

AMERIPRISE FINANCIAL INC  
Form 10-Q  
November 05, 2008  
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**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, 2008**

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**

(State or other jurisdiction of incorporation or organization)

**13-3180631**

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

**1099 Ameriprise Financial Center, Minneapolis, Minnesota**

**55474**

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(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  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 (Do not check if a smaller reporting company)

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**

**Outstanding at October 24, 2008**

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

216,598,221 shares

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**PART I. FINANCIAL INFORMATION**

**ITEM 1. FINANCIAL STATEMENTS**





**AMERIPRISE FINANCIAL, INC.**

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CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

(in millions, except per share amounts)

|   | Three Months Ended<br>September 30, |         | Nine Months Ended<br>September 30, |          |
|---|-------------------------------------|---------|------------------------------------|----------|
|   | 2008                                | 2007    | 2008                               | 2007     |
| <b>Revenues</b>                                   |                                     |         |                                    |          |
| Management and financial advice fees              | \$ 721                              | \$ 798  | \$ 2,292                           | \$ 2,308 |
| Distribution fees                                 | 376                                 | 435     | 1,231                              | 1,347    |
| Net investment income                             | 62                                  | 501     | 856                                | 1,543    |
| Premiums  | 276                                 | 269     | 809                                | 792      |
| Other revenues                                    | 249                                 | 165     | 564                                | 496      |
| Total revenues                                    | 1,684                               | 2,168   | 5,752                              | 6,486    |
| Banking and deposit interest expense              | 43                                  | 57      | 132                                | 190      |
| Total net revenues                                | 1,641                               | 2,111   | 5,620                              | 6,296    |
| <b>Expenses</b>                                   |                                     |         |                                    |          |
| Distribution expenses                             | 473                                 | 519     | 1,531                              | 1,530    |
| Interest credited to fixed accounts               | 200                                 | 212     | 587                                | 645      |
| Benefits, claims, losses and settlement expenses  | 196                                 | 360     | 794                                | 903      |
| Amortization of deferred acquisition costs        | 240                                 | 128     | 538                                | 387      |
| Interest and debt expense                         | 27                                  | 27      | 81                                 | 85       |
| Separation costs                                  |                                     | 60      |                                    | 208      |
| General and administrative expense                | 667                                 | 588     | 1,819                              | 1,860    |
| Total expenses                                    | 1,803                               | 1,894   | 5,350                              | 5,618    |
| Pretax income (loss)                              | (162)                               | 217     | 270                                | 678      |
| Income tax provision (benefit)                    | (92)                                | 19      | (61)                               | 119      |
| Net income (loss)                                 | \$ (70)                             | \$ 198  | \$ 331                             | \$ 559   |
| <b>Earnings (loss) per common share</b>           |                                     |         |                                    |          |
| Basic   | \$ (0.32)                           | \$ 0.84 | \$ 1.48                            | \$ 2.35  |
| Diluted   | \$ (0.32)(1)                        | \$ 0.83 | \$ 1.46                            | \$ 2.32  |
| <b>Weighted average common shares outstanding</b> |                                     |         |                                    |          |
| Basic   | 219.1                               | 235.4   | 223.6                              | 237.8    |
| Diluted   | 221.7                               | 239.2   | 226.4                              | 241.4    |
| <b>Cash dividends paid per common share</b>       | \$ 0.17                             | \$ 0.15 | \$ 0.47                            | \$ 0.41  |

(1) Diluted shares used in this calculation represent basic shares due to the net loss. Using actual diluted shares would result in anti-dilution.

See Notes to Consolidated Financial Statements.

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**AMERIPRISE FINANCIAL, INC.**

## CONSOLIDATED BALANCE SHEETS

(in millions, except share data)

|   | September 30,<br>2008<br>(Unaudited) | December 31,<br>2007 |
|---|--------------------------------------|----------------------|
| <b>Assets</b>   |                                      |                      |
| Cash and cash equivalents   | \$ 4,043                             | \$ 3,836             |
| Investments   | 28,101                               | 30,625               |
| Separate account assets   | 52,762                               | 61,974               |
| Receivables   | 3,921                                | 3,441                |
| Deferred acquisition costs  | 4,473                                | 4,503                |
| Restricted and segregated cash  | 1,837                                | 1,332                |
| Other assets  | 4,013                                | 3,519                |
| Total assets  | \$ 99,150                            | \$ 109,230           |
| <b>Liabilities and Shareholders' Equity</b>   |                                      |                      |
| Liabilities:  |                                      |                      |
| Future policy benefits and claims   | \$ 26,981                            | \$ 27,446            |
| Separate account liabilities  | 52,762                               | 61,974               |
| Customer deposits   | 7,727                                | 6,201                |
| Debt  | 2,080                                | 2,018                |
| Accounts payable and accrued expenses   | 758                                  | 1,187                |
| Other liabilities   | 2,125                                | 2,594                |
| Total liabilities   | 92,433                               | 101,420              |
| Shareholders' Equity:   |                                      |                      |
| Common shares (\$.01 par value; shares authorized, 1,250,000,000; shares issued, 256,334,767 and 255,925,436, respectively) | 3                                    | 3                    |
| Additional paid-in capital  | 4,704                                | 4,630                |
| Retained earnings   | 5,004                                | 4,811                |
| Treasury shares, at cost (39,691,488 and 28,177,593 shares, respectively)   | (2,021)                              | (1,467)              |
| Accumulated other comprehensive loss, net of tax:   |                                      |                      |
| Net unrealized securities losses  | (946)                                | (168)                |
| Net unrealized derivatives losses   | (8)                                  | (6)                  |
| Foreign currency translation adjustments  | (45)                                 | (19)                 |
| Defined benefit plans   | 26                                   | 26                   |
| Total accumulated other comprehensive loss  | (973)                                | (167)                |
| Total shareholders' equity  | 6,717                                | 7,810                |
| Total liabilities and shareholders' equity  | \$ 99,150                            | \$ 109,230           |

See Notes to Consolidated Financial Statements.

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**AMERIPRISE FINANCIAL, INC.**

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## CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(in millions)

|   | Nine Months Ended<br>September 30, |        |
|---|------------------------------------|--------|
|   | 2008                               | 2007   |
| <b>Cash Flows from Operating Activities</b>                                       |                                    |        |
| Net income  | \$ 331                             | \$ 559 |
| Adjustments to reconcile net income to net cash provided by operating activities: |                                    |        |
| Capitalization of deferred acquisition and sales inducement costs                 | (547)                              | (682)  |
| Amortization of deferred acquisition and sales inducement costs                   | 599                                | 423    |
| Depreciation and amortization   | 144                                | 125    |
| Deferred income tax expense (benefit)   | (187)                              | 48     |
| Share-based compensation  | 114                                | 110    |
| Net realized investment gains   | (5)                                | (28)   |
| Other-than-temporary impairments and provision for loan losses                    | 380                                | (18)   |
| Premium and discount amortization   | 70                                 | 84     |
| Changes in operating assets and liabilities:                                      |                                    |        |
| Segregated cash   | (663)                              | 107    |
| Trading securities and equity method investments in hedge funds, net              | 115                                | (19)   |
| Future policy benefits and claims, net  | 220                                | 185    |
| Receivables   | (588)                              | (262)  |
| Brokerage deposits  | 834                                | (77)   |
| Accounts payable and accrued expenses   | (413)                              | (130)  |
| Other, net  | (143)                              | (43)   |
| Net cash provided by operating activities   | 261                                | 382    |
| <b>Cash Flows from Investing Activities</b>                                       |                                    |        |
| Available-for-Sale securities:  |                                    |        |
| Proceeds from sales   | 316                                | 3,021  |
| Maturities, sinking fund payments and calls                                       | 2,864                              | 2,153  |
| Purchases   | (2,393)                            | (907)  |
| Proceeds from sales and maturities of commercial mortgage loans                   | 265                                | 410    |
| Funding of commercial mortgage loans  | (88)                               | (338)  |
| Proceeds from sale of AMEX Assurance  |                                    | 115    |
| Proceeds from sales of other investments  | 40                                 | 106    |
| Purchase of other investments   | (345)                              | (57)   |
| Purchase of land, buildings, equipment and software                               | (100)                              | (199)  |
| Proceeds from sale of land, buildings, equipment and other                        |                                    | 8      |
| Change in policy loans, net   | (26)                               | (32)   |
| Change in restricted cash   | 151                                | (82)   |
| Change in consumer banking loans and credit card receivables, net                 | (60)                               | 86     |
| Other, net  | 3                                  | (6)    |
| Net cash provided by investing activities   | 627                                | 4,278  |

*See Notes to Consolidated Financial Statements.*

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**AMERIPRISE FINANCIAL, INC.**

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**CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED) (CONTINUED)**

(in millions)

|  | Nine Months Ended<br>September 30, |          |
|--|------------------------------------|----------|
|  | 2008                               | 2007     |
| <b>Cash Flows from Financing Activities</b>        |                                    |          |
| Investment certificates and banking time deposits: |                                    |          |
| Proceeds from additions                            | \$ 1,813                           | \$ 647   |
| Maturities, withdrawals and cash surrenders        | (1,033)                            | (1,454)  |
| Change in other banking deposits                   | (87)                               | 205      |
| Policyholder and contractholder account values:    |                                    |          |
| Consideration received                             | 1,569                              | 795      |
| Net transfers to separate accounts                 |                                    | 7        |
| Surrenders and other benefits                      | (2,223)                            | (2,928)  |
| Dividends paid to shareholders                     | (105)                              | (98)     |
| Proceeds from debt                                 | 73                                 |          |
| Principal repayments of debt                       | (6)                                | (28)     |
| Repurchase of common shares                        | (636)                              | (698)    |
| Exercise of stock options                          | 9                                  | 30       |
| Excess tax benefits from share-based compensation  | 7                                  | 40       |
| Other, net   | (38)                               | 51       |
| Net cash used in financing activities              | (657)                              | (3,431)  |
| Effect of exchange rate changes on cash            | (24)                               | 13       |
| Net increase in cash and cash equivalents          | 207                                | 1,242    |
| Cash and cash equivalents at beginning of period   | 3,836                              | 2,760    |
| Cash and cash equivalents at end of period         | \$ 4,043                           | \$ 4,002 |
| Supplemental Disclosures:                          |                                    |          |
| Interest paid on debt                              | \$ 61                              | \$ 75    |
| Income taxes paid, net                             | 165                                | 92       |

*See Notes to Consolidated Financial Statements.*

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**AMERIPRISE FINANCIAL, INC.**



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**CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (UNAUDITED)**



(in millions, except share amounts)

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|   | Number of<br>Outstanding<br>Shares | Common<br>Shares | Additional<br>Paid-In<br>Capital | Retained<br>Earnings | Treasury<br>Shares | Accumulated<br>Other<br>Comprehensive<br>Loss | Total    |
|---|------------------------------------|------------------|----------------------------------|----------------------|--------------------|---|----------|
| <b>Balances at December 31, 2006</b>        | 241,391,431                        | \$ 3             | \$ 4,353                         | \$ 4,268             | \$ (490)           | \$ (209)                                      | \$ 7,925 |
| Change in accounting principles             |                                    |                  |                                  | (138)                |                    |   | (138)    |
| Comprehensive income:                       |                                    |                  |                                  |                      |                    |   |          |
| Net income                                  |                                    |                  |                                  | 559                  |                    |   | 559      |
| Change in net unrealized securities losses  |                                    |                  |                                  |                      |                    | (39)  | (39)     |
| Change in net unrealized derivatives losses |                                    |                  |                                  |                      |                    | (4)   | (4)      |
| Foreign currency translation adjustment     |                                    |                  |                                  |                      |                    | 3   | 3        |
| Total comprehensive income                  |                                    |                  |                                  |                      |                    |   | 519      |
| Dividends paid to shareholders              |                                    |                  |                                  | (98)                 |                    |   | (98)     |
| Repurchase of common shares                 | (11,749,269)                       |                  |                                  |                      | (690)              |   | (690)    |
| Share-based compensation plans              | 2,775,055                          |                  | 186                              |                      |                    |   | 186      |
| Other, net                                  |                                    |                  | 54                               |                      |                    |   | 54       |
| <b>Balances at September 30, 2007</b>       | 232,417,217                        | \$ 3             | \$ 4,593                         | \$ 4,591             | \$ (1,180)         | \$ (249)                                      | \$ 7,758 |
| <b>Balances at December 31, 2007</b>        | 227,747,843                        | \$ 3             | \$ 4,630                         | \$ 4,811             | \$ (1,467)         | \$ (167)                                      | \$ 7,810 |
| Change in accounting principle              |                                    |                  |                                  | (30)                 |                    |   | (30)     |
| Comprehensive income:                       |                                    |                  |                                  |                      |                    |   |          |
| Net income                                  |                                    |                  |                                  | 331                  |                    |   | 331      |
| Change in net unrealized securities losses  |                                    |                  |                                  |                      |                    | (778)   | (778)    |
| Change in net unrealized derivatives losses |                                    |                  |                                  |                      |                    | (2)   | (2)      |
| Foreign currency translation adjustment     |                                    |                  |                                  |                      |                    | (26)  | (26)     |
| Total comprehensive loss                    |                                    |                  |                                  |                      |                    |   | (475)    |
| Dividends paid to shareholders              |                                    |                  |                                  | (105)                |                    |   | (105)    |
| Repurchase of common shares                 | (13,293,913)                       |                  |                                  |                      | (636)              |   | (636)    |
| Share-based compensation plans              | 2,189,349                          |                  | 74                               | (3)                  | 82                 |   | 153      |
| <b>Balances at September 30, 2008</b>       | 216,643,279                        | \$ 3             | \$ 4,704                         | \$ 5,004             | \$ (2,021)         | \$ (973)                                      | \$ 6,717 |

See Notes to Consolidated Financial Statements.

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**AMERIPRISE FINANCIAL, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

**1. Basis of Presentation**

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The accompanying Consolidated Financial Statements include the accounts of Ameriprise Financial, Inc. ( Ameriprise Financial ), companies in which it directly or indirectly has a controlling financial interest, variable interest entities ( VIEs ) in which it is the primary beneficiary and certain limited partnerships for which it is the general partner (collectively, the Company ). All material intercompany transactions and balances between or among Ameriprise Financial and its subsidiaries and affiliates have been eliminated in consolidation.

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. All adjustments made were of a normal recurring nature.

Ameriprise Financial is a holding company, which primarily conducts business through its subsidiaries to provide financial planning, and 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 Company's foreign operations in the United Kingdom are conducted through its subsidiary, Threadneedle Asset Management Holdings Limited ( Threadneedle ).

### **Reclassifications**

The accompanying Consolidated Financial Statements are prepared in accordance with U.S. generally accepted accounting principles ( GAAP ). Changes to the Company s reportable operating segments and certain reclassifications of prior year amounts, including new income statement captions, have been made to conform to the current presentation. Reclassifications made in 2007 are described in Note 1, Note 2 and Note 26 of the Company s Annual Report on Form 10-K for the year ended December 31, 2007, filed with the Securities and Exchange Commission ( SEC ) on February 29, 2008 (the 2007 10-K ). In the second quarter of 2008, the Company reclassified the mark-to-market adjustment on certain derivatives from net investment income to various expense lines where the mark-to-market adjustment on the related embedded derivative resides. The mark-to-market adjustment on derivatives hedging variable annuity living benefits, equity indexed annuities and stock market certificates were reclassified to benefits, claims, losses and settlement expenses, interest credited to fixed accounts and banking and deposit interest expense, respectively. These reclassifications were made to enhance transparency and to better align the financial statement captions with the key drivers of the business. 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 2007 10-K.

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## AMERIPRISE FINANCIAL, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

The following table shows the impact of the new captions and the reclassifications made to the Company's previously reported Consolidated Statements of Income:

|  | Three Months Ended<br>September 30, 2007 |              | Nine Months Ended<br>September 30, 2007 |              |
|--|--|--------------|---|--------------|
|  | Previously<br>Reported                   | Reclassified | Previously<br>Reported                  | Reclassified |
| (in millions)                                    |  |              |   |              |
| <b>Revenues</b>                                  |  |              |   |              |
| Management and financial advice fees             | \$ 878                                   | \$ 798       | \$ 2,532                                | \$ 2,308     |
| Distribution fees                                | 352                                      | 435          | 1,111                                   | 1,347        |
| Net investment income                            | 552                                      | 501          | 1,555                                   | 1,543        |
| Premiums   | 246                                      | 269          | 725                                     | 792          |
| Other revenues                                   | 174                                      | 165          | 524                                     | 496          |
| Total revenues                                   | 2,202                                    | 2,168        | 6,447                                   | 6,486        |
| Banking and deposit interest expense             |  | 57           |   | 190          |
| Total net revenues                               | 2,202                                    | 2,111        | 6,447                                   | 6,296        |
| <b>Expenses</b>                                  |  |              |   |              |
| Compensation and benefits                        | 855                                      |              | 2,602                                   |              |
| Distribution expenses                            |  | 519          |   | 1,530        |
| Interest credited to fixed accounts              | 282                                      | 212          | 872                                     | 645          |
| Benefits, claims, losses and settlement expenses | 383                                      | 360          | 832                                     | 903          |
| Amortization of deferred acquisition costs       | 128                                      | 128          | 387                                     | 387          |
| Interest and debt expense                        | 29                                       | 27           | 93                                      | 85           |
| Separation costs                                 | 60                                       | 60           | 208                                     | 208          |
| Other expenses                                   | 248                                      |              | 775                                     |              |
| General and administrative expense               |  | 588          |   | 1,860        |
| Total expenses                                   | 1,985                                    | 1,894        | 5,769                                   | 5,618        |
| Pretax income                                    | 217                                      | 217          | 678                                     | 678          |
| Income tax provision                             | 19                                       | 19           | 119                                     | 119          |
| <b>Net income</b>                                | \$ 198                                   | \$ 198       | \$ 559                                  | \$ 559       |

The Company has reclassified certain prior year balances in the Consolidated Statements of Cash Flows related to consumer banking loans and credit card receivables. The Company previously classified the change in these balances as an operating activity in its Consolidated Statements of Cash Flows. The Company has reclassified the net of origination and principal collection of consumer banking loans and credit card receivables as an investing activity in accordance with Statement of Financial Accounting Standards ( SFAS ) No. 95 Statement of Cash Flows and SFAS No. 104 Statement of Cash Flows Net Reporting of Certain Cash Receipts and Cash Payments and Classification of Cash Flows from Hedging Transactions.

**2. Recent Accounting Pronouncements**



In October 2008, the Financial Accounting Standards Board ( FASB ) issued FASB Staff Position ( FSP ) FAS 157-3, Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active ( FSP 157-3 ), which was effective upon issuance, including prior periods for which financial statements have not been issued. FSP 157-3 clarifies the application of SFAS No. 157 Fair Value Measurements ( SFAS 157 ) in a market that is not active and provides an example of key considerations to determine the fair value of financial assets when the market for those assets is not active. The adoption of FSP 157-3 did not have a material effect on the Company s consolidated results of operations and financial condition.

In June 2008, the FASB issued FSP No. Emerging Issues Task Force ( EITF ) 03-6-1, Determining Whether Instruments Granted in Share-Based Payment Transactions are Participating Securities ( FSP EITF 03-6-1 ). FSP EITF 03-6-1 clarifies that unvested share-based payment awards with nonforfeitable rights to dividends or dividend equivalents are considered participating securities and should be included in the calculation of earnings per share pursuant to the two-class method. FSP EITF 03-6-1 is effective for financial statements issued for periods beginning after December 15, 2008 with early adoption prohibited. FSP EITF 03-6-1 requires that all prior-period earnings per share data be adjusted retrospectively to conform with the FSP provisions. The Company does not expect the adoption of EITF 03-6-1 to have a material effect on its earnings per share and consolidated results of operations.

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**AMERIPRISE FINANCIAL, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

In March 2008, the FASB issued SFAS No. 161 *Disclosures about Derivative Instruments and Hedging Activities* an amendment of FASB Statement No. 133 ( SFAS 161 ). SFAS 161 intends to improve financial reporting about derivative instruments and hedging activities by requiring enhanced disclosures about their impact on an entity's financial position, financial performance, and cash flows. SFAS 161 requires disclosures regarding the objectives for using derivative instruments, the fair value of derivative instruments and their related gains and losses, and the accounting for derivatives and related hedged items. SFAS 161 is effective for fiscal years and interim periods beginning after November 15, 2008, with early adoption permitted. The Company is currently evaluating the impact of SFAS 161 on its disclosures. The Company's adoption of SFAS 161 will not impact its consolidated results of operations and financial condition.

In December 2007, the FASB issued SFAS No. 141 (revised 2007) *Business Combinations* ( SFAS 141(R) ). SFAS 141(R) establishes principles and requirements for how an acquirer recognizes and measures the identifiable assets acquired, the liabilities assumed, any noncontrolling interest in an acquiree, and goodwill acquired. SFAS 141(R) also requires an acquirer to disclose information about the financial effects of a business combination. SFAS 141(R) is effective prospectively for business combinations with an acquisition date on or after the beginning of the first annual reporting period beginning on or after December 15, 2008, with early adoption prohibited. The Company will apply the standard to any business combinations within the scope of SFAS 141(R) occurring after December 31, 2008.

In December 2007, the FASB issued SFAS No. 160 *Noncontrolling Interests in Consolidated Financial Statements* an amendment of ARB No. 51 ( SFAS 160 ). SFAS 160 establishes the accounting and reporting for ownership interest in subsidiaries not attributable, directly or indirectly, to a parent. SFAS 160 requires that noncontrolling (minority) interests be classified as equity (instead of as a liability) within the consolidated balance sheet, and net income attributable to both the parent and the noncontrolling interest be disclosed on the face of the consolidated statement of income. SFAS 160 is effective for fiscal years beginning after December 15, 2008, and interim periods within those years with early adoption prohibited. The provisions of SFAS 160 are to be applied prospectively, except for the presentation and disclosure requirements which are to be applied retrospectively to all periods presented. The Company is currently evaluating the impact of SFAS 160 on its consolidated results of operations and financial condition.

In September 2006, the FASB issued SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans* an Amendment of FASB Statements No. 87, 88, 106, and 132(R) ( SFAS 158 ). As of December 31, 2006, the Company adopted the recognition provisions of SFAS 158 which require an entity to recognize the overfunded or underfunded status of an employer's defined benefit postretirement plan as an asset or liability in its statement of financial position and to recognize changes in that funded status in the year in which the changes occur through comprehensive income. The Company's adoption of this provision did not have a material effect on the consolidated results of operations and financial condition. Effective for fiscal years ending after December 15, 2008, SFAS 158 also requires an employer to measure plan assets and benefit obligations as of the date of the employer's fiscal year-end statement of financial position. As of December 31, 2008, the Company will adopt the measurement provisions of SFAS 158 which will not have a material effect on its consolidated results of operations and financial condition.

In September 2006, the FASB issued SFAS 157, which defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. SFAS 157 applies under other accounting pronouncements that require or permit fair value measurements. Accordingly, SFAS 157 does not require any new fair value measurements. The provisions of SFAS 157 are required to be applied prospectively as of the beginning of the fiscal year in which SFAS 157 is initially applied, except for certain financial instruments as defined in SFAS 157 that require retrospective application. Any retrospective application will be recognized as a cumulative effect adjustment to the opening balance of retained earnings for the fiscal year of adoption. The Company adopted SFAS 157 effective January 1, 2008 and recorded

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a cumulative effect reduction to the opening balance of retained earnings of \$30 million, net of deferred acquisition costs ( DAC ) and deferred sales inducement costs ( DSIC ) amortization and income taxes. This reduction to retained earnings was related to adjusting the fair value of certain derivatives the Company uses to hedge its exposure to market risk related to certain variable annuity riders. The Company initially recorded these derivatives in accordance with EITF Issue No. 02-3 Issues Involved in Accounting for Derivative Contracts Held for Trading Purposes and Contracts Involved in Energy Trading and Risk Management Activities ( EITF 02-3 ). SFAS 157 nullifies the guidance in EITF 02-3 and requires these derivatives to be marked to the price the Company would receive to sell the derivatives to a market participant (an exit price). The adoption of SFAS 157 also resulted in adjustments to the fair value of the Company s embedded derivative liabilities associated with certain variable annuity riders. Since there is no market for these liabilities, the Company considered the assumptions participants in a hypothetical market would make to determine an exit price. As a result, the Company adjusted the valuation of these liabilities by updating certain policyholder assumptions, adding explicit margins to provide for profit, risk, and expenses, and adjusting the rate used to discount expected cash flows to reflect a current market estimate of the Company s risk of nonperformance specific to these liabilities. These adjustments resulted in an adoption impact of a \$4 million increase

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**AMERIPRISE FINANCIAL, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

in earnings, net of DAC and DSIC amortization and income taxes, at January 1, 2008. The nonperformance risk component of the adjustment is specific to the risk of RiverSource Life Insurance Company ( RiverSource Life ) and RiverSource Life Insurance Co. of New York not fulfilling these liabilities. As the Company's estimate of this credit spread widens or tightens, the liability will decrease or increase.

In accordance with FSP FAS 157-2, Effective Date of FASB Statement No. 157 ( FSP 157-2 ), the Company will defer the adoption of SFAS 157 until January 1, 2009 for all nonfinancial assets and nonfinancial liabilities, except for those that are recognized or disclosed at fair value in the financial statements on a recurring basis. In January 2008, the FASB published for comment Proposed FSP FAS 157-c Measuring Liabilities under FASB Statement No. 157 ( FSP 157-c ). FSP 157-c would amend SFAS 157 to clarify the accounting principles on the fair value measurement of liabilities. The Company is monitoring the impact that this proposed FSP could have on its consolidated results of operations and financial condition. See Note 5 for additional information regarding the fair value of the Company's assets and liabilities.

In June 2006, the FASB issued FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109 ( FIN 48 ). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in accordance with FASB Statement No. 109, Accounting for Income Taxes. FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. The Company adopted FIN 48 as of January 1, 2007 and recorded a cumulative change in accounting principle resulting in an increase in the liability for unrecognized tax benefits and a decrease in beginning retained earnings of \$4 million.

In September 2005, the American Institute of Certified Public Accountants issued Statement of Position ( SOP ) 05-1, Accounting by Insurance Enterprises for Deferred Acquisition Costs in Connection With Modifications or Exchanges of Insurance Contracts ( SOP 05-1 ). SOP 05-1 provides clarifying guidance on accounting for DAC associated with an insurance or annuity contract that is significantly modified or is internally replaced with another contract. Prior to adoption, the Company accounted for many of these transactions as contract continuations and continued amortizing existing DAC against revenue for the new or modified contract. Effective January 1, 2007, the Company adopted SOP 05-1 resulting in these transactions being prospectively accounted for as contract terminations. Consistent with this, the Company now anticipates these transactions in establishing amortization periods and other valuation assumptions. As a result of adopting SOP 05-1, the Company recorded as a cumulative change in accounting principle \$206 million, reducing DAC by \$204 million, DSIC by \$11 million and liabilities for future policy benefits by \$9 million. The after-tax decrease to retained earnings for these changes was \$134 million.

