ALBERTA TREASURY BRANCHES

Consolidated Financial Statements

FOR THE YEAR ENDED MARCH 31, 2006

AUDITOR GENERAL
Alberta

AUDITOR'S REPORT

To the Minister of Finance

I have audited the consolidated balance sheet of Alberta Treasury Branches as at March 31, 2006, and the consolidated statement of income and changes in equity, and the consolidated statement of 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 priniciples used and signficant 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, 2006 and the results of its operations and cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

[Original Signed]
Fred J. Dunn, FCA
Auditor General

Edmonton, Alberta
May 11, 2006

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

ALBERTA TREASURY BRANCHES

CONSOLIDATED BALANCE SHEET

As At March 31, 2006

	2006	2005
	($ thousands)	
Assets		
Cash resources (Note 4)		
Cash and items in transit	$ 77,454	$ 26,279
Interest-bearing deposits with financial institutions	976,671	927,244
	1,054,125	953,523
Securities (Note 5)	1,381,444	932,511
Loans (Notes 6 and 7)		
Residential mortgage	6,378,725	5,818,780
Personal	2,478,312	2,091,904
Credit card	325,259	288,772
Business	5,825,602	5,106,655
Allowance for loan losses	(161,204)	(168,194)
	14,846,694	13,137,917
Other		
Premises and equipment (Note 8)	134,479	110,067
Other assets (Note 9)	231,073	247,214
	365,552	357,281
	$ 17,647,815	$ 15,381,232
Liabilities and equity		
Deposits (Note 10)		
Personal	$ 8,475,619	$ 8,003,418
Business and other	7,394,689	5,836,614
	15,870,308	13,840,032
Other liabilities (Note 11)	356,933	325,207
Subordinated debentures (Note 12)	71,579	65,719
Equity	1,348,995	1,150,274
	$ 17,647,815	$ 15,381,232

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

Approved by the Board:

R. Triffo
Chairman of the Board

B. McCook
Chairman of the Audit Committee

ALBERTA TREASURY BRANCHES

CONSOLIDATED STATEMENT OF INCOME AND CHANGES IN EQUITY

For the Years Ended March 31

	2006	2005	2004
		($ thousands)	
Interest income			
Loans	$ 748,741	$ 657,838	$ 695,106
Securities	35,630	20,188	22,268
Deposits with financial institutions	30,298	21,857	23,227
	814,669	699,883	740,601
Interest expense			
Deposits	348,994	297,791	340,627
Subordinated debentures	3,424	3,346	2,690
	352,418	301,137	343,317
Net interest income	462,251	398,746	397,284
Other income			
Service charges	57,828	54,320	53,213
Credit fees	30,068	29,788	28,216
Other	18,664	21,543	10,001
Card fees	23,616	18,336	15,636
Investor services	17,994	8,632	3,276
Foreign exchange	7,451	6,689	5,930
	155,621	139,308	116,272
Total operating revenues	617,872	538,054	513,556
Provision for (recovery of) credit losses (Note 7)	688	(14,594)	15,859
Non-interest expenses			
Salaries and employee benefits (Notes 13 and 16)	219,013	189,410	168,028
Other	76,636	63,758	51,872
Communications and electronic processing	66,267	58,094	55,199
Premises and equipment, including amortization	56,547	54,073	50,574
	418,463	365,335	325,673
Net income	198,721	187,313	172,024
Equity at beginning of year	1,150,274	962,961	790,937
Equity at end of year	$ 1,348,995	$ 1,150,274	$ 962,961

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

ALBERTA TREASURY BRANCHES

CONSOLIDATED STATEMENT OF CASH FLOWS

For the Years Ended March 31

	2006	2005	2004
		($ thousands)	
Cash flows from operating activities			
Net income	$ 198,721	$ 187,313	$ 172,024
Adjustments to determine net cash flows:			
Provision for (recovery of) credit losses	688	(14,594)	15,859
Amortization	27,886	25,862	24,676
Net changes in accrued interest receivable and payable	(2,620)	(10,263)	9,138
Other items, net	50,487	(5,321)	13,692
Net cash provided by operating activities	275,162	182,997	235,389
Cash flows from financing activities			
Net change in deposits	2,030,276	804,912	938,209
Repayment of subordinated debentures	(9,925)	(7,519)	-
Issuance of subordinated debentures	15,785	27,822	-
Net cash provided by financing activities	2,036,136	825,215	938,209
Cash flows from investing activities			
Net change in interest-bearing deposits with financial institutions	(49,427)	29,483	(377,120)
Purchase of investment securities	(11,008,614)	(7,910,221)	(7,802,340)
Proceeds from investment securities	10,559,681	7,832,707	7,526,193
Net change in loans	(1,709,465)	(992,270)	(455,430)
Net purchases of premises and equipment	(52,298)	(42,913)	(36,370)
Net cash used in investing activities	(2,260,123)	(1,083,214)	(1,145,067)
Net increase (decrease) in cash and cash equivalents	51,175	(75,002)	28,531
Cash and cash equivalents at beginning of year	26,279	101,281	72,750
Cash and cash equivalents at end of year	$ 77,454	$ 26,279	$ 101,281
Supplementary cash flow information:			
Amount of interest paid during the year	$ 355,715	$ 307,942	$ 341,462

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

ALBERTA TREASURY BRANCHES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended March 31, 2006
($ thousands)

NOTE 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*, Revised Statutes of Alberta, 2000, Chapter A-37. Under the 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.

ATB' s primary business is providing financial services within Alberta.

NOTE 2 BASIS OF PRESENTATION

Management has prepared these Consolidated Financial Statements in accordance with Canadian Generally Accepted Accounting Principles ("GAAP").

Use of Estimates

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 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, amortization of premises and equipment, assumptions underlying the accounting for employee future benefit obligations and the fair value of financial instruments, including derivative financial instruments.

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 which were created for the purpose of offering investor services are established by Order-In-Council and incorporated under the *Business Corporation Act* (Alberta);

- ATB Investment Services Inc. incorporated October 3, 1997;
- ATB Investment Management Inc. incorporated August 21, 2002; and
- ATB Securities Inc. incorporated February 6, 2003.

Translation of Foreign Currencies

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

ALBERTA TREASURY BRANCHES

Note 2 (continued)

Other Significant Accounting Policies

Other significant accounting policies followed in the preparation of 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.

NOTE 3 CHANGES IN ACCOUNTING POLICIES

Accounting Policy Changes Recently Adopted

In the current year, ATB has made no changes in accounting policies, as no new accounting pronouncements issued by Canadian standards setters were relevant to the accounts. ATB had adopted the following accounting policies in the prior years for which comparative figures are presented:

Hedging relationships

See Note 14 for details.

