with the related financial disclosures.

### Comparative Amounts

Certain comparative amounts have been reclassified where necessary to conform to the presentation adopted in the current year.

## 3. Changes in Accounting Policies

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

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

Section 1535 requires ATB to disclose certain qualitative and quantitative information regarding objectives, policies, and processes for management of capital, as well as compliance with externally imposed capital requirements. Note 6 to the consolidated financial statements includes information related to this new standard.

Sections 3862 and 3863 replace section 3861, Financial Instruments – Disclosure and Presentation, and provide enhanced disclosure requirements relative to financial instruments. Specifically, they require additional disclosure about the nature and extent of risks associated with financial instruments and how those risks are managed. This enhanced disclosure is provided in Note 5 and in a number of other notes to the consolidated financial statements (Notes 4, 8, 18, and 19).

### Credit Risk and the Fair Value of Financial Assets and Financial Liabilities

In January 2009, the Emerging Issues Committee issued EIC-173, "Credit risk and fair value of financial assets and financial liabilities." This EIC states that an entity's own credit risk and the credit risk of the counterparty should be taken into account in determining the fair value of financial assets and financial liabilities, including derivative instruments. ATB estimates that the impact of EIC-173 is not material, and is nevertheless continuing to improve its measurement models.

## 4. Carrying Value and Fair Value of Financial Instruments

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 tables summarize ATB's financial instrument classifications and provide their carrying values:

*As at March 31, 2009*
*($ in thousands)*

| | Carrying value | | | | | | |
|---|---|---|---|---|---|---|---|
| | Held-for-trading assets and liabilities measured at fair value | Available-for-sale instruments measured at fair value | Loans and receivables measured at amortized cost | Held-to-maturity instruments measured at amortized cost | Financial liabilities measured at amortized cost | Derivatives designated for hedge accounting | **Total carrying value** |
| **Financial assets** | | | | | | | |
| Cash | $ 353,724 | $ - | $ - | $ - | $ - | $ - | $ 353,724 (1) |
| Interest-bearing deposits with financial institutions | 1,221 | 2,515,268 | - | - | - | - | 2,516,489 (1) |
| Securities | 629,192 | 599,113 | - | - | - | - | 1,228,305 (1) |
| Loans | | | | | | | |
| Residential mortgages | - | - | 7,368,397 | - | - | - | 7,368,397 |
| Business | - | - | 8,958,493 | - | - | - | 8,958,493 |
| Personal | - | - | 4,926,582 | - | - | - | 4,926,582 |
| Credit card | - | - | 541,940 | - | - | - | 541,940 |
| Allowance for credit losses | - | - | (193,177) | - | - | - | (193,177) |
| | - | - | 21,602,235 | - | - | - | 21,602,235 (2) |
| Other | | | | | | | |
| Derivative financial instruments | 120,079 | - | - | - | - | 138,615 | 258,694 |
| Other assets | - | - | 210,009 | - | - | - | 210,009 |
| | 120,079 | - | 210,009 | - | - | 138,615 | 468,703 (1) |
| **Financial liabilities** | | | | | | | |
| Deposits | | | | | | | |
| Personal | - | - | - | - | (10,797,569) | - | (10,797,569) |
| Business and other | - | - | - | - | (10,158,290) | - | (10,158,290) |
| Wholesale | - | - | - | - | (2,925,387) | - | (2,925,387) |
| | - | - | - | - | (23,881,246) | - | (23,881,246) (3) |
| Other | | | | | | | |
| Securities sold under repurchase agreements | - | - | - | - | (286,404) | - | (286,404) |
| Derivative financial instruments | (112,926) | - | - | - | - | (14,592) | (127,518) |
| Other liabilities | - | - | - | - | (373,554) | - | (373,554) |
| | (112,926) | - | - | - | (659,958) | (14,592) | (787,476) (1) |
| Subordinated debentures | - | - | - | - | (57,013) | - | (57,013) (4) |

*(1) Fair value approximates carrying value.*
*(2) Fair value of loans estimated to be $22,743,383.*
*(3) Fair value of deposits estimated to be $24,203,643.*
*(4) Fair value of subordinated debentures estimated to be $60,789.*

| *As at March 31, 2008* | | | | | | | |
|---|---|---|---|---|---|---|---|
| *($ in thousands)* | **Carrying value** | | | | | | |
| | Held-for-trading assets and liabilities measured at fair value | Available-for-sale instruments measured at fair value | Loans and receivables measured at amortized cost | Held-to-maturity instruments measured at amortized cost | Financial liabilities measured at amortized cost | Derivatives designated for hedge accounting | **Total carrying value** |
| **Financial assets** | | | | | | | |
| Cash | $ 91,567 | $ - | $ - | $ - | $ - | $ - | $ 91,567 (1) |
| Interest-bearing deposits with financial institutions | 65,696 | 1,862,534 | - | - | - | - | 1,928,230 (1) |
| Securities | 37,684 | 1,180,351 | - | 35,483 | - | - | 1,253,518 (2) |
| Loans | | | | | | | |
| Residential mortgages | - | - | 7,719,066 | - | - | - | 7,719,066 |
| Business | - | - | 7,347,110 | - | - | - | 7,347,110 |
| Personal | - | - | 4,089,104 | - | - | - | 4,089,104 |
| Credit card | - | - | 450,007 | - | - | - | 450,007 |
| Allowance for credit losses | - | - | (161,770) | - | - | - | (161,770) |
| | - | - | 19,443,517 | - | - | - | 19,443,517 (3) |
| Other | | | | | | | |
| Derivative financial instruments | 78,510 | - | - | - | - | 30,740 | 109,250 |
| Other assets | - | - | 287,370 | - | - | - | 287,370 |
| | 78,510 | - | 287,370 | - | - | 30,740 | 396,620 (1) |
| **Financial liabilities** | | | | | | | |
| Deposits | | | | | | | |
| Personal | - | - | - | - | (9,757,840) | - | (9,757,840) |
| Business and other | - | - | - | - | (8,035,590) | - | (8,035,590) |
| Wholesale | - | - | - | - | (3,382,286) | - | (3,382,286) |
| | - | - | - | - | (21,175,716) | - | (21,175,716) (4) |
| Other | | | | | | | |
| Derivative financial instruments | (76,598) | - | - | - | - | (5,792) | (82,390) |
| Other liabilities | - | - | - | - | (338,818) | - | (338,818) |
| | (76,598) | - | - | - | (338,818) | (5,792) | (421,208) (1) |
| Subordinated debentures | - | - | - | - | (72,998) | - | (72,998) (5) |

*(1) Fair value approximates carrying value.*
*(2) Fair value of securities estimated to be $1,253,547.*
*(3) Fair value of loans estimated to be $19,878,910.*
*(4) Fair value of deposits estimated to be $21,240,537.*
*(5) Fair value of subordinated debentures estimated to be $74,865.*

The fair values are determined as at the balance sheet date using the valuation methods and assumptions described below. These fair values may change in subsequent reporting periods due to market conditions or other factors.

### Estimated Fair Value

The fair value of a financial instrument is the amount of consideration that would be agreed upon in an arm's-length transaction between knowledgeable and willing parties who are under no compulsion to act. For those instruments with an available market price, fair value is established by reference to the last traded price prior to the balance sheet date. Some of ATB's financial instruments lack such an available trading market, and the associated fair value is based on valuation models or by reference to other similar products in an active market. Fair values determined using valuation models require the use of assumptions. These assumptions are primarily based on observable market information, but in limited cases there may be no observable market information on which to base these assumptions. As detailed in Note 8 to these statements, in determining the fair value of third-party-sponsored asset-backed commercial paper (ABCP) and certain bank-sponsored ABCP, ATB has made assumptions about the current market discount rate.

### Financial Instruments Whose Book Value Approximates Fair Value

For items that are short term in nature, the estimated fair value is considered to be equal to their carrying value. These include cash, other assets, securities sold under repurchase agreements, and other liabilities.

### Securities and Interest-Bearing Deposits with Financial Institutions

The fair values of securities and interest-bearing deposits with financial institutions are based on quoted market prices, if available. Where an active market does not exist, the fair value is determined using a valuation technique that makes maximum use of observable market data. (Refer to Note 8 for additional information on the fair value of non-bank- and bank-sponsored ABCP.)

### Derivative Instruments

Refer to Note 18 for methods used to determine the fair value of derivative instruments.

### Loans and Deposits

For floating-rate financial instruments, fair value is equal to carrying value as the interest rates automatically re-price to market. For fixed-rate loans, fair value is determined by discounting the expected future cash flows at market rates. For fixed-rate deposits, fair value is determined by discounting the contractual cash flows using market interest rates currently offered for deposits with similar terms. Due to the use of subjective assumptions and uncertainties, the fair value amounts should not be interpreted as being realizable in an immediate settlement of these instruments.

### Subordinated Debentures

The fair value of subordinated debentures is determined by discounting contractual cash flows using market reference rates currently offered for debt instruments with similar terms and credit risk ratings.

## 5. Risk Management

Through its various business activities, ATB is exposed to credit risk, liquidity risk, market risk, operational risk, and reputational risk. ATB employs a risk management framework to mitigate these risks.

### Risk Management Framework

ATB Financial employs a three-tier risk governance framework that comprises the following:

**Risk Management**

The first tier of risk governance, risk management, is provided by the Board-appointed Risk Committee. The Board sets ATB's risk appetite and approves policies and frameworks covering risks with potential company-wide consequences and strategy for managing risk. The Board is supported by the CEO and members of the Corporate Management Committee, who have primary responsibility for understanding and identifying the risks generated by their business lines and support units and managing those risks. The overriding goal of the first tier is to drive responsibility for risk management down to the level of risk-generating activities and functions.

**Risk Control**

The second tier, risk control, is provided by the Risk Committee, which is supported by the Risk Management, Finance, and Legal departments. These departments provide technical support and advice to assist in identifying and managing risk. Their roles include formulating and implementing risk policies and frameworks, developing risk assessment and analysis methodologies, as well as risk approval, risk monitoring, risk reporting, and escalating risk issues relating to ATB's business lines and support units.

**Risk Assurance**

The third tier, risk assurance, provides independent objective assurance on the effectiveness of the management and control of risk across the entire organization. This is provided through the Risk Committee and the Audit Committee and supported by Internal Audit.

The key committees and roles and responsibilities of our risk management governance structure are outlined in the Risk Management section of the MD&A.

### Credit Risk

Credit risk is the potential for financial loss in the event of the failure by a borrower or counterparty to honour financial or contractual obligations, including retail and commercial loans, guarantees, letters of credit, derivative contracts, securities, and interest-bearing deposits with financial institutions.

ATB maintains a "risk-managed" philosophy in respect to its business activities, including:

- Prudent lending policies and practices, and monitoring processes that provide reasonable assurance of ongoing compliance
- Participation in lending opportunities where management can demonstrate that it has the appropriate knowledge and skill set
- Management of a balance between risk, loan growth, and profits, striving to optimize loan growth within the boundaries of its risk appetite
- Accountability for risk within ATB

ATB manages credit exposure by:

- Managing both the credit risk inherent in the entire portfolio and the risk in individual credits or transactions
- Applying a conservative and disciplined approach to credit risk management through strategies, policies, and limits approved annually by the Risk Committee. Credit risk evaluation and related reporting are independent of operations, supporting the integrity of the monitoring and reporting processes
- Maintaining a diversified credit and investment portfolio. Though legislation restricts our lending operations to largely within the Alberta marketplace, we believe a diversified portfolio can be achieved by way of:
  - Policies and limits to ensure broad diversification across various types of credit risk
  - Policies that ensure the portfolio is not overly concentrated to any particular industry sector, single borrower, related borrower groups, loan type, or geographic region within Alberta
  - Managing an out-of-province syndicated loan exposure permitted under the ATB Regulation
- Using various internal and external credit-modelling techniques to supplement the risk analysis of our credit portfolios. The risk ratings assist in the approval process, the pricing of the loan facility, and the ongoing maintenance and evaluation of the non-consumer loan portfolio as a whole. Risk ratings are regularly assessed and updated
- Monitoring credit exposure on an ongoing basis in a manner commensurate with the related risk

Although collateral is not required in all credit exposures, and does not replace an assessment of a counterparty's ability to meet its obligations, it does serve as an effective risk mitigant. ATB has defined policies regarding collateral requirements. Generally, in lending arrangements collateral consists of accounts receivable, inventory, machinery and equipment, and real estate mortgages, as well as cash and marketable securities.

Exposures relative to derivatives are subject to specific credit risk mitigation measures. These include:

- Obtaining International Swaps and Derivatives Association, Inc. master agreements with counterparties. This agreement permits master netting of any credit exposure.
- Obtaining credit support annexes from counterparties. This agreement permits the exchange of collateral between counterparties to reduce possible increases in credit exposure.

Exposures relative to debt securities and interest-bearing deposits with financial instruments are managed by ensuring that ATB only transacts with eligible counterparties. Eligible counterparties are those with the required minimal credit rating and approval by the ATB Credit department.

Key measures of credit risk are outlined in the following tables.

### Total Credit Exposure

The amounts shown in the following table represent ATB's maximum exposure to credit risk.

| *As at March 31* | | | | **2009** | 2008 |
|---|---|---|---|---|---|
| *($ in thousands)* | **Outstanding** | **Undrawn commitments**(1) | **Other** | **Total** | Total |
| Loans (2) | $ 21,795,412 | $ 10,005,865 | $ - | $ 31,801,277 | $ 28,594,780 |
| Over-the-counter derivatives (3) | - | - | 137,901 | 137,901 | 103,738 |
| Other off-balance-sheet items (4) | - | - | 320,414 | 320,414 | 269,875 |
| **Total credit risk** | **$ 21,795,412** | **$ 10,005,865** | **$ 458,315** | **$ 32,259,592** | **$ 28,968,393** |

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

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

*(3) Derivative credit exposure is the fair value of all derivatives where ATB is in a favourable position, net of those contracts covered by a master netting agreement with the same counterparty that are in an unfavourable position and net of collateral held in the name of certain financial institutions. A master netting agreement allows ATB to net settle unfavourable contracts and reduce its net exposure in respect of favourable contracts with the same counterparty. Collateral held allows ATB to reduce its net exposure in respect of that counterparty. Credit risk related to derivatives is discussed further in Note 18.*

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

In addition to the previous table, ATB is exposed to credit risk on its holdings of $2.5 billion in interest-bearing deposits with financial institutions and $1.2 billion in securities (as detailed in Note 8).