**3. Separation and Distribution from American Express**

Ameriprise Financial was formerly a wholly owned subsidiary of American Express Company ( American Express ). On February 1, 2005, the American Express Board of Directors announced its intention to pursue the disposition of 100% of its shareholdings in Ameriprise Financial (the Separation ) through a tax-free distribution to American Express shareholders. Effective as of the close of business on September 30, 2005, American Express completed the separation of Ameriprise Financial and the distribution of the Ameriprise Financial common shares to American Express shareholders (the Distribution ).

American Express historically provided a variety of corporate and other support services for the Company, including information technology, treasury, accounting, financial reporting, tax administration, human resources, marketing, legal and other services. Following the Distribution, American Express provided the Company with many of these services pursuant to transition services agreements for transition periods of up to two years or more, if extended by mutual agreement of the Company and American Express. The Company terminated all of these service agreements and completed its separation from American Express in 2007.

The Company incurred significant non-recurring separation costs in 2007 as a result of the Separation. These costs were primarily associated with establishing the Ameriprise Financial brand, separating and reestablishing the Company's technology platforms and advisor and employee retention programs.

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**AMERIPRISE FINANCIAL, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

**4. Investments**



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The following is a summary of investments:

|   | September 30,<br>2008 | December 31,<br>2007 |
|---|-----------------------|----------------------|
|   | (in millions)         |                      |
| Available-for-Sale securities, at fair value                                    | \$ 23,495             | \$ 25,931            |
| Commercial mortgage loans, net  | 2,921                 | 3,097                |
| Trading securities, at fair value, and equity method investments in hedge funds | 374                   | 504                  |
| Policy loans  | 730                   | 706                  |
| Other investments   | 581                   | 387                  |
| Total   | \$ 28,101             | \$ 30,625            |

Net realized gains and losses on Available-for-Sale securities, determined using the specific identification method, were as follows:

|                                  | Three Months Ended<br>September 30, |       | Nine Months Ended<br>September 30, |       |
|----------------------------------|-------------------------------------|-------|------------------------------------|-------|
|                                  | 2008                                | 2007  | 2008                               | 2007  |
|                                  | (in millions)                       |       | (in millions)                      |       |
| Gross realized gains from sales  | \$ 4                                | \$ 16 | \$ 15                              | \$ 50 |
| Gross realized losses from sales | (8)                                 | (1)   | (10)                               | (22)  |
| Other-than-temporary impairments | (313)                               |       | (373)                              | (2)   |

The Company regularly reviews Available-for-Sale securities for impairments in value considered to be other-than-temporary. The cost basis of securities that are determined to be other-than-temporarily impaired is written down to current fair value with a corresponding charge to net income. A write-down for impairment can be recognized for both credit-related events and for change in fair value due to changes in interest rates. Once a security is written down to fair value through net income, any subsequent recovery in value cannot be recognized in net income until the principal is returned.

Factors the Company considers in determining whether declines in the fair value of fixed-maturity securities are other-than-temporary include: 1) the extent to which the market value is below amortized cost; 2) our ability and intent to hold the investment for a sufficient period of time for it to recover to an amount at least equal to its carrying value; 3) the duration of time in which there has been a significant decline in value; 4) fundamental analysis of the liquidity, business prospects and overall financial condition of the issuer; and 5) market events that could impact credit ratings, economic and business climate, litigation and government actions, and similar external business factors. For structured investments (e.g., mortgage-backed securities), the Company also considers factors such as overall deal structure and our position within the structure, quality of underlying collateral, delinquencies and defaults, loss severities, recoveries, prepayments, cumulative loss projections and discounted cash flows in assessing potential other-than-temporary impairment of these investments. Based upon these factors, securities that have indicators of potential other-than-temporary impairment are subject to detailed review by management. Securities for which declines are considered temporary continue to be carefully monitored by management.

For the three months and nine months ended September 30, 2008, other-than-temporary impairments of \$313 million and \$373 million, respectively, primarily related to credit-related losses in Lehman Brothers securities, Washington Mutual securities and non-agency residential mortgage-backed securities.



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**AMERIPRISE FINANCIAL, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

*Available-for-Sale Securities*



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

| Description of Securities                  | Amortized Cost   | September 30, 2008     |                         | Fair Value       |
|--|------------------|------------------------|-------------------------|------------------|
|  |                  | Gross Unrealized Gains | Gross Unrealized Losses |                  |
|  |                  | (in millions)          |                         |                  |
| Corporate debt securities                  | \$ 13,551        | \$ 33                  | \$ (991)                | \$ 12,593        |
| Mortgage and other asset-backed securities | 9,968            | 36                     | (499)                   | 9,505            |
| State and municipal obligations            | 1,033            | 4                      | (114)                   | 923              |
| U.S. government and agencies obligations   | 258              | 8                      | (1)                     | 265              |
| Foreign government bonds and obligations   | 95               | 12                     |                         | 107              |
| Common and preferred stocks                | 54               | 6                      | (11)                    | 49               |
| Structured investments                     | 35               |                        |                         | 35               |
| Other debt                                 | 18               |                        |                         | 18               |
| <b>Total</b>                               | <b>\$ 25,012</b> | <b>\$ 99</b>           | <b>\$ (1,616)</b>       | <b>\$ 23,495</b> |

| Description of Securities                  | Amortized Cost   | December 31, 2007      |                         | Fair Value       |
|--|------------------|------------------------|-------------------------|------------------|
|  |                  | Gross Unrealized Gains | Gross Unrealized Losses |                  |
|  |                  | (in millions)          |                         |                  |
| Corporate debt securities                  | \$ 14,158        | \$ 113                 | \$ (328)                | \$ 13,943        |
| Mortgage and other asset-backed securities | 10,517           | 38                     | (162)                   | 10,393           |
| State and municipal obligations            | 1,038            | 14                     | (17)                    | 1,035            |
| U.S. government and agencies obligations   | 322              | 7                      | (1)                     | 328              |
| Foreign government bonds and obligations   | 97               | 15                     |                         | 112              |
| Common and preferred stocks                | 53               | 6                      | (1)                     | 58               |
| Structured investments                     | 46               |                        |                         | 46               |
| Other debt                                 | 16               |                        |                         | 16               |
| <b>Total</b>                               | <b>\$ 26,247</b> | <b>\$ 193</b>          | <b>\$ (509)</b>         | <b>\$ 25,931</b> |

The following tables provide information about Available-for-Sale securities with gross unrealized losses and the length of time that individual securities have been in a continuous unrealized loss position:

| Description of Securities                  | Less than 12 months |                   | September 30, 2008 |                   | Total            |                   |
|--|---------------------|-------------------|--------------------|-------------------|------------------|-------------------|
|  | Fair Value          | Unrealized Losses | Fair Value         | Unrealized Losses | Fair Value       | Unrealized Losses |
|  | (in millions)       |                   |                    |                   |                  |                   |
| Corporate debt securities                  | \$ 6,889            | \$ (376)          | \$ 3,697           | \$ (615)          | \$ 10,586        | \$ (991)          |
| Mortgage and other asset-backed securities | 3,866               | (204)             | 2,956              | (295)             | 6,822            | (499)             |
| State and municipal obligations            | 558                 | (67)              | 251                | (47)              | 809              | (114)             |
| U.S. government and agencies obligations   | 97                  |                   | 35                 | (1)               | 132              | (1)               |
| Foreign government bonds and obligations   | 42                  |                   | 12                 |                   | 54               |                   |
| Common and preferred stocks                |                     |                   | 39                 | (11)              | 39               | (11)              |
| <b>Total</b>                               | <b>\$ 11,452</b>    | <b>\$ (647)</b>   | <b>\$ 6,990</b>    | <b>\$ (969)</b>   | <b>\$ 18,442</b> | <b>\$ (1,616)</b> |

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## AMERIPRISE FINANCIAL, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

| Description of Securities                  | Less than 12 months |                   | December 31, 2007<br>12 months or more |                   | Total            |                   |
|--|---------------------|-------------------|--|-------------------|------------------|-------------------|
|  | Fair Value          | Unrealized Losses | Fair Value                             | Unrealized Losses | Fair Value       | Unrealized Losses |
|  | (in millions)       |                   |  |                   |                  |                   |
| Corporate debt securities                  | \$ 1,514            | \$ (45)           | \$ 8,159                               | \$ (283)          | \$ 9,673         | \$ (328)          |
| Mortgage and other asset-backed securities | 1,754               | (73)              | 5,715                                  | (89)              | 7,469            | (162)             |
| State and municipal obligations            | 414                 | (15)              | 73                                     | (2)               | 487              | (17)              |
| U.S. government and agencies obligations   |                     |                   | 169                                    | (1)               | 169              | (1)               |
| Foreign government bonds and obligations   |                     |                   | 2                                      |                   | 2                |                   |
| Common and preferred stocks                | 49                  | (1)               |  |                   | 49               | (1)               |
| <b>Total</b>                               | <b>\$ 3,731</b>     | <b>\$ (134)</b>   | <b>\$ 14,118</b>                       | <b>\$ (375)</b>   | <b>\$ 17,849</b> | <b>\$ (509)</b>   |

In evaluating potential other-than-temporary impairments, the Company considers the extent to which amortized cost exceeds fair value and the duration of that difference. A key metric in performing this evaluation is the ratio of fair value to amortized cost. The following tables summarize the unrealized losses by ratio of fair value to amortized cost:

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| Ratio of Fair Value to Amortized Cost | Less than 12 months                        |            |                         | September 30, 2008<br>12 months or more |            |                         | Number of Securities | Total Fair Value | Gross Unrealized Losses |
|---------------------------------------|--|------------|-------------------------|---|------------|-------------------------|----------------------|------------------|-------------------------|
|                                       | Number of Securities                       | Fair Value | Gross Unrealized Losses | Number of Securities                    | Fair Value | Gross Unrealized Losses |                      |                  |                         |
|                                       | (in millions, except number of securities) |            |                         |   |            |                         |                      |                  |                         |
| 95% 100%                              | 495  | \$ 7,974   | \$ (144)                | 171                                     | \$ 2,481   | \$ (62)                 | 666                  | \$ 10,455        | \$ (206)                |
| 90% 95%                               | 188  | 2,039      | (154)                   | 102                                     | 1,732      | (141)                   | 290                  | 3,771            | (295)                   |
| 80% 90%                               | 224  | 1,013      | (168)                   | 165                                     | 1,784      | (305)                   | 389                  | 2,797            | (473)                   |
| Less than 80%                         | 36   | 426        | (181)                   | 124                                     | 993        | (461)                   | 160                  | 1,419            | (642)                   |
| Total                                 | 943  | \$ 11,452  | \$ (647)                | 562                                     | \$ 6,990   | \$ (969)                | 1,505                | \$ 18,442        | \$ (1,616)              |

| Ratio of Fair Value to Amortized Cost | Less than 12 months                        |            |                         | December 31, 2007<br>12 months or more |            |                         | Number of Securities | Total Fair Value | Gross Unrealized Losses |
|---------------------------------------|--|------------|-------------------------|--|------------|-------------------------|----------------------|------------------|-------------------------|
|                                       | Number of Securities                       | Fair Value | Gross Unrealized Losses | Number of Securities                   | Fair Value | Gross Unrealized Losses |                      |                  |                         |
|                                       | (in millions, except number of securities) |            |                         |  |            |                         |                      |                  |                         |
| 95% 100%                              | 316  | \$ 2,774   | \$ (39)                 | 719                                    | \$ 12,682  | \$ (208)                | 1,035                | \$ 15,456        | \$ (247)                |
| 90% 95%                               | 89   | 732        | (57)                    | 54                                     | 849        | (60)                    | 143                  | 1,581            | (117)                   |
| 80% 90%                               | 11   | 216        | (32)                    | 33                                     | 490        | (70)                    | 44                   | 706              | (102)                   |
| Less than 80%                         | 2  | 9          | (6)                     | 12                                     | 97         | (37)                    | 14                   | 106              | (43)                    |
| Total                                 | 418  | \$ 3,731   | \$ (134)                | 818                                    | \$ 14,118  | \$ (375)                | 1,236                | \$ 17,849        | \$ (509)                |

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**AMERIPRISE FINANCIAL, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

**5. Fair Values of Assets and Liabilities**



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Effective January 1, 2008, the Company adopted SFAS 157, which defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. SFAS 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date; that is, an exit price. The exit price assumes the asset or liability is not exchanged subject to a forced liquidation or distressed sale.

### **Valuation Hierarchy**

Under SFAS 157, the Company categorizes its fair value measurements according to a three-level hierarchy. The hierarchy prioritizes the inputs used by the Company's valuation techniques. A level is assigned to each fair value measurement based on the lowest level input that is significant to the fair value measurement in its entirety. The three levels of the fair value hierarchy are defined as follows:

Level 1    Unadjusted quoted prices for identical assets or liabilities in active markets that are accessible at the measurement date.





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Level 2 Prices or valuations based on observable inputs other than quoted prices in active markets for identical assets and liabilities.



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Level 3 Prices or valuations that require inputs that are both significant to the fair value measurement and unobservable.



**Determination of Fair Value**



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The Company uses valuation techniques consistent with the market and income approaches to measure the fair value of its assets and liabilities. The Company's market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities. The Company's income approach uses valuation techniques to convert future projected cash flows to a single discounted present value amount. When applying either approach, the Company maximizes the use of observable inputs and minimizes the use of unobservable inputs.

The following is a description of the valuation techniques used to measure fair value and the general classification of these instruments pursuant to the fair value hierarchy.

### **Assets**





*Cash Equivalents*



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Cash equivalents include highly liquid investments with original maturities of 90 days or less. Actively traded money market funds are measured at their net asset value ( NAV ) and classified as Level 1. The Company's remaining cash equivalents are classified as Level 2 and are measured at amortized cost, which is a reasonable estimate of fair value because of the short time between the purchase of the instrument and its expected realization.

*Investments (Trading Securities and Available-for-Sale Securities)*



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When available, the fair value of securities is based on quoted prices in active markets. If quoted prices are not available, fair values are obtained from nationally-recognized pricing services, broker quotes, or other model-based valuation techniques such as the present value of cash flows. Level 1 securities include U.S. Treasuries and seed money in funds traded in active markets. Level 2 securities include agency mortgage-backed securities; and certain non-agency mortgage-backed securities, asset-backed securities, municipal and corporate bonds, U.S. and foreign government and agency securities, and seed money and other investments in certain hedge funds. Level 3 securities include certain non-agency mortgage-backed securities, asset-backed securities, and corporate bonds.

*Separate Account Assets*



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The fair value of assets held by separate accounts is determined by the NAV of the funds in which those separate accounts are invested. The NAV represents the exit price for the separate account. Level 1 measurements are assigned to active funds and Level 2 measurements are assigned to those funds that are considered less active.

### *Derivatives*





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Derivatives that are measured using quoted prices in active markets, such as foreign exchange forwards, or derivatives that are exchanged-traded are classified as Level 1 measurements. The fair value of derivatives that are traded in less active over-the-counter markets are generally measured using pricing models with market observable inputs such as interest rates and equity index levels. These measurements are classified as Level 2 within the fair value hierarchy and include interest rate swaps and options. Derivatives that are valued using pricing models that have significant unobservable inputs are classified

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as Level 3 measurements. Structured derivatives that are used by the Company to hedge its exposure to market risk related to certain variable annuity riders are classified as Level 3.

*Consolidated Property Funds*



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The Company records the fair value of the properties held by its consolidated property funds within other assets. The fair value of these assets is determined using discounted cash flows and market comparables. Given the significance of the unobservable inputs to these measurements, the assets are classified as Level 3.

### **Liabilities**



*Embedded Derivatives*









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The Company values the embedded derivative liability attributable to the provisions of certain variable annuity riders using internal valuation models. These models calculate fair value by discounting expected cash flows from benefits plus margins for profit, risk, and expenses less embedded derivative fees. The projected cash flows used by these models include observable capital market assumptions and incorporate significant unobservable inputs related to policyholder behavior assumptions and margins for risk, profit and expenses that the Company believes an exit market participant would expect. The fair value of these embedded derivatives also reflects a current estimate of the Company's nonperformance risk specific to these liabilities. Given the significant unobservable inputs to this valuation, these measurements are classified as Level 3. The embedded derivative liability attributable to these provisions is recorded in future policy benefits and claims.

### Equity Indexed Annuities and Stock Market Certificates

The Company uses various Black-Scholes calculations to determine the fair value of the embedded derivative liability associated with the provisions of its equity indexed annuities and stock market certificates. The inputs to these calculations are primarily market observable. As a result, these measurements are classified as Level 2. The embedded derivative liability attributable to the provisions of the Company's equity indexed annuities and stock market certificates is recorded in future policy benefits and claims and customer deposits, respectively.

The following table presents the balances of assets and liabilities measured at fair value on a recurring basis:

|  | September 30, 2008 |                  |                 | Total            |
|--|--------------------|------------------|-----------------|------------------|
|  | Level 1            | Level 2          | Level 3         |                  |
|  | (in millions)      |                  |                 |                  |
| <b>Assets</b>                          |                    |                  |                 |                  |
| Cash equivalents                       | \$ 209             | \$ 3,163         | \$              | \$ 3,372         |
| Available-for-Sale securities          | 30                 | 20,900           | 2,565           | 23,495           |
| Trading securities                     | 192                | 137              | 37              | 366              |
| Separate account assets                | 2,833              | 49,929           |                 | 52,762           |
| Other assets                           | 45                 | 246              | 479             | 770              |
| <b>Total assets at fair value</b>      | <b>\$ 3,309</b>    | <b>\$ 74,375</b> | <b>\$ 3,081</b> | <b>\$ 80,765</b> |
| <b>Liabilities</b>                     |                    |                  |                 |                  |
| Future policy benefits and claims      | \$                 | \$ 25            | \$ 331          | \$ 356           |
| Customer deposits                      |                    | 8                |                 | 8                |
| Other liabilities                      |                    | 33               | 5               | 38               |
| <b>Total liabilities at fair value</b> | <b>\$</b>          | <b>\$ 66</b>     | <b>\$ 336</b>   | <b>\$ 402</b>    |

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## AMERIPRISE FINANCIAL, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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

|  | Three Months Ended September 30, 2008 |                               |                               |                                   |                   |
|--|---------------------------------------|-------------------------------|-------------------------------|-----------------------------------|-------------------|
|  | Trading Securities                    | Available-for-Sale Securities | Other Assets<br>(in millions) | Future Policy Benefits and Claims | Other Liabilities |
| Balance, June 30   | \$ 44                                 | \$ 2,638                      | \$ 437                        | \$ (154)                          | \$ (4)            |
| Total gains (losses) included in:  |                                       |                               |                               |                                   |                   |
| Net loss   | (2)(1)                                | (94)(1)                       | 3(2)                          | (159)(3)                          | (1)(3)            |
| Other comprehensive loss   | (5)                                   | 71                            | (38)                          |                                   |                   |
| Purchases, sales, issuances and settlements, net   |                                       | (50)                          | 77                            | (18)                              |                   |
| Balance, September 30  | \$ 37                                 | \$ 2,565                      | \$ 479                        | \$ (331)                          | \$ (5)            |
| Change in unrealized gains (losses) included in net loss relating to assets and liabilities held at September 30 | \$ (2)(1)                             | \$ (95)(1)                    | \$ 3(2)                       | \$ (158)(3)                       | \$ (1)(3)         |

(1) Included in net investment income in the Consolidated Statements of Income.

(2) Represents a \$21 million gain included in benefits, claims, losses and settlement expenses and a \$18 million loss included in other revenues in the Consolidated Statements of Income.

(3) Included in benefits, claims, losses and settlement expenses in the Consolidated Statements of Income.

|  | Nine Months Ended September 30, 2008 |                               |                               |                                   |                   |
|--|--------------------------------------|-------------------------------|-------------------------------|-----------------------------------|-------------------|
|  | Trading Securities                   | Available-for-Sale Securities | Other Assets<br>(in millions) | Future Policy Benefits and Claims | Other Liabilities |
| Balance, January 1   | \$ 44                                | \$ 2,908                      | \$ 629                        | \$ (158)                          | \$                |
| Total gains (losses) included in:  |                                      |                               |                               |                                   |                   |
| Net income   | (2)(1)                               | (149)(1)                      | 6(2)                          | (125)(3)                          | (1)(3)            |
| Other comprehensive loss   | (5)                                  | (225)                         | (37)                          |                                   |                   |
| Purchases, sales, issuances and settlements, net   |                                      | 31                            | (119)                         | (48)                              | (4)               |
| Balance, September 30  | \$ 37                                | \$ 2,565                      | \$ 479                        | \$ (331)                          | \$ (5)            |
| Change in unrealized losses included in net income relating to assets and liabilities held at September 30 | \$ (2)(1)                            | \$ (153)(1)                   | \$ (17)(4)                    | \$ (123)(3)                       | \$ (1)(3)         |

(1) Included in net investment income in the Consolidated Statements of Income.

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- (2) Represents a \$44 million gain included in benefits, claims, losses and settlement expenses and a \$38 million loss included in other revenues in the Consolidated Statements of Income.
- (3) Included in benefits, claims, losses and settlement expenses in the Consolidated Statements of Income.
- (4) Represents a \$21 million gain included in benefits, claims, losses and settlement expenses and a \$38 million loss included in other revenues in the Consolidated Statements of Income.

During the reporting period, there were no material assets or liabilities measured at fair value on a nonrecurring basis.

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## AMERIPRISE FINANCIAL, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

## 6. Deferred Acquisition Costs and Deferred Sales Inducement Costs

During the third quarter of 2008, the Company completed the annual detailed review of valuation assumptions for RiverSource Life products. In addition, during the third quarter of 2008, the Company converted to a new industry standard valuation system that provides enhanced modeling capabilities.

The total pretax impacts on the Company's assets and liabilities attributable to the review of valuation assumptions for RiverSource Life products and the valuation system conversion during the third quarter of 2008 and the review of the valuation assumptions for RiverSource Life products during the third quarter of 2007 were as follows:

| Balance Sheet Impact<br>Debit (Credit) | DAC     | Other Assets | Other<br>Liabilities | Future Policy<br>Benefits and<br>Claims |       | Receivables | Total |
|--|---------|--------------|----------------------|---|-------|-------------|-------|
|  |         |              |                      | (in millions)                           |       |             |       |
| 2008 period                            | \$ (82) | \$ (5)       | \$ 5                 | \$ 96                                   | \$ 92 | \$ 106      |       |
| 2007 period                            | (16)    | 3            |                      | (15)                                    | (2)   | (30)        |       |

The total pretax impacts on the Company's revenues and expenses attributable to the review of valuation assumptions for RiverSource Life products and the valuation system conversion for the three months and nine months ended September 30, 2008 and the review of the valuation assumptions for RiverSource Life products for the three months and nine months ended September 30, 2007 were as follows:

| Pretax Benefit (Charge) | Premiums | Other<br>Revenues | Benefits,<br>Claims, Losses<br>and Settlement<br>Expenses | Amortization<br>of DAC | Distribution<br>Expenses | Total  |
|-------------------------|----------|-------------------|---|------------------------|--------------------------|--------|
|                         |          |                   |   |                        |                          |        |
| 2008 period             | \$ 2     | \$ 95             | \$ 90   | \$ (82)                | \$ 1                     | \$ 106 |
| 2007 period             |          | (2)               | (12)  | (16)                   |                          | (30)   |

The balances of and changes in DAC were as follows:

|  | 2008          |       | 2007 |       |
|--|---------------|-------|------|-------|
|  | (in millions) |       |      |       |
| Balance at January 1                   | \$            | 4,503 | \$   | 4,499 |
| Cumulative effect of accounting change |               | 36    |      | (204) |
| Capitalization of acquisition costs    |               | 483   |      | 585   |

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|   |          |          |
|---|----------|----------|
| Amortization, excluding impacts of valuation assumptions review and valuation system conversion | (456)    | (371)    |
| Amortization, impact of valuation assumptions review and valuation system conversion            | (82)     | (16)     |
| Impact of change in net unrealized securities gains and losses                                  | (11)     | 9        |
| Balance at September 30   | \$ 4,473 | \$ 4,502 |

The balances of and changes in DSIC were as follows:

|   | 2008   | (in millions) | 2007 |
|---|--------|---------------|------|
| Balance at January 1  | \$ 511 | \$            | 452  |
| Cumulative effect of accounting change  | 9      |               | (11) |
| Capitalization of sales inducements   | 64     |               | 96   |
| Amortization, excluding impacts of valuation assumptions review and valuation system conversion | (55)   |               | (38) |
| Amortization, impact of valuation assumptions review and valuation system conversion            | (6)    |               | 3    |
| Impact of change in net unrealized securities gains and losses                                  |        |               | 1    |
| Balance at September 30   | \$ 523 | \$            | 503  |

Effective January 1, 2008, the Company adopted SFAS 157 and recorded as a cumulative change in accounting principle a pretax increase of \$36 million and \$9 million to DAC and DSIC, respectively. See Note 2 and Note 5 for additional information regarding SFAS 157.

Effective January 1, 2007, the Company adopted SOP 05-1 and recorded as a cumulative change in accounting principle a pretax reduction of \$204 million and \$11 million to DAC and DSIC, respectively.

