AMERIPRISE FINANCIAL INC
Form 10-Q
August 02, 2017

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Quarterly Period Ended June 30, 2017
OR

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Transition Period from_______________________to_______________________
Commission File No. 1-32525
AMERIPRISE FINANCIAL, INC.
(Exact name of registrant as specified in its charter)

Delaware	13-3180631
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
1099 Ameriprise Financial Center, Minneapolis, Minnesota	55474
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (612) 671-3131
Former name, former address and former fiscal year, if changed since last report: Not Applicable
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.
Large
Accelerated Filer o
Filer x
Smaller reporting company o

Non-Accelerated Filer o (Do not check if a smaller reporting company)

Emerging growth company o

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes o No x

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding at July 21, 2017
Common Stock (par value $.01 per share)	149,943,197 shares

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AMERIPRISE FINANCIAL, INC.

PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS (UNAUDITED)
CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
	(in millions, except per share amounts)			
Revenues				
Management and financial advice fees	$1,561	$1,439	$3,043	$2,825
Distribution fees	430	448	873	883
Net investment income	391	372	782	703
Premiums	348	372	687	740
Other revenues	267	248	523	502
Total revenues	2,997	2,879	5,908	5,653
Banking and deposit interest expense	12	8	22	17
Total net revenues	2,985	2,871	5,886	5,636
Expenses				
Distribution expenses	832	803	1,655	1,573
Interest credited to fixed accounts	171	158	333	304
Benefits, claims, losses and settlement expenses	611	597	1,178	1,079
Amortization of deferred acquisition costs	69	87	141	197
Interest and debt expense	52	53	102	108
General and administrative expense	739	763	1,491	1,490
Total expenses	2,474	2,461	4,900	4,751
Pretax income	511	410	986	885
Income tax provision	118	75	190	186
Net income	$393	$335	$796	$699
Earnings per share				
Basic	$2.53	$1.99	$5.09	$4.10
Diluted	$2.50	$1.97	$5.01	$4.06
Cash dividends declared per common share	$0.83	$0.75	$1.58	$1.42
Supplemental Disclosures:				
Total other-than-temporary impairment losses on securities	$—	$—	$(1)	$(2)
Portion of loss recognized in other comprehensive income (before taxes)	—	—	—	1
Net impairment losses recognized in net investment income	$—	$—	$(1)	$(1)

See Notes to Consolidated Financial Statements.

AMERIPRISE FINANCIAL, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
	(in millions)			
Net income	$393	$335	$796	$699
Other comprehensive income, net of tax:				
Foreign currency translation adjustment	23	(28)	30	(39)
Net unrealized gains on securities	57	217	64	410
Net unrealized gains on derivatives	—	1	1	2
Defined benefit plans	—	6	5	6
Other	—	—	(1)	—
Total other comprehensive income, net of tax	80	196	99	379
Total comprehensive income	$473	$531	$895	$1,078

See Notes to Consolidated Financial Statements.

AMERIPRISE FINANCIAL, INC.

CONSOLIDATED BALANCE SHEETS (UNAUDITED)

	June 30, 2017	December 31, 2016
	(in millions, except share amounts)	
Assets		
Cash and cash equivalents	$2,392	$2,318
Cash of consolidated investment entities	171	168
Investments	35,935	35,834
Investments of consolidated investment entities, at fair value	2,257	2,254
Separate account assets	83,661	80,210
Receivables	5,481	5,299
Receivables of consolidated investment entities, at fair value	38	11
Deferred acquisition costs	2,637	2,648
Restricted and segregated cash and investments	3,072	3,331
Other assets	7,500	7,748
Total assets	$143,144	$139,821
Liabilities and Equity		
Liabilities:		
Policyholder account balances, future policy benefits and claims	$29,878	$30,202
Separate account liabilities	83,661	80,210
Customer deposits	10,200	10,036
Short-term borrowings	200	200
Long-term debt	2,908	2,917
Debt of consolidated investment entities, at fair value	2,308	2,319
Accounts payable and accrued expenses	1,600	1,727
Other liabilities	6,001	5,823
Other liabilities of consolidated investment entities, at fair value	138	95
Total liabilities	136,894	133,529
Equity:		
Ameriprise Financial, Inc.:		
Common shares ($.01 par value; shares authorized, 1,250,000,000; shares issued, 325,815,978 and 324,006,315, respectively)	3	3
Additional paid-in capital	7,903	7,765
Retained earnings	10,897	10,351
Treasury shares, at cost (175,507,362 and 169,246,411 shares, respectively)	(12,852)	(12,027)
Accumulated other comprehensive income, net of tax	299	200
Total equity	6,250	6,292
Total liabilities and equity	$143,144	$139,821

See Notes to Consolidated Financial Statements.