Sources of generally accepted accounting principles

As of December 31, 2004, ATB prospectively adopted the Canadian Institute of Chartered Accountants' ("CICA's") new accounting standard Section 1100, "Generally Accepted Accounting Principles". This standard provides additional guidance on sources to consult when selecting accounting policies and determining appropriate disclosures on matters not covered explicitly in the primary sources of Canadian accounting standards. Following the adoption of this new accounting standard, balances receivable from or payable to other financial institutions arising from the clearing system's processing of items, previously presented as a component of "Cash resources" are now presented as "Cheques and other items in transit" under "Other assets" or "Other liabilities", respectively.

NOTE 4 CASH RESOURCES

Cash consists of cash on hand, bank notes and coins. Cash resources also include deposits with the Bank of Canada, deposits with other financial institutions and any net amounts receivable for cheques and other items in the clearing systems that settle overnight.

Deposits with the Bank of Canada and other financial institutions are recorded at cost, as are items in transit. Interest income on interest-bearing deposits is recorded on an accrual basis.

The Investor Services subsidiaries held restricted cash balances (clients' cash held in trust) amounting to $11,979 as at March 31, 2006 (2005: $10,947).

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NOTE 5 SECURITIES

Debt securities are recognized at unamortized acquisition cost and any premiums or discounts are amortized using the effective yield method over the period to maturity. All debt securities held are purchased with the intention to hold them to maturity, or until market conditions render alternative investments more attractive.

Dividend and interest income as well as the 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, calculated using the average cost method, and any provisions for loss in value that is considered to be other than temporary, are also included in "Interest income" in the period of disposal or impairment.

The carrying value of securities, by remaining term to maturity, is as follows:

	Less than 1 year	From 1-5 years	2006 Total carrying value	2005 Total carrying value
	($ thousands)			
Issued or guaranteed by the Canadian federal government	$ 12,594	$ -	$ 12,594	$ 13,659
Corporate debt	1,258,860	109,990	1,368,850	918,852
	$ 1,271,454	$ 109,990	$ 1,381,444	$ 932,511

The total carrying value of securities in the preceding schedule includes securities denominated in US funds totalling $17,994 as at March 31, 2006 (2005: $62,673).

As described in Note 15, ATB has pledged certain securities as at March 31, 2006 having a total carrying value of $198,340 (2005: $215,100).

NOTE 6 LOANS

Loans are stated net of any unearned fee income and net of specific and general allowances for credit losses. Interest income is recorded on an accrual basis, except for impaired loans.

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

When a loan is classified as impaired, 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, and interest income on the loan ceases to be accrued. 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 there is reasonable assurance of the timely collection of all principal and interest, all arrears have been collected, legal fees recovered and allowances for loan losses have been reversed.

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Note 6 (continued)

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.

Loan Fees

Loan and commitment fees in excess of $50 thousand are deferred and recognized as "Other income" in the Consolidated Statement of Income over the term of the loan or over the commitment period, as appropriate. The unrecognized portion of loan and commitment fees is netted against "Loans" in the Consolidated Balance Sheet.

Loans consist of the following:

	Gross loans	Specific allowances	General allowances	2006 Net carrying value	2005 Net carrying value
			($ thousands)		
Residential mortgage	$ 6,378,725	$ 690	$ 3,325	$ 6,374,710	$ 5,813,431
Personal	2,478,312	1,962	34,651	2,441,699	2,056,130
Credit card	325,259	-	14,195	311,064	269,745
Agricultural	1,317,018	5,235	16,016	1,295,767	1,256,557
Independent business	1,962,726	7,693	41,977	1,913,056	1,713,211
Commercial	2,545,858	525	34,935	2,510,398	2,028,843
	$ 15,007,898	$ 16,105	$ 145,099	$ 14,846,694	$ 13,137,917

The total net carrying value of loans above includes loans denominated in US funds totalling $152,139 as at March 31, 2006 (2005: $66,820).

Impaired loans (included in the preceding schedule) consist of the following:

	Gross impaired loans	Specific allowance	2006 Net carrying value	2005 Net carrying value
		($ thousands)		
Residential mortgage	$ 19,504	$ 690	$ 18,814	$ 24,338
Personal	6,678	1,962	4,716	5,980
Agricultural	18,728	5,235	13,493	21,528
Independent business	15,795	7,693	8,102	9,117
Commercial	1,588	525	1,063	1,294
	$ 62,293	$ 16,105	$ 46,188	$ 62,257

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 off-balance sheet transactions such as over-the-counter derivatives and other credit instruments (see Notes 14 and 15, respectively).

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Note 6 (continued)

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 geographical regions of Alberta.

As at March 31, 2006, no single industry segment represents more than 21.65% of total gross business loans and no single borrower represents more than 0.37% of the total gross loan portfolio (2005: 24.16% and 0.62%, respectively).

NOTE 7 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 and other on-balance sheet items but also provides for any credit risk relating to off-balance sheet items such as derivative financial instruments (see Note 14) or loan guarantees and letters of credit (see Note 15).

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 either a reduction of the related loan balance or, for amounts provided to cover potential losses from off-balance sheet items and any portion of loan-related allowances in excess of the 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 non-consumer impaired loans (including credit card balances) are established on an item-by-item 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 discounted value of estimated future cash flows, the fair value of any underlying security discounted to the amount recoverable in the event of realization, or the observable market value for the loan.

The specific allowance on consumer loans is calculated using a formula based on recent loss experience. 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 still continue. Any change in the amount expected to be recovered on an impaired loan is reflected in the "Provision for credit losses" in the Consolidated Statement of Income.

General Allowance

A general allowance for credit losses 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 the establishment of specific allowances.

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Note 7 (continued)

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), expected losses are determined at the product portfolio level, based on credit rating-based loss ratios, expected default rates and historical loss experiences. For commercial balances (including business loans, business 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 consumer and commercial components of the general allowances thus determined are then adjusted to reflect management's best judgement 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 certain industry sectors experience specific changes in economic conditions or adverse events that are considered to increase credit risk, an additional special general allowance may be established. Such allowances are established to provide for losses inherent in the credit portfolio that have not been specifically identified and that the general allowance is not considered sufficient to 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 the level of expected recoveries, if any, are also considered.

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

	Specific			General			Total		
	2006	2005	2004	2006	2005	2004	2006	2005	2004
					($ thousands)				
Balance at beginning of year	$ 32,147	$ 39,935	$ 35,012	$ 140,829	$ 157,719	$ 146,311	$ 172,976	$ 197,654	$ 181,323
Write-offs	(14,584)	(16,213)	(12,394)	-	-	-	(14,584)	(16,213)	(12,394)
Recoveries	5,367	6,129	12,866	-	-	-	5,367	6,129	12,866
Provision for (recovery of) credit losses	(3,582)	2,296	4,451	4,270	(16,890)	11,408	688	(14,594)	15,859
Balance at end of year	$ 19,348	$ 32,147	$ 39,935	$ 145,099	$ 140,829	$ 157,719	164,447	172,976	197,654
Less: Allowance for cost of credit recovery included in other liabilities							3,243	4,782	4,758
Allowance for loan losses							$ 161,204	$ 168,194	$ 192,896

The specific allowance for credit losses as at March 31 consists of the following:

	2006	2005
	($ thousands)	
Specific loan losses	$ 16,105	$ 27,365
Credit recovery costs	3,243	4,782
	$ 19,348	$ 32,147

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Note 7 (continued)

The 2005 general allowance for credit losses presented above includes a special allowance of $8.0 million for losses related to Bovine Spongiform Encephalopathy ("BSE") (2004: $17.5 million). This special general allowance was first established as at June 30, 2003 and has been drawn down over time as ATB came to understand the true impact of BSE on its clients. The special allowance was eliminated during the year ended March 31, 2006.