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## AMERIPRISE FINANCIAL, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

## 7. Future Policy Benefits and Claims and Separate Account Liabilities

Future policy benefits and claims consisted of the following:

|  | September 30,<br>2008 | December 31,<br>2007 |
|--|-----------------------|----------------------|
|  | (in millions)         |                      |
| Fixed annuities  | \$ 13,530             | \$ 14,382            |
| Equity indexed annuities accumulated host values           | 240                   | 253                  |
| Equity indexed annuities embedded derivatives              | 25                    | 53                   |
| Variable annuities fixed sub-accounts                      | 5,496                 | 5,419                |
| Variable annuity guaranteed minimum withdrawal benefits    | 230                   | 136                  |
| Variable annuity guaranteed minimum accumulation benefits  | 103                   | 33                   |
| Other variable annuity guarantees                          | 24                    | 27                   |
| Total annuities  | 19,648                | 20,303               |
| Variable universal life ( VUL )/universal life insurance   | 2,536                 | 2,568                |
| Other life, disability income and long-term care insurance | 4,321                 | 4,106                |
| Auto, home and other insurance                             | 374                   | 378                  |
| Policy claims and other policyholders' funds               | 102                   | 91                   |
| Total  | \$ 26,981             | \$ 27,446            |

Separate account liabilities consisted of the following:

|  | September 30,<br>2008 | December 31,<br>2007 |
|--|-----------------------|----------------------|
|  | (in millions)         |                      |
| Variable annuity variable sub-accounts | \$ 44,805             | \$ 51,764            |
| VUL insurance variable sub-accounts    | 5,074                 | 6,244                |
| Other insurance variable sub-accounts  | 50                    | 62                   |
| Threadneedle investment liabilities    | 2,833                 | 3,904                |
| Total                                  | \$ 52,762             | \$ 61,974            |

## 8. Variable Annuity Guarantees

The majority of the variable annuity contracts offered by the Company contain guaranteed minimum death benefit ( GMDB ) provisions. The Company also offers variable annuities with death benefit provisions that gross up the amount payable by a certain percentage of contract earnings, which are referred to as gain gross-up ( GGU ) benefits. In addition, the Company offers contracts with guaranteed minimum



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withdrawal benefit ( GMWB ) and guaranteed minimum accumulation benefit ( GMAB ) provisions. The Company previously offered contracts containing guaranteed minimum income benefit ( GMIB ) provisions. The Company has established additional liabilities for the variable annuity death benefits, GMIB provisions and for life contingent benefits associated with GMWB provisions. GMAB and non-life contingent benefits associated with GMWB provisions are considered embedded derivatives and are recorded at fair value.

The variable annuity contracts with GMWB riders typically have account values that are based on an underlying portfolio of mutual funds, the values of which fluctuate based on equity market performance. At issue, the guaranteed amount is equal to the amount deposited, but the guarantee may be increased annually to the account value (a step-up ) in the case of favorable market performance. The GMWB offered initially guarantees that the client can withdraw 7% per year until the amount withdrawn is equal to the guaranteed amount, regardless of the performance of the underlying funds. In 2007, the Company added a new GMWB benefit design that is available in a joint version that promises 6% withdrawals while either contractholder remains alive. In addition, once withdrawals begin, the policyholder's funds are moved to one of the three less aggressive asset allocation models (of the five that are available prior to withdrawal).

Variable annuity contractholders age 79 or younger at contract issue can also obtain a principal-back guarantee by purchasing the optional GMAB rider for an additional charge. The GMAB rider guarantees that, regardless of market performance, at the end of the 10-year waiting period, the contract value will be no less than the original investment or 80% of the highest anniversary value, adjusted for withdrawals. If the contract value is less than the guarantee at the end of the 10-year period, a lump sum will be added to the contract value to make the contract value equal to the guarantee value.

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## AMERIPRISE FINANCIAL, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

The following table provides summary information related to all variable annuity guarantees for which the Company has established additional liabilities:

| Variable Annuity Guarantees by Benefit Type(1)       | September 30,<br>2008     | December 31,<br>2007 |
|--|---------------------------|----------------------|
|  | (in millions, except age) |                      |
| Contracts with GMDB providing for return of premium: |                           |                      |
| Total contract value                                 | \$ 25,077                 | \$ 25,804            |
| Contract value in separate accounts                  | \$ 23,016                 | \$ 23,892            |
| Net amount at risk(2)                                | \$ 1,715                  | \$ 26                |
| Weighted average attained age                        | 61                        | 60                   |
| Contracts with GMDB providing for six-year reset:    |                           |                      |
| Total contract value                                 | \$ 15,477                 | \$ 20,231            |
| Contract value in separate accounts                  | \$ 12,896                 | \$ 17,617            |
| Net amount at risk(2)                                | \$ 1,195                  | \$ 167               |
| Weighted average attained age                        | 61                        | 60                   |
| Contracts with GMDB providing for one-year ratchet:  |                           |                      |
| Total contract value                                 | \$ 6,797                  | \$ 7,908             |
| Contract value in separate accounts                  | \$ 6,085                  | \$ 7,143             |
| Net amount at risk(2)                                | \$ 1,186                  | \$ 81                |
| Weighted average attained age                        | 62                        | 61                   |
| Contracts with GMDB providing for five-year ratchet: |                           |                      |
| Total contract value                                 | \$ 1,101                  | \$ 1,211             |
| Contract value in separate accounts                  | \$ 1,044                  | \$ 1,163             |
| Net amount at risk(2)                                | \$ 61                     | \$ 1                 |
| Weighted average attained age                        | 58                        | 58                   |
| Contracts with other GMDB:                           |                           |                      |
| Total contract value                                 | \$ 567                    | \$ 693               |
| Contract value in separate accounts                  | \$ 524                    | \$ 639               |
| Net amount at risk(2)                                | \$ 106                    | \$ 12                |
| Weighted average attained age                        | 66                        | 65                   |
| Contracts with GGU death benefit:                    |                           |                      |
| Total contract value                                 | \$ 832                    | \$ 950               |
| Contract value in separate accounts                  | \$ 754                    | \$ 873               |
| Net amount at risk(2)                                | \$ 68                     | \$ 80                |
| Weighted average attained age                        | 62                        | 62                   |
| Contracts with GMIB:                                 |                           |                      |
| Total contract value                                 | \$ 706                    | \$ 927               |
| Contract value in separate accounts                  | \$ 647                    | \$ 859               |
| Net amount at risk(2)                                | \$ 130                    | \$ 18                |
| Weighted average attained age                        | 62                        | 62                   |
| Contracts with GMWB:                                 |                           |                      |
| Total contract value                                 | \$ 4,214                  | \$ 5,104             |
| Contract value in separate accounts                  | \$ 4,086                  | \$ 4,980             |
| Benefit amount in excess of account value            | \$ 666                    | \$ 22                |
| Weighted average attained age                        | 62                        | 62                   |
| Contracts with GMWB for life:                        |                           |                      |

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|   |    |       |    |       |
|---|----|-------|----|-------|
| Total contract value                      | \$ | 9,656 | \$ | 7,958 |
| Contract value in separate accounts       | \$ | 9,218 | \$ | 7,685 |
| Benefit amount in excess of account value | \$ | 1,324 | \$ | 33    |
| Weighted average attained age             |    | 63    |    | 62    |
| Contracts with GMAB:                      |    |       |    |       |
| Total contract value                      | \$ | 2,239 | \$ | 2,260 |
| Contract value in separate accounts       | \$ | 2,172 | \$ | 2,205 |
| Benefit amount in excess of account value | \$ | 252   | \$ | 3     |
| Weighted average attained age             |    | 56    |    | 55    |

- 
- (1) Individual variable annuity contracts may have more than one guarantee and therefore may be included in more than one benefit type. Variable annuity contracts for which the death benefit equals account value are not shown in this table.
- (2) Represents current death benefit less total contract value for GMDB, amount of gross up for GGU and accumulated guaranteed minimum benefit base less total contract value for GMIB and assumes the actuarially remote scenario that all claims become payable on the same day.

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For the nine months ended September 30, 2008 additional liabilities and incurred claims were as follows:

|   | <b>GMDB<br/>&amp; GGU</b> | <b>GMB</b> | <b>GMWB</b> | <b>GMAB</b> |
|---|---------------------------|------------|-------------|-------------|
|   | (in millions)             |            |             |             |
| Liability balance at January 1                            | \$ 24                     | \$ 3       | \$ 136      | \$ 33       |
| Reported claims   | 7                         |            |             |             |
| Liability balance at September 30                         | 18                        | 6          | 230         | 103         |
| Incurred claims (sum of reported and change in liability) | 1                         | 3          | 94          | 70          |

**9. Customer Deposits**

Customer deposits consisted of the following:

|  | <b>September 30,<br/>2008</b> | <b>December 31,<br/>2007</b> |
|--|-------------------------------|------------------------------|
|  | (in millions)                 |                              |
| Fixed rate certificates                                | \$ 3,486                      | \$ 2,616                     |
| Stock market based certificates                        | 959                           | 1,031                        |
| Stock market embedded derivative reserve               | 8                             | 32                           |
| Other  | 69                            | 78                           |
| Less: accrued interest classified in other liabilities | (4)                           | (23)                         |
| Total investment certificate reserves                  | 4,518                         | 3,734                        |
| Brokerage deposits                                     | 1,934                         | 1,100                        |
| Banking deposits                                       | 1,275                         | 1,367                        |
| Total  | \$ 7,727                      | \$ 6,201                     |

**10. Share-Based Compensation**

The Company's share-based compensation plans consist of the amended and restated Ameriprise Financial 2005 Incentive Compensation Plan (the "2005 ICP") and the Deferred Equity Program for Independent Financial Advisors ("P2 Deferral Plan").

The 2005 ICP, which was amended and approved by shareholders on April 25, 2007, provides for the grant of cash and equity incentive awards to directors, employees and independent contractors, including stock options, restricted stock awards, restricted stock units, stock appreciation

rights, performance shares and similar awards designed to comply with the applicable federal regulations and laws of jurisdiction.

The P2 Deferral Plan gives certain advisors the option to defer a portion of their commissions in the form of share-based awards, which are subject to forfeiture based on future service requirements. The Company provides a match of the share-based awards.

For the three months and nine months ended September 30, 2008, the Company recognized expense of \$39 million and \$114 million, respectively, related to awards under these share-based compensation plans. For the three months and nine months ended September 30, 2007, the Company recognized expense of \$35 million and \$110 million, respectively, related to awards under these share-based compensation plans.

As of September 30, 2008, there was \$181 million of total unrecognized compensation cost related to non-vested awards under the Company's share-based compensation plans. That cost is expected to be recognized over a weighted-average period of 2.1 years.

## 11. Income Taxes

The Company's effective tax rates were 57.1% and (22.7)% for the three months and nine months ended September 30, 2008, respectively. The Company's effective tax rates for the three months and nine months ended September 30, 2007 were 8.8% and 17.6%, respectively. The effective tax rate for the three months ended September 30, 2008 included a \$14 million tax benefit from finalizing prior period tax returns. The effective tax rate for the three months ended September 30, 2007 was impacted by a \$21 million tax benefit related to our plan to begin repatriating earnings of certain Threadneedle entities through dividends and a \$7 million tax benefit related to the finalization of the prior year tax return.

The Company is required to establish a valuation allowance for any portion of the deferred tax assets that management believes will not be realized. Included in deferred tax assets is a significant deferred tax asset relating to capital losses that have been recognized for financial statement purposes but not yet for tax return purposes. Under current U.S. federal income tax law, capital losses generally must be used against capital gain income within five years of the year in which the capital losses are recognized for tax purposes. Based on analysis of the Company's tax position, management believes it is more

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**AMERIPRISE FINANCIAL, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

likely than not that the results of future operations and implementation of tax planning strategies will generate sufficient taxable income to enable the Company to utilize all of its deferred tax assets. Accordingly, no valuation allowance for deferred tax assets has been established as of September 30, 2008 and December 31, 2007.

As of September 30, 2008 and December 31, 2007, the Company had \$(28) million and \$164 million, respectively, of gross unrecognized tax benefits. If recognized, approximately \$36 million and \$84 million, net of federal tax benefits, of the unrecognized tax benefits as of September 30, 2008 and December 31, 2007, respectively, would affect the effective tax rate.

The Company recognizes interest and penalties related to unrecognized tax benefits as a component of the income tax provision. The Company recognized a net reduction of \$4 million and \$27 million in interest and penalties for the three months and nine months ended September 30, 2008, respectively. The Company had a \$15 million receivable and \$12 million liability for the payment of interest and penalties accrued at September 30, 2008 and December 31, 2007, respectively.

It is reasonably possible that the total amounts of unrecognized tax benefits will change in the next 12 months. However, there are a number of open audits and quantification of a range cannot be made at this time.

The Company or one or more of its subsidiaries files income tax returns in the U.S. federal jurisdiction, as well as various states and foreign jurisdictions. With few exceptions, the Company is no longer subject to U.S. federal, state and local, or non-U.S. income tax examinations by tax authorities for years before 1997. The Internal Revenue Service ( IRS ), as part of the overall examination of the American Express Company consolidated return, commenced an examination of the Company's U.S. income tax returns for 1997 through 2002 in the third quarter of 2005. In the first quarter of 2007, the IRS expanded the period of the examination to include 2003 through 2004. The Company's or certain of its subsidiaries' state income tax returns are currently under examination by various jurisdictions for years ranging from 1998 through 2005.

On September 25, 2007, the IRS issued Revenue Ruling 2007-61 in which it announced that it intends to issue regulations with respect to certain computational aspects of the Dividends Received Deduction ( DRD ) related to separate account assets held in connection with variable contracts of life insurance companies and has added the project to the 2007-2008 Priority Guidance Plan. Revenue Ruling 2007-61 suspended a revenue ruling issued in August 2007 that purported to change accepted industry and IRS interpretations of the statutes governing these computational questions. Any regulations that the IRS ultimately proposes for issuance in this area will be subject to public notice and comment, at which time insurance companies and other members of the public will have the opportunity to raise legal and practical questions about the content, scope and application of such regulations. As a result, the ultimate timing and substance of any such regulations are unknown at this time, but they may result in the elimination of some or all of the separate account DRD tax benefit that the Company receives. Management believes that it is likely that any such regulations would apply prospectively only.

The Company's tax allocation agreement with American Express (the Tax Allocation Agreement ), dated as of September 30, 2005, governs the allocation of consolidated U.S. federal and applicable combined or unitary state and local income tax liabilities between American Express and

the Company for tax periods prior to September 30, 2005. In addition, this Tax Allocation Agreement addresses other tax-related matters.

## 12. Contingencies

The Company and its subsidiaries are involved in the normal course of business in legal, regulatory and arbitration proceedings, including class actions, concerning matters arising in connection with the conduct of its activities as a diversified financial services firm. These include proceedings specific to the Company as well as proceedings generally applicable to business practices in the industries in which it operates. The Company can also be subject to litigation arising out of its general business activities, such as its investments, contracts, leases and employment relationships. Uncertain economic conditions and heightened volatility in the financial markets, such as those which have been experienced in recent months, may increase the likelihood that clients and other persons or regulators may present or threaten legal claims or that regulators increase the scope or frequency of examinations of the Company or the financial services industry generally. Relevant to these current market conditions, a client has claimed a breach of certain contractual investment guidelines and the Company is proceeding to mediate the client's claims. The outcome of this matter is uncertain at this time.

As with other financial services firms, the level of regulatory activity and inquiry concerning the Company's businesses remains elevated. From time to time, the Company receives requests for information from, and/or has been subject to examination by, the SEC, the Financial Industry Regulatory Authority (FINRA) (formerly known as the National Association of Securities Dealers), Office of Thrift Supervision, state insurance regulators, state attorneys general and various other governmental and quasi-governmental authorities concerning the Company's business activities and practices, and the practices of the Company's financial advisors. Pending matters about which the Company has recently received information requests include: sales and product or service features of, or disclosures pertaining to, the Company's mutual funds, annuities, insurance products, brokerage services,

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**AMERIPRISE FINANCIAL, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

financial plans and other advice offerings; supervision of the Company's financial advisors; sales of, and revenue sharing relating to, other companies' real estate investment trust ( REIT ) shares; supervisory practices in connection with financial advisors' outside business activities; sales practices and supervision associated with the sale of fixed and variable annuities; the delivery of financial plans; the suitability of particular trading strategies and data security. The number of reviews and investigations has increased in recent years with regard to many firms in the financial services industry, including Ameriprise Financial. The Company has cooperated and will continue to cooperate with the applicable regulators regarding their inquiries.

These legal and regulatory proceedings and disputes are subject to uncertainties and, as such, the Company is unable to estimate the possible loss or range of loss that may result. An adverse outcome in one or more of these proceedings could result in adverse judgments, settlements, fines, penalties or other relief that could have a material adverse effect on the Company's consolidated financial condition or results of operations.

Certain legal and regulatory proceedings are described below.

In June 2004, an action captioned John E. Gallus et al. v. American Express Financial Corp. and American Express Financial Advisors Inc., was filed in the United States District Court for the District of Arizona, and was later transferred to the United States District Court for the District of Minnesota. The plaintiffs alleged that they were investors in several of the Company's mutual funds and they purported to bring the action derivatively on behalf of those funds under the Investment Company Act of 1940. The plaintiffs alleged that fees allegedly paid to the defendants by the funds for investment advisory and administrative services were excessive. On July 6, 2007, the Court granted the Company's motion for summary judgment, dismissing all claims with prejudice. Plaintiffs appealed the Court's decision, and the appellate argument took place on April 17, 2008. The U.S. Court of Appeals for the Eighth Circuit is now considering the appeal.

The Company previously reported two adverse arbitration awards issued in 2006 by FINRA panels against Securities America, Inc. ( SAI ) and former registered representatives of SAI. Those arbitrations involved customer claims relating to suitability, disclosures, supervision and certain other sales practices. Other clients of those former registered representatives have presented similar claims.

In September 2008, the Company commenced a lawsuit captioned *Ameriprise Financial Services Inc. and Securities America Inc. v. The Reserve Fund et al.* in the District Court for the District of Minnesota. The suit alleges that the management of the Reserve Fund made selective disclosures to certain institutional investors in violation of the federal securities laws and in breach of their fiduciary duty in connection with the Reserve Primary Fund lowering its NAV to \$0.97 on September 16, 2008. The Company and its affiliates had invested \$128 million of its own assets and \$3.2 billion of client assets in the Reserve Primary Fund that have been blocked from redemption and frozen by the Fund since that time.

**13. Guarantees**



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An unaffiliated third party is providing liquidity to clients of our SAI registered representatives that have assets in the Reserve Primary Fund that have been blocked from redemption and frozen by the Reserve Fund since September 16, 2008. Ameriprise Financial has guaranteed the advances this third party has made to the clients of SAI registered representatives up to \$35 million through December 1, 2008 or the date on which the \$35 million cap is reached. Advances to SAI clients are limited to 50% of the value of Reserve Primary Fund holdings, unless SAI management approves a disbursement in excess of 50%. In the event that a client defaults in the repayment of an advance, SAI has recourse to collect from the defaulting client.

During the third quarter of 2008, a property fund limited partnership that the Company consolidates entered into a floating rate revolving credit borrowing, of which \$68 million was outstanding as of September 30, 2008. A Threadneedle subsidiary guarantees the repayment of outstanding borrowings up to the value of the assets of the partnership. The debt is secured by the assets of the partnership and there is no recourse to Ameriprise Financial.

**Table of Contents****AMERIPRISE FINANCIAL, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)****14. Earnings per Common Share**

The computations of basic and diluted earnings per common share are as follows:

|  | Three Months Ended<br>September 30, |         | Nine Months Ended<br>September 30, |         |
|--|-------------------------------------|---------|------------------------------------|---------|
|  | 2008                                | 2007    | 2008                               | 2007    |
| (in millions, except per share amounts)  |                                     |         |                                    |         |
| <b>Numerator:</b>  |                                     |         |                                    |         |
| Net income (loss)  | \$ (70)                             | \$ 198  | \$ 331                             | \$ 559  |
| <b>Denominator:</b>  |                                     |         |                                    |         |
| Basic: Weighted-average common shares outstanding                                      | 219.1                               | 235.4   | 223.6                              | 237.8   |
| Effect of potentially dilutive nonqualified stock options and other share-based awards | 2.6                                 | 3.8     | 2.8                                | 3.6     |
| Diluted: Weighted-average common shares outstanding                                    | 221.7                               | 239.2   | 226.4                              | 241.4   |
| <b>Earnings (loss) per common share:</b>   |                                     |         |                                    |         |
| Basic  | \$ (0.32)                           | \$ 0.84 | \$ 1.48                            | \$ 2.35 |
| Diluted  | (0.32)(1)                           | 0.83    | 1.46                               | 2.32    |

(1) Diluted shares used in this calculation represent basic shares due to the net loss. Using actual diluted shares would result in anti-dilution.

Basic weighted average common shares for the three months and nine months ended September 30, 2008 included 1.9 million and 2.2 million, respectively, of vested, nonforfeitable restricted stock units and 3.2 million non-vested restricted stock awards and restricted stock units that are forfeitable but receive nonforfeitable dividends for both periods. Basic weighted average common shares for the three months and nine months ended September 30, 2007 included 1.4 million and 1.7 million, respectively, of vested, nonforfeitable restricted stock units and 3.5 million and 3.6 million, respectively, of non-vested restricted stock awards and restricted stock units that are forfeitable but receive nonforfeitable dividends.

**15. Shareholders Equity**

The Company has a share repurchase program in place to return excess capital to shareholders. During the nine months ended September 30, 2008 and 2007, the Company repurchased a total of 12.7 million and 11.1 million shares, respectively, of its common stock at an average price of \$48.26 and \$59.87, respectively. As of September 30, 2008, the Company had \$1.3 billion remaining under a share repurchase authorization.

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The Company may also reacquire shares of its common stock under its 2005 ICP related to restricted stock awards. Restricted shares that are forfeited before the vesting period has lapsed are recorded as treasury shares. In addition, the holders of restricted shares may elect to surrender a portion of their shares on the vesting date to cover their income tax obligations. These vested restricted shares reacquired by the Company and the Company's payment of the holders' income tax obligations are recorded as a treasury share purchase. The restricted shares forfeited under the 2005 ICP and recorded as treasury shares were 0.2 million during both the nine months ended September 30, 2008 and 2007. For the nine months ended September 30, 2008 and 2007, the Company reacquired 0.4 million shares of its common stock in each period through the surrender of restricted shares upon vesting and paid in the aggregate \$22 million and \$25 million, respectively, related to the holders' income tax obligations on the vesting date.

During the nine months ended September 30, 2008, the Company reissued 1.8 million treasury shares for restricted stock award grants and the issuance of shares vested under the P2 Deferral Plan and the Transition and Opportunity Bonus program.

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**AMERIPRISE FINANCIAL, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

**16. Segment Information**

On December 3, 2007, the Company announced a change in its reportable segments. The revised presentation of previously reported segment data has been applied retroactively to all periods presented in these financial statements. During the fourth quarter of 2007, the Company completed the implementation of an enhanced transfer pricing methodology and expanded its segment presentation from three to five segments to better align with the way the Chief Operating Decision Maker views the business. This facilitates greater transparency of the relationships between the businesses and better comparison to other industry participants in the retail advisor distribution, asset management, insurance and annuity industries. In addition, the Company changed the format of its consolidated statement of income and made reclassifications to enhance transparency. These reclassifications did not result in any changes to consolidated net income or shareholders' equity. A summarization of the various reclassifications made to previously reported balances is presented in Note 1 to the Consolidated Financial Statements in the Company's 2007 10-K.

The Company's five segments are Advice & Wealth Management, Asset Management, Annuities, Protection and Corporate & Other. Each segment records revenues and expenses as if they were each a stand-alone business using the Company's enhanced transfer pricing methodology. Transfer pricing uses rates that approximate market-based arm's length prices for specific services provided. The Company reviews the transfer pricing rates periodically and makes appropriate adjustments to ensure the transfer pricing rates that approximate arm's length market prices remain at current market levels. Costs related to shared services are allocated to segments based on their usage of the services provided.

The largest source of intersegment revenues and expenses is retail distribution services, where segments are charged transfer pricing rates that approximate arm's length market prices for distribution through the Advice & Wealth Management segment. The Advice & Wealth Management segment provides distribution services for proprietary and non-proprietary products and services. The Asset Management segment provides investment management services for the Company's owned assets and client assets, and accordingly charges investment and advisory management fees to the other segments.

All costs related to shared services are allocated to the segments based on a rate times volume or fixed basis.

The Advice & Wealth Management segment provides financial advice and full service brokerage and banking services, primarily to retail clients, through the Company's financial advisors. The advisors distribute a diversified selection of both proprietary and non-proprietary products to help clients meet their financial needs. A significant portion of revenues in this segment are fee-based, driven by the level of client assets, which is impacted by both market movements and net asset flows. The Company also earns net investment income on owned assets, from primarily certificate and banking products. This segment earns distribution fees for distributing non-proprietary products and earns intersegment distribution fees for distributing the Company's proprietary products and services to its retail clients. Intersegment expenses for this segment include expenses for investment management services provided by the Asset Management segment.

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The Asset Management segment provides investment advice and investment products to retail and institutional clients. Threadneedle predominantly provides international investment advice and products, and RiverSource Investments predominantly provides domestic products and services. Domestic retail products are primarily distributed through the Advice & Wealth Management segment, and also through third-party distribution. International retail products are primarily distributed through third parties. Products accessed by consumers on a retail basis include mutual funds, variable product funds underlying insurance and annuity separate accounts, separately managed accounts and collective funds. Asset Management products are also distributed directly to institutions through an institutional sales force. Institutional asset management products include traditional asset classes, separate accounts, collateralized loan obligations, hedge funds and property funds. Revenues in this segment are primarily earned as fees based on managed asset balances, which are impacted by both market movements and net asset flows. This segment earns intersegment revenue for investment management services. Intersegment expenses for this segment include distribution expenses for services provided by the Advice & Wealth Management, Annuities and Protection segments.

The Annuities segment provides RiverSource Life variable and fixed annuity products to the Company's retail clients, primarily distributed through the Advice & Wealth Management segment, and to the retail clients of unaffiliated distributors through third-party distribution. Revenues for the Company's variable annuity products are primarily earned as fees based on underlying account balances, which are impacted by both market movements and net asset flows. Revenues for the Company's fixed annuity products are primarily earned as net investment income on underlying account balances, with profitability significantly impacted by the spread between net investment income earned and interest credited on the fixed account balances. The Company also earns net investment income on owned assets supporting annuity benefit reserves and capital supporting the business. Intersegment revenues for this segment reflect fees paid by the Asset Management segment for marketing support and other services provided in connection with the availability of RiverSource Funds under the variable annuity contracts.

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

Intersegment expenses for this segment include distribution expenses for services provided by the Advice & Wealth Management segment, as well as expenses for investment management services provided by the Asset Management segment.

The Protection segment offers a variety of protection products to address the identified protection and risk management needs of the Company's retail clients including life, disability income and property-casualty insurance. Life and disability income products are primarily distributed through the Advice & Wealth Management segment. The Company's property-casualty products are sold direct, primarily through affinity relationships. The primary sources of revenues for this segment are premiums, fees, and charges that the Company receives to assume insurance-related risk. The Company earns net investment income on owned assets supporting insurance reserves and capital supporting the business. The Company also receives fees based on the level of assets supporting variable universal life separate account balances. This segment earns intersegment revenues from fees paid by the Asset Management segment for marketing support and other services provided in connection with the availability of RiverSource Funds under the variable universal life contracts. Intersegment expenses for this segment include distribution expenses for services provided by the Advice & Wealth Management segment, as well as expenses for investment management services provided by the Asset Management segment.

The Corporate & Other segment consists of net investment income on corporate level assets, including unallocated equity and other revenues from various investments as well as unallocated corporate expenses. This segment also includes non-recurring separation costs in 2007 associated with the Company's separation from American Express.