AMERIPRISE FINANCIAL, INC.

CONSOLIDATED STATEMENTS OF EQUITY (UNAUDITED)

	Ameriprise Financial, Inc.									
	Number of Outstanding Shares	Common Shares	Additional Paid-In Capital	Retained Earnings	Appropriated Retained Earnings of Consolidated Investment Entities	Treasury Shares	Accumulated Other Comprehensive Income	Total Ameriprise Financial, Inc. Shareholders' Equity	Non-controlling Interests	Total
	(in millions, except share data)									
Balances at January 1, 2016 [1]	171,033,260	$ 3	$ 7,611	$ 9,525	$ 137	$ (10,338)	$ 253	$ 7,191	$ 1,188	$ 8,379
Cumulative effect of change in accounting policies	—	—	—	1	(137)	—	6	(130)	(1,188)	(1,318)
Comprehensive income:										
Net income	—	—	—	699	—	—	—	699	—	699
Other comprehensive income, net of tax	—	—	—	—	—	—	379	379	—	379
Total comprehensive income								1,078	—	1,078
Dividends to shareholders	—	—	—	(244)	—	—	—	(244)	—	(244)
Repurchase of common shares	(10,301,265)	—	—	—	—	(942)	—	(942)	—	(942)
Share-based compensation plans	1,510,227	—	48	—	—	62	—	110	—	110
Balances at June 30, 2016 [1]	162,242,222	$ 3	$ 7,659	$ 9,981	$ —	$ (11,218)	$ 638	$ 7,063	$ —	$ 7,063
Balances at January 1, 2017	154,759,904	$ 3	$ 7,765	$ 10,351	$ —	$ (12,027)	$ 200	$ 6,292	$ —	$ 6,292
Comprehensive income:										
Net income	—	—	—	796	—	—	—	796	—	796
Other comprehensive income, net of tax	—	—	—	—	—	—	99	99	—	99
Total comprehensive income								895	—	895
Dividends to shareholders	—	—	—	(250)	—	—	—	(250)	—	(250)
Repurchase of common shares	(7,021,250)	—	—	—	—	(877)	—	(877)	—	(877)
Share-based compensation plans	2,569,962	—	138	—	—	52	—	190	—	190
Balances at June 30, 2017	150,308,616	$ 3	$ 7,903	$ 10,897	$ —	$ (12,852)	$ 299	$ 6,250	$ —	$ 6,250

[1] Prior period retained earnings were restated in the fourth quarter of 2016. See Note 1 in the Company's Annual Report on Form 10-K for the year ended December 31, 2016.

See Notes to Consolidated Financial Statements.

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AMERIPRISE FINANCIAL, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

	June 30,	
	2017	2016
	(in millions)	
Cash Flows from Operating Activities		
Net income	$796	$699
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, amortization and accretion, net	121	127
Deferred income tax expense (benefit)	6	(54)
Share-based compensation	61	68
Net realized investment losses (gains)	(40)	6
Net trading gains	(3)	(4)
Loss from equity method investments	25	20
Other-than-temporary impairments and provision for loan losses	1	—
Net losses of consolidated investment entities	2	5
Changes in operating assets and liabilities:		
Restricted and segregated investments	300	175
Deferred acquisition costs	(4)	31
Other investments, net	(107)	(12)
Policyholder account balances, future policy benefits and claims, net	(384)	1,161
Derivatives, net of collateral	447	(660)
Receivables	(168)	(26)
Brokerage deposits	(135)	(69)
Accounts payable and accrued expenses	(137)	(196)
Other operating assets and liabilities of consolidated investment entities, net	1	(10)
Other, net	(46)	256
Net cash provided by operating activities	736	1,517
Cash Flows from Investing Activities		
Available-for-Sale securities:		
Proceeds from sales	276	314
Maturities, sinking fund payments and calls	2,560	2,384
Purchases	(2,495)	(3,110)
Proceeds from sales, maturities and repayments of mortgage loans	241	557
Funding of mortgage loans	(249)	(228)
Proceeds from sales and collections of other investments	142	85
Purchase of other investments	(223)	(86)
Purchase of investments by consolidated investment entities	(839)	(316)
Proceeds from sales, maturities and repayments of investments by consolidated investment entities	864	457
Purchase of land, buildings, equipment and software	(72)	(36)
Other, net	22	42
Net cash provided by investing activities	$227	$63

See Notes to Consolidated Financial Statements.

