

AMERIPRISE FINANCIAL INC

Form 10-Q

November 05, 2012

[Table of Contents](#)

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 September 30, 2012

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)

Edgar Filing: AMERIPRISE FINANCIAL INC - Form 10-Q

Delaware

(State or other jurisdiction of incorporation or organization)

13-3180631

(I.R.S. Employer Identification No.)

1099 Ameriprise Financial Center, Minneapolis, Minnesota

(Address of principal executive offices)

55474

(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 ☒ No ☐

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 ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer ☒

Accelerated Filer ☐

Non-Accelerated Filer ☐

Smaller reporting company ☐

(Do not check if a smaller reporting company)

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

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

Class

Common Stock (par value \$.01 per share)

Outstanding at October 26, 2012

205,816,370 shares

Table of Contents

AMERIPRISE FINANCIAL, INC.

FORM 10-Q

INDEX

Part I. Financial Information:

<u>Item 1.</u>	<u>Financial Statements</u>	
	<u>Consolidated Statements of Operations Three months and nine months ended September 30, 2012 and 2011</u>	3
	<u>Consolidated Statements of Comprehensive Income Three months and nine months ended September 30, 2012 and 2011</u>	4
	<u>Consolidated Balance Sheets September 30, 2012 and December 31, 2011</u>	5
	<u>Consolidated Statements of Equity Nine months ended September 30, 2012 and 2011</u>	6
	<u>Consolidated Statements of Cash Flows Nine months ended September 30, 2012 and 2011</u>	7
	<u>Notes to Consolidated Financial Statements</u>	9
<u>Item 2.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	50
<u>Item 3.</u>	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	89
<u>Item 4.</u>	<u>Controls and Procedures</u>	89

Part II. Other Information:

<u>Item 1.</u>	<u>Legal Proceedings</u>	90
<u>Item 1A.</u>	<u>Risk Factors</u>	90
<u>Item 2.</u>	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	91
<u>Item 6.</u>	<u>Exhibits</u>	91
<u>Signatures</u>		92
<u>Exhibit Index</u>		E-1

Table of Contents

AMERIPRISE FINANCIAL, INC.

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

(in millions, except per share amounts)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Revenues				
Management and financial advice fees	\$ 1,191	\$ 1,127	\$ 3,475	\$ 3,436
Distribution fees	391	389	1,189	1,202
Net investment income	427	445	1,430	1,458
Premiums	309	311	912	915
Other revenues	161	195	569	635
Total revenues	2,479	2,467	7,575	7,646
Banking and deposit interest expense	11	12	32	36
Total net revenues	2,468	2,455	7,543	7,610
Expenses				
Distribution expenses	667	641	1,996	1,934
Interest credited to fixed accounts	207	214	622	634
Benefits, claims, losses and settlement expenses	529	258	1,417	1,046
Amortization of deferred acquisition costs	67	202	197	366
Interest and debt expense	68	71	209	221
General and administrative expense	731	743	2,282	2,288
Total expenses	2,269	2,129	6,723	6,489
Income from continuing operations before income tax provision	199	326	820	1,121
Income tax provision	47	109	248	319
Income from continuing operations	152	217	572	802
Income (loss) from discontinued operations, net of tax	(1)	2	(3)	(73)
Net income	151	219	569	729
Less: Net loss attributable to noncontrolling interests	(22)	(105)	(71)	(151)
Net income attributable to Ameriprise Financial	\$ 173	\$ 324	\$ 640	\$ 880
Earnings per share attributable to Ameriprise Financial, Inc. common shareholders				
Basic				
Income from continuing operations	\$ 0.81	\$ 1.35	\$ 2.91	\$ 3.89
Income (loss) from discontinued operations	(0.01)	0.01	(0.02)	(0.30)
Net income	\$ 0.80	\$ 1.36	\$ 2.89	\$ 3.59
Diluted				

Edgar Filing: AMERIPRISE FINANCIAL INC - Form 10-Q

Income from continuing operations	\$	0.79	\$	1.33	\$	2.85	\$	3.81
Income (loss) from discontinued operations				0.01		(0.01)		(0.29)
Net income	\$	0.79	\$	1.34	\$	2.84	\$	3.52

Cash dividends declared per common share	\$	0.35	\$	0.23	\$	0.70	\$	0.64
---	----	------	----	------	----	------	----	------

Supplemental Disclosures:

Total other-than-temporary impairment losses on securities	\$	(8)	\$	(13)	\$	(27)	\$	(56)
Portion of loss recognized in other comprehensive income (before taxes)		(7)		8		(2)		33
Net impairment losses recognized in net investment income	\$	(15)	\$	(5)	\$	(29)	\$	(23)

See Notes to Consolidated Financial Statements.