The accounting policies of the segments are the same as those of the Company, except for the method of capital allocation and the accounting for gains (losses) from intercompany revenues and expenses, which are eliminated in consolidation. The Company evaluates the performance of each segment based on pretax income from continuing operations. The Company allocates certain non-recurring items, such as \$124 million in costs related to supporting RiverSource 2a-7 money market funds and expenses related to unaffiliated money market funds for 2008, as well as separation costs for 2007, to the Corporate segment.

The following is a summary of assets by segment:

|                            | September 30,<br>2008 | (in millions) | December 31,<br>2007 |
|----------------------------|-----------------------|---------------|----------------------|
| Advice & Wealth Management | \$                    | 9,993         | \$ 8,146             |
| Asset Management           |                       | 5,168         | 6,661                |
| Annuities                  |                       | 62,519        | 71,556               |
| Protection                 |                       | 19,070        | 20,347               |
| Corporate & Other          |                       | 2,400         | 2,520                |
| Total assets               | \$                    | 99,150        | \$ 109,230           |



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## AMERIPRISE FINANCIAL, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

The following is a summary of segment operating results:

| Three Months Ended September 30,     | Advice &<br>Wealth<br>Management | Asset<br>Management | Annuities | Protection<br>(in millions) | Corporate &<br>Other | Eliminations | Consolidated |
|--------------------------------------|----------------------------------|---------------------|-----------|-----------------------------|----------------------|--------------|--------------|
| <b>2008</b>                          |                                  |                     |           |                             |                      |              |              |
| Revenue from external customers      | \$ 540                           | \$ 302              | \$ 317    | \$ 534                      | \$ (9)               | \$           | \$ 1,684     |
| Intersegment revenue                 | 215                              | 5                   | 19        | 20                          |                      | (259)        |              |
| Total revenues                       | 755                              | 307                 | 336       | 554                         | (9)                  | (259)        | 1,684        |
| Banking and deposit interest expense | 43                               | 2                   |           |                             |                      | (2)          | 43           |
| Net revenues                         | 712                              | 305                 | 336       | 554                         | (9)                  | (257)        | 1,641        |
| Pretax income (loss)                 | \$ (77)                          | \$ 15               | \$ (34)   | \$ 104                      | \$ (170)             | \$           | (162)        |
| Income tax benefit                   |                                  |                     |           |                             |                      |              | (92)         |
| Net loss                             |                                  |                     |           |                             |                      |              | \$ (70)      |

|                                      |        |        |        |        |          |       |          |
|--------------------------------------|--------|--------|--------|--------|----------|-------|----------|
| <b>2007</b>                          |        |        |        |        |          |       |          |
| Revenue from external customers      | \$ 750 | \$ 407 | \$ 533 | \$ 483 | \$ (5)   | \$    | \$ 2,168 |
| Intersegment revenue                 | 256    | 6      | 27     | 12     | 1        | (302) |          |
| Total revenues                       | 1,006  | 413    | 560    | 495    | (4)      | (302) | 2,168    |
| Banking and deposit interest expense | 53     | 3      |        |        | 2        | (1)   | 57       |
| Net revenues                         | 953    | 410    | 560    | 495    | (6)      | (301) | 2,111    |
| Pretax income (loss)                 | \$ 94  | \$ 72  | \$ 91  | \$ 93  | \$ (133) | \$    | 217      |
| Income tax provision                 |        |        |        |        |          |       | 19       |
| Net income                           |        |        |        |        |          |       | \$ 198   |

| Nine Months Ended September 30,      | Advice &<br>Wealth<br>Management | Asset<br>Management | Annuities | Protection<br>(in millions) | Corporate &<br>Other | Eliminations | Consolidated |
|--------------------------------------|----------------------------------|---------------------|-----------|-----------------------------|----------------------|--------------|--------------|
| <b>2008</b>                          |                                  |                     |           |                             |                      |              |              |
| Revenue from external customers      | \$ 1,999                         | \$ 1,012            | \$ 1,242  | \$ 1,489                    | \$ 10                | \$           | \$ 5,752     |
| Intersegment revenue                 | 672                              | 17                  | 66        | 48                          | 5                    | (808)        |              |
| Total revenues                       | 2,671                            | 1,029               | 1,308     | 1,537                       | 15                   | (808)        | 5,752        |
| Banking and deposit interest expense | 132                              | 5                   |           | 1                           | 1                    | (7)          | 132          |
| Net revenues                         | 2,539                            | 1,024               | 1,308     | 1,536                       | 14                   | (801)        | 5,620        |
| Pretax income (loss)                 | \$ 38                            | \$ 75               | \$ 85     | \$ 319                      | \$ (247)             | \$           | 270          |
| Income tax benefit                   |                                  |                     |           |                             |                      |              | (61)         |
| Net income                           |                                  |                     |           |                             |                      |              | \$ 331       |

|                                      |          |          |          |          |       |       |          |
|--------------------------------------|----------|----------|----------|----------|-------|-------|----------|
| <b>2007</b>                          |          |          |          |          |       |       |          |
| Revenue from external customers      | \$ 2,238 | \$ 1,261 | \$ 1,549 | \$ 1,427 | \$ 11 | \$    | \$ 6,486 |
| Intersegment revenue                 | 804      | 22       | 77       | 35       | 2     | (940) |          |
| Total revenues                       | 3,042    | 1,283    | 1,626    | 1,462    | 13    | (940) | 6,486    |
| Banking and deposit interest expense | 176      | 13       |          | 1        | 5     | (5)   | 190      |



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|                      |    |       |    |       |    |       |    |       |    |       |    |       |    |       |
|----------------------|----|-------|----|-------|----|-------|----|-------|----|-------|----|-------|----|-------|
| Net revenues         |    | 2,866 |    | 1,270 |    | 1,626 |    | 1,461 |    | 8     |    | (935) |    | 6,296 |
| Pretax income (loss) | \$ | 251   | \$ | 199   | \$ | 295   | \$ | 331   | \$ | (398) | \$ |       |    | 678   |
| Income tax provision |    |       |    |       |    |       |    |       |    |       |    |       |    | 119   |
| Net income           |    |       |    |       |    |       |    |       |    |       |    |       | \$ | 559   |

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**AMERIPRISE FINANCIAL, INC.**

**PART I FINANCIAL INFORMATION**

**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**



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The following discussion and analysis of our consolidated financial condition and results of operations should be read in conjunction with the Forward-Looking Statements that follow and our Consolidated Financial Statements and Notes presented in Item 1. Our Management's Discussion and Analysis should be read in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2007, filed with the Securities and Exchange Commission ( SEC ) on February 29, 2008 ( 2007 10-K ), as well as our current reports on Form 8-K and other publicly available information.

### Overview





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We are engaged in providing financial planning, products and services that are designed to be utilized as solutions for our clients' cash and liquidity, asset accumulation, income, protection and estate and wealth transfer needs with a network of more than 12,000 financial advisors and registered representatives (including affiliated financial advisors). Our asset management, annuity, and auto and home protection products are also distributed outside of our affiliated financial advisors, through third party advisors and affinity relationships.

We strive to deliver solutions to our clients through an approach focused on building long term personal relationships. We offer financial planning and advice that aims to be responsive to our clients' evolving needs and helps them achieve their identified financial goals by recommending to clients actions and a range of product solutions consisting of investment, annuities, insurance, banking and other financial products that help them achieve a positive return or form of protection while accepting what they determine to be an appropriate range and level of risk. The financial product solutions we offer through our affiliated advisors include our own products and services and products of other companies. Our financial planning and advisory process is designed to provide comprehensive advice, when appropriate, to address our clients' cash and liquidity, asset accumulation, income, protection, and estate and wealth transfer needs. We believe that our focus on personal relationships, together with our strengths in financial planning and product development, allows us to better address our clients' financial needs, including the financial needs of our primary target market segment, the mass affluent and affluent, which we define as households with investable assets of more than \$100,000. This focus also puts us in a strong position to capitalize on significant demographic and market trends, which we believe will continue to drive increased demand for our financial planning and other financial services.

We have four main operating segments: Advice & Wealth Management, Asset Management, Annuities and Protection, as well as our Corporate & Other segment. Our four main operating segments are aligned with the financial solutions we offer to address our clients' needs. The products and services we provide retail clients and, to a lesser extent, institutional clients, are the primary source of our revenues and net income. Revenues and net income are significantly impacted by the relative investment performance and the total value and composition of assets we manage and administer for our retail and institutional clients as well as the distribution fees we receive from other companies. These factors, in turn, are largely determined by overall investment market performance and the depth and breadth of our individual client relationships.

Equity market, credit market and interest rate fluctuations can have a significant impact on our results of operations, primarily due to the effects they have on the asset management and other asset-based fees we earn, the spread income generated on our annuities, banking and deposit products and universal life (UL) insurance products, the value of deferred acquisition costs (DAC) and deferred sales inducement costs (DSIC) assets associated with variable annuity and variable UL products, the values of liabilities for guaranteed benefits associated with our variable annuities and the values of derivatives held to hedge these benefits. For additional information regarding our sensitivity to equity risk and interest rate risk, see Market Risk.

It is management's priority to increase shareholder value over a multi-year horizon by achieving our on-average, over-time financial targets. We measure progress against these goals excluding the impact of the unprecedented impacts of the 2008 credit market events (credit market losses) and non-recurring separation costs related to our separation from American Express Company (American Express) which was completed in 2007. Our financial targets, adjusted to exclude these impacts are:

- Net revenue growth of 6% to 8%,
- Earnings per diluted share growth of 12% to 15%, and
- Return on equity of 12% to 15%.

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Our net revenues for the quarter ended September 30, 2008 were \$1.6 billion, a decrease of \$470 million or 22% from the same period a year ago. Net revenues for the nine months ended September 30, 2008 were \$5.6 billion, a decrease of \$676 million or 11% from the nine months ended September 30, 2007. This revenue decline primarily reflects the unprecedented impacts of

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the credit market events that occurred during the last few weeks of September 2008. The majority of the impacts from the credit market events have been reflected in net investment income. Net investment income decreased \$439 million from the year-ago quarter amount and decreased \$687 million from the nine months ended September 30, 2007 amount. The credit market events and weak equity markets also negatively impacted management and financial advice fees and distribution fees.

Our adjusted net revenues, which exclude the realized losses on securities and the provision for uncollectible distribution fees in 2008, were \$2.0 billion for the three months ended September 30, 2008 compared to \$2.1 billion for the same period a year ago. Adjusted net revenues for the nine months ended September 30, 2008 were \$6.0 billion compared \$6.3 billion for the nine months ended September 30, 2007.

Our consolidated net loss for the quarter ended September 30, 2008 was \$70 million, a decline of \$268 million from our consolidated net income of \$198 million for the quarter ended September 30, 2007. Consolidated net income for the nine months ended September 30, 2008 was \$331 million, a decline of \$228 million, or 41%, from net income of \$559 million for the nine months ended September 30, 2007. The decline in net income for the three and nine months ended September 30, 2008 is primarily due to the after-tax impacts of our realized losses on Available-for-Sale investment securities, the losses incurred related to the mark-to-market of Lehman Brothers securities that we purchased from various 2a-7 money market mutual funds managed by our subsidiary, RiverSource Investments LLC, the cost of guaranteeing specific client holdings in an unaffiliated money market mutual fund, partially offset by the favorable net impact from our annual review of valuation assumptions for RiverSource Life Insurance Company ( RiverSource Life ) products and our conversion to a new industry standard valuation system that provides enhanced modeling capabilities.

Our adjusted earnings, which exclude the after-tax credit market losses in 2008 and non-recurring separation costs in 2007, were \$231 million for the three months ended September 30, 2008 compared to \$237 million for the three months ended September 30, 2007. Adjusted earnings were \$632 million for the nine months ended September 30, 2008, a decrease of 9%, or \$62 million from adjusted earnings of \$694 million for the year-ago period.

Loss per share for the three months ended September 30, 2008 was \$0.32, compared to earnings per diluted share of \$0.83 for the year-ago period. Adjusted earnings per diluted share were \$1.04 for the three months ended September 30, 2008 compared to \$0.99 for the three months ended September 30, 2007, an increase of 5%.

Earnings per diluted share for the nine months ended September 30, 2008 were \$1.46, down \$0.86, or 37%, from earnings per diluted share of \$2.32 for the nine months ended September 30, 2007. Adjusted earnings per diluted share were \$2.79 for the nine months ended September 30, 2008 compared to adjusted earnings per diluted share of \$2.87 for the nine months ended September 30, 2007

Return on equity for the trailing twelve months ended September 30, 2008 was 7.9% compared to 9.4% for the trailing twelve months ended September 30, 2007. Adjusted return on equity for the trailing twelve months ended September 30, 2008 and 2007 was 12.5% and 12.4%, respectively.

We continue to establish Ameriprise Financial as a financial services leader as we focus on meeting the financial needs of the mass affluent and affluent, as evidenced by our continued leadership in financial planning and our strong corporate foundation. Our client retention percentage rate decreased one percentage point to 94% from the retention percentage rate in the year-ago period. Our franchisee advisor retention rate remained

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stable at 93% as of September 30, 2008 compared to the annual retention rate in the year-ago period. Branded financial plan net cash sales for the three and nine months ended September 30, 2008 increased 9% and 4%, respectively, as compared to the year-ago periods.

Our owned, managed and administered ( OMA ) assets declined to \$395.5 billion at September 30, 2008, a net decrease of 20% from September 30, 2007 OMA assets of \$491.9 billion. For the nine months ended September 30, 2008, we had net inflows in wrap accounts of \$4.9 billion, offset by market declines of \$14.6 billion. RiverSource variable annuities had net inflows of \$2.2 billion, but variable annuity contract accumulation values decreased by \$6.8 billion, net of market-driven declines in separate account asset values. Our fixed annuities had total net outflows of \$1.1 billion. RiverSource managed assets had net outflows of \$10.4 billion and market declines of \$17.2 billion. Threadneedle Asset Management Holdings Limited ( Threadneedle ) managed assets had net outflows of \$9.2 billion, primarily related to low-margin institutional assets and market declines of \$17.8 billion.

During the third quarter of 2008, we announced three acquisitions. All transactions are expected to close in the fourth quarter of 2008. On July 7, 2008, we announced a definitive agreement to acquire J. & W. Seligman & Co., an asset management firm, for total consideration of approximately \$440 million. On August 5, 2008, our wholly owned subsidiary, Securities America Financial Corporation, announced a definitive agreement to acquire Brecek & Young Advisors, Inc. from Security Benefit Corporation and on August 12, 2008 we announced a definitive agreement to acquire H&R Block Financial Advisors for \$315 million in cash from H&R Block.

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Share Repurchase Program

During the three and nine months ended September 30, 2008, we purchased 2.3 million shares and 12.7 million shares, respectively, for an aggregate cost of \$94 million and \$614 million, respectively. During the three and nine months ended September 30, 2007, we purchased 2.9 million shares and 11.1 million shares, respectively, for an aggregate cost of \$171 million and \$665 million, respectively. In April 2008, our Board of Directors authorized the expenditure of up to \$1.5 billion for the repurchase of our common stock through April 2010. As of September 30, 2008, we had \$1.3 billion remaining under this share repurchase authorization. In light of the current market environment, we have temporarily suspended our stock repurchase program.

Separation from American Express

On February 1, 2005, the American Express Board of Directors announced its intention to pursue the disposition of 100% of its shareholdings in our company (the Separation) through a tax-free distribution to American Express shareholders. Effective as of the close of business on September 30, 2005, American Express completed the Separation of our company and the distribution of our common shares to American Express shareholders (the Distribution). Prior to the Distribution, we had been a wholly owned subsidiary of American Express. Our separation from American Express resulted in specifically identifiable impacts to our 2007 consolidated results of operations and financial condition.

We incurred a total of \$890 million of non-recurring separation costs as part of our separation from American Express. These costs were primarily associated with establishing the Ameriprise Financial brand, separating and reestablishing our technology platforms and advisor and employee retention programs. Our separation from American Express was completed in 2007.

**Recent Accounting Pronouncements**



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For information regarding recent accounting pronouncements and their expected impact on our future consolidated results of operations or financial condition, see Note 2 to our Consolidated Financial Statements.

### Non-GAAP Financial Information

We follow accounting principles generally accepted in the United States ( GAAP ). This report includes information on both a GAAP and non-GAAP basis. The non-GAAP presentation in this report excludes credit market losses and non-recurring separation costs. Certain of our key non-GAAP financial measures include:

- adjusted net revenues, or net revenues excluding securities losses and the provision for uncollectible distribution fees;
- adjusted earnings or net income (loss) excluding credit market losses and non-recurring separation costs;
- adjusted earnings per diluted share; and
- adjusted return on equity, using as the numerator adjusted earnings for the last 12 months and as the denominator a five-point average of equity excluding equity allocated to expected non-recurring separation costs as of the last day of the preceding four quarters and the current quarter.

Management believes that the presentation of these non-GAAP financial measures best reflects the underlying performance of our operations and facilitates a more meaningful trend analysis. These non-GAAP measures were also used for goal setting, certain compensation related to our annual incentive award program and evaluating our performance on a basis comparable to that used by securities analysts.

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A reconciliation of non-GAAP measures is as follows:

|  | Three Months Ended<br>September 30, |          | Nine Months Ended<br>September 30, |          |
|--|-------------------------------------|----------|------------------------------------|----------|
|  | 2008                                | 2007     | 2008                               | 2007     |
| (in millions, except per share amounts)  |                                     |          |                                    |          |
| <b>Consolidated Income Data</b>  |                                     |          |                                    |          |
| Total net revenues   | \$ 1,641                            | \$ 2,111 | \$ 5,620                           | \$ 6,296 |
| Add:   |                                     |          |                                    |          |
| Securities losses  | 333                                 |          | 333                                |          |
| Provision for uncollectible distribution fees  | 12                                  |          | 12                                 |          |
| Adjusted net revenues  | \$ 1,986                            | \$ 2,111 | \$ 5,965                           | \$ 6,296 |
| Net income (loss)  | \$ (70)                             | \$ 198   | \$ 331                             | \$ 559   |
| Add:   |                                     |          |                                    |          |
| Securities losses, after-tax(1)  | 217                                 |          | 217                                |          |
| Provision for uncollectible distribution fees, after-tax(1)                                | 8                                   |          | 8                                  |          |
| Derivatives losses, after-tax(1)   | 3                                   |          | 3                                  |          |
| Money market support costs, after-tax(1)   | 73                                  |          | 73                                 |          |
| Separation costs, after-tax(1)   |                                     | 39       |                                    | 135      |
| Adjusted earnings  | \$ 231                              | \$ 237   | \$ 632                             | \$ 694   |
| Weighted average diluted shares  | 221.7                               | 239.2    | 226.4                              | 241.4    |
| Adjusted earnings per diluted share  | \$ 1.04                             | \$ 0.99  | \$ 2.79                            | \$ 2.87  |
| Realized losses on Available-for-Sale securities   | \$ 321                              | \$       | \$ 321                             | \$       |
| Mark-to-market of Lehman Brothers securities   | 11                                  |          | 11                                 |          |
| Realized losses on other securities  | 1                                   |          | 1                                  |          |
| Securities losses  | 333                                 |          | 333                                |          |
| Less: Tax benefit attributable to securities losses(1)                                     | 116                                 |          | 116                                |          |
| Securities losses, after tax(1)  | \$ 217                              | \$       | \$ 217                             | \$       |
| Provision for uncollectible distribution fees  | \$ 12                               | \$       | \$ 12                              | \$       |
| Less: Tax benefit attributable to provision(1)   | 4                                   |          | 4                                  |          |
| Provision for uncollectible distribution fees, after-tax(1)                                | \$ 8                                | \$       | \$ 8                               | \$       |
| Loss on Lehman Brothers derivatives  | \$ 5                                | \$       | \$ 5                               | \$       |
| Less: Tax benefit attributable to loss on derivatives(1)                                   | 2                                   |          | 2                                  |          |
| Derivatives losses, after-tax(1)   | \$ 3                                | \$       | \$ 3                               | \$       |
| Mark-to-market on Lehman Brothers securities related to 2a-7 money market mutual funds     | \$ 77                               | \$       | \$ 77                              | \$       |
| Guarantees related to specific client holdings in an unaffiliated money market mutual fund | 36                                  |          | 36                                 |          |
| Total money market support costs   | 113                                 |          | 113                                |          |
| Less: Tax benefit attributable to money market support costs(1)                            | 40                                  |          | 40                                 |          |
| Money market support costs, after-tax(1)   | \$ 73                               | \$       | \$ 73                              | \$       |
| Separation costs   | \$                                  | \$ 60    | \$                                 | \$ 208   |



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|  |    |    |    |    |    |     |
|--|----|----|----|----|----|-----|
| Less: Tax benefit attributable to separation costs |    |    | 21 |    |    | 73  |
| Separation costs, after tax(1)                     | \$ | \$ | 39 | \$ | \$ | 135 |







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|   | Twelve Months Ended               |          |
|---|-----------------------------------|----------|
|   | September 30,                     |          |
|   | 2008                              | 2007     |
|   | (in millions, except percentages) |          |
| <b>Return on Equity</b>                                     |                                   |          |
| Return on equity  | 7.9%                              | 9.4%     |
| Net income  | \$ 586                            | \$ 730   |
| Add:  |                                   |          |
| Securities losses, after-tax(1)                             | 238                               |          |
| Provision for uncollectible distribution fees, after-tax(1) | 8                                 |          |
| Derivatives losses, after-tax(1)                            | 3                                 |          |
| Money market support costs, after-tax(1)                    | 73                                |          |
| Separation costs, after-tax(1)                              | 19                                | 215      |
| Adjusted earnings   | \$ 927                            | \$ 945   |
| Equity  | \$ 7,436                          | \$ 7,753 |
| Less: Equity allocated to expected separation costs         | 2                                 | 102      |
| Adjusted equity   | \$ 7,434                          | \$ 7,651 |
| Adjusted return on equity(2)                                | 12.5%                             | 12.4%    |





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- (1) For this non-GAAP presentation, after-tax is calculated using the statutory tax rate of 35%.
- (2) Adjusted return on equity is calculated using adjusted earnings in the numerator, and equity excluding equity allocated to expected non-recurring separation costs as of the last day of the preceding four quarters and the current quarter in the denominator.

### **Owned, Managed and Administered Assets**



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Owned assets include certain assets on our Consolidated Balance Sheets for which we do not provide investment management services and do not recognize management fees, such as investments in non-proprietary funds held in the separate accounts of our life insurance subsidiaries, as well as restricted and segregated cash and receivables.

Managed assets include managed external client assets and managed owned assets. Managed external client assets include client assets for which we provide investment management services, such as the assets of the RiverSource family of mutual funds, assets of institutional clients and client assets held in wrap accounts. Managed external client assets also include assets managed by sub-advisors selected by us. Managed external client assets are not reported on our Consolidated Balance Sheets. Managed owned assets include certain assets on our Consolidated Balance Sheets for which we provide investment management services and recognize management fees in our Asset Management segment, such as the assets of the general account and RiverSource Variable Product funds held in the separate accounts of our life insurance subsidiaries.

Administered assets include assets for which we provide administrative services such as client assets invested in other companies' products that we offer outside of our wrap accounts. These assets include those held in clients' brokerage accounts. We do not exercise management discretion over these assets and do not earn a management fee. These assets are not reported on our Consolidated Balance Sheets.

We earn management fees on our owned separate account assets based on the market value of assets held in the separate accounts. We record the income associated with our owned investments, including net realized gains and losses associated with these investments and other-than-temporary impairments on these investments, as net investment income. For managed assets, we receive management fees based on the value of these assets. We generally report these fees as management and financial advice fees. We may also receive distribution fees based on the value of these assets. We generally record fees received from administered assets as distribution fees.

Fluctuations in our owned, managed and administered assets impact our revenues. Our owned, managed and administered assets are impacted by net flows of client assets, market movements and foreign exchange rates. Managed owned assets are also affected by changes in our capital structure.

During the three months ended September 30, 2008, RiverSource managed assets had \$5.3 billion in net outflows compared to \$52 million in net inflows during the three months ended September 30, 2007. Threadneedle managed assets had \$4.2 billion in net outflows in the three months ended September 30, 2008 compared to net outflows of \$3.2 billion during the three months ended September 30, 2007. Our wrap accounts had net inflows of \$0.7 billion in the three months ended September 30, 2008 compared to net inflows of \$2.7 billion in the three months ended September 30, 2007.

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During the nine months ended September 30, 2008 and 2007, RiverSource managed assets had \$10.4 billion and \$3.7 billion, respectively, in net outflows. Threadneedle managed assets had \$9.2 billion and \$16.4 billion in net outflows in the nine months ended September 30, 2008 and 2007, respectively. Our wrap accounts had net inflows of \$4.9 billion in the nine months ended September 30, 2008 compared to net inflows of \$9.9 billion in the nine months ended September 30, 2007.

The following table presents detail regarding our owned, managed and administered assets:

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|   | September 30,<br>2008             | September 30,<br>2007 | Change |
|---|-----------------------------------|-----------------------|--------|
|   | (in billions, except percentages) |                       |        |
| <b>Owned Assets</b>                                 | \$ 34.4                           | \$ 39.6               | (13)%  |
| <b>Managed Assets(1):</b>                           |                                   |                       |        |
| RiverSource   | 130.7                             | 161.8                 | (19)   |
| Threadneedle  | 97.9                              | 139.8                 | (30)   |
| Wrap account assets                                 | 84.1                              | 92.9                  | (9)    |
| Eliminations(2)                                     | (12.4)                            | (15.7)                | 21     |
| <b>Total Managed Assets</b>                         | 300.3                             | 378.8                 | (21)   |
| <b>Administered Assets</b>                          | 60.8                              | 73.5                  | (17)   |
| <b>Total Owned, Managed and Administered Assets</b> | \$ 395.5                          | \$ 491.9              | (20)%  |

- (1) Includes managed external client assets and managed owned assets.
- (2) Includes eliminations for RiverSource mutual fund assets included in wrap account assets and RiverSource assets sub-advised by Threadneedle.