AMERIPRISE FINANCIAL, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED) (Continued)

	June 30, 2017	June 30, 2016
	(in millions)	
Cash Flows from Financing Activities		
Investment certificates:		
Proceeds from additions	$2,507	$ 2,168
Maturities, withdrawals and cash surrenders	(2,211)	(1,597)
Policyholder account balances:		
Deposits and other additions	1,042	999
Net transfers from (to) separate accounts	(71)	83
Surrenders and other benefits	(987)	(989)
Cash paid for purchased options with deferred premiums	(132)	(163)
Cash received from purchased options with deferred premiums	39	33
Repayments of long-term debt	(5)	(251)
Dividends paid to shareholders	(244)	(239)
Repurchase of common shares	(788)	(901)
Exercise of stock options	8	4
Repayments of debt by consolidated investment entities	(24)	(60)
Net cash used in financing activities	(866)	(913)
Effect of exchange rate changes on cash	21	(38)
Net increase in cash, cash equivalents and restricted cash	118	629
Cash, cash equivalents and restricted cash at beginning of period	5,392	5,407
Net cash outflows upon the deconsolidation of VIEs	—	(346)
Cash, cash equivalents and restricted cash at end of period	$5,510	$ 5,690
Supplemental Disclosures:		
Interest paid excluding consolidated investment entities	$89	$ 80
Interest paid by consolidated investment entities	43	50
Income taxes paid, net	311	175
Non-cash investing activity:		
Partnership commitments not yet remitted	9	19

	June 30, 2017	December 31, 2016
	(in millions)	
Reconciliation of cash, cash equivalents and restricted cash:		
Cash and cash equivalents	$2,392	$ 2,318
Cash of consolidated investment entities	171	168
Restricted and segregated cash and investments	3,072	3,331
Less: Restricted and segregated investments	(125)	(425)
Total cash, cash equivalents and restricted cash per consolidated statements of cash flows	$5,510	$ 5,392

See Notes to Consolidated Financial Statements.

AMERIPRISE FINANCIAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1. Basis of Presentation

Ameriprise Financial, Inc. is a holding company, which primarily conducts business through its subsidiaries to provide financial planning, products and services that are designed to be utilized as solutions for clients' cash and liquidity, asset accumulation, income, protection and estate and wealth transfer needs. The foreign operations of Ameriprise Financial, Inc. are conducted primarily through Threadneedle Asset Management Holdings Sàrl and Ameriprise Asset Management Holdings GmbH (collectively, "Threadneedle").

The accompanying Consolidated Financial Statements include the accounts of Ameriprise Financial, Inc., companies in which it directly or indirectly has a controlling financial interest and variable interest entities ("VIEs") in which it is the primary beneficiary (collectively, the "Company"). All intercompany transactions and balances have been eliminated in consolidation. See Note 3 for additional information on VIEs.

The interim financial information in this report has not been audited. In the opinion of management, all adjustments necessary for fair statement of the consolidated results of operations and financial position for the interim periods have been made. Except for the adjustment described below, all adjustments made were of a normal recurring nature.

In the first quarter of 2017, the Company recorded a $20 million decrease to income tax provision related to an out-of-period correction for a reversal of a tax reserve. The impact to prior period financial statements was not material.

The accompanying Consolidated Financial Statements are prepared in accordance with U.S. generally accepted accounting principles ("GAAP"). Results of operations reported for interim periods are not necessarily indicative of results for the entire year. These Consolidated Financial Statements and Notes should be read in conjunction with the Consolidated Financial Statements and Notes in the Company's Annual Report on Form 10-K for the year ended December 31, 2016, filed with the Securities and Exchange Commission ("SEC") on February 23, 2017 ("2016 10-K").

The Company evaluated events or transactions that may have occurred after the balance sheet date for potential recognition or disclosure through the date the financial statements were issued. No subsequent events or transactions were identified.

2. Recent Accounting Pronouncements

Adoption of New Accounting Standards

Statement of Cash Flows – Restricted Cash

In November 2016, the Financial Accounting Standards Board ("FASB") updated the accounting standards related to the classification of restricted cash on the statement of cash flows. The update requires entities to include restricted cash and restricted cash equivalents in cash and cash equivalent balances on the statement of cash flows and disclose a reconciliation between the balances on the statement of cash flows and the balance sheet. The standard is effective for interim and annual periods beginning after December 15, 2017, with early adoption permitted. The Company early adopted the standard for the interim period ended March 31, 2017 on a retrospective basis. As a result of the adoption of the standard, restricted cash balances of $2.9 billion at both June 30, 2017 and December 31, 2016, are included in the cash and cash equivalents balances on the Company's consolidated statements of cash flows. The impact of the change in restricted cash resulted in a $92 million increase to the Company's operating cash flows for the prior period presented.