### Loans Past Due

Loans classified as past due but not impaired are those loans where the counterparties have failed to make payments when contractually due but for which there is reasonable expectation from management of receiving full payment.

| *As at March 31, 2009* <br> *($ in thousands)* | Residential mortgages | Business | Personal | Credit card [1] | Total |
|---|---|---|---|---|---|
| Up to one month | $ 88,297 | $ 68,491 | $ 28,915 | $ 31,384 | $ 217,087 |
| Over one month up to two months | 8,667 | 5,573 | 8,289 | 7,177 | 29,706 |
| Over two months up to three months | 3,213 | 5,074 | 5,410 | 3,284 | 16,981 |
| Over three months | 624 | 2,667 | 2,187 | 4,717 | 10,195 |
| **Total past due but not impaired** | **$ 100,801** | **$ 81,805** | **$ 44,801** | **$ 46,562** | **$ 273,969** |

*(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 are past due for three consecutive billing cycles (approximately 90 days) are removed from the credit card portfolio and transferred into the applicable impaired loan category.*

### Impaired Loans

Loans are classified as impaired when there is no longer reasonable assurance of the timely collection of principal or interest. Loans are generally considered impaired when the loan principal or interest is 90 days or more past due from its contracted repayment date. Credit card loans are considered impaired when, for consumer balances, payments become 180 days past due, or for non-consumer balances, payments are past due for three billing cycles (approximately 90 days). Impaired loans consist of the following (refer to Note 9 for additional details):

| *As at March 31* <br> *($ in thousands)* | | | **2009** | 2008 |
|---|---|---|---|---|
| | **Gross impaired loans** | **Specific allowances** | **Net carrying value** | Net carrying value |
| Residential mortgages | **$ 29,959** | **$ 699** | **$ 29,260** | $ 13,377 |
| Personal | **16,312** | **3,408** | **12,904** | 4,613 |
| Agricultural | **4,812** | **719** | **4,093** | 9,300 |
| Independent business | **15,467** | **5,530** | **9,937** | 6,135 |
| Commercial | **9,268** | **5,967** | **3,301** | 194 |
| | **$ 75,818** | **$ 16,323** | **$ 59,495** | $ 33,619 |

### Concentration of Credit Risk

ATB faces credit risk from the risk of loss due to borrowers failing to meet their financial obligations. The loan portfolio represents the largest single source of credit risk to ATB, but credit risk also arises from the investment portfolio and off-balance-sheet transactions such as over-the-counter derivatives and other credit instruments (refer to Notes 7, 8, 18, and 19).

Concentrations of credit risk exist where a significant number of credit consumers are located in the same geographic region, engage in similar activities, or have similar economic characteristics. Their ability to meet their contractual obligations to ATB is similarly affected by changes in economic, political, or other conditions. ATB is inherently exposed to significant concentrations of credit risk as its customers are all participants in the Alberta economy, which, in past decades, 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 March 31, 2009, no single industry segment represents more than 26.8% of total gross business loans and no single borrower represents more than 0.5% of the total gross loan portfolio (2008: 23.8% and 0.5%, respectively).

To mitigate its credit exposure, ATB's loan portfolio is diversified across a number of customer and industry sectors as detailed in the following table:

| *As at March 31* | | 2009 | | 2008 |
|---|---|---|---|---|
| *($ in thousands)* | **Outstanding (1)** | **% of total** | Outstanding (1) | % of total |
| Individuals | | | | |
| Residential mortgages | **$ 7,367,698** | **34.1** | $ 7,718,547 | 39.7 |
| Personal | **5,249,626** | **24.3** | 4,346,644 | 22.4 |
| | **12,617,324** | **58.4** | 12,065,191 | 62.1 |
| Business and other | | | | |
| Mining and energy | **2,420,416** | **11.2** | 1,717,908 | 8.9 |
| Forestry, agricultural, and related services | **1,324,564** | **6.1** | 1,359,990 | 7.0 |
| Real estate | **1,274,393** | **5.9** | 862,556 | 4.4 |
| Accommodation, food, and beverage | **688,736** | **3.2** | 506,333 | 2.6 |
| Construction | **641,736** | **3.0** | 508,941 | 2.6 |
| Transportation, communication, and utilities | **527,283** | **2.4** | 448,498 | 2.3 |
| Manufacturing | **479,884** | **2.2** | 401,681 | 2.1 |
| Retail trade | **436,296** | **2.0** | 317,023 | 1.6 |
| Business services | **381,394** | **1.8** | 259,498 | 1.3 |
| Educational services, health, and social services | **320,055** | **1.5** | 235,758 | 1.2 |
| Finance and insurance | **253,006** | **1.2** | 176,870 | 0.9 |
| Wholesale trade | **198,041** | **0.9** | 165,941 | 0.9 |
| Other services | **114,477** | **0.5** | 474,756 | 2.4 |
| Other | **101,484** | **0.5** | 95,583 | 0.5 |
| | **9,161,765** | **42.4** | 7,531,336 | 38.7 |
| Total loans before general allowance for credit losses | **21,779,089** | **100.8** | 19,596,527 | 100.8 |
| General allowance for credit losses | **(176,854)** | **(0.8)** | (153,010) | (0.8) |
| Net carrying value | **$ 21,602,235** | **100.0** | $ 19,443,517 | 100.0 |

*(1) Outstanding amount includes credit card balances and specific allowances.*

## Liquidity Risk

Liquidity risk is the risk of ATB being unable to meet known financial commitments when they come due and being unable to meet unexpected cash requirements at a reasonable cost. As with 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 liquidity management policy ensures sufficient funds are available to sustain our ongoing operations, to meet our customers' needs (such as cash withdrawals or loan advances), and to satisfy other financial obligations. We take into account both our liquid assets on hand and our ability to raise additional funds at a reasonable cost to meet liquidity requirements.

ATB mitigates liquidity risk by:

- Establishing prudent liquidity risk management policies combined with effective processes, monitoring, and management systems
- Conducting regular forecasting scenarios to ensure adequate liquidity is available to meet cash flow fluctuations and to react to commitments
- Reporting liquidity regularly to ensure compliance with our limits and guidelines

ATB manages liquidity by:

- Using a variety of funding sources for liquidity, primarily our retail deposit base
- Encouraging growth in deposits from individuals, which provide a stable source of funding over the long term
- Participating in Canadian financial markets through the issuance of short- and mid-term notes
- Maintaining a large holding of liquid assets in proportion to anticipated demand
- Establishing access to other sources of liquidity—including Receiver General term deposit auctions and short-term credit facilities with other financial institutions—that can be used on short notice if additional funds are required
- Maintaining a securitization program to raise funds through the sale of residential mortgages

ATB's internal optimal target liquidity level is between 10% and 12%, with a targeted minimum liquidity level of 10%. At March 31, 2009, ATB maintained a minimum liquidity level above the internal optimal target level of 10%.

ATB has an obligation to repurchase securities sold under repurchase agreements totalling $286,404 within the next three months. (Refer to Notes 14 and 16 for details on the contractual maturity of ATB's deposits and subordinated debt.)

## 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. Financial institutions such as ATB are exposed to market risk in day-to-day operations such as investing, lending, and deposit-taking.

ATB does not undertake direct trading activities for its own portfolio, therefore the primary market risks that ATB is exposed to are interest rate and foreign exchange risk. ATB's possible exposure to equity and commodity risk (derived from certain product offerings) is also discussed below.

ATB's key market risks and their measurement as at March 31, 2009, are outlined below:

### Interest Rate Risk

Interest rate risk is the risk of a negative impact on ATB's net interest income (NII) and market value of equity (MVE) due to changes in interest rates. MVE represents the net present-value difference between the market value of our assets and the market value of our liabilities. Interest rate 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). ATB uses derivative financial instruments, such as interest rate swaps, and other capital market alternatives, such as repurchase agreements, to manage its interest rate risk.

Corporate Treasury is responsible for managing interest rate risk with oversight provided by the Senior Asset Liability Committee (Senior ALCO). The Risk Committee of the Board reviews our risk management policies and standards annually. The objective of interest rate risk management is to ensure stable and high-quality net interest income that will facilitate income growth over time.

Interest rate risk management encompasses the following:

- Developing and recommending interest rate risk management policies and limits
- Developing methods to measure and report interest rate risk
- Managing interest rate risk within approved limits
- Monitoring interest rate risk and ensuring compliance with policies
- Reviewing interest rate risk exposure with ALCO and Senior ALCO on a monthly basis, and the Risk Committee of the Board on a quarterly basis

ATB measures interest rate risk monthly through gap analysis and NII and MVE rate-shock analysis. Gap analysis allocates interest-rate-sensitive assets and interest-rate-sensitive liabilities into categories according to their re-pricing date. Rate-shock analysis is a simulation of the impact of interest rate fluctuations on ATB's NII and MVE.

#### Interest Rate Gap Analysis

Gap analysis involves the allocation of interest-rate-sensitive assets and interest-rate-sensitive liabilities into categories according to their maturity or re-pricing date. Gaps can change significantly within a short period of time. The impact of changes in interest rates on NII will depend upon the size and rate of change in interest rates, the size and maturity of the total gap position, and management of these positions over time. ATB actively manages its interest rate gap to protect NII while minimizing risk. The following table shows ATB's interest rate gap position as at March 31.

| *($ in thousands)* | | | | Term to maturity/re-pricing | | | | |
|---|---|---|---|---|---|---|---|---|
| | **Within 3 months** | **3 to 6 Months** | **6 to 12 Months** | **Total within 1 year** | **1 to 5 years** | **Over 5 years** | **Non-interest-rate-sensitive** | **Total** |
| **2009** | | | | | | | | |
| **Assets** | | | | | | | | |
| Cash | **$ 353,724** | **$ -** | **$ -** | **$ 353,724** | **$ -** | **$ -** | **$ -** | **$ 353,724** |
| Effective interest rate | **0.65%** | **-** | **-** | **0.65%** | **-** | **-** | **-** | **0.65%** |
| Securities and interest-bearing deposits with financial institutions | **3,358,255** | **70,661** | **23,450** | **3,452,366** | **6,024** | **-** | **-** | **3,458,390** |
| Effective interest rate | **0.86%** | **2.72%** | **2.39%** | **0.91%** | **2.94%** | **-** | **-** | **0.91%** |
| Loans | **14,624,059** | **483,611** | **812,000** | **15,919,670** | **5,820,751** | **66,497** | **(204,683)** | **21,602,235** |
| Effective interest rate | **2.96%** | **5.60%** | **5.78%** | **3.18%** | **6.30%** | **6.37%** | **-** | **4.06%** |
| Other | **-** | **-** | **-** | **-** | **-** | **-** | **813,390** | **813,390** |
| | **18,336,038** | **554,272** | **835,450** | **19,725,760** | **5,826,775** | **66,497** | **608,707** | **26,227,739** |
| **Liabilities and equity** | | | | | | | | |
| Deposits | **10,980,652** | **1,224,665** | **2,174,698** | **14,380,015** | **9,501,231** | **-** | **-** | **23,881,246** |
| Effective interest rate | **1.01%** | **2.58%** | **2.46%** | **1.37%** | **2.32%** | **-** | **-** | **1.75%** |
| Other liabilities and equity | **-** | **-** | **-** | **-** | **-** | | **2,289,480** | **2,289,480** |
| Subordinated debentures | **-** | **-** | **-** | **-** | **-** | **-** | **57,013** | **57,013** |
| Effective interest rate | **-** | **-** | **-** | **-** | **-** | **-** | **4.29%** | **4.29%** |
| | **10,980,652** | **1,224,665** | **2,174,698** | **14,380,015** | **9,501,231** | **-** | **2,346,493** | **26,227,739** |
| On-balance-sheet gap | **7,355,386** | **(670,393)** | **(1,339,248)** | **5,345,745** | **(3,674,456)** | **66,497** | **(1,737,786)** | **-** |
| **Instruments used for asset/liability gap management** (1) (notional amounts) | | | | | | | | |
| Pay side swaps | **(3,952,404)** | **(200,000)** | **-** | **(4,152,404)** | **(300,000)** | **-** | **-** | **(4,452,404)** |
| Effective interest rate | **0.81%** | **3.31%** | **-** | **0.93%** | **3.71%** | **-** | **-** | **-** |
| Receive side swaps | **1,050,000** | **236,000** | **611,000** | **1,897,000** | **2,555,404** | **-** | **-** | **4,452,404** |
| Effective interest rate | **2.56%** | **3.04%** | **3.87%** | **3.04%** | **3.43%** | **-** | **-** | **-** |
| Off-balance-sheet gap | **(2,902,404)** | **36,000** | **611,000** | **(2,255,404)** | **2,255,404** | **-** | **-** | **-** |
| Net gap | **$ 4,452,982** | **$ (634,393)** | **$ (728,248)** | **$ 3,090,341** | **$ (1,419,052)** | **$ 66,497** | **$ (1,737,786)** | **-** |
| As percentage of assets | **16.98%** | **(2.42%)** | **(2.78%)** | **11.78%** | **(5.41%)** | **0.25%** | **(6.63%)** | **-** |
| **2008** | | | | | | | | |
| Assets | $ 14,914,990 | $ 629,333 | $ 784,927 | $ 16,329,250 | $ 6,456,365 | $ 77,505 | $ 480,033 | $ 23,343,153 |
| Liabilities and equity | 14,404,815 | 866,853 | 1,502,663 | 16,774,331 | 4,401,385 | - | 2,167,437 | 23,343,153 |
| On-balance-sheet gap | 510,175 | (237,520) | (717,736) | (445,081) | 2,054,980 | 77,505 | (1,687,404) | - |
| Off-balance-sheet gap | (1,500,000) | 50,000 | 250,000 | (1,200,000) | 1,200,000 | - | - | - |
| Net gap | $ (989,825) | $ (187,520) | $ (467,736) | $ (1,645,081) | $ 3,254,980 | $ 77,505 | $ (1,687,404) | $ - |
| As percentage of assets | (4.24%) | (0.80%) | (2.00%) | (7.05%) | 13.94% | 0.33% | (7.23%) | - |

*(1) The asset and liability side of securities sold under repurchase agreements have been included in the off-balance-sheet gap with the other hedging instruments because management uses these instruments for asset/liability gap management purposes.*

## Interest Rate Sensitivity

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

| *($ in thousands)* | **2009** | 2008 |
|---|---|---|
| **Impact on net earnings in succeeding year from:** | | |
| Increase in interest rates of: | | |
| 100 basis points | **$ 43,859** | $ 19,190 |
| 200 basis points | **$ 87,421** | $ 25,175 |
| Decrease in interest rates of: | | |
| 100 basis points | **$ (43,859)** | $ (19,361) |
| 200 basis points | **$ (89,458)** | $ (44,136) |

### 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.

The Canadian dollar equivalent value of ATB's assets and liabilities denominated in foreign currencies is determined by the change in the value of the Canadian dollar against those currencies over time. The majority of ATB's foreign currency exposure is in U.S. dollars. 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 March 31, 2009, ATB's net foreign currency exposure was within policy risk thresholds.

### 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 ATB's risk exposure on these products. Equity risk is managed within Board-approved limits.

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

### Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. ATB manages its exposure to operating risks by setting an appropriate governance structure and adhering to its operational risk management framework.