Table of Contents**AMERIPRISE FINANCIAL, INC.****CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)**

(in millions)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Net income	\$ 151	\$ 219	\$ 569	\$ 729
Other comprehensive income, net of tax:				
Foreign currency translation adjustment	33	(36)	43	(9)
Net unrealized gains on securities:				
Net unrealized securities gains arising during the period	378	215	615	340
Reclassification of net securities losses included in net income	44	3	49	1
Impact on deferred acquisition costs, deferred sales inducement costs, benefit reserves and reinsurance recoverables	(112)	(182)	(174)	(218)
Total net unrealized gains on securities	310	36	490	123
Net unrealized gains (losses) on derivatives:				
Net unrealized derivative gains arising during the period			10	1
Reclassification of net derivative gains included in net income			(1)	(22)
Total net unrealized gains (losses) on derivatives			9	(21)
Total other comprehensive income, net of tax	343		542	93
Total comprehensive income	494	219	1,111	822
Less: Comprehensive loss attributable to noncontrolling interests	(4)	(125)	(45)	(157)
Comprehensive income attributable to Ameriprise Financial	\$ 498	\$ 344	\$ 1,156	\$ 979

See Notes to Consolidated Financial Statements.

Table of Contents**AMERIPRISE FINANCIAL, INC.****CONSOLIDATED BALANCE SHEETS (UNAUDITED)**

(in millions, except share amounts)

	September 30, 2012	December 31, 2011
Assets		
Cash and cash equivalents	\$ 3,325	\$ 2,781
Cash of consolidated investment entities	607	470
Investments	38,702	38,775
Investments of consolidated investment entities, at fair value	4,587	4,789
Separate account assets	71,919	66,780
Receivables	5,528	5,559
Receivables of consolidated investment entities (includes \$24 and \$39, respectively, at fair value)	56	59
Deferred acquisition costs	2,397	2,440
Restricted and segregated cash and investments	2,060	1,793
Other assets	8,224	7,751
Other assets of consolidated investment entities, at fair value	1,159	1,110
Total assets	\$ 138,564	\$ 132,307
Liabilities and Equity Liabilities:		
Future policy benefits and claims	\$ 31,595	\$ 31,710
Separate account liabilities	71,919	66,780
Customer deposits	10,048	9,850
Short-term borrowings	500	504
Long-term debt	2,413	2,393
Debt of consolidated investment entities (includes \$4,691 and \$4,712, respectively, at fair value)	5,221	5,178
Accounts payable and accrued expenses	1,145	1,048
Accounts payable and accrued expenses of consolidated investment entities	25	17
Other liabilities	5,779	5,033
Other liabilities of consolidated investment entities (includes \$62 and \$85, respectively, at fair value)	98	100
Total liabilities	128,743	122,613
Equity:		
Ameriprise Financial, Inc.:		
Common shares (\$.01 par value; shares authorized, 1,250,000,000; shares issued, 306,651,342 and 303,757,574, respectively)	3	3
Additional paid-in capital	6,363	6,237
Retained earnings	6,087	5,603
Appropriated retained earnings of consolidated investment entities	390	428
Treasury shares, at cost (99,224,115 and 81,814,591 shares, respectively)	(4,953)	(4,034)
Accumulated other comprehensive income, net of tax	1,267	751
Total Ameriprise Financial, Inc. shareholders' equity	9,157	8,988
Noncontrolling interests	664	706
Total equity	9,821	9,694
Total liabilities and equity	\$ 138,564	\$ 132,307

See Notes to Consolidated Financial Statements.

Table of Contents

AMERIPRISE FINANCIAL, INC.

CONSOLIDATED STATEMENTS OF EQUITY (UNAUDITED)

(in millions, except share data)