Statement of Cash Flows – Classification of Certain Cash Receipts and Cash Payments

In August 2016, the FASB updated the accounting standards related to classification of certain cash receipts and cash payments on the statement of cash flows. The update includes amendments to address diversity in practice for the classification of eight specific cash flow activities. The specific amendments the Company evaluated include the classification of debt prepayment and extinguishment costs, contingent consideration payments, proceeds from insurance settlements and corporate owned life insurance settlements, distributions from equity method investees and the application of the predominance principle to separately identifiable cash flows. The standard is effective for interim and annual periods beginning after December 15, 2017. Early adoption is permitted and all amendments must be adopted during the same period. The Company early adopted the standard for the interim period ended March 31, 2017 on a retrospective basis. The adoption of the standard did not have a material impact on the Company's operating, investing or financing cash flows.

Compensation – Stock Compensation

In March 2016, the FASB updated the accounting standards related to employee share-based payments. The update requires all excess tax benefits and tax deficiencies to be recognized as income tax expense or benefit in the income statement. This change is required to be applied prospectively to excess tax benefits and tax deficiencies resulting from settlements after the date of adoption. No adjustment is recorded for any excess tax benefits or tax deficiencies previously recorded in additional paid in capital. The update also requires excess tax benefits to be classified along with other income tax cash flows as an operating activity in the statement of cash flows. This provision can be applied on either a prospective or retrospective basis. The update permits entities to make an accounting policy election to recognize forfeitures as they occur rather than estimating forfeitures to determine the recognition of expense for share-based payment awards. The standard is effective for interim and annual periods beginning after December 15, 2016 with early adoption permitted. The Company adopted the standard on January 1, 2017 on a prospective basis, except for the cash flow statement provision, which the Company applied on a retrospective basis. During periods in which the settlement date value differs materially from the grant date fair value of certain share-based payment awards, the Company may experience volatility in income tax recognized in its consolidated results of operations. During the three months and six months ended June 30, 2017, the Company recognized net excess tax benefits of $4 million and $32 million, respectively, as a reduction to the income tax provision in the consolidated statements of operations. The Company maintained its accounting policy of estimating forfeitures. As a result of the adoption of the standard, net excess tax benefits of $32 million and $5 million for the six months ended June 30, 2017 and 2016, respectively, are included in the Other, net line within operating cash flows on the Company's consolidated statements of cash flows.

Future Adoption of New Accounting Standards

Receivables - Premium Amortization on Purchased Callable Debt Securities

In March 2017, the FASB updated the accounting standards to shorten the amortization period for certain purchased callable debt securities held at a premium. Under current guidance, premiums are generally amortized over the contractual life of the security. The amendments require the premium to be amortized to the earliest call date. The update applies to securities with explicit, non-contingent call features that are callable at fixed prices and on preset dates. The standard is effective for interim and annual periods beginning after December 15, 2018, and should be applied on a modified retrospective basis through a cumulative-effect adjustment directly to retained earnings as of the beginning of the period of adoption. Early adoption is permitted. The update is not expected to have a material impact on the Company's consolidated results of operations or financial condition.

Intangibles – Goodwill and Other – Simplifying the Test for Goodwill Impairment

In January 2017, the FASB updated the accounting standards to simplify the accounting for goodwill impairment. The update removes the hypothetical purchase price allocation (Step 2) of the goodwill impairment test. Goodwill impairment will now be the amount by which a reporting unit's carrying value exceeds its fair value. The standard is effective for interim and annual periods beginning after December 15, 2019, and should be applied prospectively with early adoption permitted for any impairment tests performed after January 1, 2017. The update is not expected to have a material impact on the Company's consolidated results of operations or financial condition.

Income Taxes – Intra-Entity Transfers of Assets Other Than Inventory

In October 2016, the FASB updated the accounting standards related to the recognition of income tax impacts on intra-entity transfers. The update requires entities to recognize the income tax consequences of intra-entity transfers, other than inventory, upon the transfer of the asset. The update requires the selling entity to recognize a current tax expense or benefit and the purchasing entity to recognize a deferred tax asset or liability when the transfer occurs. The standard is effective for interim and annual periods beginning after December 15, 2017. Early adoption is permitted. The Company is currently evaluating the impact of the standard on its consolidated results of operations and financial condition.

Financial Instruments – Measurement of Credit Losses

In June 2016, the FASB updated the accounting standards related to accounting for credit losses on certain types of financial instruments. The update replaces the current incurred loss model for estimating credit losses with a new model that requires an entity to estimate the credit losses expected over the life of the asset. Generally, the initial estimate of the expected credit losses and subsequent changes in the estimate will be reported in current period earnings and recorded through an allowance for credit losses on the balance sheet. The current credit loss model for Available-for-Sale debt securities does not change; however, the credit loss calculation and subsequent recoveries are required to be recorded through an allowance. The standard is effective for interim and annual periods beginning after December 15, 2019. Early adoption will be permitted for interim and annual periods beginning after December 15, 2018. A modified retrospective cumulative adjustment to retained earnings should be recorded as of the first reporting period in which the guidance is effective for loans, receivables, and other financial instruments subject to the new expected credit loss model. Prospective adoption is required for establishing an allowance related to

Available-for-Sale debt securities, certain beneficial interests, and financial assets purchased with a more-than-insignificant amount of credit deterioration since origination. The Company is currently evaluating the impact of the standard on its consolidated results of operations and financial condition.