### Reputational Risk

Reputational risk is the potential impairment of sound and safe practices and loss of confidence by stakeholders, caused by ATB, its directors, officers, or associates undertaking activities or risks in contravention to legal and regulatory requirements. ATB follows an annual compliance reporting process required under section 23.2 of the ATB Regulation and has developed code of conduct, privacy, and anti-money-laundering programs to support compliance. In addition, a functioning Risk Management Compliance department has been structured to enhance effective compliance with ATB's legislative compliance management framework.

## 6. 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 10% of risk-weighted 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 eligible portions of the general allowance for credit losses and subordinated debentures. The capital requirements were amended effective March 31, 2009, in response to a requirement for additional capital caused largely by a reduction to Tier 1 capital resulting from ATB's provisions for asset-backed commercial paper. Pursuant to section 20 of the ATB Act, the Minister of Finance and Enterprise amended the Capital Adequacy Guideline to provide ATB with $600 million in notional (or deemed) capital. Notional capital reduces by 25% of net income beginning April 1, 2009.

As at March 31, 2009, ATB has exceeded both the total capital requirement and the Tier 1 capital requirement of the amended Capital Adequacy Guideline.

| *As at March 31* *($ in thousands)* | 2009 | 2008 |
|---|---|---|
| Tier 1 capital | | |
| Retained earnings | $ 1,649,753 | $ 1,643,341 |
| Tier 2 capital | | |
| Eligible portions of: | | |
| Subordinated debentures | - | 29,512 |
| General allowance for credit losses | 164,238 | 141,863 |
| Notional capital | 600,000 | - |
| | 764,238 | 171,375 |
| Total regulatory capital | $ 2,413,991 | $ 1,814,716 |
| Total risk-weighted assets | $ 18,770,083 | $ 16,212,873 |
| Risk-weighted capital ratios | | |
| Tier 1 capital ratio | 8.79% | 10.14% |
| Total capital ratio | 12.86% | 11.19% |

## 7. Cash Resources

Cash consists of cash on hand, bank notes and coins, and non-interest-bearing deposits with the Bank of Canada and other financial institutions. Interest-bearing deposits with other financial institutions have been classified as either held for trading (HFT) or available for sale (AFS) and are recorded at fair value. Interest income on interest-bearing deposits is recorded on an accrual basis.

Amounts receivable from and payable to other financial institutions related to cheques and other items in transit via the clearing process are recorded at cost as other assets (refer to Note 13) and other liabilities (refer to Note 15). These amounts are included in ATB's liquidity calculation.

The March 31, 2009, carrying value consists of $2,515,268 (2008: $1,862,534) of interest-bearing deposits with financial institutions classified as AFS, and $1,221 (2008: $65,696) classified as HFT.

## 8. Securities

Securities are purchased with the intention to hold them to maturity, or until market conditions render alternative investments more attractive.

Interest income and any amortization of premiums and discounts are recorded in interest income in the Consolidated Statement of Income. Gains and losses realized on the disposal of securities are included in other income in the Consolidated Statement of Income.

ATB conducts a quarterly review to identify and evaluate any AFS or HTM securities that show indications of impairment. When the fair value of a security has fallen below its amortized cost, management assesses whether the decline is other than temporary. Factors considered in determining whether a loss is temporary include the length of time and extent to which fair value has been below amortized cost, the financial condition and near-term prospects of the issuer, and the ability and intent to hold the investment for enough time to allow for anticipated recovery.

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

| | | | | 2009 | 2008 |
|---|---|---|---|---|---|
| *As at March 31* | **Less than** | **From 1 to 5** | **Over** | **Total carrying** | Total carrying |
| *($ in thousands)* | **1 year** | **years** | **5 years** | **value** | value |
| **Available-for-sale securities** | | | | | |
| Issued or guaranteed by the Canadian | | | | | |
| federal or provincial governments (1) | **$ 159,814** | **$ 300,306** | **$ -** | **$ 460,120** | $ 161,304 |
| Commercial paper | | | | | |
| Third-party-sponsored ABCP | **-** | **-** | **72,385** | **72,385** | 752,817 |
| Bank-sponsored ABCP | **-** | **-** | **-** | **-** | 76,333 |
| Corporate paper | **-** | **-** | **-** | **-** | 182,766 |
| Retained interest in securitization | **-** | **55,546** | **-** | **55,546** | - |
| Other | **6,207** | **4,855** | **-** | **11,062** | 7,131 |
| **Total available-for-sale securities** | **$ 166,021** | **$ 360,707** | **$ 72,385** | **$ 599,113** | $ 1,180,351 |
| **Held-for-trading securities** | | | | | |
| Commercial paper | | | | | |
| Third-party-sponsored ABCP | **$ -** | **$ -** | **$ 582,792** | **$ 582,792** | $ 37,684 |
| Bank-sponsored ABCP | **-** | **-** | **46,400** | **46,400** | - |
| **Total held-for-trading securities** | **$ -** | **$ -** | **$ 629,192** | **$ 629,192** | $ 37,684 |
| **Held-to-maturity securities** | | | | | |
| Commercial paper | | | | | |
| Third-party-sponsored ABCP (2) | **$ -** | **$ -** | **$ -** | **$ -** | $ 35,483 |
| **Total held-to-maturity securities** | **$ -** | **$ -** | **$ -** | **$ -** | $ 35,483 |
| **Total securities** | **$ 166,021** | **$ 360,707** | **$ 701,577** | **$ 1,228,305** | $ 1,253,518 |

*(1) ATB entered into repurchase agreements with respect to certain securities in 2009. ATB transferred these securities to third parties but has continued to recognize them on the Consolidated Balance Sheet because the transactions do not qualify for de-recognition. The carrying value of these securities is $290,339.*

*(2) The fair value of these securities at March 31, 2008 was $35,512.*

The total carrying value of securities in the preceding schedule includes securities denominated in U.S. funds totalling $44,440 as at March 31, 2009 (2008: $37,684).

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

| *As at March 31, 2009* *($ in thousands)* | | Cost or unamortized cost | | Gross unrealized gains | | Gross unrealized losses | | Carrying value |
|---|---|---|---|---|---|---|---|---|
| **Available-for-sale securities** | | | | | | | | |
| Issued or guaranteed by the Canadian federal or provincial governments | $ | **452,097** | $ | **8,023** | $ | **-** | $ | **460,120** |
| Commercial paper | | | | | | | | |
| Third-party-sponsored ABCP | | **72,571** | | **-** | | **(186)** | | **72,385** |
| Retained interest in securitization | | **51,316** | | **4,230** | | **-** | | **55,546** |
| Other | | **11,062** | | **-** | | **-** | | **11,062** |
| **Total available-for-sale securities** | $ | **587,046** | $ | **12,253** | $ | **(186)** | $ | **599,113** |
| **Interest-bearing deposits with financial institutions** | $ | **2,514,156** | $ | **1,207** | $ | **(95)** | $ | **2,515,268** |
| **Total available-for-sale financial assets** | $ | **3,101,202** | $ | **13,460** | $ | **(281)** | $ | **3,114,381** |

| *As at March 31, 2008* *($ in thousands)* | | Cost or unamortized cost | | Gross unrealized gains | | Gross unrealized losses | | Carrying value |
|---|---|---|---|---|---|---|---|---|
| **Available-for-sale securities** | | | | | | | | |
| Issued or guaranteed by the Canadian federal or provincial governments | $ | 161,226 | $ | 78 | $ | - | $ | 161,304 |
| Commercial paper | | | | | | | | |
| Third-party-sponsored ABCP | | 752,817 | | - | | - | | 752,817 |
| Bank-sponsored ABCP | | 76,333 | | - | | - | | 76,333 |
| Corporate paper | | 182,747 | | 19 | | - | | 182,766 |
| Other | | 7,131 | | - | | - | | 7,131 |
| **Total available-for-sale securities** | $ | 1,180,254 | $ | 97 | $ | - | $ | 1,180,351 |
| **Interest-bearing deposits with financial institutions** | $ | 1,862,462 | $ | 72 | $ | - | $ | 1,862,534 |
| **Total available-for-sale financial assets** | $ | 3,042,716 | $ | 169 | $ | - | $ | 3,042,885 |

## Asset-Backed Commercial Paper

ATB's holdings of asset-backed commercial paper (ABCP) are:

| *As at March 31, 2009* *($ in thousands)* | Cost | Fair value | Spread over bankers' acceptance rate | Expected maturity | Credit rating |
|---|---|---|---|---|---|
| Synthetic assets | | | | | |
| Class A-1 | $ 421,216 | $ 284,560 | 0.30% | Dec 2016 | A |
| Class A-2 | 384,916 | 256,222 | 0.30% | Dec 2016 | A |
| Class B | 65,623 | 15,607 | 0.30% | Dec 2016 | - |
| Class C | 26,961 | - | - | Dec 2016 | - |
| **Total synthetic assets** | **$ 898,716** | **$ 556,389** | | | |
| Traditional assets | 74,737 | 72,385 | 0.40% | Sept 2016 | - |
| Ineligible assets | 27,244 | - | - | - | - |
| **Total Montreal Accord** | **$ 1,000,697** | **$ 628,774** | | | |
| ABCP not included in the Montreal Accord | | | | | |
| White Knight Trust | $ 34,770 | $ 26,403 | 1.55% | Dec 2016 | BBB |
| Sitka Trust | 27,846 | 20,174 | 0.00% | Dec 2016 | - |
| Sitka Trust | 6,154 | 3,713 | 0.00% | Sept 2016 | - |
| Superior Trust | 33,021 | 22,513 | 0.35% | Sept 2016 | AA |
| **Total ABCP** | **$ 1,102,488** | **$ 701,577** | | | |

### Montreal Accord Restructuring

On January 21, 2009, the investments subject to the Montreal Accord were restructured and ATB exchanged its original notes for new longer-term floating-rate notes that more closely matched the maturities of the underlying assets.

Under the restructuring, the series of ABCP supported in whole or in part by synthetic assets were pooled into one of two Master Asset Vehicles—MAV 1 or MAV 2. Assets secured exclusively by either traditional or ineligible assets were siloed from other assets in MAV 3. MAV 1 was formed for investors who elected (and had the required credit rating) to self-fund the required margin-funding facility (MFF), while MAV 2 was formed for investors who elected to obtain the required MFF from a third party for a fee. Under MAV 3, the return and maturity of the notes is directly tied to the net return and maturities of their respective underlying assets.

The MFF is in place to cover possible collateral calls on the leveraged super-senior trades underlying the Montreal Accord 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 will have to 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 will not receive a fee.

In addition to the MFF, a senior funding facility was also put in place. This senior funding facility is supported by the governments of Canada, Alberta, Ontario, and Quebec (as well as one of the MAV 1 participants) to cover possible shortfalls in the existing MFFs under both MAV 1 and MAV 2. ATB and all other investors must pay a fee to cover the cost of this facility—this fee is deducted from quarterly interest payments commencing in April 2009.

The key parties to the restructuring agreed to enhance the transaction by including a moratorium that prevents collateral calls for 18 months on leveraged super-senior trades.

Upon restructuring, ATB received from the MAV 1 a mix of notes (Class A-1, A-2, B, and C) with an expected maturity of December 2016. The notes have different levels of subordination relative to principal and interest payments—with A-1 and A-2 being the most highly ranked in the waterfall. The A1 and A2 notes have been given a credit rating of A; the B and C notes are not rated.

In March 2009, two of the three trades that were not covered under the 18-month collateral call moratorium were terminated when ATB did not pledge additional collateral. This resulted in ATB's holdings of A-1, A-2, B, and C notes being reduced by $29.7 million. The additional loss not yet provided for was recognized in the Consolidated Statement of Income for the year ended March 31, 2009.

### Valuation – Montreal Accord

On January 21, 2009, an exchange of notes qualified as a sale of the previously held notes. As a result, the new notes were recognized at fair value as at that date. The notes with underlying assets with one or more embedded derivatives were classified as held for trading and the other securities were classified as available for sale. In the continued absence of an active market for third-party-sponsored ABCP issued under the Montreal Accord restructuring, ATB estimated a fair value of these investments as at January 21, 2009, and March 31, 2009, using a discounted cash flow valuation model. This model incorporates management's best estimates of multiple factors, updated to reflect market-related and other information that has become available since the corresponding valuation as at March 31, 2008.

ATB's valuation was based on conditions at March 31, 2009, and the key assumption in the valuation model is the market discount rate. The discount rate was based on the various tranches of the CDX.IG index. It is management's best estimate that the weighted average discount rate for the A-1, A-2, B, and C notes would be approximately 837 basis points. A 1.0% increase in the discount rate will decrease the fair value of the Montreal Accord ABCP by approximately $45.0 million.

The fair value provision on the Montreal Accord investments was $371.9 million or 37.2% of face value of notes held at March 31, 2009. This compares to the $243.0 million or 23.0% of face value at March 31, 2008. This increase has been driven by the increasing credit spreads and the downgrade of the provisional AA credit rating to the current A credit rating on the A-1 and A-2 notes.

Prior to restructuring, the fair value of the MFF was included in the provision for losses on ABCP. As at March 31, 2009, the fair value has been included in other liabilities. ATB has recognized the fair value of this commitment (using the 160 basis points cost of the MFF to MAV 2 note holders).

### Other Bank- and Non-Bank-Sponsored Asset-Backed Commercial Paper

ATB has reclassified certain investments in non-bank-sponsored ABCP that were previously restructured from either AFS or HTM to HFT because these instruments contain embedded derivatives that ATB cannot bifurcate. ATB believes this is the most appropriate classification after consideration of the guidance issued by the Canadian Accounting Standards Board (AcSB). At March 31, 2009, investments with a face value of $67.0 million have been reclassified from AFS to HFT. Investments with a face value of $34.8 million have been reclassified from HTM to HFT. The impact of the reclassification has been recognized in the March 31, 2009, financial statements. These investments are recorded at fair value (using a discounted cash flow methodology similar to that used for the Montreal Accord valuation), and any required adjustment has been recorded through the income statement as a fair value adjustment. The impact on the prior year's income of this reclassification is not significant because an other-than-temporary impairment had been recognized on these securities in 2007–08.

### Measurement Uncertainty

Although investments subject to the Montreal Accord successfully restructured in January 2009, there remains continued uncertainty regarding the amount and timing of cash flows and the value of the assets that underlie the investment structure. Consequently, it is possible that the ultimate fair value of these assets may vary significantly from current estimates and that the magnitude of any such difference could be material to our financial results. The current economic slowdown in North America could have a significant impact on the valuation of the underlying assets, which could ultimately impact the value of the notes currently held.

## 9. Loans

Loans are recorded at amortized cost using the effective-interest-rate method, net of specific and general allowance for credit losses. Incremental direct costs relating to the origination of loans are netted against deferred loan fees and recognized on an effective-yield basis in a manner consistent with the appropriate fee. The effective-interest-rate method also incorporates management's best estimate regarding expected future cash flows and the impact of off-market interest rates in the determination of amortized cost.

Interest income related to loans is accounted for using the accrual basis of accounting.