NOTE 8 PREMISES AND EQUIPMENT

Premises and equipment are carried at cost less accumulated amortization except for land, which is carried at cost. Premises, computer equipment and software, other equipment and leasehold improvements are amortized on a straight-line basis over their estimated useful lives. The estimated useful lives for the various asset classes are as follows:

• Premises	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

	Cost	Accumulated amortization	2006 Net carrying value	2005 Net carrying value
	($ thousands)			
Land	$ 7,437	$ -	$ 7,437	$ 7,618
Buildings	69,917	53,640	16,277	18,824
Computer equipment and software	134,328	70,406	63,922	42,810
Other equipment	36,274	25,426	10,848	10,734
Leasehold improvements	87,270	51,275	35,995	30,081
	$ 335,226	$ 200,747	$ 134,479	$ 110,067

Amortization expense charged to the Consolidated Statement of Income for the year ended March 31, 2006, in respect of the above assets was $27,886 (2005: $25,862; 2004: $24,676).

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, we assess whether the asset may have been impaired. The net carrying value of any such impaired assets are written-down to their estimated fair value. There were no such impairment write-downs recognized during the year ended March 31, 2006 (2005: $4,525; 2004: $ 4,728). These amounts are recorded in "Premises and equipment, including amortization" in the Consolidated Statement of Income.

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NOTE 9 OTHER ASSETS

Other assets are comprised as follows:

	2006	2005
	($ thousands)	
Accrued interest receivable	$ 125,595	$ 126,272
Cheques and other items in transit	64,000	70,000
Premiums paid on derivative instruments (see Note 14)	21,310	25,869
Prepaid expenses and other receivables	10,975	8,590
Accrued pension benefit asset (see Note 13)	650	7,974
Fair value adjustment of derivative instruments ineligible for hedge accounting, net (see Note 14)	3,929	6,551
Other	4,614	1,958
	$ 231,073	$ 247,214

NOTE 10 DEPOSITS

Deposit balances are comprised as follows:

	2006				2005
	Payable on demand	Payable after notice	Payable on a fixed date	Total	Total
			($ thousands)		
Personal	$ 1,483,305	$ 1,352,790	$ 5,639,524	$ 8,475,619	$ 8,003,418
Business	3,008,870	540,997	2,553,445	6,103,312	4,690,311
Financial institutions	-	-	1,291,377	1,291,377	1,146,303
	$ 4,492,175	$ 1,893,787	$ 9,484,346	$ 15,870,308	$ 13,840,032

Total deposits presented above include $221,879 (2005: $207,230) denominated in US funds.

As at March 31, 2006, deposits by various departments and agencies of the government of the Province of Alberta included in the preceding schedule total $3,577 (2005: 4,000) and include deposits for loans made under the Alberta Farm Credit Stability Program in the amount of $1,315 (2005: $2,579).

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 against ATB. For the year ended March 31, 2006, the fee was $15,236 (2005: $15,784).

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NOTE 11 OTHER LIABILITIES

Other liabilities are comprised as follows:

	2006	2005
	($ thousands)	
Accrued interest payable	$ 133,761	$ 137,058
Accounts payable and accrued liabilities	115,595	96,249
Cheques & other items in transit	82,500	69,000
Deposit guarantee fee payable	15,236	15,784
Due to clients, brokers and dealers	5,679	2,755
Accrued pension benefit liability (see Note 13)	2,904	2,504
Other	1,258	1,857
	$ 356,933	$ 325,207

NOTE 12 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, are issued following each fiscal year-end in respect of ATB's obligation for the year's deposit guarantee fee. These subordinated debentures are non-convertible, non-redeemable, non-transferrable, and bear a fixed rate of interest payable semi-annually.

ATB's obligation for the deposit guarantee in respect of the year ended March 31, 2006 is recorded in "Other liabilities" in the Consolidated Balance Sheet (see Note 11). Subordinated debentures, issued in respect of ATB's obligation for the deposit guarantee fee to March 31, 2006, are comprised as follows:

Maturity date	Interest rate	2006	2005
		($ thousands)	
June 30, 2005	6.540%	$ -	$ 9,925
June 30, 2006	5.840%	12,738	12,738
June 30, 2007	5.810%	15,234	15,234
June 30, 2008	4.287%	15,985	15,985
June 30, 2009	3.800%	11,837	11,837
June 30, 2010	4.200%	15,785	-
		$ 71,579	$ 65,719

NOTE 13 EMPLOYEE FUTURE BENEFITS

ATB provides future pension benefits to current and past employees through a combination of defined benefit and defined contribution plans but does not provide any other employee future benefits.

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Note 13 (continued)

ATB's current non-management employees participate in the Public Service Pension Plan ("PSPP") with other Alberta public sector employers. The PSPP is a defined benefit pension plan that provides benefits based on members' years of service and earnings. ATB provides its management employees a registered pension plan with defined benefit and defined contribution provisions as well as, for select employees, a non-registered defined benefit supplemental plan. ATB is also committed to providing combined pensionable service benefits to current or past management employees who become ineligible to participate in the PSPP upon promotion to a management position.

Accounting for Defined Benefit Plans - Registered, Supplemental and Other Plans

The registered plan, supplemental plan and other pension 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 prorated on service, which incorporates management's best estimate of long-term investment returns, salary growth and other cost escalation factors, retirement ages of employees, mortality and other actuarial factors.

The current cost of pension benefits is determined as the sum of the following:

- current period cost of service;
- notional interest on the actuarial projected benefit obligation;
- expected long-term return on plan assets;
- the amortization of actuarial gains and losses; and
- the amortization of any amounts arising from changes to the plan design or the actuarial assumptions.

The expected long-term return on plan assets is management's best estimate of the long-term rate of return, net of investment expenses that will be earned by the plan's assets based on a market-related value of those assets. This market-related value of plan assets takes into account changes in the fair value of plan assets using a four-year moving average.

Actuarial experience gains or losses are recognized only if the net accumulated unrecognized actuarial gain or loss exceeds 10 per cent of the greater of (i) the accrued benefit obligations or (ii) the market-related value of plan assets. That excess amount is amortized over the average remaining service period of active employees for the plan. The first 10 per cent of the net accumulated actuarial gain or loss continues to not be recognized for accounting purposes.

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 Supplemental Plan 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.