Leases – Recognition of Lease Assets and Liabilities on Balance Sheet

In February 2016, the FASB updated the accounting standards for leases. The update was issued to increase transparency and comparability for the accounting of lease transactions. The standard will require most lease transactions for lessees to be recorded on the balance sheet as lease assets and lease liabilities and both quantitative and qualitative disclosures about leasing arrangements. The Company currently discloses information related to operating lease arrangements within Note 23 of the 2016 10-K. The standard is effective for interim and annual periods beginning after December 15, 2018 with early adoption permitted. The update should be applied at the beginning of the earliest period presented using a modified retrospective approach. The Company is currently evaluating the impact of the standard on its consolidated results of operations and financial condition.

AMERIPRISE FINANCIAL, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (continued)

Financial Instruments – Recognition and Measurement of Financial Assets and Financial Liabilities
In January 2016, the FASB updated the accounting standards on the recognition and measurement of financial instruments. The update requires entities to carry marketable equity securities, excluding investments in securities that qualify for the equity method of accounting, at fair value with changes in fair value reflected in net income each reporting period. The update affects other aspects of accounting for equity instruments, as well as the accounting for financial liabilities utilizing the fair value option. The update eliminates the requirement to disclose the methods and assumptions used to estimate the fair value of financial assets or liabilities held at cost on the balance sheet and requires entities to use the exit price notion when measuring the fair value of financial instruments. The standard is effective for interim and annual periods beginning after December 15, 2017. Early adoption is permitted for certain provisions. Generally, the update should be applied using a modified retrospective approach by recording a cumulative-effect adjustment to equity at the beginning of the period of adoption. The update is not expected to have a material impact on the consolidated results of operations or financial condition.
Revenue from Contracts with Customers
In May 2014, the FASB updated the accounting standards for revenue from contracts with customers. The update provides a five step revenue recognition model for all revenue arising from contracts with customers and affects all entities that enter into contracts to provide goods or services to their customers (unless the contracts are in the scope of other standards). The standard also updates the accounting for certain costs associated with obtaining and fulfilling a customer contract and requires disclosure of quantitative and qualitative information that enables users of financial statements to understand the nature, amount, timing, and uncertainty of revenues and cash flows arising from contracts with customers. Subsequent related updates provide clarification on certain revenue recognition guidance in the new standard. The standard is effective for interim and annual periods beginning after December 15, 2017 and early adoption is permitted for interim and annual periods beginning after December 15, 2016. The standard may be applied retrospectively for all periods presented or retrospectively with a cumulative-effect adjustment at the date of adoption. The Company plans to adopt the revenue recognition guidance in the first quarter of 2018. The update does not apply to revenue associated with the manufacturing of insurance and annuity products or financial instruments as these revenues are in the scope of other standards. Therefore, the Company does not expect the update to have an impact on these revenues. The Company's implementation efforts include the identification of revenue within the guidance and the review of the customer contracts to determine the Company's performance obligation and the associated timing of each performance obligation. The Company is reviewing certain payments received to determine whether they should be presented as revenue or as a reduction of expense. The Company does not expect a material impact to the timing of revenue recognition; however, the Company's implementation effort to assess the impact of the standard on its consolidated results of operations, financial condition, and disclosures is still in process.
3. Variable Interest Entities
The Company provides asset management services to investment entities which are considered to be VIEs, such as collateralized loan obligations ("CLOs"), hedge funds, property funds, certain international series funds (Open Ended Investment Companies and Societes d'Investissement A Capital Variable) and private equity funds (collectively, "investment entities"), which are sponsored by the Company. In addition, the Company invests in structured investments other than CLOs and certain affordable housing partnerships which are considered VIEs. The Company consolidates certain investment entities (collectively, "consolidated investment entities"). If the Company is deemed to be the primary beneficiary, it will consolidate the VIE. The Company has no obligation to provide financial or other support to the non-consolidated VIEs beyond its investment nor has the Company provided any support to these entities.
CLOs
CLOs are asset backed financing entities collateralized by a pool of assets, primarily syndicated loans and, to a lesser extent, high-yield bonds. Multiple tranches of debt securities are issued by a CLO, offering investors various maturity and credit risk characteristics. The debt securities issued by the CLOs are non-recourse to the Company. The CLO's debt holders have recourse only to the assets of the CLO. The assets of the CLOs cannot be used by the Company.