**Consolidated Results of Operations for the Three Months Ended September 30, 2008 and 2007**



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The following table presents our consolidated results of operations for the three months ended September 30, 2008 and 2007:

|  | Three Months Ended<br>September 30, |        | Change   |       |
|--|-------------------------------------|--------|----------|-------|
|  | 2008                                | 2007   |          |       |
| <b>Revenues</b>                                  |                                     |        |          |       |
| Management and financial advice fees             | \$ 721                              | \$ 798 | \$ (77)  | (10)% |
| Distribution fees                                | 376                                 | 435    | (59)     | (14)  |
| Net investment income                            | 62                                  | 501    | (439)    | (88)  |
| Premiums   | 276                                 | 269    | 7        | 3     |
| Other revenues                                   | 249                                 | 165    | 84       | 51    |
| Total revenues                                   | 1,684                               | 2,168  | (484)    | (22)  |
| Banking and deposit interest expense             | 43                                  | 57     | (14)     | (25)  |
| Total net revenues                               | 1,641                               | 2,111  | (470)    | (22)  |
| <b>Expenses</b>                                  |                                     |        |          |       |
| Distribution expenses                            | 473                                 | 519    | (46)     | (9)   |
| Interest credited to fixed accounts              | 200                                 | 212    | (12)     | (6)   |
| Benefits, claims, losses and settlement expenses | 196                                 | 360    | (164)    | (46)  |
| Amortization of deferred acquisition costs       | 240                                 | 128    | 112      | 88    |
| Interest and debt expense                        | 27                                  | 27     |          |       |
| Separation costs                                 |                                     | 60     | (60)     | NM    |
| General and administrative expense               | 667                                 | 588    | 79       | 13    |
| Total expenses                                   | 1,803                               | 1,894  | (91)     | (5)   |
| Pretax income (loss)                             | (162)                               | 217    | (379)    | NM    |
| Income tax provision (benefit)                   | (92)                                | 19     | (111)    | NM    |
| Net income (loss)                                | \$ (70)                             | \$ 198 | \$ (268) | NM    |

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NM Not Meaningful.



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In the second quarter of 2008, we reclassified the mark-to-market adjustment on certain derivatives from net investment income to various expense lines where the mark-to-market adjustment on the related embedded derivative resides. The mark-to-market adjustment on derivatives hedging variable annuity living benefits, equity indexed annuities and stock market certificates were reclassified to benefits, claims, losses and settlement expenses, interest credited to fixed accounts and banking and deposit interest expense, respectively. Prior period amounts were reclassified to conform to the current presentation.

*Overall*



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Our consolidated net loss for the quarter ended September 30, 2008 was \$70 million compared to consolidated net income of \$198 million for the same period a year ago. Included in our consolidated net loss for the quarter ended September 30, 2008 were pretax net realized investment losses of \$317 million on Available-for-Sale securities, which included losses of \$313 million primarily related to the other-than-temporary impairment of securities issued by Lehman Brothers, Washington Mutual and various other non-agency, residential mortgage-backed securities, compared to pretax net realized investment gains of \$15 million on Available-for-Sale securities in the quarter ended September 30, 2007. Also included in consolidated net loss for the quarter ended September 30, 2008 was an \$88 million pretax expense related to the mark-to-market of Lehman Brothers securities that we purchased from various 2a-7 money market mutual funds managed by our subsidiary, RiverSource Investments LLC, \$36 million for the cost of guaranteeing specific client holdings in an unaffiliated money market mutual fund, a \$12 million provision for uncollectible distribution fees and a \$5 million write-off of Lehman Brothers derivatives. Included in consolidated net income for the three months ended September 30, 2007 were \$60 million of pretax non-recurring separation costs.

Third quarter results also included a \$106 million pretax benefit resulting from our annual review of valuation assumptions for RiverSource Life products and our conversion to a new industry standard valuation system that provides enhanced modeling capabilities. The review of valuation assumptions resulted in a decrease in expenses resulting primarily from updating mortality and expense assumptions for certain life insurance products and from updating fund mix and policyholder behavior assumptions for variable annuities with guaranteed benefits. The valuation system conversion also resulted in an increase in revenue primarily from improved modeling of the expected value of existing reinsurance agreements and a decrease in expense from modeling annuity amortization periods at the individual policy level. Our review of valuation assumptions in the third quarter of 2007 resulted in a net \$30 million increase in expense from updating product persistency assumptions, partially offset by decreases in expense from updating other assumptions.

Somewhat offsetting the \$106 million benefit discussed above, third quarter results included a \$44 million increase in expenses from the market impact on DAC and DSIC for RiverSource Life products. The impact of markets on DAC and DSIC in the third quarter of 2007 was not material.

The total pretax impacts on our assets and liabilities for the third quarter of 2008 attributable to the review of valuation assumptions for RiverSource Life products, the valuation system conversion and the impact of markets were as follows:

| Balance Sheet Impact<br>Debit (Credit) | DAC           | Other Assets | Other<br>Liabilities | Future<br>Policy<br>Benefits and<br>Claims | Receivables | Total |
|--|---------------|--------------|----------------------|--|-------------|-------|
|  | (in millions) |              |                      |  |             |       |
| Annuities                              | \$ (26)       | \$ (11)      | \$                   | \$ 53                                      | \$          | \$ 16 |
| Protection                             | (94)          |              | 5                    | 43   | 92          | 46    |
| Total                                  | \$ (120)      | \$ (11)      | \$ 5                 | \$ 96                                      | \$ 92       | \$ 62 |

The total pretax impacts on our assets and liabilities for the third quarter of 2007 attributable to the review of valuation assumptions for RiverSource Life products were as follows:

| Balance Sheet Impact<br>Debit (Credit) | DAC           | Other Assets | Other<br>Liabilities | Future<br>Policy<br>Benefits and<br>Claims | Receivables | Total   |
|--|---------------|--------------|----------------------|--|-------------|---------|
|  | (in millions) |              |                      |  |             |         |
| Annuities                              | \$ 4          | \$ 3         | \$                   | \$ (6)                                     | \$          | \$ 1    |
| Protection                             | (20)          |              |                      | (9)  | (2)         | (31)    |
| Total                                  | \$ (16)       | \$ 3         | \$                   | \$ (15)                                    | \$ (2)      | \$ (30) |



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The total pretax impacts on our revenues and expenses for the third quarter of 2008 attributable to the review of valuation assumptions for RiverSource Life products, the valuation system conversion and the impact of markets were as follows:

| Segment Pretax Benefit (Charge) | Premiums | Other Revenues | Distribution Expenses | Benefits, Claims, Losses and Settlement Expenses | Amortization of DAC | Total |
|---------------------------------|----------|----------------|-----------------------|--|---------------------|-------|
|                                 |          |                |                       | (in millions)                                    |                     |       |
| Annuities                       | \$       | \$             | \$                    | 1  | \$                  | \$    |
| Protection                      |          |                |                       |  |                     |       |
|                                 | 2        | 95             |                       | 43   | (94)                | 46    |
| Total                           | \$       | \$             | \$                    | 84   | \$                  | \$    |
|                                 | 2        | 95             | 1                     |  | (120)               | 62    |

The total pretax impacts on our revenues and expenses for the third quarter of 2007 attributable to the review of valuation assumptions for RiverSource Life products were as follows:

| Segment Pretax Benefit (Charge) | Premiums | Other Revenues | Distribution Expenses | Benefits, Claims, Losses and Settlement Expenses | Amortization of DAC | Total |
|---------------------------------|----------|----------------|-----------------------|--|---------------------|-------|
|                                 |          |                |                       | (in millions)                                    |                     |       |
| Annuities                       | \$       | \$             | \$                    | (3)  | \$                  | \$    |
| Protection                      |          |                |                       | (9)  | (20)                | (31)  |
| Total                           | \$       | \$             | \$                    | (12)   | \$                  | \$    |
|                                 |          | (2)            |                       |  | (16)                | (30)  |

*Revenues*



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Net revenues decreased \$470 million, or 22%, to \$1.6 billion for the quarter ended September 30, 2008 primarily due to a \$439 million decrease in net investment income.

Management and financial advice fees decreased \$77 million, or 10%, to \$721 million for the quarter ended September 30, 2008 from \$798 million for the same period a year ago. This decrease was a result of a decline in assets under management due to net outflows in RiverSource and Threadneedle funds and the impact of equity market depreciation, which overall contributed to a decrease of 21% in managed assets.

Distribution fees decreased \$59 million, or 14%, to \$376 million for the quarter ended September 30, 2008 from \$435 million in the same period a year ago. Distribution fees for the quarter ended September 30, 2008 were negatively impacted by decreased sales volume and market depreciation, as well as recording a \$12 million provision for uncollectible distribution fees. We believe our sales volume decline is directly attributable to the weakening credit and equity markets.

Net investment income decreased \$439 million, or 88%, to \$62 million, driven primarily by net realized investment losses of \$317 million on Available-for-Sale securities, which included losses of \$313 million related to previously disclosed impairments of financial services securities and non-agency residential mortgage-backed securities, compared to pretax net realized investment gains of \$15 million on Available-for-Sale securities for the quarter ended September 30, 2007. In addition, net investment income decreased in the third quarter of 2008 by \$11 million reflecting the mark-to-market adjustment on the Lehman Brothers securities that we purchased from various 2a-7 money market mutual funds managed by our subsidiary, RiverSource Investments LLC from the date of purchase through September 30, 2008. Also contributing to lower net investment income in the third quarter of 2008 were lower mark-to-market adjustments on trading securities and seed money investments, decreased volumes in annuity fixed accounts and lower yields on our investment portfolio as a result of strengthening our liquidity position and investing in shorter term instruments. Included in the third quarter of 2007, was a \$23 million decrease in the allowance for loan losses on commercial mortgages.

Premiums increased \$7 million, or 3%, to \$276 million for the third quarter of 2008 primarily due to a 5% year-over-year increase in auto and home policy counts.

Other revenues increased \$84 million, or 51%, to \$249 million, largely due to a \$95 million benefit from updating valuation assumptions and converting to a new valuation system for RiverSource Life products. This increase in other revenues was partially offset by a \$12 million decrease in revenues related to certain consolidated limited partnerships, which had a corresponding decrease in general and administrative expense. Other revenues in the prior year period included an immaterial decrease from updating valuation assumptions for RiverSource Life products.



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Banking and deposit interest expense decreased \$14 million, or 25%, to \$43 million for the quarter ended September 30, 2008, primarily due to lower crediting rates accrued on certificate balances and the deconsolidation of certain limited partnerships in the fourth quarter of 2007, partially offset by higher certificate balances, which increased 15% from the same period in the prior year due to a certificate promotion that began in the second quarter of 2008.

*Expenses*



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Total expenses decreased \$91 million, or 5%, to \$1.8 billion for the quarter ended September 30, 2008. Expenses in the third quarter of 2007 included \$60 million of non-recurring separation costs.

Distribution expenses decreased \$46 million, or 9%, to \$473 million primarily driven by the impact on advisor compensation of lower cash sales as our clients moved money into cash, deposits and certificates during the third quarter of 2008 and market-driven asset depreciation.

Interest credited to fixed accounts decreased \$12 million, or 6%, to \$200 million due to a continued decline in annuity fixed account balances.

Benefits, claims, losses and settlement expenses decreased \$164 million, or 46%, to \$196 million. This decrease was primarily the result of a \$90 million benefit from updating valuation assumptions and converting to a new valuation system, partially offset by an expense of \$6 million from the market's impact on DSIC and by increases in life, long-term care and disability income insurance benefits. Prior year benefits included an expense of \$12 million from updating valuation assumptions and an immaterial market impact on DSIC. The third quarter of 2007 also included \$63 million of increased benefit expenses from the mark-to-market of variable annuity guaranteed benefit riders compared to a decrease of \$27 million in the current quarter.

The amortization of DAC increased \$112 million, or 88%, to \$240 million primarily due to an \$82 million increase from updating valuation assumptions and converting to a new valuation system, as well as a \$38 million increase from the market's impact on DAC, partially offset by lower fixed annuity volumes. Included in the third quarter of 2007 was \$16 million of additional DAC amortization expense resulting from the review of valuation assumptions and an immaterial market impact.

Separation costs incurred in 2007 were primarily associated with separating and reestablishing our technology platforms. All separation costs were incurred as of December 31, 2007.

General and administrative expense increased \$79 million, or 13%, to \$667 million. The increase was driven by a \$77 million expense related to the mark-to-market of Lehman Brothers securities that we purchased from various 2a-7 money market mutual funds managed by our subsidiary, RiverSource Investments LLC. Also contributing to the increase in general and administrative expense was \$36 million in costs related to guaranteeing specific client holdings in an unaffiliated money market mutual fund. These increases were partially offset by decreased expenses related to certain consolidated limited partnerships, decreased compensation accruals and cost saving initiatives.

### *Income Taxes*



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Our effective tax rate increased to 57.1% for the three months ended September 30, 2008, compared to 8.8% for the three months ended September 30, 2007 primarily due to a pretax loss in relation to a net tax benefit which included a \$14 million tax benefit from finalizing prior year tax returns. The effective tax rate for the three months ended September 30, 2007 reflected a \$21 million tax benefit related to our plan to begin repatriating earnings of certain Threadneedle entities through dividends and a \$7 million tax benefit related to the finalization of the prior year tax returns.

On September 25, 2007, the IRS issued Revenue Ruling 2007-61 in which it announced that it intends to issue regulations with respect to certain computational aspects of the Dividends Received Deduction ( DRD ) related to separate account assets held in connection with variable contracts of life insurance companies and has added the project to the 2007-2008 Priority Guidance Plan. Revenue Ruling 2007-61 suspended a revenue ruling issued in August 2007 that purported to change accepted industry and IRS interpretations of the statutes governing these computational questions. Any regulations that the IRS ultimately proposes for issuance in this area will be subject to public notice and comment, at which time insurance companies and other members of the public will have the opportunity to raise legal and practical questions about the content, scope and application of such regulations. As a result, the ultimate timing and substance of any such regulations are unknown at this time, but they may result in the elimination of some or all of the separate account DRD tax benefit that we receive. Management believes that it is likely that any such regulations would apply prospectively only.

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**Results of Operations by Segment for the Three Months Ended September 30, 2008 and 2007**



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The following tables present summary financial information by segment and a reconciliation to the consolidated totals derived from Note 16 to our Consolidated Financial Statements for the three months ended September 30, 2008 and 2007:



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|                             | 2008     | Three Months Ended September 30,                               |          | 2007 | Percent Share<br>of Total |
|-----------------------------|----------|--|----------|------|---------------------------|
|                             |          | Percent Share<br>of Total<br>(in millions, except percentages) |          |      |                           |
| <b>Total net revenues</b>   |          |  |          |      |                           |
| Advice & Wealth Management  | \$ 712   | 43%  | \$ 953   | 45%  |                           |
| Asset Management            | 305      | 19   | 410      | 19   |                           |
| Annuities                   | 336      | 20   | 560      | 27   |                           |
| Protection                  | 554      | 34   | 495      | 23   |                           |
| Corporate & Other           | (9)      |  | (6)      |      |                           |
| Eliminations                | (257)    | (16)   | (301)    | (14) |                           |
| Total net revenues          | \$ 1,641 | 100%   | \$ 2,111 | 100% |                           |
| <b>Total expenses</b>       |          |  |          |      |                           |
| Advice & Wealth Management  | \$ 789   | 44%  | \$ 859   | 45%  |                           |
| Asset Management            | 290      | 16   | 338      | 18   |                           |
| Annuities                   | 370      | 20   | 469      | 25   |                           |
| Protection                  | 450      | 25   | 402      | 21   |                           |
| Corporate & Other           | 161      | 9  | 127      | 7    |                           |
| Eliminations                | (257)    | (14)   | (301)    | (16) |                           |
| Total expenses              | \$ 1,803 | 100%   | \$ 1,894 | 100% |                           |
| <b>Pretax income (loss)</b> |          |  |          |      |                           |
| Advice & Wealth Management  | \$ (77)  | 47%  | \$ 94    | 43%  |                           |
| Asset Management            | 15       | (9)  | 72       | 33   |                           |
| Annuities                   | (34)     | 21   | 91       | 42   |                           |
| Protection                  | 104      | (64)   | 93       | 43   |                           |
| Corporate & Other           | (170)    | 105  | (133)    | (61) |                           |
| Pretax income (loss)        | \$ (162) | 100%   | \$ 217   | 100% |                           |

Table of Contents*Advice & Wealth Management*

Our Advice & Wealth Management segment provides financial planning and advice, as well as full service brokerage and banking services, primarily to retail clients, through our financial advisors. Our affiliated advisors utilize a diversified selection of both proprietary and non-proprietary products to help clients meet their financial needs.

The following table presents the results of operations of our Advice & Wealth Management segment for the three months ended September 30, 2008 and 2007:

|                                      | Three Months Ended |        | September 30,                     |      | Change |  |
|--------------------------------------|--------------------|--------|-----------------------------------|------|--------|--|
|                                      | 2008               | 2007   | (in millions, except percentages) |      |        |  |
| <b>Revenues</b>                      |                    |        |                                   |      |        |  |
| Management and financial advice fees | \$ 328             | \$ 348 | \$ (20)                           | (6)% |        |  |
| Distribution fees                    | 457                | 541    | (84)                              | (16) |        |  |
| Net investment income                | (46)               | 96     | (142)                             | NM   |        |  |
| Other revenues                       | 16                 | 21     | (5)                               | (24) |        |  |
| Total revenues                       | 755                | 1,006  | (251)                             | (25) |        |  |
| Banking and deposit interest expense | 43                 | 53     | (10)                              | (19) |        |  |
| Total net revenues                   | 712                | 953    | (241)                             | (25) |        |  |
| <b>Expenses</b>                      |                    |        |                                   |      |        |  |
| Distribution expenses                | 515                | 585    | (70)                              | (12) |        |  |
| General and administrative expense   | 274                | 274    |                                   |      |        |  |
| Total expenses                       | 789                | 859    | (70)                              | (8)% |        |  |
| Pretax income (loss)                 | \$ (77)            | \$ 94  | \$ (171)                          | NM   |        |  |

NM Not Meaningful.

Our Advice & Wealth Management segment pretax loss was \$77 million for the third quarter of 2008 compared to pretax income of \$94 million for the same period a year ago.

*Net Revenues*

Management and financial advice fees decreased \$20 million, or 6%, as compared to the year-ago period primarily due to market-driven asset depreciation in the third quarter of 2008. Management and financial advice fees for the third quarter of 2007 reflect an increase in planning fees resulting from accelerated financial plan delivery standards.

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Distribution fees decreased \$84 million, or 16%, primarily due to lower sales volumes on products generating these fees and market depreciation, as well as recording a \$12 million provision for uncollectible distribution fees in the third quarter of 2008.

Net investment income for the third quarter of 2008 was a \$46 million loss compared to net investment income of \$96 million for the same period a year ago. This decrease in net investment income is primarily due to net realized investment securities losses on Available-for-Sale securities of \$118 million, primarily due to impairments recorded on non-agency, residential mortgage-backed securities and financial services securities, and lower yields on our investment portfolio as a result of strengthening our liquidity position and investing in shorter term instruments.

Banking and deposit interest expense decreased \$10 million, or 19%, due to lower crediting rates accrued on certificate balances, partially offset by higher certificate balances, which increased 15% from the same period in the prior year due to a certificate promotion that began in the second quarter of 2008 and an increase in the third quarter of 2008 as clients moved money into cash, deposits and certificates and away from variable accounts.

### *Expenses*

Total expenses decreased \$70 million, or 8%, driven by a decrease in distribution expenses as a result of the lower cash sales mentioned above.

Table of Contents*Asset Management*

Our Asset Management segment provides investment advice and investment products to retail and institutional clients.

The following table presents the results of operations of our Asset Management segment for the three months ended September 30, 2008 and 2007:

|  | Three Months Ended<br>September 30, |        | Change  |       |
|--|-------------------------------------|--------|---------|-------|
|  | 2008                                | 2007   |         |       |
| <b>Revenues</b>                            |                                     |        |         |       |
| Management and financial advice fees       | \$ 268                              | \$ 316 | \$ (48) | (15)% |
| Distribution fees                          | 58                                  | 78     | (20)    | (26)  |
| Net investment income                      | (9)                                 | 5      | (14)    | NM    |
| Other revenues                             | (10)                                | 14     | (24)    | NM    |
| Total revenues                             | 307                                 | 413    | (106)   | (26)  |
| Banking and deposit interest expense       | 2                                   | 3      | (1)     | (33)  |
| Total net revenues                         | 305                                 | 410    | (105)   | (26)  |
| <b>Expenses</b>                            |                                     |        |         |       |
| Distribution expenses                      | 101                                 | 117    | (16)    | (14)  |
| Amortization of deferred acquisition costs | 6                                   | 7      | (1)     | (14)  |
| General and administrative expense         | 183                                 | 214    | (31)    | (14)  |
| Total expenses                             | 290                                 | 338    | (48)    | (14)  |
| Pretax income (loss)                       | \$ 15                               | \$ 72  | \$ (57) | (79)% |

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NM Not Meaningful.

Our Asset Management segment pretax income for the third quarter of 2008 was \$15 million, a decline of \$57 million, or 79%, from \$72 million for the same period a year ago.

*Net Revenues*

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Management and financial advice fees declined \$48 million, or 15%, primarily driven by the impact of equity market declines, which contributed to a 24% decrease in assets under management. Also contributing to the decline in assets were net outflows of \$5.3 billion in RiverSource funds and net outflows of \$4.2 billion in Threadneedle funds during the three months ended September 30, 2008. RiverSource funds net outflows in the quarter were primarily due to reduced mutual fund sales as client activity slowed, as well as \$3.7 billion of anticipated outflows of institutional assets of a former affiliate. Redemption rates for RiverSource funds remained stable. Threadneedle experienced anticipated outflows of lower-margin institutional assets, outflows of hedge fund assets due to changes in portfolio managers and outflows in Threadneedle retail funds driven by falling equity markets. The foreign exchange translation impact for the third quarter of 2008 decreased Threadneedle managed assets by \$12.5 billion.

Distribution fees declined \$20 million or 26% due to lower mutual fund sales.

Net investment income declined \$14 million primarily due to lower mark-to-market adjustments on seed money investments driven by a declining market and the deconsolidation of certain limited partnerships in the fourth quarter of 2007.

Other revenues declined \$24 million primarily due to decreases in revenue related to certain consolidated limited partnerships, which had a corresponding decrease in expense. Included in other revenues for the three months ended September 30, 2007 was the gain on sale of a property partnership.

*Expenses*

Total expenses decreased \$48 million, or 14%, primarily due to a \$16 million decrease in distribution expenses and a \$31 million decrease in general and administrative expense. The decrease in distribution expenses is primarily related to lower mutual fund sales. The decrease in general and administrative expense is primarily due to a decrease in expenses related to certain consolidated limited partnerships, which corresponds with the decline in other revenues noted above, and lower compensation accruals.



Table of Contents*Annuities*

Our Annuities segment provides RiverSource Life variable and fixed annuity products to our retail clients primarily through our Advice & Wealth Management segment and to the retail clients of unaffiliated advisors through third-party distribution.

The following table presents the results of operations of our Annuities segment for the three months ended September 30, 2008 and 2007:

|  | Three Months Ended<br>September 30, |        | Change   |       |
|--|-------------------------------------|--------|----------|-------|
|  | 2008                                | 2007   |          |       |
| (in millions, except percentages)                |                                     |        |          |       |
| <b>Revenues</b>                                  |                                     |        |          |       |
| Management and financial advice fees             | \$ 124                              | \$ 130 | \$ (6)   | (5)%  |
| Distribution fees                                | 71                                  | 70     | 1        | 1     |
| Net investment income                            | 86                                  | 311    | (225)    | (72)  |
| Premiums   | 21                                  | 24     | (3)      | (13)  |
| Other revenues                                   | 34                                  | 25     | 9        | 36    |
| Total net revenues                               | 336                                 | 560    | (224)    | (40)  |
| <b>Expenses</b>                                  |                                     |        |          |       |
| Distribution expenses                            | 50                                  | 50     |          |       |
| Interest credited to fixed accounts              | 163                                 | 175    | (12)     | (7)   |
| Benefits, claims, losses and settlement expenses | 9                                   | 135    | (126)    | (93)  |
| Amortization of deferred acquisition costs       | 96                                  | 53     | 43       | 81    |
| General and administrative expense               | 52                                  | 56     | (4)      | (7)   |
| Total expenses                                   | 370                                 | 469    | (99)     | (21)% |
| Pretax income (loss)                             | \$ (34)                             | \$ 91  | \$ (125) | NM    |

NM Not Meaningful.

Our Annuities segment pretax loss was \$34 million for the third quarter of 2008 compared to pretax income of \$91 million for the same period a year ago.

*Net Revenues*

Total net revenues decreased \$224 million, or 40%, to \$336 million primarily due to a decline in net investment income.

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Management and financial advice fees decreased \$6 million in the third quarter of 2008 primarily due to market declines, partially offset by positive net flows.

Net investment income decreased \$225 million primarily due to net realized investment losses on impairments of financial services securities. Net realized investment losses on Available-for-Sale securities were \$156 million for the third quarter of 2008 compared to net realized investment gains on Available-for-Sale securities of \$12 million for the third quarter of 2007. Also contributing to lower net investment income in the third quarter of 2008 were decreased volumes in annuity fixed accounts and lower yields on our investment portfolio as a result of strengthening our liquidity position and investing in shorter term instruments. Included in the third quarter of 2007 was a reduction of \$23 million in the commercial mortgage loan loss reserve.

Other revenues increased \$9 million, or 36%, primarily due to an increase in our guaranteed benefit rider fees on variable annuities, driven by volume increases.

### *Expenses*

Total expenses decreased \$99 million, or 21%, to \$370 million. The decrease was primarily due to a \$126 million decrease in benefits, claims, losses and settlement expenses and a \$12 million decrease in interest credited to fixed accounts, partially offset by a \$43 million increase in DAC amortization.

Interest credited to fixed accounts decreased \$12 million, or 7%, driven by declining fixed annuity account balances, down 10% from the year-ago period.

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Benefits, claims, losses and settlement expenses decreased \$126 million, or 93%. This decrease reflected a net benefit of \$45 million from updating our valuation assumptions and converting to a new valuation system, partially offset by an expense of \$6 million from the market's impact on DSIC, compared to an expense of \$4 million related to updating valuation assumptions and an immaterial market impact on DSIC in the prior year quarter. The current quarter also included a net \$27 million decrease in benefits related to the mark-to-market of variable annuity guaranteed benefit riders. Also included in the third quarter of 2008 was \$5 million related to the write-off of Lehman Brothers derivatives. The third quarter of 2007 included \$63 million of increased benefit expenses from the mark-to-market of variable annuity guaranteed benefit riders.

The amortization of DAC increased \$43 million, or 81%, primarily due to a \$35 million increase in DAC amortization from the market's impact on DAC, partially offset by an \$8 million decrease in DAC amortization from updating our valuation assumptions for RiverSource Life products and converting to a new valuation system as well as lower fixed annuity volumes. The prior year quarter included a \$5 million decrease in amortization from updating valuation assumptions and an immaterial market impact on DAC.

*Protection*

Our Protection segment offers a variety of protection products to address the identified protection and risk management needs of our retail clients including life, disability income and property-casualty insurance.