ALBERTA TREASURY BRANCHES

Note 13 (continued)

Accounting for PSPP and Defined Contribution Plans

ATB accounts for its participation in PSPP on the same basis as it accounts for the cost of the defined contribution provisions of the registered 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, 2006, expenses related to the PSPP plan were $4,570 (2005: $4,136; 2004: $3,475) and expenses related to defined contribution provisions of the registered plan were $5,676 (2005: $5,009; 2004: $3,668).

ATB is finalizing arrangements with the management of PSPP to assume pension obligations relating to certain current ATB associates who participated in PSPP prior to joining the ATB defined benefit plan (hereinafter referred to as the "PSPP take-on"). The estimated net impact of this has been accounted for as a plan amendment in the current year accounts, increasing the projected benefit obligation by $5,438 for the defined benefit plan and by $686 for other pension obligations, and increasing the net pension benefit expense by $4,380 for the defined benefit plan and by $553 for other pension obligations.

Plan valuations, asset allocation and funding

ATB measures its accrued benefit obligations and the market-related values of plan assets for accounting purposes as at March 31 each year for the registered plan, supplemental plan and other pension obligations. The most recent actuarial valuation of the registered pension plan for funding purposes was as of December 31, 2003, and the next required valuation date for funding purposes is December 31, 2006.

The plan's investment policy sets targets for an acceptable range for the allocation of plan assets between equity, debt and other assets. The policy targets in effect as at March 31, 2006 were unchanged from 2005 and 2004. The plan's actual and target asset allocations are as follows:

	Target 2006		Actual	Actual	Actual
	Normal	Max-Min	2006	2005	2004
			(in percent)		
Equities					
Canadian	40	30-50	44	43	43
Foreign	30	20-40	28	26	26
	70		72	69	69
Fixed income					
Canadian	30	25-40	28	31	31
Cash	-	0-15	-	-	-
	100		100	100	100

ATB makes regular funding contributions to the registered defined benefit plan in accordance with the most recent valuation for funding purposes. The supplemental plan and other pension obligations are not pre-funded and supplemental plan benefits are paid from ATB's assets as they become due.

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Note 13 (continued)

Cash payments

Total cash paid or payable for employee future benefits for the year ended March 31, 2006, consisting of cash contributed by ATB to the funded registered pension plan, cash payments directly to beneficiaries for the unfunded supplementary pension plan, and cash contributed to the defined contribution plan and the PSPP plan, was $13,202 (2005: $10,775; 2004: $18,136).

Net accrued pension benefit asset (liability)

The funded status and net accrued pension benefit asset (liability) for the defined benefit provisions of the registered pension plan and the other pension obligations (which comprise the Supplemental Plan and the additional obligation recognized in respect of the PSPP takeon) are comprised as follows:

	2006	2005
	($ thousands)	
Registered plan		
Fair value of plan assets	$ 94,127	$ 78,170
Projected benefit obligation	(118,040)	(95,894)
Plan funding deficit	(23,913)	(17,724)
Unamortized initial transition asset	(1,182)	(1,576)
Unamortized past service amendment	1,058	-
Unamortized actuarial net loss	24,687	27,274
Accrued pension benefit asset	$ 650	$ 7,974
Supplemental & Other		
Fair value of plan assets	$ -	$ -
Projected benefit obligation	(2,442)	(1,541)
Plan funding deficit	(2,442)	(1,541)
Unamortized past service amendment	(818)	(1,037)
Unamortized actuarial net loss	356	74
Accrued pension benefit liability	$ (2,904)	$ (2,504)

The net accrued pension benefit asset (liability) is included in "Other assets" or "Other liabilities" in the Consolidated Balance Sheet as appropriate. See Notes 9 and 11, respectively.

ALBERTA TREASURY BRANCHES

Note 13 (continued)

Change in plan assets and benefit obligations

Changes in the estimated financial position of the defined benefit provisions of the registered pension plan and the other pension obligations are comprised as follows:

	Registered Plan			Supplemental and Other		
	2006	2005	2004	2006	2005	2004
	($ thousands)					
Change in fair value of plan assets						
Fair value of plan assets at beginning of year	$ 78,170	$71,463	$50,324	$ -	$ -	$ -
Contributions from ATB	2,374	1,611	10,974	393	19	19
Contributions from employees	1,069	1,042	987	-	-	-
Actual return on plan assets	16,220	5,896	10,602	-	-	-
Benefits paid	(2,798)	(1,842)	(1,424)	(393)	(19)	(19)
Actual plan expenses	(908)	-	-	-	-	-
Fair value of plan assets at end of year	$ 94,127	$78,170	$71,463	$ -	$ -	$ -
Change in projected benefit obligation						
Projected benefit obligation at beginning of year	$ 95,894	$85,424	$68,441	$ 1,541	$ 1,117	$ 1,851
Past service amendment	-	-	-	-	-	(1,210)
Actuarial loss	10,294	3,975	11,048	294	164	282
Current service cost	2,365	2,119	1,543	221	207	163
Contributions from employees	1,069	1,042	987	-	-	-
Plan amendments re. PSPP take-on	5,438	-	-	686	-	-
Interest cost	5,778	5,176	4,829	93	72	50
Benefits paid	(2,798)	(1,842)	(1,424)	(393)	(19)	(19)
Projected benefit obligation at end of year	$118,040	$95,894	$85,424	$ 2,442	$ 1,541	$ 1,117

Defined Benefit Pension Expense

Pension benefit expense for the defined benefit provisions of the registered plan and for the other pension obligations is comprised as follows:

	Registered plan			Supplemental and Other		
	2006	2005	2004	2006	2005	2004
	($ thousands)					
Current service cost	$ 3,265	$ 2,119	$ 1,543	$ 221	$ 207	$ 163
Interest cost on projected benefit obligation	5,778	5,176	4,829	93	72	50
Plan amendments re. PSPP take-on	5,438	-	-	686	-	(1,210)
Actual return on plan assets	(16,220)	(5,896)	(10,602)	-	-	-
Actuarial losses	10,294	3,975	11,048	294	164	282
	8,555	5,374	6,818	1,294	443	(715)
Adjustments to recognize the long-term nature of employee future benefit costs:						
Difference between actual and expected return on plan asets	10,659	606	6,438	-	-	-
Difference between actual actuarial losses arising and actuarial losses amortized	(8,064)	(2,037)	(9,878)	(282)	(164)	(306)
Difference between actual and recognized plan amendments	-	-	-	-	-	1,210
Amortization of initial transition asset	(394)	(394)	(394)	-	-	-
Amortization of past service amendment	(1,058)	-	-	(219)	(86)	(86)
Net pension benefit expense recognized	$ 9,698	$ 3,549	$ 2,984	$ 793	$ 193	$ 103

ALBERTA TREASURY BRANCHES

Note 13 (continued)

Key Assumptions and Sensitivities

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

	Registered plan			Supplemental and Other		
	2006	2005	2004	2006	2005	2004
Accrued benefit obligation as at March 31						
Discount rate at end of year	5.40%	5.90%	6.00%	5.40%	5.90%	6.00%
Rate of compensation increase	4.20%	4.45%	4.25%	5.10%	4.50%	4.50%
Defined benefit expense for the year ended						
Discount rate at beginning of year	5.90%	6.00%	7.00%	5.90%	6.00%	7.00%
Expected long-term return on plan assets	7.35%	7.35%	7.35%	7.35%	-	-
Rate of compensation increase	4.45%	4.25%	4.25%	4.50%	4.50%	4.50%
Avg. remaining service period of active employees	9 years	9 years	9 years	14 years	14 years	14 years

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, 2006 and the related expense for the year then ended.