Scheduled debt payments are based on the performance of the CLO's collateral pool. The Company earns management fees from the CLOs based on the CLO's collateral pool and, in certain instances, may also receive incentive fees. The fee arrangement is at market and commensurate with the level of effort required to provide those services. The Company has invested in a portion of the unrated, junior subordinated notes of certain CLOs. The Company has determined that consolidation is required for certain CLOs.

The Company's maximum exposure to loss with respect to non-consolidated CLOs is limited to its investments amortized cost, which was $7 million and $9 million as of June 30, 2017 and December 31, 2016, respectively. The Company classifies these investments as Available-for-Sale securities. See Note 4 for additional information on these investments.

Property Funds

The Company provides investment advice and related services to property funds, which are considered VIEs. For investment management services, the Company generally earns management fees based on the market value of assets under management, and in certain instances may also receive performance-based fees. The fee arrangement is at market and commensurate with the level of effort required to provide those services. The Company does not have a significant economic interest and is not required to consolidate the property funds. The carrying value of the Company’s investment in property funds is reflected in other investments and was $26 million as of both June 30, 2017 and December 31, 2016.

Hedge Funds and Private Equity Funds

The Company has determined that consolidation is not required for hedge funds and private equity funds which are sponsored by the Company and considered VIEs. For investment management services, the Company earns management fees based on the market value of assets under management, and in certain instances may also receive performance-based fees. The fee arrangement is at market and commensurate with the level of effort required to provide those services. The Company’s maximum exposure to loss with respect to its investment in these entities is limited to its carrying value. The carrying value of the Company’s investment in these entities is reflected in other investments and was $7 million and $13 million as of June 30, 2017 and December 31, 2016, respectively.

International Series Funds

The Company manages international series funds, which are considered VIEs. For investment management services, the Company earns management fees based on the market value of assets under management, and in certain instances may also receive performance-based fees. The fee arrangement is at market and commensurate with the level of effort required to provide those services. The Company does not consolidate these funds and its maximum exposure to loss is limited to its carrying value. The carrying value of the Company’s investment in these funds is reflected in other assets and was $35 million and $33 million as of June 30, 2017 and December 31, 2016, respectively.

Affordable Housing Partnerships and Other Real Estate Partnerships

The Company is a limited partner in affordable housing partnerships that qualify for government-sponsored low income housing tax credit programs and partnerships that invest in multi-family residential properties that were originally developed with an affordable housing component. The Company has determined it is not the primary beneficiary and therefore does not consolidate these partnerships.

A majority of the limited partnerships are VIEs. The Company’s maximum exposure to loss as a result of its investment in the VIEs is limited to the carrying value. The carrying value is reflected in other investments and was $467 million and $482 million as of June 30, 2017 and December 31, 2016, respectively. The Company had a $123 million and $135 million liability recorded as of June 30, 2017 and December 31, 2016, respectively, related to original purchase commitments not yet remitted to the VIEs. The Company has not provided any additional support and is not contractually obligated to provide additional support to the VIEs beyond the above mentioned funding commitments.

Structured Investments

The Company invests in structured investments which are considered VIEs for which it is not the sponsor. These structured investments typically invest in fixed income instruments and are managed by third parties and include asset backed securities, commercial mortgage backed securities and residential mortgage backed securities. The Company classifies these investments as Available-for-Sale securities. The Company has determined that it is not the primary beneficiary of these structures due to the size of the Company’s investment in the entities and position in the capital structure of these entities. The Company’s maximum exposure to loss as a result of its investment in these structured investments is limited to its carrying value. See Note 4 for additional information on these structured investments.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (continued)

Fair Value of Assets and Liabilities

The Company categorizes its fair value measurements according to a three-level hierarchy. See Note 10 for the definition of the three levels of the fair value hierarchy.

The following tables present the balances of assets and liabilities held by consolidated investment entities measured at fair value on a recurring basis:

	June 30, 2017			
	Level 1	Level 2	Level 3	Total
	(in millions)			
Assets				
Investments:				
Corporate debt securities	$—	$30	$—	$30
Common stocks	20	6	7	33
Other investments	4	—	—	4
Syndicated loans	—	2,005	185	2,190
Total investments	24	2,041	192	2,257
Receivables	—	38	—	38
Total assets at fair value	$24	$2,079	$192	$2,295
Liabilities				
Debt [1]	$—	$2,308	$—	$2,308
Other liabilities	—	138	—	138
Total liabilities at fair value	$—	$2,446	$—	$2,446

	December 31, 2016			
	Level 1	Level 2	Level 3	Total
	(in millions)			
Assets				
Investments:				
Corporate debt securities	$—	$19	$—	$19
Common stocks	22	6	5	33
Other investments	4	—	—	4
Syndicated loans	—	1,944	254	2,198
Total investments	26	1,969	259	2,254
Receivables	—	11	—	11
Total assets at fair value	$26	$1,980	$259	$2,265
Liabilities				
Debt [1]	$—	$2,319	$—	$2,319
Other liabilities	—	95	—	95
Total liabilities at fair value	$—	$2,414	$—	$2,414

[1] The carrying value of the CLOs' debt is set equal to the fair value of the CLOs' assets. The estimated fair value of the CLOs' debt was $2.3 billion as of both June 30, 2017 and December 31, 2016.