The following table presents the results of operations of our Protection segment for the three months ended September 30, 2008 and 2007:

|  | Three Months Ended<br>September 30, |       | Change                            |       |
|--|-------------------------------------|-------|-----------------------------------|-------|
|  | 2008                                | 2007  | (in millions, except percentages) |       |
| <b>Revenues</b>                                  |                                     |       |                                   |       |
| Management and financial advice fees             | \$ 14                               | \$ 17 | \$ (3)                            | (18)% |
| Distribution fees                                | 26                                  | 25    | 1                                 | 4     |
| Net investment income                            | 42                                  | 93    | (51)                              | (55)  |
| Premiums   | 263                                 | 253   | 10                                | 4     |
| Other revenues                                   | 209                                 | 107   | 102                               | 95    |
| Total net revenues                               | 554                                 | 495   | 59                                | 12    |
| <b>Expenses</b>                                  |                                     |       |                                   |       |
| Distribution expenses                            | 16                                  | 17    | (1)                               | (6)   |
| Interest credited to fixed accounts              | 37                                  | 37    |                                   |       |
| Benefits, claims, losses and settlement expenses | 187                                 | 225   | (38)                              | (17)  |
| Amortization of deferred acquisition costs       | 138                                 | 68    | 70                                | NM    |
| General and administrative expense               | 72                                  | 55    | 17                                | 31    |
| Total expenses                                   | 450                                 | 402   | 48                                | 12    |
| Pretax income                                    | \$ 104                              | \$ 93 | \$ 11                             | 12%   |

NM Not Meaningful.

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Our Protection segment pretax income was \$104 million, an increase of \$11 million, or 12%.

### *Net Revenues*

Net revenues were \$554 million, an increase of \$59 million, or 12%, primarily due to an increase in other revenues of \$102 million, partially offset by a decrease of \$51 million in net investment income. Other revenues increased \$102 million largely due to a \$95 million benefit from updating valuation assumptions and converting to a new valuation system. The prior year quarter included an immaterial decrease in other revenues from updating valuation assumptions. Additionally, premiums increased \$10 million primarily resulting from a 5% increase in auto and home policy counts. These increases were partially offset by a \$51 million decline in net investment income primarily related to \$43 million of impairments of financial services securities.

### *Expenses*

Total expenses were \$450 million, an increase of \$48 million, or 12%. The increase was primarily due to a \$70 million increase in amortization of DAC and a \$17 million increase in general and administrative expense, partially offset by a \$38 million decrease in benefits, claims, losses and settlement expenses.

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Benefits, claims, losses and settlement expenses decreased \$38 million, or 17%, reflecting a net benefit of \$43 million from updating valuation assumptions and converting to a new valuation system, partially offset by an increase in life, long-term care and disability income insurance benefits. The prior year quarter included a \$9 million increase in benefits, claims, losses and settlement expenses from updating valuation assumptions.

DAC amortization for the three months ended September 30, 2008 increased \$70 million primarily attributable to a \$90 million increase in expense from updating valuation assumptions and converting to a new valuation system, as well as a \$3 million increase from the market's impact on DAC. The prior year quarter included a \$20 million increase in amortization from updating valuation assumptions and an immaterial market impact.

General and administrative expense increased \$17 million primarily due to the write-off of certain capitalized software costs and increased premium taxes.

*Corporate & Other*

The following table presents the results of operations of our Corporate & Other segment for the three months ended September 30, 2008 and 2007:

|                                      | Three Months Ended<br>September 30, |   | Change  |        |
|--------------------------------------|-------------------------------------|---|---------|--------|
|                                      | 2008                                | 2007<br>(in millions, except percentages) |         |        |
| <b>Revenues</b>                      |                                     |   |         |        |
| Management and financial advice fees | \$                                  | \$  | 1       | (1) NM |
| Net investment income                | (9)                                 | (3)                                       | (6)     | NM     |
| Other revenues                       |                                     | (2)                                       | 2       | NM     |
| Total revenues                       | (9)                                 | (4)                                       | (5)     | NM     |
| Banking and deposit interest expense |                                     | 2   | (2)     | NM     |
| Total net revenues                   | (9)                                 | (6)                                       | (3)     | (50)%  |
| <b>Expenses</b>                      |                                     |   |         |        |
| Interest and debt expense            | 27                                  | 27  |         |        |
| Separation costs                     |                                     | 60  | (60)    | NM     |
| General and administrative expense   | 134                                 | 40  | 94      | NM     |
| Total expenses                       | 161                                 | 127                                       | 34      | 27     |
| Pretax loss                          | \$ (170)                            | \$ (133)                                  | \$ (37) | (28)%  |

NM Not Meaningful.

Our Corporate & Other pretax segment loss was \$170 million, an increase of \$37 million, or 28%, for the third quarter of 2008 compared to a pretax segment loss of \$133 million for the same period in 2007. This increase was primarily due to an increase in general and administrative

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expense of \$94 million driven by a \$77 million expense related to the mark-to-market of Lehman Brothers securities that we purchased from various 2a-7 money market mutual funds managed by our subsidiary, RiverSource Investments LLC. Also contributing to the increase in general and administrative expense was \$36 million for the cost of guaranteeing specific client holdings in an unaffiliated money market mutual fund. Partially offsetting these increases was a decrease in general and administrative expense attributable to cost savings initiatives and lower compensation accruals. Total expenses for the third quarter of 2007 included separation costs of \$60 million, as the separation from American Express was completed in 2007.

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**Consolidated Results of Operations for the Nine Months Ended September 30, 2008 and 2007**

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The following table presents our consolidated results of operations for the nine months ended September 30, 2008 and 2007:



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Nine Months Ended

September 30,

2008

2007

Change

(in millions, except percentages)

**Revenues**

|                                      |    |       |    |       |    |       |      |
|--------------------------------------|----|-------|----|-------|----|-------|------|
| Management and financial advice fees | \$ | 2,292 | \$ | 2,308 | \$ | (16)  | (1)% |
| Distribution fees                    |    | 1,231 |    | 1,347 |    | (116) | (9)  |
| Net investment income                |    | 856   |    | 1,543 |    | (687) | (45) |
| Premiums                             |    | 809   |    | 792   |    | 17    | 2    |
| Other revenues                       |    | 564   |    | 496   |    | 68    | 14   |
| Total revenues                       |    | 5,752 |    | 6,486 |    | (734) | (11) |
| Banking and deposit interest expense |    | 132   |    | 190   |    | (58)  | (31) |
| Total net revenues                   |    | 5,620 |    | 6,296 |    | (676) | (11) |

**Expenses**

|  |    |       |    |       |    |       |       |
|--|----|-------|----|-------|----|-------|-------|
| Distribution expenses                            |    | 1,531 |    | 1,530 |    | 1     |       |
| Interest credited to fixed accounts              |    | 587   |    | 645   |    | (58)  | (9)   |
| Benefits, claims, losses and settlement expenses |    | 794   |    | 903   |    | (109) | (12)  |
| Amortization of deferred acquisition costs       |    | 538   |    | 387   |    | 151   | 39    |
| Interest and debt expense                        |    | 81    |    | 85    |    | (4)   | (5)   |
| Separation costs                                 |    |       |    | 208   |    | (208) | NM    |
| General and administrative expense               |    | 1,819 |    | 1,860 |    | (41)  | (2)   |
| Total expenses                                   |    | 5,350 |    | 5,618 |    | (268) | (5)   |
| Pretax income                                    |    | 270   |    | 678   |    | (408) | (60)  |
| Income tax provision (benefit)                   |    | (61)  |    | 119   |    | (180) | NM    |
| Net income                                       | \$ | 331   | \$ | 559   | \$ | (228) | (41)% |



NM Not Meaningful.

In the second quarter of 2008, we reclassified the mark-to-market adjustment on certain derivatives from net investment income to various expense lines where the mark-to-market adjustment on the related embedded derivative resides. The mark-to-market adjustment on derivatives hedging variable annuity living benefits, equity indexed annuities and stock market certificates were reclassified to benefits, claims, losses and settlement expenses, interest credited to fixed accounts and banking and deposit interest expense, respectively. Prior period amounts were reclassified to conform to the current presentation.

*Overall*

Consolidated net income for the nine months ended September 30, 2008 was \$331 million, a decline of \$228 million, or 41%, as compared to the same period a year ago. Included in consolidated net income for the nine months ended September 30, 2008 were pretax net realized investment losses on Available-for-Sale securities of \$368 million, which included losses primarily related to the other-than-temporary impairment of various financial services securities and non-agency residential mortgage-backed securities, compared to pretax net realized investment gains on Available-for-Sale securities of \$26 million for the nine months ended September 30, 2007. Also included in consolidated net income for the nine months ended September 30, 2007 were \$208 million of pretax non-recurring separation costs.

Income for both nine month periods was impacted by our annual review of valuation assumptions for RiverSource Life products and the market's impact on DAC and DSIC. Income for the nine months ended September 30, 2008 was also impacted by our conversion to a new industry standard valuation system that provides enhanced modeling capabilities.

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*Net Revenues*

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Net revenues decreased \$676 million, or 11%, to \$5.6 billion for the nine months ended September 30, 2008 primarily due to a \$687 million decrease in net investment income.

Management and financial advice fees decreased \$16 million, or 1%, for the nine months ended September 30, 2008 to \$2.3 billion due to a decline in assets under management as a result of net outflows in RiverSource and Threadneedle funds and the impact of equity market declines throughout 2008. Overall, managed assets decreased 21% from the same period in the prior year, as increases in wrap accounts and variable annuity account assets were more than offset by decreases in RiverSource and Threadneedle managed assets.

Distribution fees were \$1.2 billion, down \$116 million, or 9%, for the nine months ended September 30, 2008 primarily due to decreased sales volume and market depreciation. Net flows in wrap accounts decreased \$5.0 billion from net wrap flows of \$9.9 billion for the nine months ended September 30, 2007 to net wrap flows of \$4.9 billion for the nine months ended September 30, 2008.

Net investment income decreased \$687 million, or 45%, to \$856 million. Included in net investment income were net realized investment losses on Available-for-Sale securities of \$368 million for the nine months ended September 30, 2008, which included losses of \$317 million on Available-for-Sale securities recognized in the third quarter of 2008 related to various financial services securities and non-agency residential mortgage-backed securities, compared to net realized investment gains on Available-for-Sale securities of \$26 million in the same period of 2007.

Premiums increased \$17 million, or 2%, to \$809 million. This increase was attributable to a 5% year-over-year increase in auto and home policy counts and a 4% year-over-year increase in life insurance inforce. Life insurance inforce as of September 30, 2008 was \$192 billion.

Other revenues increased \$68 million, or 14%, to \$564 million, largely due to a \$95 million benefit from updating valuation assumptions and converting to a new valuation system for RiverSource Life products in the third quarter of 2008. Also contributing to the increase during the nine months ended September 30, 2008 was growth in our guaranteed benefit rider fees on variable annuities and in cost-of-insurance fees for VUL/UL insurance, partially offset by a decrease related to certain consolidated limited partnerships, which had a corresponding decrease in general and administrative expense. Other revenues in the prior period included an immaterial decrease from updating valuation assumptions for RiverSource Life products.

Banking and deposit interest expense decreased \$58 million, or 31%, due to lower crediting rates accrued on certificates and the deconsolidation of certain limited partnerships in the fourth quarter of 2007.

### *Expenses*





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Total expenses decreased \$268 million, or 5%, to \$5.4 billion for the nine months ended September 30, 2008. Total expenses in the nine months ended September 30, 2007 included \$208 million of non-recurring separation costs.

Distribution expenses remained flat at \$1.5 billion due primarily to the impact of lower cash sales on advisor compensation.

Interest credited to fixed accounts decreased \$58 million, or 9%, reflecting a continued decline in fixed annuity account balances.

Benefits, claims, losses and settlement expenses decreased \$109 million, or 12%, largely due to a \$90 million benefit from updating valuation assumptions and converting to a new valuation system, partially offset by an expense of \$10 million from the market's impact on DSIC in 2008. Prior year benefits included an increase of \$12 million from updating valuation assumptions and an immaterial market impact on DSIC. The nine months ended September 30, 2007 included \$39 million of increased benefit expenses from mark-to-market of variable annuity guaranteed benefit riders compared to a decrease of \$31 million in the current nine month period.

The amortization of DAC increased \$151 million, or 39%, to \$538 million primarily due to an \$82 million increase from updating valuation assumptions and converting to a new valuation system, as well as a \$73 million increase from the market's impact on DAC, partially offset by lower fixed annuity volumes. The nine months ended September 30, 2007 included \$16 million of additional DAC amortization expense resulting from the review of valuation assumptions, partially offset by a \$13 million benefit from the market's impact on DAC.

Interest and debt expense for the nine months ended September 30, 2008 decreased \$4 million, or 5%, from the year-ago period due to the deconsolidation of \$225 million of non-recourse debt of a collateralized debt obligation in the fourth quarter of 2007.

Separation costs incurred in 2007 were primarily associated with separating and reestablishing our technology platforms. All separation costs were incurred as of December 31, 2007.

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General and administrative expense decreased 2%, or \$41 million, to \$1.8 billion as a result of expense management initiatives and a decline in expenses related to certain consolidated limited partnerships, offset in other revenues as discussed above. These declines were partially offset by \$113 million of expenses incurred in the third quarter of 2008 due to a \$77 million expense related to the mark-to-market of Lehman Brothers securities that we purchased from various 2a-7 money market mutual funds managed by our subsidiary, RiverSource Investments LLC and \$36 million for the cost of guaranteeing specific client holdings in an unaffiliated money market mutual fund.

*Income Taxes*



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Our effective tax rate decreased to (22.7)% for the nine months ended September 30, 2008, compared to 17.6% for the nine months ended September 30, 2007 primarily due to the level of pretax income relative to tax advantaged items and \$79 million in tax benefits related to changes in the status of current audits and closed audits, tax planning initiatives, and the finalization of prior year tax returns. The effective tax rate for the nine months ended September 30, 2007 reflected a \$44 million tax benefit related to the finalization of certain income tax audits, our plan to begin repatriating earnings of certain Threadneedle entities through dividends and the finalization of the prior year tax returns.

### **Results of Operations by Segment for the Nine Months Ended September 30, 2008 and 2007**

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The following tables present summary financial information by segment and a reconciliation to the consolidated totals derived from Note 16 to our Consolidated Financial Statements for the nine months ended September 30, 2008 and 2007:

|                             | 2008     | Nine Months Ended<br>September 30, |    | 2007  | Percent Share<br>of Total |
|-----------------------------|----------|------------------------------------|----|-------|---------------------------|
|                             |          | (in millions, except percentages)  |    |       |                           |
| <b>Total net revenues</b>   |          |                                    |    |       |                           |
| Advice & Wealth Management  | \$ 2,539 | 45%                                | \$ | 2,866 | 46%                       |
| Asset Management            | 1,024    | 18                                 |    | 1,270 | 20                        |
| Annuities                   | 1,308    | 23                                 |    | 1,626 | 26                        |
| Protection                  | 1,536    | 28                                 |    | 1,461 | 23                        |
| Corporate & Other           | 14       |                                    |    | 8     |                           |
| Eliminations                | (801)    | (14)                               |    | (935) | (15)                      |
| Total net revenues          | \$ 5,620 | 100%                               | \$ | 6,296 | 100%                      |
| <b>Total expenses</b>       |          |                                    |    |       |                           |
| Advice & Wealth Management  | \$ 2,501 | 47%                                | \$ | 2,615 | 47%                       |
| Asset Management            | 949      | 18                                 |    | 1,071 | 19                        |
| Annuities                   | 1,223    | 23                                 |    | 1,331 | 24                        |
| Protection                  | 1,217    | 23                                 |    | 1,130 | 20                        |
| Corporate & Other           | 261      | 4                                  |    | 406   | 7                         |
| Eliminations                | (801)    | (15)                               |    | (935) | (17)                      |
| Total expenses              | \$ 5,350 | 100%                               | \$ | 5,618 | 100%                      |
| <b>Pretax income (loss)</b> |          |                                    |    |       |                           |
| Advice & Wealth Management  | \$ 38    | 14%                                | \$ | 251   | 37%                       |
| Asset Management            | 75       | 28                                 |    | 199   | 29                        |
| Annuities                   | 85       | 31                                 |    | 295   | 44                        |
| Protection                  | 319      | 118                                |    | 331   | 49                        |
| Corporate & Other           | (247)    | (91)                               |    | (398) | (59)                      |
| Pretax income               | \$ 270   | 100%                               | \$ | 678   | 100%                      |

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*Advice & Wealth Management*

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Our Advice & Wealth Management segment provides financial planning and advice, as well as full service brokerage and banking services, primarily to retail clients, through our financial advisors. Our affiliated advisors utilize a diversified selection of both proprietary and non-proprietary products to help clients meet their financial needs.

The following table presents the results of operations of our Advice & Wealth Management segment for the nine months ended September 30, 2008 and 2007:

|                                      | Nine Months Ended<br>September 30, |        | Change   |       |
|--------------------------------------|------------------------------------|--------|----------|-------|
|                                      | 2008                               | 2007   |          |       |
| <b>Revenues</b>                      |                                    |        |          |       |
| Management and financial advice fees | \$ 1,047                           | \$ 981 | \$ 66    | 7%    |
| Distribution fees                    | 1,482                              | 1,701  | (219)    | (13)  |
| Net investment income                | 87                                 | 305    | (218)    | (72)  |
| Other revenues                       | 55                                 | 55     |          |       |
| Total revenues                       | 2,671                              | 3,042  | (371)    | (12)  |
| Banking and deposit interest expense | 132                                | 176    | (44)     | (25)  |
| Total net revenues                   | 2,539                              | 2,866  | (327)    | (11)  |
| <b>Expenses</b>                      |                                    |        |          |       |
| Distribution expenses                | 1,664                              | 1,762  | (98)     | (6)   |
| General and administrative expense   | 837                                | 853    | (16)     | (2)   |
| Total expenses                       | 2,501                              | 2,615  | (114)    | (4)   |
| Pretax income                        | \$ 38                              | \$ 251 | \$ (213) | (85)% |

Our Advice & Wealth Management segment pretax income was \$38 million, down 85% from \$251 million.

### *Net Revenues*

Management and financial advice fees increased \$66 million, or 7%, as compared to the year-ago period due to higher average asset balances in 2008.

Distribution fees declined \$219 million, or 13%, as fees for the nine months ended September 30, 2007 included an increase from the sales of direct investments as clients reinvested proceeds from real estate investment trust liquidations, as well as lower sales volume on products generating these fees and market depreciation throughout 2008.

Net investment income decreased \$218 million, or 72%, due to net realized investment losses of \$139 million on Available-for-Sale securities for the nine months ended September 30, 2008, including \$118 million primarily due to impairments recorded on financial services securities and non-agency, residential mortgage-backed securities, compared to net realized investment losses on Available-for-Sale securities of \$1 million in the year-ago period. Also contributing to the decrease in net investment income were lower yields on our investment portfolio as a result of strengthening our liquidity position and investing in shorter term instruments.

Banking and deposit interest expense decreased \$44 million, or 25%, due to lower crediting rates accrued on certificates.

*Expenses*

Total expenses decreased \$114 million, or 4%, driven by a decrease in distribution expenses as a result of the lower cash sales mentioned above. General and administrative expense decreased due to our continued expense management initiatives.



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*Asset Management*



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Our Asset Management segment provides investment advice and investment products to retail and institutional clients.

The following table presents the results of operations of our Asset Management segment for the nine months ended September 30, 2008 and 2007:

|  | Nine Months Ended<br>September 30, |        | Change                            |       |
|--|------------------------------------|--------|-----------------------------------|-------|
|  | 2008                               | 2007   | (in millions, except percentages) |       |
| <b>Revenues</b>                            |                                    |        |                                   |       |
| Management and financial advice fees       | \$ 859                             | \$ 943 | \$ (84)                           | (9)%  |
| Distribution fees                          | 198                                | 244    | (46)                              | (19)  |
| Net investment income                      | (6)                                | 44     | (50)                              | NM    |
| Other revenues                             | (22)                               | 52     | (74)                              | NM    |
| Total revenues                             | 1,029                              | 1,283  | (254)                             | (20)  |
| Banking and deposit interest expense       | 5                                  | 13     | (8)                               | (61)  |
| Total net revenues                         | 1,024                              | 1,270  | (246)                             | (19)  |
| <b>Expenses</b>                            |                                    |        |                                   |       |
| Distribution expenses                      | 330                                | 346    | (16)                              | (5)   |
| Amortization of deferred acquisition costs | 19                                 | 26     | (7)                               | (27)  |
| General and administrative expense         | 600                                | 699    | (99)                              | (14)  |
| Total expenses                             | 949                                | 1,071  | (122)                             | (11)  |
| Pretax income                              | \$ 75                              | \$ 199 | \$ (124)                          | (62)% |



NM Not Meaningful.

Our Asset Management segment pretax income was \$75 million, a decline of 62% from \$199 million.

*Net Revenues*



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Management and financial advice fees declined \$84 million, or 9%, driven by a 24% decrease in assets under management due to net outflows of RiverSource and Threadneedle funds of \$10.4 billion and \$9.2 billion, respectively, during the nine months ended September 30, 2008, as well as the impact of equity market declines and foreign exchange rates. RiverSource funds net outflows in the current year were primarily due to reduced mutual fund sales as well as anticipated outflows of institutional assets of a former affiliate. Redemption rates for RiverSource Funds remained stable. Threadneedle experienced anticipated outflows of lower-margin institutional assets and outflows of hedge fund assets due to changes in portfolio managers. The foreign exchange translation impact for the nine months ended September 30, 2008 decreased Threadneedle managed assets by \$12.1 billion.

Distribution fees declined \$46 million, or 19%, due primarily to lower mutual fund sales.

Net investment income declined \$50 million primarily due to lower mark-to-market adjustments on seed money investments, driven by a declining market, as well as the deconsolidation of certain limited partnerships in the fourth quarter of 2007, which is offset in banking and deposit interest expense.

Other revenues declined \$74 million primarily due to decreases in revenue related to certain consolidated limited partnerships, which had a corresponding decrease in expense.

### *Expenses*





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Total expenses decreased \$122 million, or 11%, due primarily to a decrease in general and administrative expense. The primary drivers of this decline were a decrease in expenses related to certain consolidated limited partnerships, which corresponds with the decline in other revenues noted above, as well as a decline resulting from expense management initiatives and lower compensation accruals.

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Our Annuities segment provides RiverSource Life variable and fixed annuity products to our retail clients primarily through our Advice & Wealth Management segment and to the retail clients of unaffiliated advisors through third-party distribution.

The following table presents the results of operations of our Annuities segment for the nine months ended September 30, 2008 and 2007:

|  | Nine Months Ended<br>September 30, |        | Change   |       |
|--|------------------------------------|--------|----------|-------|
|  | 2008                               | 2007   |          |       |
| (in millions, except percentages)                |                                    |        |          |       |
| <b>Revenues</b>                                  |                                    |        |          |       |
| Management and financial advice fees             | \$ 380                             | \$ 372 | \$ 8     | 2%    |
| Distribution fees                                | 213                                | 197    | 16       | 8     |
| Net investment income                            | 560                                | 922    | (362)    | (39)  |
| Premiums   | 60                                 | 70     | (10)     | (14)  |
| Other revenues                                   | 95                                 | 65     | 30       | 46    |
| Total net revenues                               | 1,308                              | 1,626  | (318)    | (20)  |
| <b>Expenses</b>                                  |                                    |        |          |       |
| Distribution expenses                            | 142                                | 146    | (4)      | (3)   |
| Interest credited to fixed accounts              | 479                                | 539    | (60)     | (11)  |
| Benefits, claims, losses and settlement expenses | 156                                | 249    | (93)     | (37)  |
| Amortization of deferred acquisition costs       | 281                                | 218    | 63       | 29    |
| General and administrative expense               | 165                                | 179    | (14)     | (8)   |
| Total expenses                                   | 1,223                              | 1,331  | (108)    | (8)   |
| Pretax income                                    | \$ 85                              | \$ 295 | \$ (210) | (71)% |

Our Annuities segment pretax income was \$85 million, down \$210 million, or 71%, from \$295 million.

*Net Revenues*

Management and financial advice fees increased \$8 million, or 2%, driven by positive net flows, partially offset by market declines. Variable annuities had net inflows of \$2.2 billion during the nine months ended September 30, 2008 compared to net inflows of \$3.8 billion for the nine months ended September 30, 2007. Our fixed annuities had total outflows of \$1.1 billion in the nine months ended September 30, 2008 compared to outflows of \$2.2 billion for the same period a year ago.

Distribution fees increased \$16 million driven by positive net flows in variable annuity accounts.

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Net investment income decreased \$362 million primarily due to net realized investment losses on Available-for-Sale securities of \$181 million related to impairments of financial services securities recognized in the nine months ended September 30, 2008 compared to net realized investment gains of \$18 million in the prior year period and declining average fixed annuity account balances. Also contributing to lower net investment income for the nine months ended September 30, 2008 are lower yields on our investment portfolio as a result of strengthening our liquidity position and investing in shorter term instruments. Included in the third quarter of 2007 was a reduction of \$21 million in the commercial mortgage loan loss reserve.

Premiums declined \$10 million, or 14%, due to lower sales of immediate annuities with life contingencies.

Other revenues increased \$30 million primarily due to an increase in our guaranteed benefit rider fees on variable annuities, driven by volume increases.

### *Expenses*

Total expenses decreased \$108 million, or 8%, to \$1.2 billion.

Interest credited to fixed accounts decreased \$60 million, or 11%, driven by declining fixed annuity account balances, down 10% from the year-ago period.

Benefits, claims, losses and settlement expenses decreased \$93 million, or 37%, reflecting a net benefit of \$45 million from updating our valuation assumptions and converting to a new valuation system, partially offset by an expense of \$10 million from the market's impact on DSIC. The prior year period reflected \$4 million of additional expense related to updating our valuation assumptions, and an immaterial market impact on DSIC. In addition, our reserves for variable annuity guaranteed benefit riders decreased \$31 million compared to a \$39 million increase in benefit expenses from the mark-to-market of variable annuity guaranteed benefit riders in the prior year period.

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The amortization of DAC increased \$63 million, or 29%. This included a \$65 million increase in DAC amortization due to the market's impact on DAC, partially offset by an \$8 million decrease in DAC amortization from updating valuation assumptions and converting to a new valuation system. The prior year period included a \$5 million decrease in amortization from updating valuation assumptions and a \$12 million decrease due to the market's impact on DAC.

General and administrative expense decreased \$14 million due to expense management initiatives.

*Protection*

Our Protection segment offers a variety of protection products to address the identified protection and risk management needs of our retail clients including life, disability income and property-casualty insurance.