	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	
Balances at January 1, 2011, previously reported	246,697,892	\$ 3	\$ 6,029	\$ 6,190	\$ 558	\$ (2,620)	\$ 565	\$ 10,725	\$ 560	\$ 11,285	
Cumulative effect of change in accounting policies, net of tax				(1,420)			85	(1,335)		(1,335)	
Balances at January 1, 2011, as adjusted	246,697,892	3	6,029	4,770	558	(2,620)	650	9,390	560	9,950	
Comprehensive income (loss):											
Net income (loss)				880				880	(151)	729	
Other comprehensive income (loss), net of tax							99	99	(6)	93	
Total comprehensive income (loss)								979	(157)	822	
Net loss reclassified to appropriated retained earnings					(178)			(178)	178		
Dividends to shareholders				(158)				(158)		(158)	
Noncontrolling interests investments in subsidiaries									148	148	
Distributions to noncontrolling interests									(42)	(42)	
Repurchase of common shares	(23,050,091)					(1,233)		(1,233)		(1,233)	
Share-based compensation plans	3,536,975		153	(13)		81		221	29	250	
Balances at September 30, 2011	227,184,776	\$ 3	\$ 6,182	\$ 5,479	\$ 380	\$ (3,772)	\$ 749	\$ 9,021	\$ 716	\$ 9,737	
Balances at January 1, 2012	221,942,983	\$ 3	\$ 6,237	\$ 5,603	\$ 428	\$ (4,034)	\$ 751	\$ 8,988	\$ 706	\$ 9,694	
Comprehensive income (loss):											
Net income (loss)				640				640	(71)	569	
Other comprehensive income, net of tax							516	516	26	542	
Total comprehensive income (loss)								1,156	(45)	1,111	

Edgar Filing: AMERIPRISE FINANCIAL INC - Form 10-Q

Net loss reclassified to appropriated retained earnings								(30)						(30)		30			
Dividends to shareholders								(156)						(156)		(156)			
Noncontrolling interests investments in subsidiaries															123	123			
Distributions to noncontrolling interests															(158)	(158)			
Repurchase of common shares	(19,209,287)							(1,008)						(1,008)		(1,008)			
Share-based compensation plans	4,693,531			126				89					215		8	223			
Other								(8)					(8)			(8)			
Balances at September 30, 2012	207,427,227	\$	3	\$	6,363	\$	6,087	\$	390	\$	(4,953)	\$	1,267	\$	9,157	\$	664	\$	9,821

See Notes to Consolidated Financial Statements.

Table of Contents**AMERIPRISE FINANCIAL, INC.****CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)**

(in millions)

	Nine Months Ended September 30,	
	2012	2011
Cash Flows from Operating Activities		
Net income	\$ 569	\$ 729
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, amortization and accretion, net	168	61
Deferred income tax expense		151
Share-based compensation	98	101
Net realized investment losses (gains)	46	(21)
Net unrealized trading losses	2	2
Loss from equity method investments	9	38
Other-than-temporary impairments and provision for loan losses	33	29
Net loss of consolidated investment entities	95	162
Changes in operating assets and liabilities:		
Restricted and segregated cash and investments	(109)	95
Deferred acquisition costs	(32)	114
Other investments, net	19	(16)
Future policy benefits and claims, net	304	(100)
Receivables	(139)	(139)
Brokerage deposits	207	78
Accounts payable and accrued expenses	90	(111)
Derivatives collateral, net	(642)	449
Cash held by consolidated investment entities	(137)	43
Investment properties of consolidated investment entities	(94)	(278)
Other operating assets and liabilities of consolidated investment entities, net	25	26
Other, net	371	38
Net cash provided by operating activities	883	1,451
Cash Flows from Investing Activities		
Available-for-Sale securities:		
Proceeds from sales	600	656
Maturities, sinking fund payments and calls	3,668	4,107
Purchases	(3,345)	(5,469)
Proceeds from sales, maturities and repayments of commercial mortgage loans	197	185
Funding of commercial mortgage loans	(162)	(130)
Proceeds from sales of other investments	136	135
Purchase of other investments	(273)	(257)
Purchase of investments by consolidated investment entities	(1,215)	(2,542)
Proceeds from sales, maturities and repayments of investments by consolidated investment entities	1,619	2,696
Purchase of land, buildings, equipment and software	(143)	(149)
Change in consumer banking loans and credit card receivables, net	40	(288)
Other, net	(9)	(3)
Net cash provided by (used in) investing activities	1,113	(1,059)

See Notes to Consolidated Financial Statements.