	Registered plan		Supplemental and Other	
	Benefit obligation	Benefit expense	Benefit obligation	Benefit expense
	($ thousands)			
Discount rate				
Impact of: 1.0% increase	$ (18,060)	$ (1,912)	$ (439)	$ (55)
1.0% decrease	$ 23,077	$ 2,317	$ 551	$ 43
Inflation rate				
Impact of: 1.0% increase	$ 14,584	$ 2,220	$ (80)	$ (53)
1.0% decrease	$ (12,506)	$ (1,910)	$ 122	$ 57
Rate of compensation increase				
Impact of: 0.25% increase	$ 1,039	$ 149	$ -	$ -
0.25% decrease	$ (1,035)	$ (185)	$ -	$ -
Expected long-term rate of return on plan assets				
Impact of: 1.0% increase	$ -	$ (755)	$ -	$ -
1.0% decrease	$ -	$ 755	$ -	$ -

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 changes to a number of key assumptions at the same time. Changes in one factor could result in changes to another that may serve to amplify or reduce certain sensitivities.

ALBERTA TREASURY BRANCHES

NOTE 14 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 a credit instrument, or an equity index. ATB uses such instruments for risk management purposes and does not act as an intermediary in this market except insofar as ATB occasionally enters into derivative contracts with its customers for the customer to hedge its own exposure to US dollar currency risk. ATB does not accept any net exposure to such derivative contracts (except for credit risk) as it either enters into offsetting contracts with other counterparties or incorporates them into its own risk management programs.

The main derivative financial instruments used by ATB include swaps, options and foreign exchange forward contracts.

- Swaps are transactions where two parties agree to exchange defined cash flows. ATB enters into interest rate swaps whereby it exchanges fixed and floating rate interest rate payments with a counterparty based on an agreed notional principal amount denominated in a single currency. These are used to manage exposure to interest rate fluctuations, primarily arising from the loan and deposit portfolios.
- Options are transactions where 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 period of time. ATB buys specialized forms of option contracts such as interest rate caps, collars and swap options as well as equity-linked options direct from counterparties in the over-the-counter market (i.e, not purchased on market exchanges). These are used to manage exposure to interest rate and equity market fluctuations, primarily arising from the loan and deposit portfolios.
- Foreign exchange forward contracts are transactions conducted in the over-the-counter markets where two parties agree to either buy or sell a specified amount of a currency or security at a specific price and date in the future. ATB uses foreign exchange forward contracts to manage currency exposure, either arising from its own foreign-currency denominated loans and deposits, or for its customers.

Non-trading Derivatives and Hedge Accounting

ATB's non-trading derivative portfolio is not intended for speculative income generation but for asset/liability management purposes, that is, to manage interest rate, foreign exchange and equity-related exposures. These instruments are recorded using hedge accounting, when appropriate, from April 1, 2004 onwards.

Hedging relationships that meet the conditions of CICA Accounting Guideline 13 "Hedging Relationships" (AcG-13) qualify for hedge accounting whereby income or expenses on hedging instruments designated within qualifying hedges are recognized in the Consolidated Income Statement in the same category and period as the related hedged items. The book value or carrying value of derivatives eligible for hedge accounting consists of the unamortized balance of premiums paid on entering into the contract (if any) plus any net interest receivable/payable in respect of the contract as at the balance sheet date.

For a derivative instrument to qualify for hedge accounting under AcG-13, ATB must designate and formally document the hedge relationship at the inception of the agreement. The hedge relationship must also meet certain effectiveness criteria - changes in the fair value of the derivative instrument must be highly effective in offsetting either changes in the amount of future cash flows or changes in the fair values of the on-balance sheet items being hedged. Hedge effectiveness is evaluated both at the inception of the relationship and, where appropriate, on a quarterly basis thereafter.

Any realized gains and losses from the early termination of a derivative financial instrument that qualified for hedge accounting are amortized over the remaining original life of the underlying asset or liability with the

ALBERTA TREASURY BRANCHES

Note 14 (continued)

corresponding deferred gains or losses recorded in "Other liabilities" or "Other assets" in the Consolidated Balance Sheet, as appropriate.

Any non-trading derivatives that do not qualify for hedge accounting are accounted for in the same manner as trading derivatives.

Discontinuance of Hedge Accounting

A hedging relationship is terminated if some or all of the hedge ceases to be highly effective or if the derivative is no longer designated as a hedging instrument. When this occurs, the derivative instrument (or ineffective portion thereof) is marked to market and the resultant realized or unrealized gain or loss is deferred in "Other liabilities" or "Other assets" in the Consolidated Balance Sheet, as appropriate and then amortized into "Other income" over the remaining term of the instrument. A hedging relationship is also terminated if some or all of the underlying asset or liability is itself extinguished and the derivative remains outstanding. In this scenario, the derivative instrument (or ineffective portion thereof) is marked to market and the resultant gain or loss is recognized in income in the same period as the termination.

Trading Derivatives

ATB does not enter into derivative contracts for trading purposes except to accommodate its clients in managing their US dollar currency risk exposures. In such instances, any resultant exposure to ATB in excess of its risk tolerances is simultaneously offset with another derivative contract.

Trading derivatives (and derivatives that do not meet the criteria for hedge accounting, either at inception or subsequently) are measured at fair value (or "marked to market"). Any such contracts having a positive fair value are presented as assets and those having a negative fair value are presented as liabilities as a component of "Other assets" or "Other liabilities" in the Consolidated Balance Sheet, as appropriate. Any subsequent realized or unrealized changes in value are recorded in "Other Income" in the Consolidated Statement of Income.

Prior Year Change in accounting policy

As of April 1, 2004, ATB prospectively adopted AcG-13 and the CICA Emerging Issues Committee abstract 128 "Accounting for Trading, Speculative or Non-Hedging Derivative Financial Instruments" (EIC-128). AcG-13 provided detailed guidance and more stringent conditions for the use of hedge accounting, including the identification, designation, documentation and effectiveness of hedging relationships.

Prior to April 1, 2004, ATB hedged a significant portion of its interest rate risk on a net basis, a practice commonly referred to as "macro" or "economic" hedging. As AcG-13 does not allow for hedge accounting for these types of hedges, these hedges were replaced with AcG-13 compliant hedges that are identified with specific hedged items.