AMERIPRISE FINANCIAL, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (continued)

The following tables provide a summary of changes in Level 3 assets and liabilities held by consolidated investment entities measured at fair value on a recurring basis:

	Corporate Debt Securities	Common Stocks	Syndicated Loans
	(in millions)		
Balance, April 1, 2017	$2	$ 4	$ 223
Total losses included in:			
Net income	—	—	(2) [1]
Purchases	—	3	72
Sales	(2)	(1)	(7)
Settlements	—	—	(30)
Transfers into Level 3	—	1	41
Transfers out of Level 3	—	—	(112)
Balance, June 30, 2017	$—	$ 7	$ 185
Changes in unrealized losses included in income relating to assets held at June 30, 2017	$—	$ —	$ (3) [1]

	Common Stocks	Syndicated Loans	Other Assets
	(in millions)		
Balance, April 1, 2016	$2	$ 300	$ —
Total gains included in:			
Net income	—	8 [1]	1 [2]
Purchases	—	35	—
Sales	—	(1)	—
Settlements	—	(15)	—
Transfers into Level 3	—	90	—
Transfers out of Level 3	(1)	(174)	—
Balance, June 30, 2016	$1	$ 243	$ 1
Changes in unrealized gains included in income relating to assets held at June 30, 2016	$—	$ 6 [1]	$ —

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	Corporate Debt Securities	Common Stocks	Syndicated Loans
	(in millions)		
Balance, January 1, 2017	$—	$ 5	$ 254
Total gains included in:			
Net income	—	—	1 [1]
Purchases	—	3	127
Sales	(2)	(1)	(15)
Settlements	—	—	(53)
Transfers into Level 3	2	2	113
Transfers out of Level 3	—	(2)	(242)
Balance, June 30, 2017	$—	$ 7	$ 185
Changes in unrealized losses included in income relating to assets held at June 30, 2017	$—	$ —	$ (1) [1]

	Common Stocks	Syndicated Loans	Other Assets	Debt
	(in millions)			
Balance at January 1, 2016, previously reported	$3	$ 529	$2,065	$(6,630)
Cumulative effect of change in accounting policies [3]	(2)	(304)	(2,065)	6,630
Balance at January 1, 2016, as adjusted	1	225	—	—
Total gains (losses) included in:				
Net income	—	(1) [1]	1 [2]	—
Purchases	—	50	—	—
Sales	—	(1)	—	—
Settlements	—	(25)	—	—
Transfers into Level 3	2	229	—	—
Transfers out of Level 3	(2)	(234)	—	—
Balance, June 30, 2016	$1	$ 243	$1	$—
Changes in unrealized gains included in income relating to assets and liabilities held at June 30, 2016	$—	$ 3 [1]	$—	$—

[1] Included in net investment income in the Consolidated Statements of Operations.
[2] Included in other revenues in the Consolidated Statements of Operations.
[3] The cumulative effect of change in accounting policies includes the adoption impact of ASU 2015-02 and ASU 2014-13 – Consolidation: Measuring the Financial Assets and the Financial Liabilities of a Consolidated Collateralized Financing Entity (“ASU 2014-13”).

Securities and loans transferred from Level 3 primarily represent assets with fair values that are now obtained from a third-party pricing service with observable inputs or priced in active markets. Securities and loans transferred to Level 3 represent assets with fair values that are now based on a single non-binding broker quote. The Company recognizes transfers between levels of the fair value hierarchy as of the beginning of the quarter in which each transfer occurred. For assets and liabilities held at the end of the reporting periods that are measured at fair value on a recurring basis, there were no transfers between Level 1 and Level 2.

All Level 3 measurements as of June 30, 2017 and December 31, 2016 were obtained from non-binding broker quotes where unobservable inputs utilized in the fair value calculation are not reasonably available to the Company.

Determination of Fair Value

Assets

Investments

The fair value of syndicated loans obtained from third-party pricing services using a market approach with observable inputs is classified as Level 2. The fair value of syndicated loans obtained from third-party pricing services with a single non-binding broker

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AMERIPRISE FINANCIAL, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (continued)

quote as the underlying valuation source is classified as Level 3. The underlying inputs used in non-binding broker quotes are not readily available to the Company.