Table of Contents

AMERIPRISE FINANCIAL, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED) (continued)

(in millions)

	Nine Months Ended September 30,	
	2012	2011
	(in millions)	
Cash Flows from Financing Activities		
Investment certificates and banking time deposits:		
Proceeds from additions	\$ 966	\$ 681
Maturities, withdrawals and cash surrenders	(724)	(1,013)
Change in other banking deposits	(246)	1,092
Policyholder and contractholder account values:		
Consideration received	1,082	978
Net transfers to separate accounts	(30)	(3)
Surrenders and other benefits	(909)	(1,010)
Deferred premium options, net	(256)	(177)
Repayments of debt		(8)
Change in short-term borrowings, net	(5)	107
Dividends paid to shareholders	(212)	(158)
Repurchase of common shares	(1,008)	(1,233)
Exercise of stock options	77	50
Excess tax benefits from share-based compensation	41	89
Borrowings by consolidated investment entities	175	163
Repayments of debt by consolidated investment entities	(374)	(222)
Noncontrolling interests investments in subsidiaries	123	148
Distributions to noncontrolling interests	(158)	(42)
Other, net	(3)	(1)
Net cash used in financing activities	(1,461)	(559)
Effect of exchange rate changes on cash	9	(1)
Net increase (decrease) in cash and cash equivalents	544	(168)
Cash and cash equivalents at beginning of period	2,781	2,861
Cash and cash equivalents at end of period	\$ 3,325	\$ 2,693
Supplemental Disclosures:		
Interest paid before consolidated investment entities	\$ 133	\$ 142
Income taxes paid, net	174	355
Non-cash investing activity:		
Affordable housing partnership commitments not yet remitted	16	124

See Notes to Consolidated Financial Statements.

Table of Contents

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 its subsidiary, Threadneedle Asset Management Holdings Sàrl ("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). The income or loss generated by consolidated entities which will not be realized by the Company's shareholders is attributed to noncontrolling interests in the Consolidated Statements of Operations. Noncontrolling interests are the ownership interests in subsidiaries not attributable, directly or indirectly, to Ameriprise Financial, Inc. and are classified as equity within the Consolidated Balance Sheets. The Company, excluding noncontrolling interests, is defined as Ameriprise Financial. All intercompany transactions and balances have been eliminated in consolidation. See Note 3 for additional information related to VIEs.

The results of Securities America Financial Corporation and its subsidiaries (collectively, "Securities America") have been presented as discontinued operations for all periods presented. The Company completed the sale of Securities America in the fourth quarter of 2011. See Note 14 for additional information on discontinued operations.

The accompanying Consolidated Financial Statements are prepared in accordance with U.S. generally accepted accounting principles ("GAAP"). Certain reclassifications of prior period amounts have been made to conform to the current presentation. 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, 2011, filed with the Securities and Exchange Commission ("SEC") on February 24, 2012.

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.

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

Edgar Filing: AMERIPRISE FINANCIAL INC - Form 10-Q

In the second quarter of 2012, the Company made a correction for a tax item related to prior periods, which resulted in a \$32 million decrease to net income attributable to Ameriprise Financial. During the second quarter, the Company discovered it had received incomplete data from a third-party service provider for securities lending activities that resulted in the miscalculation of the Company's dividend received deduction and foreign tax credit, which resulted in an understatement of taxes payable and an overstatement of reported earnings in prior periods. Management has determined that the effect of this correction is not material to the Consolidated Financial Statements for all current and prior periods. The Company has resolved the data issue and has stopped the securities lending that negatively impacted its tax position.

In the third quarter of 2011, the Company made an adjustment for additional bond discount accretion investment income related to prior periods resulting from revisions to the accounting classification of certain structured securities, which resulted in a \$40 million pretax benefit, net of deferred acquisition costs (DAC) and deferred sales inducement costs (DSIC) amortization. Management has determined that the effect of this adjustment is immaterial to prior periods presented.

In July 2012, the Company announced its intention to transition its federal savings bank subsidiary, Ameriprise Bank, FSB, to a limited powers national trust bank by year-end 2012. Final approvals from the appropriate federal and state regulators are pending.

Table of Contents**AMERIPRISE FINANCIAL, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (continued)**

On January 1, 2012, the Company retrospectively adopted the new accounting standard for DAC for insurance and annuity products. See Note 2 and Note 6 for further information on the new accounting standard and the resulting changes in the Company's accounting policies on the deferral of acquisition costs. The following tables present the effect of the change on affected financial statement line items for prior periods retrospectively adjusted.

	Three Months Ended September 30, 2011		
	Previously Reported	Effect of Change (in millions)	As Adjusted
Revenues			
Total net revenues	\$ 2,455	\$	\$ 2,455
Expenses			
Distribution expenses	624	17	641
Interest credited to fixed accounts	213	1	214
Benefits, claims, losses and settlement expenses	257	1	258
Amortization of deferred acquisition costs	318	(116)	202
Interest and debt expense	71		71
General and administrative expense	725	18	743
Total expenses	2,208	(79)	2,129
Income from continuing operations before income tax provision	247	79	326
Income tax provision	81	28	