ATB reviewed and assessed each of its hedging relationships as of April 1, 2004. Hedge accounting was discontinued as of that date for those hedging relationships that failed to meet the AcG-13 criteria. AcG-13 requires that on transition, the difference between the carrying value and the fair value of these discontinued hedges be deferred and amortized over the remaining life of the underlying hedged asset or liability. The impact of this transition was the recognition of unrealized gains and losses of $2,114 and $541, respectively, as of April 1, 2004. These amounts were deferred in the Consolidated Balance Sheet, as appropriate, and will be amortized to income over the original life of the underlying hedged item, which ranges from one to five years. The net amount amortized into "Net Interest Income" for the year ended March 31, 2006 was $112 (2005: $1,132).

ALBERTA TREASURY BRANCHES

Note 14 (continued)

Financial Statement Presentation

Derivative financial instruments recorded in the Consolidated Balance Sheet as at March 31 are comprised as follows:

	Assets 2006	Assets 2005	Liabilities 2006	Liabilities 2005
	($ thousands)			
Fair value of derivatives ineligible for hedge accounting	$ 9,403	$ 8,266	$ 851	$ 225
Book value of derivatives eligible for hedge accounting	16,197	22,872	1,012	-
Total	$25,600	$ 31,138	$ 1,863	$ 225

Book value of derivatives eligible for hedge accounting presented above includes any unamortized premium and any interest amounts payable or receivable in respect of such derivative contracts as at the balance sheet date.

Fair value of derivatives

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

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) is comprised as follows:

	2006 Favourable position	2006 Unfavourable position	2006 Net	2005 Favourable position	2005 Unfavourable position	2005 Net
			($ thousands)			
Contracts ineligible for hedge accounting						
Interest rate contracts						
Options	$ 1,196	$ -	$ 1,196	$ 923	$ (92)	$ 831
Swaps	-	(851)	(851)	1,471	(63)	1,408
	1,196	(851)	345	2,394	(155)	2,239
Foreign exchange contracts						
Forwards	4	-	4	76	(70)	6
Equity contracts						
Options	8,203	-	8,203	5,796	-	5,796
Total fair value	$ 9,403	$ (851)	$ 8,552	$ 8,266	$ (225)	$ 8,041
Contracts eligible for hedge accounting						
Interest rate contracts						
Options	$ 133	$ -	$ 133	$ 743	$ (75)	$ 668
Swaps	7,485	(3,434)	4,051	41	(432)	(391)
	7,618	(3,434)	4,184	784	(507)	277
Equity contracts						
Options	70,683	-	70,683	49,481	-	49,481
Total fair value	$ 78,301	$ (3,434)	$ 74,867	$ 50,265	$ (507)	$ 49,758
Total book value - contracts eligible for hedge accounting			$ 15,185			$ 22,872

ALBERTA TREASURY BRANCHES

Note 14 (continued)

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.

	2006			2005
	Ineligible for hedge accounting	Eligible for hedge accounting	Total	Total
		($ thousands)		
Interest rate contracts				
Options	$ 401,730	$ 407,597	$ 809,327	$ 747,191
Swaps	350,000	1,750,000	2,100,000	1,300,000
	751,730	2,157,597	2,909,327	2,047,191
Foreign exchange contracts				
Forwards	453	-	453	7,273
Equity contracts				
Options	27,480	291,850	319,330	337,210
	$ 779,663	$ 2,449,447	$ 3,229,110	$ 2,391,674

Derivative-related credit risk

Derivative financial instruments traded in the over-the-counter market are subject to credit risk in that there is a risk of a financial loss occurring if a counterparty defaults on its contractual obligation. This credit 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. The exposure to credit risk on derivatives is also reduced by entering into master netting 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.

ALBERTA TREASURY BRANCHES

Note 14 (continued)

Credit risk exposure on the derivative portfolio is comprised as follows:

	2006			2005
	Ineligible for hedge accounting	Eligible for hedge accounting	Total	Total
	($ thousands)			
Interest rate contracts				
Options	$ 1,196	$ 133	$ 1,329	$ 1,666
Swaps	-	7,485	7,485	1,512
	1,196	7,618	8,814	3,178
Foreign exchange contracts				
Forwards	4	-	4	76
Equity contracts				
Options	8,203	70,683	78,886	55,277
Total derivative exposure - gross	$ 9,403	$ 78,301	87,704	58,531
Less impact of master netting agreements			(4,285)	(388)
Residual credit exposure on derivatives			$ 83,419	$ 58,143

Term to maturity

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

	2006					2005
	Within 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total	Total
	($ thousands)					
Interest rate contracts						
Options	$ -	$ -	$ 809,327	**$ -**	$ 809,327	$ 747,191
Swaps	500,000	1,200,000	400,000	**-**	2,100,000	1,300,000
Foreign exchange contracts						
Forwards	-	453	-	**-**	453	7,273
Equity contracts						
Options	15,600	106,110	197,620	**-**	319,330	337,210
Total	$515,600	$ 1,306,563	$ 1,406,947	**$ -**	$ 3,229,110	$ 2,391,674

ALBERTA TREASURY BRANCHES

NOTE 15 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

Stand-by letters of credit 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 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 (a) changes in an asset, liability or equity the other party holds, (b) failure of a third party to perform under an obligating agreement, or (c) failure of a third party to pay its indebtedness when due. Again, in the event of a call on such a commitment, ATB has recourse against the customer.

ATB has also issued a $5.0 million guarantee to the Canadian Depository for Securities ("CDS") in respect of one its subsidiaries to support the settlement of investment transactions with CDS.

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 as at March 31 are:

	2006	2005
	($ thousands)	
Guarantees	$ 99,945	$ 104,405
Letters of credit	44,687	28,303
Commitments to extend credit	5,314,506	4,342,729
	$ 5,459,138	$ 4,475,437

The amounts presented above for commitments to extend credit include un-drawn lines of credit.

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Note 15 (continued)

Pledged Assets

In the ordinary course of business, ATB pledges securities 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 CDS in order to participate in a settlement agent credit ring. The total amount of securities so pledged at March 31, 2006 and 2005 is provided in Note 5.

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 would 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, 2006 and 2005 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.

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 in respect of such obligations for each of the next five fiscal years and thereafter are:

2007	$ 56,585
2008	46,876
2009	38,661
2010	28,009
2011	27,743
2012 and thereafter	48,941
	$ 246,815

The total expense in respect of premises and equipment operating leases charged to the Consolidated Statement of Income for the year ended March 31, 2006 is $19,953 (2005: $19,105; 2004: $16,807).

NOTE 16 DISCLOSURE OF SALARIES AND BENEFITS

ATB is an agent of the Crown in right of Alberta, and as such, is required to disclose the following information as per the Salary and Benefits Disclosure Directive, as amended July 6, 2004, made by the Treasury Board, pursuant to sections 5, 6 and 7 of the *Financial Administration Act*. This directive applies to all departments,

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Note 16 (continued)

regulated funds, provincial agencies and Crown-controlled organizations. The amounts disclosed in the following table are the amounts earned in the years ended March 31.