### Impaired Loans

Impaired loans, except for credit cards, are classified as such when there is no longer reasonable assurance as to the timely collection of principal and interest, or when principal or interest payments are 90 days past due. Consumer credit card loans are classified as impaired and written off when payments become 180 days past due. Business and agriculture credit card loans that become past due for three consecutive billing cycles (approximately 90 days) are removed from the credit card portfolio and transferred into the applicable impaired loan category.

When a loan is classified as impaired, interest income ceases to be accrued and the carrying amount of the loan is reduced to its estimated net realizable amount by writing off all or part of the loan or by taking a specific allowance for credit losses. Allowances are generally not recognized in respect of insured loans. No cash received on an impaired loan is recorded as interest income until such time as any prior write-offs or specific allowances and external legal fees have been recovered and all past-due principal has been paid. Impaired loans are returned to performing status when the timely collection of all principal and interest is reasonably assured, all arrears have been collected, all legal fees recovered, and allowances for credit losses reversed.

Foreclosed assets held for sale in settlement of an impaired loan are measured at estimated fair value at the date of foreclosure and are presented as a component of loans in the Consolidated Balance Sheet. The value of such assets as at March 31, 2009, and March 31, 2008, is insignificant.

Loans consist of the following:

| *As at March 31* *($ in thousands)* | Gross loans | Specific allowances | General allowances | 2009 Net carrying value | 2008 Net carrying value |
|---|---|---|---|---|---|
| Residential mortgages | **$ 7,368,397** | **$ 699** | **$ 10,192** | **$ 7,357,506** | $ 7,707,924 |
| Personal | **4,926,582** | **3,408** | **26,633** | **4,896,541** | 4,061,925 |
| Credit card | **541,940** | **-** | **17,416** | **524,524** | 436,075 |
| Agricultural | **1,232,336** | **719** | **12,766** | **1,218,851** | 1,258,604 |
| Independent business | **2,324,350** | **5,530** | **45,417** | **2,273,403** | 2,128,715 |
| Commercial | **5,401,807** | **5,967** | **64,430** | **5,331,410** | 3,850,274 |
| | **$ 21,795,412** | **$ 16,323** | **$ 176,854** | **$ 21,602,235** | $ 19,443,517 |

The net carrying value of the above loans includes residential mortgages insured primarily by Canadian Mortgage and Housing Corporation, totalling $2,727,688 as at March 31, 2009 (2008: $3,434,926), and other insured loans, totalling $88,245 (2008: $97,541).

The total net carrying value of the above loans includes those denominated in U.S. funds, totalling $409,952 as at March 31, 2009 (2008: $233,212).

## 10. Allowance for Credit Losses

The allowance for credit losses is maintained at a level management considers adequate to absorb credit-related losses for all items in its credit portfolio. The allowance relates primarily to loans, but also provides for any credit risk relating to off-balance-sheet items such as loan guarantees and letters of credit (refer to Note 19).

The allowance for credit losses consists of specific allowances for impaired loans and general allowances for credit risks. It is presented in the Consolidated Balance Sheet as a reduction of total loan balances or, for any portion of loan-related allowances over the related loan balance, included in other liabilities. The allowance is increased by the provision for credit losses that represents ATB's net credit loss experience for the year and is recorded in the Consolidated Statement of Income. The allowance is decreased by the amount of any provision related to loans written off and is net of any recoveries of previously recognized provisions.

### Specific Allowances

The specific allowances on larger non-consumer impaired loans (including credit card balances) are established on a loan-by-loan basis to reduce the carrying value of the impaired loans to the amount expected to be recovered. Various methods are used to determine the net recoverable value of impaired loans, including the fair value of any underlying security, discounted to the amount recoverable in the event of realization, or to the observable market value for the loan. The specific allowance on consumer loans and smaller non-consumer loans is calculated using a formula based on recent loss experience for the particular product type. No specific allowance is provided for impaired consumer credit-card loans, as balances are written off if payment has not been received within 180 days, though collection efforts may continue. Any change in the amount we expect to recover on an impaired loan is reflected in the provision for credit losses in the Consolidated Statement of Income.

### General Allowance

A general loan loss allowance is established to provide for impairments in the credit portfolio as at the balance sheet date that cannot be specifically identified on an item-by-item basis and therefore have not been considered in establishing specific allowances.

The level of the general allowance is initially determined by applying expected loss factors to the loan and off-balance-sheet credit portfolios. For consumer balances (including personal and other instalment loans, residential mortgages, and personal credit cards, adjusted for expected utilization), expected losses are determined at the product portfolio level, based on credit-rating-based loss ratios, expected default rates, and historical loss experiences. For non-consumer balances (including commercial, business, and agricluture loans and credit cards, and credit instrument balances, adjusted for expected utilization), expected losses are determined at the borrower-category level by reference to internal risk ratings, expected default rates by risk rating, and historical loss experiences. The non-commercial and commercial components of the general allowances are then adjusted to reflect management's best judgment concerning possible model and estimation risks, the strength of the Alberta economy, and the overall state of the business cycle.

The general allowance is reassessed quarterly and will normally fluctuate as a result of changes in credit portfolio levels, composition, and risk profile. Trends in probability of loss, severity of loss, and eventual exposure on default are also considered, as is management's assessment of other factors that may affect the losses inherent in the credit portfolio, such as business mix, economic and credit market conditions, and trends.

### Special General Allowance

In the event that certain industry sectors experience specific changes in economic conditions or adverse events considered to increase credit risk, an additional special general allowance may be established. Such allowances provide for losses inherent in the credit portfolio that have not been specifically identified and that the general allowance may not provide for. The amount of any special general allowance is reassessed quarterly using expected-loss methodologies that consider the probability of further changes in the conditions or adverse event that gave rise to the initial establishment of the allowance. The follow-on probability of default, potential loss given default, and level of expected recoveries, if any, are also considered.

The continuity of the allowances for credit losses is as follows:

| *For the year ended March 3* *($ in thousands)* | | Specific | | | General | | | Total | |
|---|---|---|---|---|---|---|---|---|---|
| | **2009** | 2008 | 2007 | **2009** | 2008 | 2007 | **2009** | 2008 | 2007 |
| Balance at beginning of year | **$ 11,896** | $ 15,352 | $ 19,348 | **$ 153,010** | $ 141,827 | $ 145,099 | **$ 164,906** | $ 157,179 | $ 164,447 |
| Write-offs | **(16,350)** | (10,224) | (7,262) | **-** | - | - | **(16,350)** | (10,224) | (7,262) |
| Recoveries | **3,743** | 5,045 | 5,205 | **-** | - | - | **3,743** | 5,045 | 5,205 |
| Provision for (recovery of) credit losses, excluding impact of new GLLA methodology | **18,868** | 1,723 | (1,939) | **23,844** | 11,183 | 21,057) | **42,712** | 12,906 | 19,118 |
| Impact of new GLLA methodology (1) | **-** | - | - | **-** | - | (24,329 | **-** | - | (24,329) |
| Balance at end of year | **18,157** | 11,896 | 15,352 | **176,854** | 153,010 | 141,827 | **195,011** | 164,906 | 157,179 |
| Less: Allowance for cost of credit recovery included in other liabilities | **1,834** | 3,136 | 3,345 | **-** | - | - | **1,834** | 3,136 | 3,345 |
| Allowance for credit losses | **$ 16,323** | $ 8,760 | $ 12,007 | **$ 176,854** | $ 153,010 | $ 141,827 | **$ 193,177** | $ 161,770 | $ 153,834 |

*(1) During the second quarter of 2006-07, ATB implemented a refined methodology for establishing the level of its GLLA. This represented a change in estimate, was accounted for prospectively, and resulted in a one-time recovery of $24.3 million.*

## 11. 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 is 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 a 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.

During the year, ATB securitized $1.0 billion (2008: nil) of mortgages and recorded a retained interest of $61.5 million (2008: nil) and servicing liabilities of $6.3 million (2008: nil) on the respective closing dates.

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

| *For the years ended March 31* <br> *($ in thousands)* | **2009** | 2008 | 2007 |
|---|---|---|---|
| Proceeds, net of transaction fees | **$ 1,045,462** | $ - | $ - |
| Retained interests | **61,486** | - | - |
| Deferred servicing revenue | **(6,265)** | - | - |
| | **1,100,683** | - | - |
| Residential mortgages securitized and sold | **1,047,372** | - | - |
| Gain on sale, net of transaction fees | **$ 53,311** | $ - | $ - |

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

| *For the years ended March 31* <br> *($ in thousands)* | **2009** | 2008 | 2007 |
|---|---|---|---|
| Gain on sale, net of transaction fees | **$ 53,311** | $ - | $ - |
| Servicing revenues | **1,028** | - | - |
| Other securitization (loss) income | **(530)** | - | - |
| Securitization income | **$ 53,809** | $ - | $ - |

The following table summarizes certain cash flows received from the CMB program:

| *For the years ended March 31* <br> *($ in thousands)* | **2009** | 2008 | 2007 |
|---|---|---|---|
| Net proceeds from new securitizations | **$ 1,045,462** | $ - | $ - |
| Cash flows received on retained interests | **$ 5,773** | $ - | $ - |

The following tables outline the key assumptions used to measure the fair value of the retained interest and the sensitivity of the resulting fair value to a change to the assumptions:

| *As at March 31* | **2009** | 2008 |
|---|---|---|
| Expected weighted average life of mortgage pool *(in months)* | **40.9** | - |
| Prepayment rate | **15.0%** | - |
| Excess spread | **2.8%** | - |
| Discount rate | **3.1%** | - |

| *As at March 31* <br> *($ in thousands)* | **2009** | 2008 |
|---|---|---|
| Carrying amount of retained interest | **$ 55,546** | - |
| Prepayment rate | **15.0%** | - |
| Impact on fair value of 10% adverse change | **$ (2,453)** | - |
| Impact on fair value of 20% adverse change | **$ (4,280)** | - |
| Residual cash flows discount rate | **3.1%** | - |
| Impact on fair value of 10% adverse change | **$ (242)** | - |
| Impact on fair value of 20% adverse change | **$ (492)** | - |

These sensitivities are hypothetical and should be used with caution. Changes in fair value based on a variation in assumptions generally cannot be extrapolated because the relationship of the change in assumption to the change in fair value may not be linear. The effect of a variation in a particular assumption on the fair value of the retained interest is calculated without changing any other assumptions. Generally, the changes in one factor may result in changes in another, which may magnify or counteract the sensitivity.

The following table summarizes information on residential mortgages serviced by ATB:

| *As at March 31*<br>*($ in thousands)* | 2009 | 2008 |
|---|---|---|
| Total residential mortgages being serviced | $ 8,366,473 | $ - |
| Less mortgages securitized | 998,076 | - |
| Total gross residential mortgages as reflected on the Consolidated Balance Sheet | $ 7,368,397 | $ - |

## 12. Premises and Equipment

Premises and equipment are carried at cost less accumulated amortization, except for land, which is carried at cost. Buildings, computer equipment and software, other equipment, and leasehold improvements are amortized on a straight-line basis over their estimated useful lives. No amortization is calculated on assets under construction or development until the assets are used. The estimated useful life for each asset class is as follows:

- Buildings — Up to 20 years
- Computer equipment and software — 3 to 5 years
- Other equipment — 5 to 10 years
- Leasehold improvements — Lease term plus first renewal period, to a maximum of 10 years

| *As at March 31*<br>*($ in thousands)* | | | 2009 | 2008 |
|---|---|---|---|---|
| | Cost | Accumulated amortization | Net carrying value | Net carrying value |
| Land | $ 7,546 | $ - | $ 7,546 | $ 7,546 |
| Buildings | 120,403 | 61,071 | 59,332 | 17,281 |
| Computer equipment and software | 200,612 | 112,831 | 87,781 | 43,720 |
| Other equipment | 45,523 | 34,902 | 10,621 | 11,471 |
| Leasehold improvements | 108,569 | 79,518 | 29,051 | 40,690 |
| Computer equipment and software under development | 72,027 | - | 72,027 | 55,482 |
| Leasehold improvements under construction | 19,783 | - | 19,783 | 32,685 |
| | $ 574,463 | $ 288,322 | $ 286,141 | $ 208,875 |

Amortization expense charged to the Consolidated Statement of Income for the year ended March 31, 2009, in respect of the above assets was $46,795 (2008: $32,666).

Gains and losses on the disposal of assets are recorded in the Consolidated Statement of Income in the year of disposal. When events or changes in circumstances indicate that the carrying value of premises and equipment may not be recoverable, ATB assesses whether the asset may have been impaired. The net carrying value of such impaired assets is written down to its estimated fair value. There were no such impairment write-downs recognized during the year ended March 31, 2009 (2008: nil).

## 13. Other Assets

Other assets consist of the following:

| *As at March 31*<br>*($ in thousands)* | 2009 | 2008 |
|---|---|---|
| Accrued interest receivable | $ 133,917 | $ 177,617 |
| Cheques and other items in transit | 34,100 | 66,300 |
| Prepaid expenses and other receivables | 65,831 | 40,475 |
| Accrued pension-benefit asset *(Note 17)* | 21,445 | 20,826 |
| Other | 13,262 | 2,978 |
| | $ 268,555 | $ 308,196 |

## 14. Deposits

Deposit balances consist of the following:

| *As at March 31* *($ in thousands)* | Payable on demand | Payable after notice | Payable on a fixed date: Within 1 year | 1 to 2 years | 2 to 3 years | 3 to 4 years | 4 to 5 years | Over 5 years | 2009 Total | 2008 Total |
|---|---|---|---|---|---|---|---|---|---|---|
| Personal | $ 1,603,916 | $ 3,154,013 | $ 2,952,636 | $ 1,807,075 | $ 883,606 | $ 170,928 | $ 225,366 | $ 29 | $ 10,797,569 | $ 9,757,840 |
| Business and other | 4,067,659 | 2,141,341 | 3,545,821 | 258,421 | 111,084 | 14,318 | 19,646 | - | 10,158,290 | 8,035,590 |
| Wholesale | - | - | 1,330,371 | - | - | 797,508 | 398,754 | 398,754 | 2,925,387 | 3,382,286 |
| | $ 5,671,575 | $ 5,295,354 | $ 7,828,828 | $ 2,065,496 | $ 994,690 | $ 982,754 | $ 643,766 | $ 398,783 | $ 23,881,246 | $ 21,175,716 |

Total deposits presented above include $502,961 (2008: $423,488) denominated in U.S. funds.

As at March 31, 2009, deposits by various departments and agencies of the Government of Alberta included in the preceding schedule total $9,284 (2008: $3,048) and include deposits for loans made under the Alberta Farm Credit Stability Program in the amount of $58 (2008: $149).

The repayment of all deposits without limit, including accrued interest, is guaranteed by the Crown in right of Alberta in respect of which the Crown assesses an annual deposit guarantee fee payable by ATB. For the year ended March 31, 2009, the fee was $29,417 (2008: $20,210).