The following table presents the results of operations of our Protection segment for the nine months ended September 30, 2008 and 2007:

|  | Nine Months Ended |        | September 30,                     |       | Change |  |
|--|-------------------|--------|-----------------------------------|-------|--------|--|
|  | 2008              | 2007   | (in millions, except percentages) |       |        |  |
| <b>Revenues</b>                                  |                   |        |                                   |       |        |  |
| Management and financial advice fees             | \$ 45             | \$ 50  | \$ (5)                            | (10)% |        |  |
| Distribution fees                                | 78                | 76     | 2                                 | 3     |        |  |
| Net investment income                            | 210               | 269    | (59)                              | (22)  |        |  |
| Premiums   | 772               | 747    | 25                                | 3     |        |  |
| Other revenues                                   | 432               | 320    | 112                               | 35    |        |  |
| Total revenues                                   | 1,537             | 1,462  | 75                                | 5     |        |  |
| Banking and deposit interest expense             | 1                 | 1      |                                   |       |        |  |
| Total net revenues                               | 1,536             | 1,461  | 75                                | 5     |        |  |
| <b>Expenses</b>                                  |                   |        |                                   |       |        |  |
| Distribution expenses                            | 47                | 49     | (2)                               | (4)   |        |  |
| Interest credited to fixed accounts              | 108               | 106    | 2                                 | 2     |        |  |
| Benefits, claims, losses and settlement expenses | 638               | 654    | (16)                              | (2)   |        |  |
| Amortization of deferred acquisition costs       | 238               | 143    | 95                                | 66    |        |  |
| General and administrative expense               | 186               | 178    | 8                                 | 4     |        |  |
| Total expenses                                   | 1,217             | 1,130  | 87                                | 8     |        |  |
| Pretax income                                    | \$ 319            | \$ 331 | \$ (12)                           | (4)%  |        |  |

Our Protection segment pretax income was \$319 million, down 4% from \$331 million.

*Net Revenues*

Net revenues were \$1.5 billion, an increase of \$75 million, or 5%. Premiums increased \$25 million due to a 5% increase in auto and home policy counts. Other revenues increased \$112 million largely due to a \$95 million benefit from updating valuation assumptions and converting to a new valuation system. The prior year period included an immaterial decrease in other revenues from updating valuation assumptions. Also contributing to the increase in other revenues are higher cost-of-insurance fees for VUL/UL insurance resulting from volume increases. These increases were partially offset by a decline in net investment income of \$59 million. Net realized losses from Available-for-Sale securities were \$48 million for the nine months ended September 30, 2008 compared to net realized investment gains of \$4 million in the year-ago period. The net realized losses from investment securities are primarily related to impairments of financial services securities taken in the third quarter of 2008.

*Expenses*

Total expenses were \$1.2 billion, an increase of \$87 million, or 8%. The increase was due to a \$95 million increase in amortization of DAC, partially offset by a \$16 million decrease in benefits, claims, losses and settlement expenses.

Benefits, claims, losses and settlement expenses decreased \$16 million, or 2%, reflecting a net benefit of \$43 million from updating valuation assumptions and converting to a new valuation system, partially offset by an increase in life, long-term care and disability income insurance benefits. Expenses in 2007 included an unfavorable \$12 million adjustment in reserves for disability income insurance claims and a \$9 million increase from updating valuation assumptions.

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DAC amortization increased \$95 million primarily attributable to a \$90 million increase in expense from updating valuation assumptions and converting to a new valuation system, as well as an \$8 million increase due to the market's impact on DAC. The prior year period included an increase in DAC amortization of \$20 million from updating valuation assumptions and an immaterial impact on DAC from the market.

*Corporate & Other*

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The following table presents the results of operations of our Corporate & Other segment for the nine months ended September 30, 2008 and 2007:

|                                      | Nine Months Ended<br>September 30, |      | Change                            |       |        |
|--------------------------------------|------------------------------------|------|-----------------------------------|-------|--------|
|                                      | 2008                               | 2007 | (in millions, except percentages) |       |        |
| <b>Revenues</b>                      |                                    |      |                                   |       |        |
| Management and financial advice fees | \$                                 | \$   | 1                                 | (1)   | NM     |
| Net investment income                |                                    |      | 11                                | 8     | 3      |
| Other revenues                       |                                    |      | 4                                 | 4     |        |
| Total revenues                       |                                    |      | 15                                | 13    | 2      |
| Banking and deposit interest expense |                                    |      | 1                                 | 5     | (4)    |
| Total net revenues                   |                                    |      | 14                                | 8     | 6      |
| <b>Expenses</b>                      |                                    |      |                                   |       |        |
| Distribution expense                 |                                    |      | 1                                 | 1     |        |
| Interest and debt expense            |                                    |      | 81                                | 85    | (4)    |
| Separation costs                     |                                    |      |                                   | 208   | (208)  |
| General and administrative expense   |                                    |      | 179                               | 112   | 67     |
| Total expenses                       |                                    |      | 261                               | 406   | (145)  |
| Pretax loss                          | \$                                 | \$   | (247)                             | (398) | \$ 151 |
|                                      |                                    |      |                                   |       | 38%    |

NM Not Meaningful.

Our Corporate & Other pretax segment loss was \$247 million, an improvement of \$151 million compared to a pretax segment loss of \$398 million for the same period in 2007. The improvement was due to a decrease in separation costs of \$208 million, as the separation from American Express was completed in 2007. General and administrative expense increased \$67 million primarily driven by a \$77 million expense related to the mark-to-market of Lehman Brothers securities that we purchased from various 2a-7 money market mutual funds managed by our subsidiary, RiverSource Investments LLC. Also contributing to the increase in general and administrative expense was \$36 million for the cost of guaranteeing specific client holdings in an unaffiliated money market mutual fund. These increases were partially offset by decreased expenses related to certain consolidated limited partnerships, decreased compensation accruals and cost savings initiatives.

### Market Risk

Equity market and interest rate fluctuations can have a significant impact on our results of operations, primarily due to the effects they have on the asset management and other asset-based fees we earn, the spread income generated on our annuities, banking, and face amount certificate products and universal life (UL) insurance products, the value of DAC and DSIC, assets associated with variable annuity and variable UL products, the values of liabilities for guaranteed benefits associated with our variable annuities and the values of derivatives held to hedge these benefits.

Changes in both the equity and fixed income markets during the third quarter of 2008 have affected our market risk position. These changes resulted in lower asset values against which we take asset-based management and distribution fees as well as increases in our stated liabilities for variable annuity guaranteed benefits. The guaranteed benefits associated with our variable annuities are guaranteed minimum withdrawal benefit (GMWB), guaranteed minimum accumulation benefit (GMAB), guaranteed minimum death benefit (GMDB) and guaranteed minimum income benefit (GMIB) options. Each of the guaranteed benefits mentioned above guarantees payouts to the annuity holder under certain specific conditions regardless of the performance of the underlying investment assets.

To evaluate interest rate and equity price risk we perform sensitivity testing which measures the impact on pretax income from the sources listed below for a 12 month period following a hypothetical 100 basis point increase in interest rates and a hypothetical 10% decline in equity markets. Due to the market turmoil in the third quarter of 2008, we also performed sensitivity testing using a hypothetical 20% decline in equity markets.



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The numbers below show our estimate of the pretax impact from equity price risk exposure related to asset-based management and distribution fees and variable annuity riders at September 30, 2008.

| Equity Price Decline 10%   | Equity Price Exposure to Pretax Income |                               |            |
|--|--|-------------------------------|------------|
|  | Before<br>Hedge Impact                 | Hedge Impact<br>(in millions) | Net Impact |
| Asset-based management and distribution fees, including DAC amortization | \$ (165)                               | \$ N/A                        | \$ (165)   |
| Variable annuity riders:   |  |                               |            |
| GMDB and GMIB  | (51)                                   | N/A                           | (51)       |
| GMWB   | (82)                                   | 84                            | 2          |
| GMAB   | (24)                                   | 28                            | 4          |
| DAC amortization   | (3)                                    | N/A                           | (3)        |
| Total variable annuity riders  | (160)                                  | 112                           | (48)       |
| Total  | \$ (325)                               | \$ 112                        | \$ (213)   |

| Equity Price Decline 20%   | Equity Price Exposure to Pretax Income |                               |            |
|--|--|-------------------------------|------------|
|  | Before<br>Hedge Impact                 | Hedge Impact<br>(in millions) | Net Impact |
| Asset-based management and distribution fees, including DAC amortization | \$ (294)                               | \$ N/A                        | \$ (294)   |
| Variable annuity riders:   |  |                               |            |
| GMDB and GMIB  | (95)                                   | N/A                           | (95)       |
| GMWB   | (189)                                  | 200                           | 11         |
| GMAB   | (54)                                   | 67                            | 13         |
| DAC amortization   | (5)                                    | N/A                           | (5)        |
| Total variable annuity riders  | (343)                                  | 267                           | (76)       |
| Total  | \$ (637)                               | \$ 267                        | \$ (370)   |

The numbers below show our estimate of the pretax impact from interest rate risk exposure related to variable annuity riders at September 30, 2008.

| Interest Rate Increase 100 Basis Points | Interest Rate Exposure to Pretax Income |                               |            |
|---|---|-------------------------------|------------|
|   | Before<br>Hedge Impact                  | Hedge Impact<br>(in millions) | Net Impact |
| Variable annuity riders:                |   |                               |            |
| GMWB                                    | \$ 161                                  | \$ (185)                      | \$ (24)    |
| GMAB                                    | 37                                      | (25)                          | 12         |
| DAC amortization                        | 5                                       | N/A                           | 5          |
| Total                                   | \$ 203                                  | \$ (210)                      | \$ (7)     |

N/A Not Applicable.

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The impact on pretax income from interest rate risk exposure related to our asset-based management and distribution fees, fixed annuities, fixed portion of variable annuities, fixed insurance products and flexible savings and other fixed rate certificates did not materially change from our disclosures in our Management's Discussion and Analysis Quantitative and Qualitative Disclosures About Market Risk in our 2007 10-K.

Actual results could differ materially from those illustrated above as they are based on a number of estimates and assumptions. These include assuming the composition of invested assets and liabilities does not change in the 12 month period following the hypothetical market decline, that there are no changes in implied market volatility and the increase in interest rates produces a parallel shift in the yield curve. The selection of a 100 basis point interest rate increase and a 10% and 20% equity market decline should not be construed as a prediction of future market events.

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Equity Price Risk – Asset-Based Management and Distribution Fees

We earn asset-based management fees on our owned separate account assets and certain of our managed assets. We also earn distribution fees on our managed assets. These sources of revenue are subject to equity price risk since the value of these assets fluctuates directly with equity prices. As of September 30, 2008 we do not hedge the equity risk of this exposure.

Equity Price Risk – Variable Annuity Riders

The variable annuity guaranteed benefits guarantee payouts to the annuity holder under certain specific conditions regardless of the performance of the investment assets. For this reason, when equity markets decline, the returns from the separate account assets coupled with guaranteed benefit fees from annuity holders may not be sufficient to fund expected payouts. In that case, reserves must be increased with a negative impact to earnings. We do not hedge the equity price risk related to GMDB and GMIB. The core derivative instruments with which we hedge the equity price risk of our GMWB and GMAB are longer dated put and call options; these core instruments are supplemented with equity futures and total return swaps.

Interest Rate Risk – Variable Annuity Riders

The GMAB and the non-life contingent benefits associated with the GMWB provisions create embedded derivatives which are carried at fair value separately from the underlying host variable annuity contract. Increases in interest rates reduce the fair value of the GMWB and GMAB liabilities. The GMWB and GMAB interest rate exposure is hedged with a portfolio of longer dated put and call options, interest rate swaps and swaptions. During the three months ended September 30, 2008, we continued to adjust the hedge portfolio to reflect the sensitivity of the liabilities.

**Credit Risk**

We are exposed to credit risk within our investment portfolio, which includes loans, and through derivative and reinsurance counterparties. Credit risk relates to the uncertainty of an obligor's continued ability to make timely payments in accordance with the contractual terms of the instrument or contract. Our potential derivative credit exposure to each counterparty is aggregated with all of our other exposures to the counterparty to determine compliance with established credit guidelines at the time we enter into a derivative transaction. We manage credit risk through fundamental credit analysis, issuer and industry concentration guidelines, and diversification requirements. These guidelines and oversight of credit risk are managed through our comprehensive enterprise risk management program that includes members of senior management.

We manage the risk of adverse default experience on these investments by applying disciplined fundamental credit analysis and underwriting standards, prudently limiting exposures to lower-quality, higher-yielding investments, and diversifying exposures by issuer, industry, region and property type. For each counterparty or borrowing entity and its affiliates, our exposures from all types of transactions are aggregated and managed in relation to guidelines set by risk tolerance thresholds and external and internal rating quality. We remain exposed to occasional

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adverse cyclical economic downturns during which default rates may be significantly higher than the long term historical average used in pricing.

Credit exposures on derivative contracts may take into account netting arrangements and collateral arrangements. Before executing a new type of structure of derivative contract, we determine the variability of the contract's potential market and credit exposures and whether such variability might reasonably be expected to create exposure to a counterparty in excess of established limits.

Additionally, we reinsure a portion of the insurance risks associated with our life, disability income, long-term care and auto and home insurance products through reinsurance agreements with unaffiliated reinsurance companies. Reinsurance is used in order to limit losses, reduce exposure to large risks and provide additional capacity for future growth. To manage exposure to losses from reinsurer insolvencies, the financial condition of reinsurers is evaluated prior to entering into new reinsurance treaties and on a periodic basis during the terms of the treaties. Our insurance companies remain primarily liable as the direct insurers on all risks reinsured.

For additional information regarding our sensitivity to market and credit risk, see Management's Discussion and Analysis Quantitative and Qualitative Disclosures About Market Risk in our 2007 10-K.

### **Fair Value Measurements**

We report certain assets and liabilities at fair value; specifically, separate account assets, derivatives, embedded derivatives, properties held by our consolidated property funds, and most investments and cash equivalents are reported at their fair values. Statement of Financial Accounting Standards No. 157, Fair Value Measurements ( SFAS 157 ) defines fair value, provides a framework for measuring fair value and expands disclosures about fair value measurements. Fair value assumes the exchange of assets or liabilities occurs in orderly transactions. We include actual market prices, or observable inputs in our fair value measurements to the extent available. Broker quotes are obtained when quotes from pricing services are not

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available. We validate prices obtained from third parties through a variety of means such as: price variance analysis, subsequent sales testing, stale price review, price comparison across pricing vendors and due diligence reviews of vendors. SFAS 157 does not require the use of market prices that are the result of a forced liquidation or distressed sale.

Illiquid Markets

Through our own experience transacting in the marketplace and through discussions with our pricing vendors, we believe that the market for certain non-agency residential mortgage-backed securities is inactive. Indicators of inactive markets include: pricing services' reliance on brokers or discounted cash flow analyses to provide prices, an increase in the disparity between prices provided by different pricing services for the same security, unreasonably large bid-offer spreads and a significant decrease in the volume of trades relative to historical levels. This market inactivity has resulted in our applying valuation techniques that rely more on an income approach (discounted cash flows using market rates) than on a market approach (prices from pricing services). We consider market observable yields for other asset classes we consider to be of similar risk which includes nonperformance and liquidity for individual securities to set the discount rate for applying the income approach to certain non-agency residential mortgage-backed securities. The discount rates used for these securities at September 30, 2008 ranged from 11% to 17%.

Residential Mortgage-backed Securities Backed by Subprime or Alt-A Collateral

Sub-prime mortgage lending is the origination of residential mortgage loans to customers with weak credit profiles. Alt-A mortgage lending is the origination of residential mortgage loans to customers who have credit ratings above sub-prime but may not conform to government-sponsored standards. We have exposure to these types of loans only through mortgage-backed and asset-backed securities. The slow down in the U.S. housing market, combined with relaxed underwriting standards by some originators, has recently led to higher delinquency and loss rates for some of these investments. Recent market conditions have increased the likelihood of other-than-temporary impairments for certain non-agency residential mortgage-backed securities. As a part of our risk management process, an internal rating system is used in conjunction with market data as the basis of analysis to assess the likelihood that we will not receive all contractual principal and interest payments for these investments. For the investments that are more at risk for impairment, we perform our own assessment of projected cash flows incorporating assumptions about default rates, prepayment speeds, loss severity, and geographic concentrations to determine if an other-than-temporary impairment should be recognized. Based on this analysis, other than non-agency mortgage-backed securities that had credit-related impairments recorded in the nine months ended September 30, 2008, all contractual payments are expected to be received.

The following table presents, as of September 30, 2008, our residential mortgage-backed and asset-backed securities backed by sub-prime and Alt-A mortgage loans by credit rating and vintage year. For presentation in this table, other-than-temporarily impaired securities are shown at their internal rating of BB and below (amounts in millions).

|                  | AAA            |            | AA             |            | A              |            | BBB            |            | BB & Below     |            | Total          |            |
|------------------|----------------|------------|----------------|------------|----------------|------------|----------------|------------|----------------|------------|----------------|------------|
|                  | Amortized Cost | Fair Value | Amortized Cost | Fair Value | Amortized Cost | Fair Value | Amortized Cost | Fair Value | Amortized Cost | Fair Value | Amortized Cost | Fair Value |
| <b>Sub-prime</b> |                |            |                |            |                |            |                |            |                |            |                |            |
| 2003 & prior     | \$ 2           | \$ 1       | \$             | \$         | \$             | \$         | \$             | \$         | \$             | \$         | \$ 2           | \$ 1       |
| 2004             | 17             | 15         | 8              | 7          |                |            | 10             | 9          |                |            | 35             | 31         |
| 2005             | 95             | 85         |                |            | 5              | 4          | 2              | 2          |                |            | 102            | 91         |
| 2006             | 65             | 58         | 27             | 23         |                |            |                |            | 19             | 19         | 111            | 100        |

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|                        |        |        |        |        |       |       |       |       |        |        |          |          |      |
|------------------------|--------|--------|--------|--------|-------|-------|-------|-------|--------|--------|----------|----------|------|
| 2007                   |        |        |        |        |       |       |       |       |        | 6      | 6        | 6        | 6    |
| 2008                   | 11     | 10     |        |        |       |       |       |       |        |        |          | 11       | 10   |
| <b>Total Sub-prime</b> | \$ 190 | \$ 169 | \$ 35  | \$ 30  | \$ 5  | \$ 4  | \$ 12 | \$ 11 | \$ 25  | \$ 25  | \$ 267   | \$ 239   |      |
| <b>Alt-A</b>           |        |        |        |        |       |       |       |       |        |        |          |          |      |
| 2003 & prior           | \$ 8   | \$ 8   | \$     | \$     | \$    | \$    | \$    | \$    | \$     | \$     | \$       | \$ 8     | \$ 8 |
| 2004                   | 89     | 79     | 27     | 18     |       |       |       |       |        |        |          | 116      | 97   |
| 2005                   | 432    | 364    | 77     | 40     | 6     | 5     |       |       | 20     | 20     |          | 535      | 429  |
| 2006                   | 85     | 78     | 22     | 17     | 34    | 26    | 21    | 21    | 175    | 175    |          | 337      | 317  |
| 2007                   | 171    | 124    | 32     | 26     |       |       |       |       | 22     | 17     | 36       | 36       | 261  |
| 2008                   |        |        |        |        |       |       |       |       |        |        |          |          |      |
| <b>Total Alt-A</b>     | \$ 785 | \$ 653 | \$ 158 | \$ 101 | \$ 40 | \$ 31 | \$ 43 | \$ 38 | \$ 231 | \$ 231 | \$ 1,257 | \$ 1,054 |      |
| <b>Grand Total</b>     | \$ 975 | \$ 822 | \$ 193 | \$ 131 | \$ 45 | \$ 35 | \$ 55 | \$ 49 | \$ 256 | \$ 256 | \$ 1,524 | \$ 1,293 |      |

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Fair Value of Liabilities and Nonperformance Risk

SFAS 157 also requires companies to measure the fair value of liabilities at the price that would be received to transfer the liability to a market participant (an exit price). Since there is not a market for our obligations to policyholders of our variable annuity riders, we considered the assumptions participants in a hypothetical market would make to reflect an exit price. As a result, we adjusted the valuation of variable annuity riders by updating certain policyholder assumptions, adding explicit margins to provide for profit, risk and expenses, and adjusting the rates used to discount expected cash flows to reflect a current market estimate of our nonperformance risk. The nonperformance risk adjustment is specific to the risk of our life insurance company subsidiaries not fulfilling these liabilities. This nonperformance risk adjustment is based on broker quotes for credit default swaps. Consistent with general market conditions, this estimate resulted in a spread over the LIBOR swap curve as of September 30, 2008. As our estimate of this spread widens or tightens, the liability will decrease or increase. If this nonperformance credit spread moves to a zero spread over the LIBOR swap curve, the reduction to net income would be approximately \$62 million, net of DAC and DSIC amortization and income taxes, based on September 30, 2008 credit spreads.

As outlined in the credit risk section above, nonperformance risk for derivatives is managed and mitigated primarily through the use of master netting arrangements and collateral arrangements. As of September 30, 2008, any deterioration in our derivative counterparties' credit would not materially impact our financial statements.

**Liquidity and Capital Resources**



*Overview*



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We maintained substantial liquidity during the third quarter of 2008. At September 30, 2008, we had \$4 billion in cash and cash equivalents, up from \$3.8 billion at December 31, 2007. We expect to use approximately \$800 million of cash during the fourth quarter of 2008 for our three acquisitions. We have additional liquidity available through an unsecured revolving credit facility for \$750 million that expires in September 2010. Under the terms of the underlying credit agreement, we can increase this facility to \$1.0 billion. Available borrowings under this facility are reduced by any outstanding letters of credit. We have had no borrowings under this credit facility and had \$2 million of outstanding letters of credit at September 30, 2008. In September 2008, RiverSource Life, as the lender, entered into a revolving credit agreement with Ameriprise Financial, Inc. as the borrower. This line of credit is not to exceed 3% of RiverSource Life's statutory admitted assets as of the prior year end. As of September 30, 2008, there were no borrowings outstanding against this credit facility. Our parent holding company also maintains line of credit agreements to loan cash to certain subsidiaries of \$1.5 billion, of which \$487 million was outstanding as of September 30, 2008. We believe cash flows from operating activities, available cash balances and our availability of revolver borrowings will be sufficient to fund our operating liquidity needs.

The following table summarizes the ratings for Ameriprise Financial, Inc. and certain of its subsidiaries as of the date of this filing:

|   | A.M. Best<br>Company | Standard &<br>Poor's Rating<br>Services | Moody's<br>Investors<br>Service, Inc. | Fitch Ratings<br>Ltd. |
|---|----------------------|---|---------------------------------------|-----------------------|
| <b>Claims Paying Ratings</b>            |                      |   |                                       |                       |
| RiverSource Life                        | A+                   | AA-                                     | Aa3                                   | AA-                   |
| IDS Property Casualty Insurance Company | A                    | N/R                                     | N/R                                   | N/R                   |
| <b>Credit Ratings</b>                   |                      |   |                                       |                       |
| Ameriprise Financial, Inc.              | a-                   | A                                       | A3                                    | A-                    |

On July 10, 2008, Standard & Poor's Ratings Services (S&P) raised its counterparty credit rating on Ameriprise Financial, Inc. to A from A- and indicated its ratings outlook on our company as stable, citing our strong balance sheet and strong cash coverage of our stable life insurance and asset management operations, supported by an innovative financial advisory distribution channel. These positive factors are somewhat offset by sensitivity to equity-market and debt-market volatility and competitive pressure in our key segments. At the same time, S&P affirmed its AA- counterparty credit and financial strength ratings on our life insurance subsidiaries, RiverSource Life and RiverSource Life Insurance Co. of New York.

### *Dividends from Subsidiaries*



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Ameriprise Financial, Inc. is primarily a parent holding company for the operations carried out by our wholly owned subsidiaries. Because of our holding company structure, our ability to meet our cash requirements, including the payment of dividends on our common stock, substantially depends upon the receipt of dividends or return of capital from our subsidiaries, particularly our life insurance subsidiary, RiverSource Life, our face-amount certificate subsidiary, Ameriprise Certificate Company ( ACC ), our retail introducing broker-dealer subsidiary, Ameriprise Financial Services, Inc. ( AFSI ), our clearing broker-dealer subsidiary,

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American Enterprise Investment Services, Inc. ( AEIS ), our auto and home insurance subsidiary, IDS Property Casualty Insurance Company ( IDS Property Casualty ), doing business as Ameriprise Auto & Home Insurance, Threadneedle, RiverSource Service Corporation and our investment advisory company, RiverSource Investments, LLC. The payment of dividends by many of our subsidiaries is restricted and certain of our subsidiaries are subject to regulatory capital requirements.

Actual capital and regulatory capital requirements for our wholly owned subsidiaries subject to regulatory capital requirements were as follows:

|   | Actual Capital as of  |                                       | Regulatory Capital |
|---|-----------------------|---------------------------------------|--------------------|
|   | September 30,<br>2008 | December 31,<br>2007<br>(in millions) | Requirement        |
| RiverSource Life Insurance Company(1)(2)            | \$ 2,089              | \$ 3,017                              | \$ 442             |
| RiverSource Life Insurance Co. of New York(1)(2)    | 157                   | 288                                   | 34                 |
| IDS Property Casualty Insurance Company(1)(3)       | 443                   | 424                                   | 122                |
| Ameriprise Insurance Company(1)(3)                  | 47                    | 49                                    | 2                  |
| Ameriprise Certificate Company(4)                   | 258                   | 210                                   | 226                |
| Threadneedle Asset Management Holdings Limited(5)   | 304                   | 232                                   | 106                |
| Ameriprise Bank, FSB(6)                             | 130                   | 143                                   | 130                |
| Ameriprise Financial Services, Inc.(3)(4)           | 178                   | 102                                   | #                  |
| Ameriprise Captive Insurance Company                | 17                    | 16                                    | 14                 |
| Ameriprise Trust Company(3)                         | 47                    | 60                                    | 31                 |
| American Enterprise Investment Services, Inc.(3)(4) | 69                    | 56                                    | 6                  |
| Securities America, Inc.(3)(4)                      | 16                    | 13                                    | #                  |
| RiverSource Distributors, Inc.(3)(4)                | 37                    | 30                                    | #                  |

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# Amounts are less than \$1 million.