	2006						2005
	Base salary	Variable pay Current (1)	Variable pay Deferred (2)	Other cash benefits	Other non-cash benefits	Total	Total
	($ thousands)						
Chairman of Board	$ 52	$ -	$ -	$ -	$ -	$ 52	$ 48
Board Members (3)	452	-	-	-	-	452	406
President and Chief Executive Officer	400	312	366	30	84	1,192	1,046
Chief Operating Officer	301	150	178	90	41	760	650
Executive Vice-President Marketing (4)	-	-	-	-	-	-	172
Executive Vice-President Credit	188	67	80	12	37	384	353
Executive Vice-President Treasurer	183	62	74	12	40	371	333
Chief Financial Officer	178	63	70	12	38	361	328
Vice-President Human Resources	166	59	70	12	30	337	305

Notes:

(1) Variable pay is accrued based on goal attainment for the fiscal year but is paid following the fiscal year-end.

(2) Deferred variable pay is reported as earned in the year though payment is deferred for up to 33 months and is dependent upon the employee's continued employment with ATB. The actual amount each employee will receive will appreciate or depreciate from the amount reported above based on a specified methodology to reflect ATB's actual financial performance over the next two fiscal years.

(3) The Board consists of 12 members plus the Chairman who is disclosed separately.

(4) This position was abolished effective October 22, 2004 and the amount presented does not include severance.

Base Salary consists of all regular pensionable base pay earned.

Other Cash Benefits consist of fees for attendance at meetings, retainers, honoraria, lump sum payments, perquisite allowances and any other direct cash remuneration.

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, pension, health care, dental coverage, vision coverage, medical benefits, group life insurance, accidental disability and dismemberment insurance, long-term disability plans, tuition and professional memberships.

NOTE 17 RELATED PARTY TRANSACTIONS

In the ordinary course of business, ATB provides normal banking services to various departments and agencies of the government of the Province of Alberta on terms similar to those offered to non-related parties (also see Note 10).

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Note 17 (continued)

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 as at March 31 are as follows:

	2006	2005
	($ thousands)	
Residential mortgage	$ 143,268	$ 133,229
Personal	59,941	52,846
Credit card	9,996	8,448
Business	6,498	5,672
	$ 219,703	$ 200,195

NOTE 18 ESTIMATED FAIR VALUE OF BALANCE SHEET FINANCIAL INSTRUMENTS

The following table presents management's best estimates of the fair value of its on-balance sheet financial instruments (including any fair value amounts related to derivative instruments which are ineligible for hedge accounting). The fair values are determined as at the balance sheet date using the valuation methods and assumptions described below. These values may change in subsequent reporting periods due to market conditions or other factors.

Estimated Fair Value

Estimated fair value represents the amount at which ATB would 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 presented represent management's best estimates of the current value of the instruments, taking into account changes in market rates (principally interest rates) or credit risk that have occurred since their origination.

Premises and equipment and accrued pension benefit assets and liabilities are not considered financial instruments and have been excluded from the estimates of fair value. The net carrying value of such amounts excluded as at March 31, 2006 is $132,225 (2005: $115,537).

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 resources and, except for amounts recognized in respect of derivative instruments, other assets and other liabilities.

Securities

The fair value of equity securities is determined by reference to quoted marked prices. The fair value of debt securities is considered approximately equal to their carrying value, as their remaining terms to maturity are short enough that their value is effectively immune to changes in the interest rate environment.

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Note 18 (continued)

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 the 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 risk ratings.

Estimated Fair Value

The estimated fair value of balance sheet financial instruments (excluding any on-balance sheet derivative instruments) as at March 31 is as follows:

	2006			2005		
	Carrying value	Fair value	Fair value over carrying value	Carrying value	Fair value	Fair value over carrying value
	($ thousands)					
Assets						
Cash resources	$ 1,054,125	$ 1,054,125	$ -	$ 953,523	$ 953,523	$ -
Securities	$ 1,381,444	$ 1,380,802	$ (642)	$ 932,511	$ 932,511	$ -
Loans	$ 14,846,694	$ 14,982,572	$ 135,878	$ 13,137,917	$ 13,462,963	$ 325,046
Other	$ 230,423	$ 230,423	$ -	$ 239,240	$ 239,240	$ -
Liabilities						
Deposits	$ 15,870,308	$ 15,791,157	$ (79,151)	$ 13,840,032	$ 13,925,228	$ 85,196
Other	$ 354,029	$ 354,029	$ -	$ 322,703	$ 322,703	$ -
Subord. debent.	$ 71,579	$ 71,428	$ (151)	$ 65,719	$ 67,346	$ 1,627

NOTE 19 INTEREST RATE RISK

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

Interest rate risk is the risk that ATB's net income will decrease because of an adverse movement in interest rates. The following table details the gap between on- and off-balance sheet interest sensitive assets and interest sensitive liabilities, based on the earlier of the re-pricing or maturity date of both.

The gap position presented in the following schedule is as of the close of the business on March 31, 2006. It represents the position of ATB as at that point in time only and may change significantly from day to day due to customer preferences and risk management policies.

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Note 19 (continued)

	Term to maturity/repricing							
	Within 3 months	3 - 6 months	6 - 12 months	Total within 1 year	1 year to 5 years	Over 5 years	Non-interest sensitive	Total
	($ thousands)							
2006								
Assets								
Cash	$ 77,454	$ -	$ -	$ 77,454	$ -	$ -	$ -	$ 77,454
Effective interest rate	3.87%	-	-	3.87%	-	-	-	3.87%
Securities and interest-bearing deposits with financial institutions	2,236,712	62,326	58,077	2,357,115	1,000	-	-	2,358,115
Effective interest rate	3.83%	3.41%	3.88%	3.82%	5.11%	-	-	3.82%
Loans	8,945,620	360,142	716,689	10,022,451	4,851,968	60,249	(87,974)	14,846,694
Effective interest rate	6.06%	5.66%	5.05%	5.97%	5.50%	3.52%	-	5.84%
Other	-	-	-	-	-	-	365,552	365,552
	11,259,786	422,468	774,766	12,457,020	4,852,968	60,249	277,578	17,647,815
Liabilities and Equity								
Deposits	10,359,275	622,888	1,558,127	12,540,290	3,330,018	-	-	15,870,308
Effective interest rate	2.82%	2.98%	3.46%	2.91%	3.83%	-	-	3.10%
Other liabilities and equity	-	-	-	-	-	-	1,705,928	1,705,928
Subordinated debentures	-	-	-	-	-	-	71,579	71,579
Effective interest rate	-	-	-	-	-	-	4.79%	4.79%
	10,359,275	622,888	1,558,127	12,540,290	3,330,018	-	1,777,507	17,647,815
On-balance sheet gap	900,511	(200,420)	(783,361)	(83,270)	1,522,950	60,249	(1,499,929)	-
Derivatives used for asset/liability gap management (notional amounts)								
Pay side swaps	(1,700,000)	-	-	(1,700,000)	(400,000)	-	-	(2,100,000)
Effective interest rate	3.75%	-	-	3.75%	3.82%	-	-	-
Receive side swaps	900,000	550,000	650,000	2,100,000	-	-	-	2,100,000
Effective interest rate	3.30%	3.04%	3.87%	3.41%	-	-	-	-
Off-balance sheet gap	(800,000)	550,000	650,000	400,000	(400,000)	-	-	-
Net gap	$ 100,511	$ 349,580	$ (133,361)	$ 316,730	$ 1,122,950	$ 60,249	$ (1,499,929)	$ -
As % of assets	0.57%	1.98%	(0.76%)	1.79%	6.36%	0.34%	(8.50%)	-
2005								
Assets	9,484,952	374,244	685,459	10,544,655	4,520,016	34,793	281,768	15,381,232
Liabilities and equity	8,415,967	460,201	1,339,151	10,215,319	3,624,713	-	1,541,200	15,381,232
On-balance sheet gap	1,068,985	(85,957)	(653,692)	329,336	895,303	34,793	(1,259,432)	-
Off-balance sheet gap	(1,100,000)	400,000	700,000	-	-	-	-	-
Net gap	$ (31,015)	$ 314,043	$ 46,308	$ 329,336	$ 895,303	$ 34,793	$ (1,259,432)	$ -
As % of assets	(0.20%)	2.04%	0.30%	2.14%	5.82%	0.23%	(8.19%)	-