## 15. Other Liabilities

Other liabilities consist of the following:

| *As at March 31* *($ in thousands)* | 2009 | 2008 |
|---|---|---|
| Accrued interest payable | $ 159,485 | $ 161,072 |
| Accounts payable and accrued liabilities | 195,107 | 137,035 |
| Cheques and other items in transit | 7,300 | 17,200 |
| Deposit guarantee fee payable | 28,004 | 20,210 |
| Due to clients, brokers, and dealers | 7,334 | 3,301 |
| Accrued pension-benefit liability *(Note 17)* | 6,048 | 4,779 |
| | $ 403,278 | $ 343,597 |

## 16. Subordinated Debentures

ATB privately places debentures with the Crown in right of Alberta. These debentures, which are unsecured and subordinated to deposits and other liabilities, have been issued in the past in respect of ATB's obligation for the year's deposit guarantee fee. The amount due for the deposit guarantee fee for fiscal 2008 was paid in cash and no subordinated debt was issued in fiscal 2009. These subordinated debentures are non-convertible, non-redeemable, non-transferable, and bear a fixed rate of interest payable semi-annually.

ATB's obligation for the deposit guarantee fee for the year ended March 31, 2009, is recorded in other liabilities in the Consolidated Balance Sheet (refer to Note 15). Subordinated debentures, issued to March 31, 2009, consist of the following:

| Maturity date *($ in thousands)* | Interest rate | 2009 | 2008 |
|---|---|---|---|
| June 30, 2008 | 4.287% | $ - | $ 15,985 |
| June 30, 2009 | 3.800% | 11,837 | 11,837 |
| June 30, 2010 | 4.200% | 15,785 | 15,785 |
| June 30, 2011 | 4.630% | 13,401 | 13,401 |
| June 30, 2012 | 4.450% | 15,990 | 15,990 |
| | | $ 57,013 | $ 72,998 |

## 17. Employee Future Benefits

ATB provides future benefits to current and past employees through a combination of defined benefit and defined contribution plans.

ATB's current non-management employees participate in the Public Service Pension Plan (PSPP) with other Alberta public-sector employees. The PSPP is a defined benefit pension plan that provides benefits based on members' years of service and earnings. ATB provides its management employees with a registered pension plan ("the ATB Plan") with defined benefit (DB) and defined contribution (DC) provisions. ATB also provides a non-registered defined benefit supplemental plan (SRP) and other post-employment benefits (OPEB) for designated management employees.

Effective July 15, 2006, ATB finalized arrangements with the Government of Alberta to assume pension obligations relating to current ATB employees who participated in the PSPP prior to joining the ATB Plan (hereinafter referred to as the "PSPP take-on"). The arrangements formalized ATB's commitment to provide combined pensionable service (CPS) benefits for qualifying members whose CPS benefits were affected by the withdrawal of ATB from the Management Employees Pension Plan.

Following execution of the PSPP take-on agreements, certain assets and liabilities were transferred from the PSPP into the ATB Plan in respect of all employees promoted to management positions between January 1, 1994, and December 31, 2005, who were employed by ATB on July 15, 2006. In addition, there are annual transfers of obligations and assets in respect of management employees promoted in the previous calendar year.

### Accounting for Defined Benefit Plans – Registered, Supplemental, and Other

The DB portion of the ATB Plan, SRP, and OPEB obligations provide future employee benefits based on members' years of service and highest average salary. Actuarial determination of the accrued benefit obligations uses the projected benefit method pro-rated on service, which incorporates management's best estimate of long-term investment return on plan assets, member salary growth and other cost-escalation factors, retirement ages of employees, mortality, and other actuarial factors.

ATB determines the actuarial value of plan assets based on its best estimate of the expected long-term rate of return and fair value of plan assets.

An initial transition asset (which arose as of March 31, 1999, when ATB prospectively adopted the then-new accounting standard on employee future benefits) is being amortized on a straight-line basis over 10 years, the expected average remaining service period (EARSP) of active participants as at that time. A past-service amendment (which arose as of April 1, 2003, when the SRP was amended to include limits to pensionable earnings, reducing the accrued benefit obligation related to then-past services) is being amortized on a straight-line basis over 14 years, the EARSP of participants expected to receive supplemental benefits as at that time.

In conjunction with the PSPP take-on, ATB formalized its commitment to provide CPS benefits to active and inactive DB members with PSPP service. The estimated net impact of this was accounted for as a plan amendment in the year ended March 31, 2006. The March 31, 2006, projected benefit obligation of the DB plan was increased by $5,438 (in respect of active members) and increased by $686 for other pension obligations (in respect of inactive members).

Effective July 15, 2006, benefit obligations of $35,149 and assets of $21,918 (plus market return to the payment date) were transferred into the ATB Plan in conjunction with the PSPP take-on. This net additional liability of $13,231 accepted by the DB plan represents a past-service cost and is being amortized on a straight-line basis over 10.6 years, the EARSP of members subject to the transfer as at that time.

### Accounting for PSPP and Defined Contribution Plans

ATB accounts for its participation in the PSPP in the same way it accounts for the cost of the DC provisions of the ATB Plan. In both cases, funding contributions are expensed as they become due and are recorded in salaries and employee benefits in the Consolidated Statement of Income. For the year ended March 31, 2009, expenses related to the PSPP were $7,290 (2008: $6,564; 2007: $5,457) and expenses related to DC provisions of the ATB Plan were $9,632 (2008: $6,861; 2007: $6,927).

### Plan Valuations, Asset Allocation, and Funding

ATB measures its accrued benefit obligations and the fair values of plan assets for accounting purposes as at March 31 each year for the ATB Plan, SRP, and OPEB obligations. ATB makes regular funding contributions to the DB plan according to the most recent valuation for funding purposes. The SRP and OPEB obligations are not pre-funded, and such benefits are paid from ATB's assets as they become due. The most recent actuarial valuation of the DB provisions of the ATB Plan for funding purposes was performed as of December 31, 2008.

The DB plan's investment policy sets targets for an acceptable range for the allocation of plan assets between equity, debt, and other assets. The DB plan's actual and target asset allocations are as follows:

| | Target 2009 | | Actual | Target 2008 | | Actual | Actual |
|---|---|---|---|---|---|---|---|
| *(in %)* | Normal | Min–Max | 2009 | Normal | Min–Max | 2008 | 2007 |
| **Equities** | | | | | | | |
| Canadian | 25 | 20–30 | 17 | 25 | 20–30 | 24 | 27 |
| Foreign | 45 | 40–50 | 35 | 45 | 40–50 | 41 | 43 |
| | 70 | | 52 | 70 | | 65 | 70 |
| **Fixed Income** | | | | | | | |
| Canadian | 30 | 20–40 | 48 | 30 | 20–40 | 35 | 30 |
| **Cash** | - | 0–15 | - | - | 0–15 | - | - |
| | 100 | | 100 | 100 | | 100 | 100 |

## Cash Payments

Total cash paid or payable for employee future benefits for the year ended March 31, 2009—consisting of cash contributed by ATB in respect of the DB and DC provisions of the ATB Plan, cash payments made directly to beneficiaries for the unfunded SRP, and cash contributed to the PSPP—was $20,849 (2008: $17,636; 2007: $39,024).

## Net Accrued Benefit Asset (Liability)

The funded status and net accrued pension-benefit asset (liability) for the DB provisions of the ATB Plan and the other pension obligations (which comprise the SRP, obligations recognized in respect of the CPS benefit obligation to inactive plan members, and OPEB) consist of the following:

| *As at March 31* | | |
|---|---|---|
| *($ in thousands)* | **2009** | 2008 |
| **Registered plan** | | |
| Fair value of plan assets | **$ 111,247** | $ 143,800 |
| Projected benefit obligation | **(133,118)** | (151,063) |
| Plan funding deficit | **(21,871)** | (7,263) |
| Unamortized initial-transition asset | **-** | (394) |
| Unamortized past-service amendment | **15,840** | 16,012 |
| Unamortized actuarial net loss | **27,476** | 12,471 |
| **Accrued pension-benefit asset** | **$ 21,445** | $ 20,826 |
| **Supplemental and other** | | |
| Unfunded projected benefit obligation, representing the plan funding deficit | **$ (4,900)** | $ (6,131) |
| Unamortized past-service amendment | **1,476** | 1,626 |
| Unamortized actuarial net gain | **(2,624)** | (274) |
| **Accrued pension-benefit liability** | **$ (6,048)** | $ (4,779) |

The net accrued benefit asset and liability are included in other assets and other liabilities in the Consolidated Balance Sheet as appropriate (refer to Notes 13 and 15).

### Change in Plan Assets and Benefit Obligations

Changes in the estimated financial position of the DB provisions of the ATB Plan and of the SRP and OPEB obligations consist of the following:

| *For the years ended March 31* *($ in thousands)* | Registered plan | | | Supplemental and other | | |
|---|---|---|---|---|---|---|
| | **2009** | 2008 | 2007 | **2009** | 2008 | 2007 |
| **Change in fair value of plan assets** | | | | | | |
| Fair value of plan assets at beginning of year | **$ 143,800** | $ 154,277 | $ 94,127 | **$ -** | $ - | $ - |
| Contributions from ATB | **3,710** | 3,507 | 26,503 | **216** | 704 | 137 |
| Contributions from employees | **1,126** | 1,061 | 1,065 | **-** | - | - |
| Actual (loss) return on plan assets | **(34,742)** | (11,351) | 11,903 | **-** | - | - |
| Benefits paid | **(5,650)** | (6,116) | (3,752) | **(216)** | (704) | (137) |
| Net transfer in—PSPP | **3,894** | 3,367 | 25,492 | **-** | - | - |
| Actual plan expenses | **(891)** | (945) | (1,061) | **-** | - | - |
| **Fair value of plan assets at end of year** | **$ 111,247** | $ 143,800 | $ 154,277 | **$ -** | $ - | $ - |
| **Change in projected benefit obligation** | | | | | | |
| Projected benefit obligation at beginning of year | **$ 151,063** | $ 163,129 | $ 118,040 | **$ 6,131** | $ 6,513 | $ 2,442 |
| Actuarial (gain) loss | **(30,075)** | (24,055) | (4,638) | **(2,343)** | (1,046) | 447 |
| Current service cost | **1,740** | 2,352 | 3,064 | **895** | 976 | 633 |
| Contributions from employees | **1,126** | 1,061 | 1,065 | **-** | - | - |
| Plan amendment—earnings maximum | **-** | - | - | **-** | - | 2,838 |
| Plan amendment—PSPP | **1,583** | 2,548 | 15,958 | **-** | - | - |
| Net transfer in—PSPP | **3,894** | 3,367 | 25,492 | **-** | - | - |
| Interest cost | **9,437** | 8,777 | 7,900 | **433** | 392 | 290 |
| Benefits paid | **(5,650)** | (6,116) | (3,752) | **(216)** | (704) | (137) |
| **Projected benefit obligation at end of year** | **$ 133,118** | $ 151,063 | $ 163,129 | **$ 4,900** | $ 6,131 | $ 6,513 |

### Defined Benefit Pension Expense

Benefit expense for the DB provisions of the ATB Plan and for the SRP and OPEB consists of the following:

| *For the years ended March 31* *($ in thousands)* | Registered plan | | | Supplemental and other | | |
|---|---|---|---|---|---|---|
| | **2009** | 2008 | 2007 | **2009** | 2008 | 2007 |
| Current service cost (including provision for expenses) | **$ 2,500** | $ 3,252 | $ 4,264 | **$ 895** | $ 976 | $ 633 |
| Interest cost on projected benefit obligation | **9,437** | 8,777 | 7,900 | **433** | 392 | 290 |
| Plan amendments | **1,583** | 2,548 | 15,958 | **-** | - | 2,838 |
| Actual loss (return) on plan assets | **34,742** | 11,351 | (11,903) | **-** | - | - |
| Actuarial (gains) losses | **(30,075)** | (24,055) | (4,638) | **(2,343)** | (1,046) | 447 |
| | **18,187** | 1,873 | 11,581 | **(1,015)** | 322 | 4,208 |
| Adjustments to recognize the long-term nature of employee future-benefit costs: | | | | | | |
| Difference between actual and expected return on plan assets | **(44,949)** | (22,143) | 4,080 | **-** | - | - |
| Difference between actual actuarial (gains) losses arising and actuarial (gains) losses amortized | **30,075** | 24,055 | 6,130 | **2,350** | 1,067 | (437) |
| Amortization of initial transition asset | **(394)** | (394) | (394) | **-** | - | - |
| Difference between actual past-service amendment arising and past-service amendments amortized | **172** | (546) | (14,408) | **150** | 207 | (2,651) |
| **Net pension-benefit expense recognized** | **$ 3,091** | $ 2,845 | $ 6,989 | **$ 1,485** | $ 1,596 | $ 1,120 |

## Key Assumptions and Sensitivities

The significant assumptions used in the actuarial determination of projected benefit obligations and the related net benefit expense are, on a weighted-average basis, as follows:

| | Registered plan | | | Supplemental and other | | |
|---|---|---|---|---|---|---|
| | **2009** | 2008 | 2007 | **2009** | 2008 | 2007 |
| **Accrued benefit obligation as at March 31** | | | | | | |
| Discount rate at end of year | **8.30%** | 6.20% | 5.30% | **8.30%** | 6.20% | 5.30% |
| Rate of compensation increase (1) | **2.60%** | 4.40% | 4.60% | **2.60%** | 6.00% | 5.80% |
| **Defined benefit expense for the years ended March 31** | | | | | | |
| Discount rate at beginning of year | **6.20%** | 5.30% | 5.40% | **6.20%** | 5.30% | 5.40% |
| Expected long-term return on plan assets | **7.08%** | 6.96% | 7.12% | **-** | - | - |
| Rate of compensation increase (1) | **4.40%** | 4.60% | 5.20% | **6.00%** | 5.80% | 4.70% |
| Average remaining service period of active employees | **9 years** | 9 years | 9 years | **12 years** | 12 years | 12 years |
| Average remaining service period of active employees | | | | | | |
| (2006 PSPP transfer) | **10.6 years** | 10.6 years | 10.6 years | **-** | - | - |
| (2007 PSPP transfer) | **11.2 years** | 11.2 years | 11.2 years | **-** | - | - |
| (2008 PSPP transfer) | **11.2 years** | 11.2 years | - | **-** | - | - |
| (2009 PSPP transfer) | **11 years** | - | - | **-** | - | - |

*(1) The long-term weighted-average rate of compensation increase, including merit and promotion.*

The following table outlines the possible impact of changes in certain key weighted-average economic assumptions used to measure the accrued pension-benefit obligations as at March 31, 2009, and the related expense for the year then ended:

| *($ in thousands)* | | Registered plan | | Supplemental and other | |
|---|---|---|---|---|---|
| | | Benefit obligation | Benefit expense | Benefit obligation | Benefit expense |
| **Discount rate** | | | | | |
| Impact of: | 1.0% increase | $ (15,098) | $ (680) | $ (549) | $ (180) |
| | 1.0% decrease | $ 18,629 | $ 3,236 | $ 667 | $ 123 |
| **Inflation rate** | | | | | |
| Impact of: | 1.0% increase | $ 8,343 | $ 1,702 | $ (49) | $ 1 |
| | 1.0% decrease | $ (7,476) | $ (834) | $ (54) | $ (36) |
| **Rate of compensation increase** | | | | | |
| Impact of: | 0.25% increase | $ 783 | $ 151 | $ 53 | $ 14 |
| | 0.25% decrease | $ (634) | $ (142) | $ (54) | $ (13) |
| **Expected long-term rate of return on plan assets** | | | | | |
| Impact of: | 1.0% increase | $ - | $ (1,442) | $ - | $ - |
| | 1.0% decrease | $ - | $ 1,442 | $ - | $ - |

This sensitivity analysis should be used with caution as it is hypothetical and the effect of changes in each significant assumption may not be linear. Also, the sensitivities in each key variable have been calculated independently of changes in other key variables, and actual experience may result in simultaneous changes to a number of key assumptions. Changes in one factor could result in changes to another that may serve to amplify or reduce certain sensitivities.