In consideration of the above, management is responsible for the fair values recorded on the financial statements. Prices received from third-party pricing services are subjected to exception reporting that identifies loans with significant daily price movements as well as no movements. The Company reviews the exception reporting and resolves the exceptions through reaffirmation of the price or recording an appropriate fair value estimate. The Company also performs subsequent transaction testing. The Company performs annual due diligence of the third-party pricing services. The Company's due diligence procedures include assessing the vendor's valuation qualifications, control environment, analysis of asset-class specific valuation methodologies and understanding of sources of market observable assumptions and unobservable assumptions, if any, employed in the valuation methodology. The Company also considers the results of its exception reporting controls and any resulting price challenges that arise.

See Note 10 for a description of the Company's determination of the fair value of corporate debt securities, U.S. government and agencies obligations, common stocks and other investments.

Receivables

For receivables of the consolidated CLOs, the carrying value approximates fair value as the nature of these assets has historically been short term and the receivables have been collectible. The fair value of these receivables is classified as Level 2.

Liabilities

Debt

The fair value of the CLOs' assets, typically syndicated bank loans, is more observable than the fair value of the CLOs' debt tranches for which market activity is limited and less transparent. As a result, the fair value of the CLOs' debt is set equal to the fair value of the CLOs' assets. The fair value of the CLOs' debt is classified as Level 2.

Other Liabilities

Other liabilities consist primarily of securities purchased but not yet settled held by consolidated CLOs. The carrying value approximates fair value as the nature of these liabilities has historically been short term. The fair value of these liabilities is classified as Level 2.

Fair Value Option

The Company has elected the fair value option for the financial assets and liabilities of the consolidated CLOs. Management believes that the use of the fair value option better matches the changes in fair value of assets and liabilities related to the CLOs.

The following table presents the fair value and unpaid principal balance of loans and debt for which the fair value option has been elected:

	June 30, 2017	December 31, 2016
	(in millions)	
Syndicated loans		
Unpaid principal balance	$2,248	$ 2,281
Excess unpaid principal over fair value	(58)	(83)
Fair value	$2,190	$ 2,198
Fair value of loans more than 90 days past due	$11	$ 8
Fair value of loans in nonaccrual status	11	8
Difference between fair value and unpaid principal of loans more than 90 days past due, loans in nonaccrual status or both	26	34
Debt		
Unpaid principal balance	$2,435	$ 2,459

Excess unpaid principal over carrying value	(127)	(140)
Carrying value [(1)]	$2,308	$ 2,319

[(1)] The carrying value of the CLOs' debt is set equal to the fair value of the CLOs' assets. The estimated fair value of the CLOs' debt was $2.3 billion as of both June 30, 2017 and December 31, 2016.

Interest income from syndicated loans, bonds and structured investments is recorded based on contractual rates in net investment income. Gains and losses related to changes in the fair value of investments and gains and losses on sales of investments are also

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AMERIPRISE FINANCIAL, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (continued)

recorded in net investment income. Interest expense on debt is recorded in interest and debt expense with gains and losses related to changes in the fair value of debt recorded in net investment income.

Total net gains (losses) recognized in net investment income related to changes in the fair value of financial assets and liabilities for which the fair value option was elected were $1 million and $(1) million for the three months ended June 30, 2017 and 2016, respectively.

Total net losses recognized in net investment income related to changes in the fair value of financial assets and liabilities for which the fair value option was elected were $2 million and $5 million for the six months ended June 30, 2017 and 2016, respectively.

Debt of the consolidated investment entities and the stated interest rates were as follows:

	Carrying Value		Weighted Average Interest Rate	
	June 30, 2017	December 31, 2016	June 30, 2017	December 31, 2016
	(in millions)			
Debt of consolidated CLOs due 2025-2026	$2,308	$ 2,319	2.6%	2.5 %

The debt of the consolidated CLOs has both fixed and floating interest rates, which range from 0% to 7.2%. The interest rates on the debt of CLOs are weighted average rates based on the outstanding principal and contractual interest rates.

4. Investments

The following is a summary of Ameriprise Financial investments:

	June 30, 2017	December 31, 2016
	(in millions)	
Available-for-Sale securities, at fair value	$30,647	$ 30,719
Mortgage loans, net	2,993	2,986
Policy and certificate loans	836	831
Other investments	1,459	1,298
Total	$35,935	$ 35,834

The following is a summary of net investment income:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
	(in millions)			
Investment income on fixed maturities	$335	$343	$672	$686
Net realized gains (losses)	21	5	38	(11)
Affordable housing partnerships	(13)	(11)	(25)	(18)
Other	20	5	44	(12)
Consolidated investment entities	28	30	53	58
Total	$391	$372	$782	$703

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Available-for-Sale securities distributed by type were as follows:

June 30, 2017

Description of Securities	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Noncredit OTTI (1)