NOTE 20 SEGMENTED INFORMATION

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

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

ALBERTA TREASURY BRANCHES

Note 20 (continued)

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 these groupings are consistent with those followed in the preparation of the consolidated financial statements as disclosed in the other notes to the consolidated financial statements. As these lines of business are based on ATB's internal management structure, they may not be comparable to those of other financial institutions.

	Personal and Business	Corporate	Investor Services	Other Business Units*	Total
			($ thousands)		
2006					
Net interest income	$ 360,061	$ 47,948	$ 3,152	$ 51,090	$ 462,251
Other income	109,364	12,342	18,296	15,619	155,621
Total operating revenues	469,425	60,290	21,448	66,709	617,872
Provision for (recovery of) credit losses	14,313	5,168	-	(18,793)	688
Non-interest expenses	336,882	16,601	30,797	34,183	418,463
Net income (loss)	$ 118,230	$ 38,521	$ (9,349)	$ 51,319	$ 198,721
Total assets	$ 12,312,888	$ 2,470,280	$ 1,590	$ 2,863,057	$ 17,647,815
Total liabilities	$ 12,742,483	$ 1,535,113	$ 229,939	$ 1,791,285	$ 16,298,820
2005					
Net interest income	$ 323,441	$ 40,395	$ -	$ 34,910	$ 398,746
Other income	105,973	10,913	10,337	12,085	139,308
Total operating revenues	429,414	51,308	10,337	46,995	538,054
Provision for (recovery of) credit losses	8,392	(215)	-	(22,771)	(14,594)
Non-interest expenses	300,954	13,703	22,301	28,377	365,335
Net income (loss)	$ 120,068	$ 37,820	$ (11,964)	$ 41,389	$ 187,313
Total assets	$ 11,249,427	$ 1,956,059	$ 35,672	$ 2,140,074	$ 15,381,232
Total liabilities	$ 12,783,402	$ 1,002,028	$ 123,782	$ 321,746	$ 14,230,958
2004					
Net interest income	$ 351,014	$ 34,232	$ -	$ 12,038	$ 397,284
Other income	97,136	6,615	3,970	8,551	116,272
Total operating revenues	448,150	40,847	3,970	20,589	513,556
Provision for (recovery of) credit losses	20,139	5,504	-	(9,784)	15,859
Non-interest expenses	283,004	7,189	12,084	23,396	325,673
Net income (loss)	$ 145,007	$ 28,154	$ (8,114)	$ 6,977	$ 172,024
Total assets	$ 10,759,963	$ 1,441,411	$ 27,859	$ 2,076,577	$ 14,305,810
Total liabilities	$ 12,137,403	$ -	$ 39,342	$ 1,166,104	$ 13,342,849

* 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 of business.

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Note 20 (continued)

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

Net interest income ("NII") is attributed to each line of business according to ATB's internal funds transfer pricing ("FTP") system whereby assets "earn" NII to the extent external revenues exceed internal FTP expense and liabilities earn NII to the extent internal FTP revenues exceed external interest expense. Specific provisions for credit losses are allocated based on the individual underlying impaired loan balances and general provisions (excepting any special general provisions) are allocated 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 inter-line service agreements. Certain other costs are allocated between the reporting segments using refined methods of allocating certain costs between the reporting segments, incorporating activity-based estimates of indirect cost allocation. These refined methods were adopted prospectively at the beginning of the 2004-05 fiscal year. Indirect expenses not allocated and direct expenses of a corporate or support nature are reported under the "Other Business Units" segment.

NOTE 21 FUTURE CHANGES IN ACCOUNTING POLICIES

No accounting policy changes have been identified that are expected to impact ATB for the fiscal year ending March 31, 2007. The following changes are expected to impact reporting for the year ending March 31, 2008:

Financial Instruments, Hedges and Comprehensive Income

In January 2005, the CICA issued three new accounting standards: "Financial Instruments - Recognition and Measurement", "Hedges" and "Comprehensive Income". These new requirements will apply to ATB on April 1, 2007 and will be adopted prospectively as of that date. The principal impact of implementing these standards will be as follows:

- A new component of Equity will be created called "Other comprehensive income" and ATB's Consolidated Financial Statements will be expanded to include a new "Statement of Comprehensive Income".
- Financial assets will be classified as either held for trading, held to maturity, available for sale or loans and receivables. Financial liabilities will be classified as either held for trading or not held for trading.
- Items classified as held for trading will be carried on the Balance Sheet at fair value with gains and losses recognized in net income in the current period. Items classified as available for sale will be carried at fair value with gains and losses recognized in other comprehensive income until realized through disposal or impairment. Assets classified as held to maturity or loans and receivables and liabilities not classified as held for trading will be carried at amortized cost.
- The definition of derivatives for accounting purposes will be expanded to include certain embedded derivatives. New requirements will be established to define hedging relationships.
- For fair value hedges, where ATB hedges its exposure to changes in the fair value of assets, liabilities or certain commitments, changes in the fair value of the derivative and corresponding changes in the fair value of the hedged items will be recognized in net income in the current period.

ALBERTA TREASURY BRANCHES

Note 21 (continued)

- For cash flow hedges, where ATB hedges its exposure to variability in cash flows related to variable rate assets, liabilities or forecast transactions, the effective portion of the changes in the fair value of the derivative will be recognized in other comprehensive income until the hedged items are recognized in net income.

As these standards will be implemented prospectively, any impact of re-measuring financial instruments at fair value on April 1, 2007 will be recognized in opening retained earnings as at that date and results for prior periods will not be restated. The ultimate impact of adopting these new accounting policies cannot presently be determined, as it will depend on ATB's portfolio of financial instruments and their fair value at that future date.