## 18. Derivative Financial Instruments

Derivative financial instruments are financial contracts whose value is derived from an underlying reference rate such as an interest rate, currency exchange rate, the price of an equity or debt security, or an equity or commodity index.

ATB enters into various over-the-counter derivative contracts in the normal course of business, including interest rate swaps and options, equity options, and foreign exchange and commodity forwards. ATB uses such instruments for two purposes: for its risk management program and to meet the needs of ATB customers (referred to as "non-trading" and "trading" portfolios, respectively).

In its non-trading (or "corporate derivative") portfolio, ATB uses derivative financial instruments for risk management, to manage its exposure to fluctuations in interest or foreign exchange rates as an integral component of its asset/liability management program.

ATB's trading (or "client derivative") portfolio is not used to generate trading income through active assumption of market risk, but rather is used to meet the risk management requirements of ATB customers. ATB does not accept any net exposure to such derivative contracts (except for credit risk), as it either enters into offsetting contracts with other financial institution counterparties or incorporates them into its own risk management programs.

ATB uses the following main types of derivative financial instruments:

#### Swaps

Swaps are transactions in which two parties agree to exchange defined cash flows. ATB uses the following types of swap contracts:

- In interest rate swaps, ATB exchanges fixed- and floating-rate interest payments with a counterparty based on an agreed notional principal amount denominated in a single currency. These are used in the corporate derivative portfolio to manage exposure to interest rate fluctuations, primarily arising from the investment, loan, and deposit portfolios.

- In cross-currency swaps, ATB exchanges interest and principal payments in different currencies. These are used in the corporate portfolio to manage ATB's foreign exchange risk.

#### Options

Options are transactions in which the party that writes an option contract charges the buyer a premium in exchange for the right, but not the obligation, to either buy or sell a specified amount of currency or financial instruments at a specified price on a future date or within a specified time period. ATB buys specialized forms of option contracts such as interest rate caps, collars, and swap options, as well as equity- and commodity-linked options direct from counterparties in the over-the-counter market (i.e., not purchased on market exchanges). These are used in the corporate derivative portfolio to manage exposure to interest rate and equity and commodity market fluctuations, primarily arising from the loan and deposit portfolios. ATB also buys and sells (or writes) similar option contracts relating to energy commodities in the client derivative portfolio.

#### Forwards

Foreign exchange or commodity forwards are transactions conducted in the over-the-counter markets in which two parties agree to either buy or sell a specified amount of a currency or security at a specific price or within a specified time period. ATB uses foreign exchange forward contracts in both its corporate and client derivative portfolios to manage currency exposure, either arising from its own foreign-currency-denominated loans and deposits, or for its customers. Commodity forward contracts are used only in the client derivative portfolio.

### Accounting for Derivatives

All derivative financial instruments, including embedded derivatives, are classified as held for trading (HFT) and measured at fair value on the Consolidated Balance Sheet. Derivatives having positive fair value are presented as derivative assets and those having negative fair value are presented as derivative liabilities. Changes in the fair value of derivative financial instruments are recorded in net income, unless the derivative qualifies for hedge accounting as a cash flow hedge, in which case the changes in fair value are reflected in other comprehensive income.

## Corporate (Non-Trading) Derivatives and Hedge Accounting

ATB's corporate (non-trading) derivative portfolio is not intended for speculative income generation but for asset/liability management purposes—that is, to manage ATB's interest rate, foreign exchange, and equity- and commodity-related exposures arising from its portfolio of investment and loan assets and deposit obligations.

Hedge accounting is optional and allows recognition of the effective component of a hedging derivative in net income at the same time as the hedged item, thus reducing income volatility. The change in fair value attributable to any ineffective component of a hedging derivative is recognized in net income during the period of ineffectiveness.

For a derivative instrument to qualify for hedge accounting, the hedging relationship between the derivative (hedging) instrument and the hedged item(s) must be designated and formally documented at inception. ATB must also document an assessment of the effectiveness of the derivative instrument in offsetting changes in cash flows or fair value of the hedged item, both at inception of the hedging relationship and on an ongoing basis. When ATB designates a derivative as a hedge, it is classified as either a cash flow hedge or a fair value hedge.

### Cash Flow Hedges

The derivative instrument in a cash flow hedge is intended to generate cash flows that offset the variability in expected and/or anticipated cash flows from the hedged item. ATB uses various interest rate derivatives to manage risk relating to the variability of cash flows from variable-rate securities and loans as well as certain deposits. In a qualifying cash flow hedge relationship, the effective portion of the change in fair value of the hedging derivative instrument is recognized in other comprehensive income, and the ineffective portion in net income. Any such amounts recognized in accumulated other comprehensive income are reclassified from other comprehensive income into net income in the same period that the underlying hedged item affects net income.

The amount of other comprehensive income that is expected to be reclassified to the Consolidated Statement of Income over the next 12 months is $70,839. This will be offset by gains/losses on assets/liabilities that were hedged.

No derivative instruments have been designated as fair value hedges as of March 31, 2009 (or as of March 31, 2008).

## Client (Trading) Derivatives

ATB does not enter into derivative contracts for trading purposes except to accommodate its clients in managing their foreign-currency and energy-commodity risk exposures. In such instances, any resultant commodity exposure to ATB is simultaneously offset with another derivative contract, and any resulting foreign currency exposure to ATB not incorporated into its own risk management program is simultaneously offset.

## Embedded Derivatives

Embedded derivatives are components within a financial instrument or other contract that have features similar to a derivative. Embedded derivatives with economic characteristics and risks considered not closely related to the characteristics and risks of the host contract may need to be accounted for separately if a separate instrument with the same terms would qualify as a derivative and if the host contract is not already measured at fair value.

ATB has identified embedded derivatives within certain extendible loan contracts and within all equity- and commodity-linked deposit contracts. Any such embedded derivatives are not considered closely related to the host contract and have been accounted for separately as derivative assets or liabilities.

## Fair Value of Derivatives

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

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:

| *As at March 31* *($ in thousands)* | 2009 | | | 2008 | | |
|---|---|---|---|---|---|---|
| | **Favourable position** | **Unfavourable position** | **Net** | Favourable position | Unfavourable Position | Net |
| **Contracts ineligible for hedge accounting** | | | | | | |
| **Interest rate contracts** | | | | | | |
| Options | $ 176 | $ - | $ 176 | $ 782 | $ - | $ 782 |
| Swaps | 4,736 | (2,471) | 2,265 | 2,263 | (12) | 2,251 |
| | 4,912 | (2,471) | 2,441 | 3,045 | (12) | 3,033 |
| **Embedded derivatives** | | | | | | |
| Equity- and commodity-linked deposits | - | (16,766) | (16,766) | - | (48,433) | (48,433) |
| Other | - | (3) | (3) | - | (161) | (161) |
| | - | (16,769) | (16,769) | - | (48,594) | (48,594) |
| **Foreign exchange contracts** | | | | | | |
| Forwards | 5,331 | (1,389) | 3,942 | 195 | (179) | 16 |
| **Equity contracts** | | | | | | |
| Options | 16,764 | - | 16,764 | 47,200 | - | 47,200 |
| **Forward contracts** | | | | | | |
| Commodities | 93,072 | (92,297) | 775 | 28,070 | (27,813) | 257 |
| **Total fair value ineligible contracts** | $ 120,079 | $ (112,926) | $ 7,153 | $ 78,510 | $ (76,598) | $ 1,912 |
| **Contracts eligible for hedge accounting** | | | | | | |
| **Interest rate contracts** | | | | | | |
| Swaps | $ 138,615 | $ (14,592) | $ 124,023 | $ 30,740 | $ (5,792) | $ 24,948 |
| **Total fair value eligible contracts** | $ 138,615 | $ (14,592) | $ 124,023 | $ 30,740 | $ (5,792) | $ 24,948 |
| **Total fair value** | $ 258,694 | $ (127,518) | $ 131,176 | $ 109,250 | $ (82,390) | $ 26,860 |

## Notional Principal Amounts

The notional amounts of derivative instruments represent the underlying principal amount to which the specified rate or price is applied in order to calculate the amount of cash flows to be exchanged. Notional amounts do not represent assets or liabilities and are not recorded in the Consolidated Balance Sheet.

| *As at March 31*<br>*($ in thousands)* | | | **2009** | 2008 |
|---|---|---|---|---|
| | **Ineligible for hedge accounting** | **Eligible for hedge accounting** | **Total** | Total |
| **Interest rate contracts** | | | | |
| Options | **$ 89,376** | **$ -** | **$ 89,376** | $ 131,080 |
| Swaps | **626,000** | **3,540,000** | **4,166,000** | 2,735,039 |
| | **715,376** | **3,540,000** | **4,255,376** | 2,866,119 |
| **Embedded derivatives** | | | | |
| Equity- and commodity-linked deposits | **243,389** | **-** | **243,389** | 257,078 |
| Other | **70,094** | **-** | **70,094** | 105,130 |
| | **313,483** | **-** | **313,483** | 362,208 |
| **Foreign exchange contracts** | | | | |
| Forwards | **270,917** | **-** | **270,917** | 19,992 |
| **Equity contracts** | | | | |
| Options | 238,055 | **-** | **238,055** | 249,650 |
| **Forward contracts** | | | | |
| Commodities | **1,204,847** | **-** | **1,204,847** | 354,738 |
| | **$ 2,742,678** | **$ 3,540,000** | **$ 6,282,678** | $ 3,852,707 |

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 $26,515 as at March 31, 2009 (2008: $8,550).

### Derivative-Related Credit Risk

Derivative financial instruments traded in the over-the-counter market are subject to credit risk of a financial loss occurring if a counterparty defaults on its contractual obligation. This risk is normally a small fraction of the notional amount of the derivative instrument. ATB's maximum credit risk in respect of such derivatives is the fair value of all derivatives where ATB is in a favourable position. ATB endeavours to limit its credit risk by dealing only with counterparties believed to be creditworthy and manages the credit risk for derivatives using the same credit risk process applied to loans and other credit assets. Financial institution counterparties must have a minimum long-term public credit rating of A-low/A3/A- or better. The exposure to credit risk on derivatives is also reduced by entering into master netting agreements and collateral agreements with counterparties. To the extent any unfavourable contracts with the counterparty are not settled, they reduce ATB's net exposure in respect of favourable contracts with the same counterparty.

Credit risk exposure on the derivative portfolio consists of the following:

| *As at March 31*<br>*($ in thousands)* | | | **2009** | 2008 |
|---|---|---|---|---|
| | **Ineligible for hedge accounting** | **Eligible for hedge accounting** | **Total** | Total |
| **Interest rate contracts** | | | | |
| Options | **$ 176** | **$ -** | **$ 176** | $ 782 |
| Swaps | **4,736** | **138,615** | **143,351** | 33,003 |
| | **4,912** | **138,615** | **143,527** | 33,785 |
| **Foreign exchange contracts** | | | | |
| Forwards | **5,331** | **-** | **5,331** | 195 |
| **Equity contracts** | | | | |
| Options | **16,764** | **-** | **16,764** | 47,200 |
| **Forward contracts** | | | | |
| Commodities | **93,072** | **-** | **93,072** | 28,070 |
| **Total derivative exposure—gross** | **$ 120,079** | **$ $138,615** | **$ 258,694** | $ 109,250 |
| Less impact of master netting agreements | | | **(17,063)** | (5,512) |
| Less impact of financial institution counterparty collateral held | | | **(103,730)** | - |
| **Residual credit exposure on derivatives** | | | **$ 137,901** | $ $103,738 |

All of the residual credit exposure presented above relates to contracts with financial institution counterparties, except for $24,664, which relates to client counterparties (2008: $28,265).

### Term to Maturity

The instruments in the derivative portfolio have varying maturity dates. The remaining contractual terms to maturity for the notional amounts of all derivative instruments are as follows:

| *As at March 31*<br>*($ in thousands)* | | | | **2009** | 2008 |
|---|---|---|---|---|---|
| | **Within 3 months** | **3 to 12 Months** | **1 to 5 Years** | **Total** | Total |
| **Interest rate contracts** | | | | | |
| Options | **$ 7,521** | **$ 18,935** | **$ 62,920** | **$ 89,376** | $ 131,080 |
| Swaps | **550,000** | **1,047,000** | **2,569,000** | **4,166,000** | 2,735,039 |
| **Foreign exchange contracts** | | | | | |
| Forwards | **191,937** | **43,713** | **35,267** | **270,917** | 19,992 |
| **Equity contracts** | | | | | |
| Options | **6,850** | **70,875** | **160,330** | **238,055** | 249,650 |
| **Forward contracts** | | | | | |
| Commodities | **43,780** | **658,981** | **502,086** | **1,204,847** | 354,738 |
| **Embedded derivatives** | | | | | |
| Equity- and commodity-linked deposits | **-** | **67,275** | **176,114** | **243,389** | 257,078 |
| Other | **4,887** | **11,673** | **53,534** | **70,094** | 105,130 |
| **Total** | **$ 804,975** | **$ 1,918,452** | **$ 3,559,251** | **$ 6,282,678** | $ 3,852,707 |

## 19. Commitments, Guarantees, and Contingent Liabilities

### Credit Instruments

In the normal course of business, ATB enters into various off-balance-sheet commitments to provide customers with sources of credit. These may include letters of credit, letters of guarantee and loan guarantees, and commitments to extend credit.

All of these credit arrangements are subject to ATB's normal credit standards, and collateral may be obtained where appropriate. The contract amounts represent the maximum credit risk exposure to ATB should the contracts be fully drawn and any collateral held proves to be of no value. As many of these arrangements will expire or terminate without being drawn upon, the contract amounts do not necessarily represent the future cash requirements.

#### Letters of Credit

Standby letters of credit represent an irrevocable obligation to make payments to a third party if the customer is unable to meet its financial or performance contractual obligations. In the event of a call on such commitments, ATB has recourse against the customer.

Documentary and commercial letters of credit require ATB to honour drafts presented by third parties upon completion of specific activities.

#### Guarantees

Guarantees also 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 some 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. In the event of a call on such commitments, ATB has recourse against the customer.

#### Commitments to Extend Credit

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

The contractual amounts of all such credit instruments are outlined as follows:

| *As at March 31*<br>*($ in thousands)* | **2009** | 2008 |
|---|---|---|
| Guarantees | **$ 170,254** | $ 163,829 |
| Letters of credit | **150,160** | 106,046 |
| Commitments to extend credit | **10,005,865** | 8,989,493 |
| | **$ 10,326,279** | $ 9,259,368 |

The amounts presented above in the current and comparative year for commitments to extend credit include demand facilities of $5,443,063 (2008: $3,965,904). For demand facilities, ATB considers the undrawn portion to represent a commitment to our customer; however, the terms of the commitment allow ATB to adjust the credit exposure if circumstances warrant doing so. Accordingly, these demand facilities are considered to represent a lesser exposure than facilities with extended commitment terms. In addition, credit facilities are normally drawn over a period of time and in some cases may never be drawn, or may be reduced due to changing customer requirements.

### Pledged Assets

In the ordinary course of business, ATB pledges securities and interest-bearing deposits with financial institutions to the Bank of Canada in order to participate in clearing and payment systems and to have access to its facilities. ATB also pledges securities to Clearing and Depository Services Inc. in order to participate in a settlement-agent credit ring.

| *As at March 31*<br>*($ in thousands)* | **2009** | 2008 |
|---|---|---|
| Assets pledged to: | | |
| Bank of Canada | **$ 386,000** | $ 348,500 |
| Clearing and Depository Services Inc. | **14,000** | 14,000 |
| Total | **$ 400,000** | $ 362,500 |

At March 31, 2009, the total amount of pledged assets encumbered was $44,250 (2008: $35,600).

At March 31, 2009, ATB held $103,730 (2008: nil) in financial assets as collateral.

## Indemnification Agreements

In the normal course of operations, ATB enters into various agreements that provide general indemnification to the other party. Examples of such agreements include service agreements, leasing agreements, clearing arrangements, and service contracts. These indemnifications may require ATB, in certain circumstances, to compensate the other party for costs incurred as a result of various contingencies. ATB also indemnifies directors and officers, to the extent permitted by law, against certain claims that may be made against them as a result of their services to the company. The terms of these indemnifications vary based on the contract, the nature of which prevents ATB from making a reasonable estimate of the maximum potential amount it could be required to pay to other parties. Historically, any such amounts have not been significant. No amount has been accrued in the Consolidated Balance Sheet as at March 31, 2009, or March 31, 2008, in respect of such indemnifications.

## Contingent Liabilities

Various actions and legal proceedings arising from the normal course of business are pending against ATB. Management does not consider the aggregate liability, if any, of these actions and proceedings to be material.

## Margin-Funding Facility

As a participant of Master Asset Vehicle (MAV) 1 under the Montreal Accord, ATB must provide a margin-funding facility (MFF) to cover any potential collateral calls associated with the leveraged super-senior trades underlying the Montreal Accord notes. ATB has the same rank as the other participants in the MFF. This credit commitment totals $551.5 million and matures in July 2017. ATB does not receive any fee for providing this commitment. The advances that could be made under the MFF are expected to bear interest at the bankers' acceptance rate. All amounts advanced under the MFF will take precedence over amounts payable on the notes issued under MAV 1.

## Contractual Obligations

ATB has various obligations under long-term non-cancellable contracts, which include service contracts and operating leases for buildings and equipment. The future minimum payments for such obligations for each of the next five fiscal years and thereafter are outlined as follows:

| *As at March 31*<br>*($ in thousands)* | |
|---|---|
| 2010 | **$ 62,301** |
| 2011 | **53,292** |
| 2012 | **41,781** |
| 2013 | **24,951** |
| 2014 | **18,597** |
| 2015 and thereafter | **10,163** |
| | **$ 211,085** |

The total expense for premises and equipment operating leases charged to the Consolidated Statement of Income for the year ended March 31, 2009, is $27,856 (2008: $25,088; 2007: $22,231).

## 20. Disclosure of Salaries and Benefits

### Salaries and Benefits

ATB is an agent of the Crown in right of Alberta and, as such, is required to disclose certain information prepared in accordance with Treasury Board Directive 12/98 as amended. This directive applies to all departments, regulated funds, provincial agencies, and Crown-controlled organizations. In accordance with the directive, the amounts disclosed in the following table reflect amounts earned in the years ended March 31:

| *For the years ended March 31 ($ in thousands)* | | | | | | | | 2009 | 2008 |
|---|---|---|---|---|---|---|---|---|---|
| | Base salary [1] | Variable pay current [2] | Variable pay deferred [3] | Other cash benefits [4] | Retirement and other post-employment benefits | Other non-cash benefits [5] | | Total | Total |
| Chairman of the Board | $ - | $ - | $ - | $ 73 | $ - | $ - | | $ 73 | $ 83 |
| Board Members [6] | $ - | $ - | $ - | $ 457 | $ - | $ - | | $ 457 | $ 516 |
| President and Chief Executive Officer [7] | $ 502 | $ 278 | $ 206 | $ 25 | $ 429 | $ 25 | | $ 1,465 | $ 1,618 |
| Chief Risk Officer [8] | $ 238 | $ 70 | $ 54 | $ 13 | $ 79 | $ 19 | | $ 473 | $ 482 |
| Chief Financial Officer | $ 245 | $ 72 | $ 40 | $ 12 | $ 60 | $ 16 | | $ 445 | $ 505 |
| Chief People and Marketing Officer [9] | $ 227 | $ 67 | $ 43 | $ 12 | $ 64 | $ 18 | | $ 431 | $ 431 |
| Executive Vice-President Retail Financial Services | $ 221 | $ 114 | $ 42 | $ 12 | $ 38 | $ 20 | | $ 447 | $ 471 |
| Executive Vice-President Corporate Financial Services | $ 231 | $ 172 | $ 54 | $ 13 | $ 66 | $ 15 | | $ 551 | $ 660 |
| Executive Vice-President and President Investor Services | $ 247 | $ 209 | $ 74 | $ 12 | $ 58 | $ 11 | | $ 611 | $ 655 |

*(1) Base salary consists of all regular pensionable base pay earned.*
*(2) Current variable pay is accrued based on goal attainment for the fiscal year but is paid after the fiscal year-end.*
*(3) Deferred variable pay is earned in the year, though payment is deferred for up to 33 months and depends on the employee's continued employment with ATB. The actual amount each employee receives appreciates or depreciates from the amount reported above based on a specified methodology to reflect ATB's actual financial performance over the next two fiscal years.*
*(4) Other cash benefits consist of fees for attendance at meetings, retainers, honoraria, lump-sum payments, perquisite allowances, and other direct cash remuneration.*
*(5) Other non-cash benefits consist of ATB's share of all employee benefits and contributions or payments made on behalf of employees, including statutory contributions, health care, parking, dental coverage, vision coverage, medical benefits, group life insurance, accidental disability and dismemberment insurance, long-term disability plans, tuition, and professional memberships.*
*(6) The Board consists of 12 members plus the Chairman, whose remuneration is disclosed separately.*
*(7) The incumbent does not participate in either the registered pension plan or the supplemental pension plan, but does receive other post-employment benefits.*
*(8) The position Chief Risk Officer was established in 2008–09. In 2007–08, the incumbent held the position Executive Vice-President of Credit.*
*(9) The position Chief People and Marketing Officer was established in 2008–09. In 2007–08, the incumbent held the position Senior Vice-President of Human Resources.*

### Retirement and Other Post-Employment Benefits

Retirement and other post-employment benefits presented in the Salaries and Benefits table above reflect the period expense for pension and other post-employment benefit (OPEB) rights to future compensation. Executive officers may receive such benefits through participation in either the defined benefit or defined contribution provisions of ATB's registered pension plan (RPP) together with participation in our non-registered defined benefit supplemental retirement plan (SRP), or through other supplemental post-retirement benefit arrangements.

Refer to Note 17 for a detailed description of ATB's accounting for its retirement plans.

| *For the years ended March 31 ($ in thousands)* | | | | 2009 | 2008 |
|---|---|---|---|---|---|
| | Registered plan service cost [1] | Supplemental and other post-employment-benefit service costs [2] | Prior service and other costs | Total | Total |
| President and Chief Executive Officer [3] | $ - | $ 386 | $ 43 | $ 429 | $ 322 |
| Chief Risk Officer | $ 10 | $ 37 | $ 32 | $ 79 | $ 81 |
| Chief Financial Officer | $ 10 | $ 36 | $ 14 | $ 60 | $ 64 |
| Chief People and Marketing Officer | $ 10 | $ 29 | $ 25 | $ 64 | $ 71 |
| Executive Vice-President Retail Financial Services | $ 10 | $ 15 | $ 13 | $ 38 | $ 41 |
| Executive Vice-President Corporate Financial Services | $ 10 | $ 36 | $ 20 | $ 66 | $ 69 |
| Executive Vice-President and President Investor Services | $ 10 | $ 25 | $ 23 | $ 58 | $ 66 |

*(1) The RPP current-service cost for defined contribution members is equal to the cash contributions made by ATB for the year ended March 31. For defined benefit members, the RPP current-service cost is equal to 15.3% of pensionable earnings for the same period, the average cost of service for all members.*
*(2) As the SRP and OPEB provided are unfunded obligations and are paid from operating revenue as they come due, none of the SRP and OPEB costs represent cash payments in the period, but are the period expense for rights to future payments. These benefit costs represent the total estimated cost incurred in the years ended March 31 to provide annual pension income over an actuarially determined post-employment period. Current-service cost is the actuarial present value of the benefits earned in the fiscal year. Prior service and other costs for both SRP and OPEB may include amortization of actuarial gains and losses, amortization of past-service amendments, and interest accruing on the accrued benefit obligation.*
*(3) The incumbent does not participate in either the RPP or the SRP, but does receive other post-employment benefits.*

The accrued SRP and OPEB obligation for each executive is as follows:

| ($ in thousands) | Accrued obligation March 31, 2008 | Change in accrued obligation | Accrued obligation March 31, 2009 |
|---|---|---|---|
| President and Chief Executive Officer [1] | $ 310 | $ 345 | $ 655 |
| Chief Risk Officer | $ 330 | $ (69) | $ 261 |
| Chief Financial Officer | $ 145 | $ (11) | $ 134 |
| Chief People and Marketing Officer | $ 263 | $ (97) | $ 166 |
| Executive Vice-President Retail Financial Services | $ 124 | $ (22) | $ 102 |
| Executive Vice-President Corporate Financial Services | $ 212 | $ (43) | $ 169 |
| Executive Vice-President and President Investor Services | $ 224 | $ (75) | $ 149 |

*(1) The incumbent does not participate in either the RPP or the SRP, but does receive other post-employment benefits.*

## 21. Related-Party Transactions

In the ordinary course of business, ATB provides normal banking services to various departments and agencies of the Government of Alberta on terms similar to those offered to non-related parties (refer to Note 14). During the year, ATB leased certain premises from the Government of Alberta and paid insurance premiums as a participant in the Alberta Finance Risk Management Fund. For the year ended March 31, 2009, the total of these payments was $881 (2008: $964). ATB recognized a deposit guarantee fee payable to the Crown in right of Alberta in return for a guarantee on all customer deposits (refer to Note 14). ATB also has subordinated debt outstanding with the Crown in right of Alberta from prior years (refer to Note 16).

ATB entered into a wholesale borrowing agreement with the Minister of Finance and Enterprise on November 24, 2003 (amended November 9, 2007). Under this agreement, the Minister of Finance and Enterprise acts as fiscal agent of ATB Financial under the Financial Administration Act and is involved in raising wholesale deposits in the marketplace.

ATB provides banking services to its directors on terms similar to those offered to non-related parties, and to its officers and employees at preferential rates. The total outstanding balances of residential mortgages and loans to all of these parties are as follows:

| *As at March 31*<br>*($ in thousands)* | 2009 | 2008 |
|---|---|---|
| Residential mortgages | $ 201,117 | $ 201,334 |
| Personal | 87,954 | 87,974 |
| Credit card | 13,965 | 11,234 |
| Business and other | 5,618 | 5,578 |
| | $ 308,654 | $ 306,120 |

## 22. Accumulated Other Comprehensive Income

The components of accumulated other comprehensive income are:

| *As at March 31*<br>*($ in thousands)* | 2009 | 2008 |
|---|---|---|
| Net unrealized gains on available-for-sale securities and interest-bearing deposits with financial institutions, net of hedging activities | $ 13,179 | $ 169 |
| Net unrealized gains on derivative instruments designated as cash flow hedges | 95,752 | 24,942 |
| Accumulated other comprehensive income | $ 108,931 | $ 25,111 |

## 23. Segmented Information

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

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

ATB's operating activities are not geographically distributed for external reporting purposes, as all its operations are essentially limited to customers within the province of Alberta.

### Basis of Presentation

Results presented in the following schedule are based on ATB's internal financial reporting systems. The accounting policies used in preparing the schedules are consistent with those followed in preparing the consolidated financial statements, as is disclosed in the notes to the statements, with the exception of financial instruments standards and Accounting Guideline 4-related adjustments, which are recorded at the other business unit (corporate) level only. (Note: Because these lines of business are based on ATB's internal management structure, they may not be directly comparable to those of other financial institutions.)

| *($ in thousands)* | **Personal and Business Financial Services** | **Corporate Financial Services** | **Investor Services** | **Other business units** [1] | **Total** |
|---|---|---|---|---|---|
| **2009** | | | | | |
| Net interest income | **$ 474,645** | **$ 97,952** | **$ 5,251** | **$ 69,497** | **$ 647,345** |
| Other income | **135,669** | **36,760** | **35,928** | **51,325** | **259,682** |
| Provision for loss on asset-backed commercial paper | **-** | **-** | **-** | **(224,816)** | **(224,816)** |
| Total operating revenue (loss) | **610,314** | **134,712** | **41,179** | **(103,994)** | **682,211** |
| Provision for credit losses | **16,504** | **23,545** | **-** | **2,663** | **42,712** |
| Non-interest expenses | **476,112** | **29,507** | **50,149** | **77,319** | **633,087** |
| Net income (loss) | **$ 117,698** | **$ 81,660** | **$ (8,970)** | **$ (183,976)** | **$ 6,412** |
| Total assets | **$ 17,107,664** | **$ 5,436,071** | **$ 20,168** | **$ 3,950,240** | **$ 26,514,143** |
| Total liabilities | **$ 16,135,022** | **$ 3,837,884** | **$ 831,274** | **$ 3,951,279** | **$ 24,755,459** |
| **2008** | | | | | |
| Net interest income | $ 466,865 | $ 78,218 | $ 6,814 | $ 107,513 | $ 659,410 |
| Other income | 126,823 | 19,940 | 39,023 | 209 | 185,995 |
| Provision for loss on asset-backed commercial paper | - | - | - | (253,133) | (253,133) |
| Total operating revenue (loss) | 593,688 | 98,158 | 45,837 | (145,411) | 592,272 |
| Provision for (recovery of) credit losses | 18,235 | (339) | - | (4,990) | 12,906 |
| Non-interest expenses | 431,047 | 26,956 | 43,462 | 47,916 | 549,381 |
| Net income (loss) | $ 144,406 | $ 71,541 | $ 2,375 | $ (188,337) | $ 29,985 |
| Total assets | $ 15,474,620 | $ 3,960,815 | $ 4,078 | $ 3,903,640 | $ 23,343,153 |
| Total liabilities | $ 14,776,994 | $ 2,153,106 | $ 548,877 | $ 4,195,724 | $ 21,674,701 |
| **2007** | | | | | |
| Net interest income | $ 423,176 | $ 62,515 | $ 5,127 | $ 80,987 | $ 571,805 |
| Other income | 119,462 | 14,901 | 28,969 | 16,329 | 179,661 |
| Total operating revenue | 542,638 | 77,416 | 34,096 | 97,316 | 751,466 |
| (Recovery of) provision for credit losses | (8,699) | 12,003 | - | (8,515) | (5,211) |
| Non-interest expenses | 385,403 | 19,279 | 36,069 | 41,538 | 482,289 |
| Net income (loss) | $ 165,934 | $ 46,134 | $ (1,973) | $ 64,293 | $ 274,388 |
| Total assets | $ 13,645,926 | $ 3,454,594 | $ 2,800 | $ 3,191,398 | $ 20,294,718 |
| Total liabilities | $ 13,974,317 | $ 1,875,709 | $ 436,294 | $ 2,385,015 | $ 18,671,335 |

*(1) Comprised 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.*

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

Net interest income (NII) is attributed to each line of business according to ATB's internal funds transfer pricing (FTP) system whereby assets "earn" NII to the extent that external revenues exceed internal FTP expense, and liabilities "earn" NII to the extent that internal FTP revenues exceed external interest expense. Specific provisions for credit losses are allocated based on the individual underlying impaired-loan balances, and general provisions (excepting any special general provisions) are allocated pro rata based on total performing loan balances.

Direct expenses are attributed between lines as incurred. Certain indirect expenses are allocated between Investor Services and the other lines on the basis of interline service agreements. Certain other costs are allocated between the reporting segments using refined methods of allocating costs between the reporting segments, incorporating activity-based estimates of indirect cost allocation. Indirect expenses that are not allocated and direct expenses of a corporate or support nature are reported under other business units.

## 24. Payment in Lieu of Tax

Bill 13 received Royal Assent and came into force June 3, 2008. This amendment to the ATB Act allows the Government of Alberta to assess a charge to ATB in lieu of tax as prescribed by the ATB Regulation. As at March 31, 2009, the ATB Regulation has not been updated and the methodology for the calculation of this payment has not been defined. As a result, ATB has not accrued a liability for this payment as at March 31, 2009.

## 25. Future Changes in Accounting Policies

### Goodwill and Intangible Assets

In February 2008, the CICA issued *CICA Handbook* section 3064, Goodwill and Intangible Assets, which will take effect for ATB beginning April 1, 2009. This standard replaces section 3062, Goodwill and Other Intangible Assets, and section 3450, Research and Development Costs. It establishes the standard for the recognition, measurement, and disclosure of goodwill and intangible assets. The impact of this new standard will be reflected in ATB's financial statements for the quarter ending June 30, 2009.

### Conversion to International Financial Reporting Standards

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

## 26. Subsequent Events

Subsequent to March 31, 2009, ATB has received repayment of principal of $65.4 million on certain traditional ABCP notes issued under the Montreal Accord. These notes were not scheduled to repay until between 2014 and 2016. The total amount received of $65.4 million compares to a face value of $73.5 million and a fair value of $72.4 million at March 31, 2009. The remaining $8.1 million in face value is expected to repay on the original maturity date of between 2014 and 2016.

# Glossary

### Asset Growth
Total assets outstanding at year-end less the value of total assets outstanding at the previous year-end divided by total assets outstanding at the previous year-end.

### Average Assets
The simple average of the daily total asset balances during the year.

### Basis Point
One one-hundredth of one percent (0.01%).

### Carrying Value
The value of an asset or liability as reported within the consolidated financial statements.

### Deposit Growth
Total deposits outstanding at year-end less total deposits outstanding at the previous year-end divided by total deposits outstanding at the previous year-end.

### Derivative or Derivative Contract
A contract whose value changes by reference to a specified underlying variable such as interest rates, foreign exchange rates, or equity or commodity prices. Use of derivatives allows for the mitigation of current or expected risks relating to these variables. Derivatives typically require little or no initial net investment and are settled at a future date. The most common types of derivatives ATB uses include interest rate swaps and forward rate agreements, foreign exchange and commodity forward contracts, and foreign currency, equity, and interest rate options and swap options.

### Efficiency Ratio
The ratio of non-interest expenses for the year divided by total operating revenue (net interest income plus other income) for the year. May be referred to as the "productivity ratio" by other financial institutions.

### Embedded Derivative
A component within a financial instrument or other contract that has features similar to a derivative.

### Equity- and Index-Linked Options
A class of options that gives the purchaser the right but not the obligation to buy an individual share, a basket of shares, or an equity or commodity index at a predetermined price, on or before a fixed date, on a fixed date, or on a series of fixed dates.

### Fair Value
Fair value is the amount for which an asset or liability could be exchanged between knowledgeable, willing parties in an arm's-length transaction.

### Financial Instrument
Any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. A financial asset/liability is the right to receive/deliver cash or another financial asset or the right to exchange financial instruments with another party under favourable or unfavourable conditions. An equity instrument is a contract that represents a residual interest in another entity's assets.

### Foreign Exchange Forward Contract
A commitment to buy or sell a fixed amount of foreign currency on a future specified date at a set rate of exchange.

### Forward Rate Agreement
A contract between two parties whereby a designated interest rate, applied to a notional principal amount, is locked in for a specified period of time. The difference between the contracted rate and prevailing market rate is paid in cash on the settlement date. These agreements are used to protect against, or take advantage of, future interest rate movements.

### Forwards and Futures
Commitments to buy or sell designated amounts of securities or currencies on a specified date at a predetermined price. Forwards are customized contracts transacted in the over-the-counter market. Futures are traded on recognized exchanges.

### Guarantee or Letter of Credit
A contractual agreement to provide assurance that if a client defaults on payment to a third party, ATB will make that payment under specified conditions. ATB has recourse against its clients for any such advanced funds.

### Hedging
A risk management technique used to reduce uncertainty associated with current or anticipated exposure to future movements in interest rates, foreign exchange rates, and equity or commodity prices.

### Impaired Loan
Loans for which there is no longer reasonable assurance of the timely collection of principal or interest.

### Interest Rate Cap
Contract whereby the buyer pays the seller a premium in exchange for the payment of any difference above a set strike interest rate and the prevailing market interest rate on a predetermined basis.

### Interest Rate Collar
The simultaneous purchase of an interest rate cap and the sale of an interest rate floor with the goal of maintaining interest rates within a defined range. The premium income from the sale of the floor reduces or offsets the cost of buying the cap.

### Interest Rate Floor
Contract whereby the buyer pays the seller a premium in exchange for the payment of any difference below a set strike interest rate and the prevailing market interest rate on predetermined dates.

### Loan Growth
Loans outstanding at year-end less loans outstanding at the previous year-end divided by loans outstanding at the previous year-end.

### Net Impaired Loans to Total Gross Loans
Impaired loans less any allowance for credit losses compared to total loans outstanding.

### Net Interest Margin
Net interest income for the year divided by the value of average total assets for the year.

### Net Interest Spread
Net interest income for the year divided by the value of average total earning assets for the year.

### Notional Amount
The principal value used to calculate interest and other payments under derivative contracts. The amounts are termed "notional" because they are not usually exchanged, except in the case of cross-currency swaps; they serve only as the basis for calculating amounts that do change hands.

### Off-Balance-Sheet Instruments
Assets or liabilities that are not recorded on the balance sheet but have the potential to produce positive or negative cash flows in the future. A variety of products offered to clients can be classified as off balance sheet and they fall into two general categories: credit-related arrangements, such as letters of credit, and the notional amount of derivatives for hedging.

### Operating Expense Growth
The current year's non-interest expenses less the previous year's non-interest expenses divided by the previous year's non-interest expenses.

### Operating Revenue Growth
The current year's operating revenue (net interest income plus other income) less the previous year's operating revenue divided by the previous year's operating revenue.

### Option
Contract between two parties whereby the buyer of the option has the right, but not the obligation, to buy (call) or sell (put) a specified financial instrument or currency at a set price or rate on or before a specified future date, on a specified date, or on a series of specified dates.

### Other Income to Operating Revenue
Other income for the year divided by operating revenue (net interest income plus other income) for the year.

### Provision for Credit Losses
An amount charged to income that represents an amount deemed by management to fully provide for impairment in existing credit portfolios, given the composition of the credit portfolios, the probability of default, the economic environment, and the allowance for credit losses already established.

### Return on Average Assets
Net income for the year divided by average total assets for the year.

### Swaps
A contractual agreement between two parties to exchange a series of cash flows. For interest rate swaps, counterparties generally exchange fixed- and floating-rate interest payments based on a notional amount in a single currency. For cross-currency swaps, counterparties generally exchange one currency for another, at a set date.

### Swap Option or "Swaption"
An option on an interest rate swap. The buyer of a swap option has the right to enter into an interest rate swap agreement by some specified date in the future. The swap option agreement will specify whether the buyer of the swap option will be a fixed-rate receiver or fixed-rate payer.

# ATB Financial Board of Directors and Officers

## Board of Directors

**Garnet Altwasser**
Audit Committee
Risk Committee

**Bob Brawn**
Governance and Conduct Review Committee

**Bob Clark**
Chair, Governance and Conduct Review Committee

**Arthur Froehlich**
Audit Committee
Risk Committee

**Joan Hertz**
Audit Committee
Human Resources Committee

**Brian Hesje**
Chair, Human Resources Committee
Audit Committee
Governance and Conduct Review Committee

**Linda Hohol**
Chair, Risk Committee
Governance and Conduct Review Committee

**Bern Kotelko**
Risk Committee

**Brian McCook**
Chair, Audit Committee
Governance and Conduct Review Committee
Human Resources Committee

**Norman McDonald**
Audit Committee
Human Resources Committee

**Al O'Brien**
Vice-Chair, Board
Governance and Conduct Review Committee
Human Resources Committee

**Bob Splane**
Chair of the Board
Risk Committee
Governance and Conduct Review Committee

**Wayne Wagner**
Risk Committee
Human Resources Committee

## Officers

**Dave Mowat**
President and Chief Executive Officer

**Michael Baker**
Executive Vice-President, Retail Financial Services

**Ken Casey**
Executive Vice-President, Major Initiatives

**Sandy Chipchar**
Chief People and Marketing Officer

**Sheldon Dyck**
Executive Vice-President
President, Investor Services

**Bill Fanous**
Chief Internal Auditor (resigned April 3, 2009)

**Lukasz Forys**
Vice-President, Global Financial Markets

**Jay Hamblin**
Vice-President, Asset Management

**Bob Mann**
Chief Risk Officer

**Dwayne Mann**
Senior Vice-President, Credit

**Stuart McKellar**
Vice-President, Legal
Corporate Secretary

**Jim McKillop**
Chief Financial Officer

**Ian Wild**
Executive Vice-President, Corporate Financial Services

# ATB Financial Branches and Agencies

## Branches

Airdrie
Andrew
Athabasca
Banff
Barrhead
Beaverlodge
Black Diamond
Bonnyville
Bow Island
Boyle
Breton
Books
Bruderheim
Calgary (26)*
Camrose
Canmore
Cardston
Caroline
Carstairs

Castor
Claresholm
Coaldale
Cochrane
Cold Lake
Consort
Coronation
Crossfield
Daysland
Didsbury
Drayton Valley
Drumheller
Edmonton (21)
Edson
Elk Point
Fairview
Falher
Foremost
Forestburg

Fort Macleod
Fort McMurray (2)
Fort Saskatchewan
Fort Vermilion
Grande Prairie (3)
Granum
Grimshaw
Hanna
High Level
High Prairie
Hinton
Hythe
Innisfail
Jasper
Killam
La Crete
Lac La Biche
Lacombe
Lamont

Leduc
Lethbridge (2)
Linden
Lloydminster
Magrath
Manning
Mayerthorpe
McLennan
Medicine Hat (2)
Milk River
Nanton
Okotoks
Olds
Onoway
Oyen
Peace River
Picture Butte
Pincher Creek
Ponoka

Provost
Raymond
Red Deer (3)
Red Water
Rimbey
Rocky Mountain House
Rycroft
Ryley
Sherwood Park (2)
Slave Lake
Smoky Lake
Spirit River
Spruce Grove
St. Albert (2)
St. Paul
Stettler
Stony Plain
Strathmore
Sundre

Taber
Thorsby
Three Hills
Tofield
Trochu
Two Hills
Valleyview
Vegreville
Vermilion
Viking
Vulcan
Wainwright
Westlock
Wetaskiwin
Whitecourt
Wildwood

*Includes the Business Financial Services Centre

## Agencies

Acadia Valley
Alberta Beach
Alder Flats
Alix
Alliance
Amisk
Barons
Bashaw
Bassano
Bawlf
Beaumont
Benalto
Berwyn
Big Valley
Blackie
Blairmore
Blue Ridge
Bon Accord
Bonanza
Bowden
Bragg Creek
Bruce
Calmar

Carbon
Carmangay
Carseland
Cereal
Champion
Chauvin
Chipman
Cleardale
Clive
Compeer
Coutts
Czar
Delburne
Delia
Devon
Dewberry
Donalda
Duchess
Eaglesham
Eckville
Edberg
Edgerton
Elnora

Enchant
Evansburg
Fawcett
Ferintosh
Fort Assiniboine
Fox Creek
Galahad
Gibbons
Gleichen
Glendon
Glenwood
Grande Cache
Grassland
Halkirk
Hardisty
Hay Lakes
Heisler
High River
Hines Creek
Holden
Innisfree
Irma
Irricana

Irvine
Islay
Kinuso
Kitscoty
Lake Louise
Langdon
Lomond
Lougheed
Mallaig
Mannville
Marwayne
Millarville
Millet
Minburn
Mirror
Morinville
Morrin
Mulhurst
Mundare
Myrnam
Nampa
New Norway
New Sarepta

Newbrook
Nobleford
Paradise Valley
Peers
Plamondon
Radway
Rainbow Lake
Red Earth Creek
Redcliff
Rockyford
Rolling Hills
Rosemary
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