- (1) Actual capital is determined on a statutory basis.
- (2) Regulatory capital requirement is based on the most recent annual statutory risk-based capital filing, as of December 31, 2007.
- (3) Regulatory capital requirement is based on the applicable regulatory requirement, calculated as of September 30, 2008.
- (4) Actual capital is determined on an adjusted GAAP basis.
- (5) Actual capital and regulatory capital requirements are determined in accordance with U.K. regulatory legislation. The actual capital requirement and the regulatory capital requirement for September 30, 2008 are as of December 31, 2007. The actual capital requirement for December 31, 2007 is as of June 30, 2007.
- (6) Ameriprise Bank holds capital in compliance with the Federal Deposit Insurance Corporation policy regarding *de novo* depository institutions.

In addition to the particular regulations restricting dividend payments and establishing subsidiary capitalization requirements, we take into account the overall health of the business, capital levels and risk management considerations in determining a dividend strategy for payments to our company from our subsidiaries, and in deciding to use cash to make capital contributions to our subsidiaries. During the nine months ended September 30, 2008, Ameriprise Financial, Inc. received cash dividends and made cash contributions to subsidiaries of \$1.1 billion and \$137 million, respectively. Of the dividends received for the nine months ended September 30, 2008, \$775 million came from RiverSource Life. During the nine months ended September 30, 2007, Ameriprise Financial, Inc. received cash dividends and made cash contributions to subsidiaries of \$1.2 billion and \$40 million, respectively. Of the dividends received for the nine months ended September 30, 2007, \$800 million came from RiverSource Life.

*Share Repurchases and Dividends Paid to Shareholders*





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We have a share repurchase program in place to return excess capital to shareholders. During the nine months ended September 30, 2008 and 2007, we repurchased a total of 12.7 million and 11.1 million shares, respectively, of our common stock at an average price of \$48.26 and \$59.87, respectively. As of September 30, 2008, we had \$1.3 billion remaining under a share repurchase authorization. In light of the current market environment, we have temporarily suspended our stock repurchase program.

The share repurchase program does not require the purchase of any minimum number of shares, and depending on market conditions and factors, these purchases may be commenced or suspended at any time without prior notice. We used our existing working capital to fund these share repurchases.

We paid regular quarterly cash dividends to our shareholders totaling \$105 million and \$98 million for the nine months ended September 30, 2008 and 2007, respectively.

On October 22, 2008, our Board of Directors declared a regular quarterly cash dividend of \$0.17 per common share. The dividend will be paid on November 21, 2008 to our shareholders of record at the close of business on November 7, 2008.

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*Cash Flows from Operating Activities*



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Net cash provided by operating activities for the nine months ended September 30, 2008 was \$261 million compared to \$382 million for the nine months ended September 30, 2007, a decrease of \$121 million. The decrease was primarily related to advancing approximately \$300 million to our clients to fund their critical liquidity needs following the freeze of funds in the Reserve's Primary Fund and Government Fund, as well as the costs associated with supporting RiverSource 2a-7 money market mutual funds. These negative impacts to operating cash were partially offset by lower cash outflows due to lower expenses, including the completion of separation costs in 2007 and a \$100 million settlement that was paid in 2007. The increase related to the change in brokerage deposits was partially offset by the decrease related to the change in segregated cash, which was primarily due to the accumulation of client cash balances in brokerage accounts due to the lack of ability to sweep cash into the Reserve Fund.

### *Cash Flows from Investing Activities*



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Our investing activities primarily relate to our Available-for-Sale investment portfolio. Further, this activity is significantly affected by the net outflows of our fixed annuity and universal life products reflected in financing activities.

Net cash provided by investing activities for the nine months ended September 30, 2008 was \$627 million compared to \$4.3 billion for the nine months ended September 30, 2007, a decrease of \$3.7 billion. The decrease was primarily due to a \$2.7 billion decrease in proceeds from sales of Available-for-Sale securities partly due to lower net outflows of our fixed annuities and net inflows in our investment certificates compared to net outflows in our investment certificates in the prior year period. In addition, we purchased \$1.5 billion more of Available-for-Sale securities during the nine months ended September 30, 2008 compared to the prior year period, partially offset by a \$711 million increase in cash proceeds from maturities, sinking fund payments and calls. Consumer banking loans and credit card receivables resulted in a decrease in cash of \$146 million compared to the prior period as the result of new loans and our credit card launch in 2008.

### *Cash Flows from Financing Activities*



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Net cash used in financing activities for the nine months ended September 30, 2008 was \$657 million compared to \$3.4 billion for the nine months ended September 30, 2007, a decrease of \$2.8 billion. Net cash from policyholder and contractholder account values increased \$1.5 billion from the prior year period primarily due to lower net outflows in fixed annuities as a result of the market environment and sales initiatives and net inflows in our investment certificates compared to net outflows in our investment certificates in the prior year period. Proceeds from additions of investment certificates increased \$1.2 billion due to an increase in sales of investment certificates as a result of the market environment and a sales promotion we began in April 2008.

### *Contractual Commitments*





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There have been no material changes in our contractual obligations disclosed in our 2007 10-K.

*Off-Balance Sheet Arrangements*



There have been no material changes in our off-balance sheet arrangements disclosed in our 2007 10-K.

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**Forward-Looking Statements**

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This report contains forward-looking statements that reflect management's plans, estimates and beliefs. Actual results could differ materially from those described in these forward-looking statements. The Company has made various forward-looking statements in this report. Examples of such forward-looking statements include:

- Statements of the Company's plans, intentions, expectations, objectives or goals, including those relating to asset flows, mass affluent and affluent client acquisition strategy, financial advisor retention and enrollments, general and administrative costs, consolidated tax rate, and excess capital position;
- Statements about future economic performance, the performance of equity markets and interest rate variations and the economic performance of the United States and of global markets; and
- Statements of assumptions underlying such statements.

The words believe, expect, anticipate, optimistic, intend, plan, aim, will, may, should, could, would, likely and similar to identify forward-looking statements but are not the exclusive means of identifying such statements. Forward-looking statements are subject to risks and uncertainties, which could cause actual results to differ materially from such statements.

Such factors include, but are not limited to:

- changes in the valuations, liquidity and volatility in the interest rate, equity market, and foreign exchange environments;
- changes in the litigation and regulatory environment, including ongoing legal proceedings and regulatory actions, the frequency and extent of legal claims threatened or initiated by clients, other persons and regulators, and developments in regulation and legislation;
- investment management performance and consumer acceptance of the Company's products;
- effects of competition in the financial services industry and changes in product distribution mix and distribution channels;

- capital structure including ratings and indebtedness, limitations on subsidiaries to pay dividends, and the extent, manner, terms and timing of any share repurchases management may effect;
- risks of default by issuers or guarantors of investments the Company owns or by counterparties to hedge, derivative, insurance or reinsurance arrangements;
- experience deviations from the Company's assumptions regarding morbidity, mortality and persistency in certain annuity and insurance products, or from assumptions regarding market volatility underlying our hedges on guaranteed benefit annuity riders;
- the impacts of the Company's efforts to improve distribution economics and to grow third-party distribution of its products;
- the ability to complete the acquisition opportunities we negotiate, and to realize the financial, operating and business fundamental benefits we plan for those opportunities;
- the ability to realize benefits from reengineering and tax planning; and
- general economic and political factors, including consumer confidence in the economy as well as the ability and inclination of consumers generally to invest, the costs of products and services the Company consumes in the conduct of its business, and applicable legislation and regulation, including tax laws, tax treaties, fiscal and central government treasury policy, and regulatory rulings and pronouncements.

Management cautions you that the foregoing list of factors is not exhaustive. There may also be other risks that management is unable to predict at this time that may cause actual results to differ materially from those in forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date on which they are made. Management undertakes no obligation to update publicly or revise any forward-looking statements. The foregoing list of factors should be read in conjunction with the Risk Factors discussion included as Part I, Item 1A of our Annual Report on Form 10-K for 2007 filed with the SEC on February 29, 2008 and at [ir.ameriprise.com](http://ir.ameriprise.com).

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**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**



The information set forth in Part I, Item 2, Management's Discussion and Analysis of Financial Condition and Results of Operations Market Risk in this report is incorporated herein by reference.

**ITEM 4. CONTROLS AND PROCEDURES**

**Disclosure Controls and Procedures**

Our company maintains disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended (the Exchange Act )) designed to provide reasonable assurance that the information required to be reported in the Exchange Act filings is recorded, processed, summarized and reported within the time periods specified and pursuant to SEC regulations, including controls and procedures designed to ensure that this information is accumulated and communicated to our management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding the required disclosure. It should be noted that, because of inherent limitations, our company's disclosure controls and procedures, however well designed and operated, can provide only reasonable, and not absolute, assurance that the objectives of the disclosure controls and procedures are met.

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report. Based upon that evaluation, our company's Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were effective at a reasonable level of assurance as of September 30, 2008.

#### **Changes in Internal Control Over Financial Reporting**

During the third quarter of 2008, we converted to a new industry standard actuarial valuation system for RiverSource Life products that provides enhanced modeling capabilities. This system strengthens our internal control environment as the valuation is highly automated and manual intervention is significantly reduced. There were no other changes in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the fiscal quarter to which this report relates that have materially affected, or are reasonably likely to materially affect, our company's internal control over financial reporting.

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**AMERIPRISE FINANCIAL, INC.**

**PART II OTHER INFORMATION**

**ITEM 1. LEGAL PROCEEDINGS**

The information set forth in Note 12 to the Consolidated Financial Statements in Part I, Item 1 is incorporated herein by reference.

**ITEM 1A. RISK FACTORS**

The risk factors set forth below update the risk factors section previously disclosed in Item 1A of Part I of the Company's Annual Report on Form 10-K for the year ended December 31, 2007 ( 2007 Form 10-K ).

### **Risks Relating to Our Business**

*Our financial condition and results of operations may be adversely affected by market fluctuations and by economic and other factors.*

Our financial condition and results of operations may be materially affected by market fluctuations and by economic and other factors. Many such factors of a global or localized nature include: political, economic and market conditions; the availability and cost of capital; the level and volatility of equity prices, commodity prices and interest rates; currency values and other market indices; technological changes and events; the availability and cost of credit; inflation; investor sentiment and confidence in the financial markets; terrorism events and armed conflicts; and natural disasters such as weather catastrophes and widespread health emergencies. Furthermore, changes in consumer economic variables, such as the number and size of personal bankruptcy filings, the rate of unemployment, decreases in property values, and the level of consumer confidence and consumer debt, may substantially affect consumer loan levels and credit quality, which, in turn, could impact the results of our banking business. These factors also may have an impact on our ability to achieve our strategic objectives.

Our businesses have been and may continue to be adversely affected by the current U.S. and global capital market and credit crises, the repricing of credit risk, and by stress in the U.S. and global economies generally. During the last half of our fiscal year ended December 31, 2007, difficulties in the mortgage and broader capital markets in the United States and elsewhere, coupled with the repricing of credit risk, have created extremely difficult market conditions. These conditions, as well as instability in global equity markets with downward pressure on stock prices, have persisted and increased substantially through the third quarter of fiscal year ending December 31, 2008. This has resulted in greater volatility, less liquidity, variability of credit spreads and a lack of price transparency. By example, the widening of credit spreads has significantly impacted certain market-value structured investment vehicles and other structured credit products, which have experienced rapid deterioration in value and/or failures to meet scheduled payments based on declines in the market value of underlying collateral pools, increased costs or unavailability of credit default hedges or liquidity to their structures, and/or the triggering of covenants that accelerate the amortization or liquidation of these structures. Each of our segments operates in these markets with exposure for ourselves and our clients in securities, loans, derivatives, alternative investments, seed capital and other commitments. It is difficult to predict how long these conditions will exist, which of our markets, products and businesses will continue to be directly affected in revenues, management fees and investment valuations and earnings, and to what extent our clients may seek to bring claims arising out of investment performance. As a result, these factors could materially adversely impact our results of operations.

Certain of our insurance and annuity products and certain of our investment and banking products are sensitive to interest rate fluctuations, and our future costs associated with such variations may differ from our historical costs. In addition, interest rate fluctuations could result in fluctuations in the valuation of certain minimum guaranteed benefits contained in some of our variable annuity products. Although we typically hedge against such fluctuations, a significant change in interest rates could have a material adverse impact on our results of operations.

During periods of increasing market interest rates, we must offer higher crediting rates on interest-sensitive products, such as fixed universal life insurance, fixed annuities, face-amount certificates and certificates of deposit, and we must increase crediting rates on inforce products to keep these products competitive. Because returns on invested assets may not increase as quickly as current interest rates, we may have to accept a lower spread and thus lower profitability or face a decline in sales and greater loss of existing contracts and related assets. In addition, increases in market interest rates may cause increased policy surrenders, withdrawals from life insurance policies, annuity contracts and certificates of deposit and





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requests for policy loans, as policyholders, contractholders and depositors seek to shift assets to products with perceived higher returns. This process may lead to an earlier than expected flow of cash out of our business. Also, increases in market interest rates may result in extension of certain cash flows from structured mortgage assets. These withdrawals and surrenders may require investment assets to be sold at a time when the prices of those assets are lower because of the increase in market interest rates, which may result in realized investment losses. Increases in crediting rates, as well as surrenders and withdrawals, could have an adverse effect on our financial condition and results of operations. An increase in surrenders and withdrawals also may require us to accelerate amortization of deferred acquisition costs or other intangibles or cause an impairment of goodwill, which would increase our expenses and reduce our net earnings.

During periods of falling interest rates, our spread, or the difference between the returns we earn on the investments that support our obligations under these products and the amounts that we must pay policyholders, contractholders and depositors, may be reduced or could become negative, primarily because some of these products have guaranteed minimum crediting rates. Due to the long-term nature of the liabilities associated with certain of our businesses, such as fixed annuities and guaranteed benefits on variable annuities, sustained declines in long-term interest rates may subject us to reinvestment risks and increased hedging costs.

Interest rate fluctuations also could have an adverse effect on the results of our investment portfolio. During periods of declining market interest rates, the interest we receive on variable interest rate investments decreases. In addition, during those periods, we are forced to reinvest the cash we receive as interest or return of principal on our investments in lower-yielding high-grade instruments or in lower-credit instruments to maintain comparable returns. Issuers of certain callable fixed income securities also may decide to prepay their obligations in order to borrow at lower market rates, which increases the risk that we may have to invest the cash proceeds of these securities in lower-yielding or lower-credit instruments.

Significant downturns and volatility in equity markets could have an adverse effect on our financial condition and results of operations. Market downturns and volatility may cause potential new purchasers of our products to refrain from purchasing products, such as mutual funds, variable annuities and variable universal life insurance, which have returns linked to the performance of the equity markets. Downturns may also cause current shareholders in our mutual funds and contractholders in our annuity and protection products to withdraw cash values from those products.

Additionally, downturns and volatility in equity markets can have an adverse effect on the revenues and returns from our asset management services, wrap accounts, and variable annuity contracts. Because the profitability of these products and services depends on fees related primarily to the value of assets under management, declines in the equity markets will reduce our revenues because the value of the investment assets we manage will be reduced. In addition, some of our variable annuity products contain guaranteed minimum death benefits and guaranteed minimum withdrawal and accumulation benefits. A significant equity market decline, or volatility in equity markets, could result in guaranteed minimum benefits being higher than what current account values would support, thus producing a loss as we pay the benefits, having an adverse effect on our financial condition and results of operations. Although we have hedged a portion of the guarantees for the variable annuity contracts in order to mitigate the financial loss of equity market declines or volatility, there can be no assurance that such a decline or volatility would not materially impact the profitability of certain products or product lines or our financial condition or results of operations.

We believe that investment performance is an important factor in the growth of many of our businesses. Poor investment performance could impair our revenues and earnings, as well as our prospects for growth. A significant portion of our revenue is derived from investment management agreements with the *RiverSource* family of mutual funds that are terminable on 60 days' notice. In addition, although some contracts governing investment management services are subject to termination for failure to meet performance benchmarks, institutional and individual clients can generally terminate their relationships with us or our financial advisors at will or on relatively short notice. Our clients can also reduce the



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aggregate amount of managed assets or shift their funds to other types of accounts with different rate structures, for any number of reasons, including investment performance, changes in prevailing interest rates, changes in investment preferences, changes in our (or our financial advisors') reputation in the marketplace, changes in client management or ownership, loss of key investment management personnel and financial market performance. A reduction in managed assets, and the associated decrease in revenues and earnings, could have a material adverse effect on our business. Moreover, certain money market funds we advise carry net asset protection mechanisms which can be triggered by a decline in market value of underlying portfolio assets; this could cause us to make a capital contribution to the funds without consideration, which would result in a loss.

In addition, during periods of unfavorable market or economic conditions, the level of individual investor participation in the global markets may also decrease, which would negatively impact the results of our retail businesses. Fluctuations in global market activity could impact the flow of investment capital into or from assets under management and the way customers allocate capital among money market, equity, fixed maturity or other investment alternatives, which could negatively impact our Asset Management, Advice & Wealth Management and Annuities businesses. Also, during periods of unfavorable economic conditions, unemployment rates often increase, which can result in higher loan delinquency and default rates, and this can have a negative impact on our banking business. Uncertain economic conditions and heightened market volatility may also increase the likelihood that clients or regulators present or threaten legal claims, that regulators may increase the frequency and scope of their examinations of us or the financial services industry generally, and that lawmakers enact new requirements which have a material impact on our revenues, expenses or statutory capital requirements.

***Governmental initiatives intended to address capital market conditions may not be effective and may give rise to additional requirements for our business, including new capital requirements or other regulations, that could materially affect our results of operations, financial condition and liquidity in ways that we cannot predict.***

Legislation has been passed in an attempt to address the instability in global financial markets. This legislation includes a provision to grant the U.S. Treasury Department the authority to, among other things, purchase up to \$700 billion of mortgage-backed and other securities from financial institutions. This legislation or similar proposals, as well as other actions such as monetary or fiscal actions of U.S. government instrumentalities or comparable authorities in other countries, may fail to stabilize the financial markets. This legislation and other proposals or actions may also have other consequences, including material effects on interest rates and foreign exchange rates, which could materially affect our investments, results of operations and liquidity in ways that we cannot predict.

In addition, we are subject to extensive laws and regulations that are administered and enforced by a number of different governmental authorities and non-governmental self-regulatory agencies, including foreign regulators, state securities and insurance regulators, the Securities and Exchange Commission, the New York Stock Exchange, the Financial Industry Regulatory Authority, the Office of Thrift Supervision, the U.S. Department of Justice and state attorneys general. The current financial crisis has prompted or may prompt some of these authorities to consider additional regulatory requirements intended to prevent future crises or otherwise assure the stability of institutions under their supervision. These authorities may also seek to exercise their authority in new or more expansive ways. All of these possibilities, if they occurred, could affect the way we conduct our business and manage our capital, and may require us to satisfy increased capital requirements, any of which in turn could materially affect our results of operations, financial condition and liquidity.

***Defaults in our fixed maturity securities portfolio or consumer credit products would adversely affect our earnings.***

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Issuers of the fixed maturity securities that we own may default on principal and interest payments. As of December 31, 2007, 6% of our invested assets had ratings below investment-grade. Moreover, economic downturns and corporate malfeasance can increase the number of companies, including those with investment-grade ratings, that default on their debt obligations. Default-related

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declines in the value of our fixed income securities portfolio or consumer credit products could cause our net earnings to decline and could also cause us to contribute capital to some of our regulated subsidiaries, which may require us to obtain funding during periods of unfavorable market conditions. Higher delinquency and default rates in our bank's loan portfolio could require us to contribute capital to Ameriprise Bank and may result in additional restrictions from our regulators that impact the use and access to that capital.

***If the counterparties to our reinsurance arrangements or to the derivative instruments we use to hedge our business risks default, we may be exposed to risks we had sought to mitigate, which could adversely affect our financial condition and results of operations.***

We use reinsurance to mitigate our risks in various circumstances as described in Item 1 of our 2007 Form 10-K—Business—Our Segments—Protection—Reinsurance. Reinsurance does not relieve us of our direct liability to our policyholders, even when the reinsurer is liable to us. Accordingly, we bear credit and performance risk with respect to our reinsurers. A reinsurer's insolvency or its inability or unwillingness to make payments under the terms of our reinsurance agreement could have an adverse effect on our financial condition and results of operations that could be material. See Note 2 to our Consolidated Financial Statements included in our 2007 Annual Report to Shareholders.

In addition, we use a variety of derivative instruments (including options, forwards, and interest rate and currency swaps) with a number of counterparties to hedge several business risks. The amount and breadth of exposure to derivative counterparties has increased significantly in connection with our strategies to hedge guaranteed benefit obligations under our variable annuity products. If our counterparties fail to honor in a timely manner their obligations under the derivative instruments, our hedges of the related risk will be ineffective. That failure could have a material adverse effect on our financial condition and results of operations. This risk of failure of our hedge transactions may be increased by capital market volatility, such as the volatility that has been experienced since the second half of 2007.

***The Determination of the Amount of Allowances and Impairments Taken on Certain Investments is Subject to Management's Evaluation and Judgment and Could Materially Impact Our Results of Operations or Financial Position.***

The determination of the amount of allowances and impairments vary by investment type and is based upon our periodic evaluation and assessment of inherent and known risks associated with the respective asset class. Such evaluations and assessments are revised as conditions change and new information becomes available. Management updates its evaluations regularly and reflects changes in allowances and impairments in operations as such evaluations are revised. Historical trends may not be indicative of future impairments or allowances.

The assessment of whether impairments have occurred is based on management's case-by-case evaluation of the underlying reasons for the decline in fair value that considers a wide range of factors about the security issuer and management uses its best judgment in evaluating the cause of the decline in the estimated fair value of the security and in assessing the prospects for recovery. Inherent in management's evaluation of the security are assumptions and estimates about the operations of the issuer and its future earnings potential, which assumptions and estimates are more difficult to make with certainty under current market conditions.

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***Some of our investments are relatively illiquid.***

We invest a portion of our owned assets in certain privately placed fixed income securities, mortgage loans, policy loans, limited partnership interests, collateralized debt obligations and restricted investments held by securitization trusts, among others, all of which are relatively illiquid. These asset classes represented 15% of the carrying value of our investment portfolio as of December 31, 2007. If we require significant amounts of cash on short notice in excess of our normal cash requirements, we may have difficulty selling these investments in a timely manner, or be forced to sell them for an amount less than we would otherwise have been able to realize, or both, which could have an adverse effect on our financial condition and results of operations.

***Intense competition and the economics of changes in our product revenue mix and distribution channels could negatively affect our ability to maintain or increase our market share and profitability.***

Our businesses operate in intensely competitive industry segments. We compete based on a number of factors including name recognition, service, the quality of investment advice, investment performance, product features, price, perceived financial strength, and claims-paying and credit ratings. Our competitors include broker-dealers, banks, asset managers, insurers and other financial institutions. Many of our businesses face competitors that have greater market share, offer a broader range of products, have greater financial resources, or have higher claims-paying or credit ratings than we do. Some of our competitors may possess or acquire intellectual property rights that could provide a competitive advantage to them in certain markets or for certain products, which could make it more difficult for us to introduce new products and services. Some of our competitors' proprietary products or technology could be similar to our own, and this could result in disputes that could impact our financial condition or results of operations. In addition, over time certain sectors of the financial services industry have become considerably more concentrated, as financial institutions involved in a broad range of financial services have been acquired by or merged into other firms. This convergence could result in our competitors gaining greater resources and we may experience pressures on our pricing and market share as a result of these factors and as some of our competitors seek to increase market share by reducing prices.

Currently, our branded advisor network distributes annuity and protection products issued almost exclusively by our RiverSource Life companies. If our branded advisor network further opened or expanded its distribution of annuity and protection products of other companies, we could experience lower sales of our companies' products, higher surrenders, or other developments which could have a material adverse effect on our financial condition and results of operations.

***A drop in investment performance as compared to our competitors could negatively impact our ability to increase profitability.***

Sales of our own mutual funds by our affiliated financial advisor network comprise a significant percentage of our total mutual fund sales. We attribute this success to improved investment performance, new products and marketing efforts. A decline in the level of investment performance as compared to our competitors could cause a decline in market share and a commensurate drop in profits as sales of other companies' mutual funds are less profitable than those from our own mutual funds. A decline in investment performance could also adversely affect the realization of benefits from investments in our strategy to expand alternative distribution channels for our own products, including third-party distribution of our mutual funds.

***We face intense competition in attracting and retaining key talent.***

We are dependent on our network of branded advisors for a significant portion of the sales of our mutual funds, annuities, face-amount certificates, banking and insurance products. In addition, our

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continued success depends to a substantial degree on our ability to attract and retain qualified personnel to conduct our fund management and investment advisory businesses, as well as senior management. The market for financial advisors, registered representatives, management talent, qualified legal and compliance professionals, fund managers, and investment analysts is extremely competitive and has grown more so in recent periods due to industry growth. If we are unable to attract and retain qualified individuals or our recruiting and retention costs increase significantly, our financial condition and results of operations could be materially adversely affected.

***Our businesses are heavily regulated, and changes in regulation may reduce our profitability, limit our growth, or impact our ability to pay dividends or achieve targeted return-on-equity levels.***

We operate in highly regulated industries, and are required to obtain and maintain licenses for many of the businesses we operate in addition to being subject to regulatory oversight. Securities regulators have significantly increased the level of regulation in recent years and have several outstanding proposals for additional regulation. Significant discussion and activity by regulators concerns the sale and suitability of financial products and services to persons planning for retirement, as well as to older investors. In addition, we are subject to heightened requirements and associated costs and risks relating to privacy and the protection of customer data. Our information systems, moreover, may be subject to increased efforts of hackers by reason of the customer data we possess. These requirements, costs and risks, as well as possible legislative or regulatory changes, may constrain our ability to market our products and services to our target demographic and potential customers, and could negatively affect our profitability and make it more difficult for us to pursue our growth strategy.

Our insurance companies are subject to state regulation, so must comply with statutory reserve and capital requirements. State regulators are continually reviewing and updating these requirements and other requirements relating to the business operations of insurance companies, including their underwriting and sales practices. Moreover, our life insurance companies are subject to capital requirements for variable annuity contracts with guaranteed death or living benefits. These requirements may have an impact on future statutory reserves and regulatory capital in the event equity market values fall in the future. Our insurance companies are required by state law to be members of the guaranty fund association in every state where they are licensed to do business. In the event of insolvency of one or more unaffiliated insurance companies, our insurance companies could be adversely affected by the requirement to pay assessments to the guaranty fund associations. Moreover, there is active discussion at the NAIC of moving to a principles-based reserving system. This could change statutory reserve requirements significantly, and it is not possible to estimate the impact at this time. Further, we cannot predict the effect that proposed federal legislation, such as the option of federally chartered insurers, may have on our insurance businesses or their competitors.

Compliance with applicable laws and regulations is time consuming and personnel-intensive. Moreover, the evaluation of our compliance with broker-dealer, investment advisor, insurance company and banking regulation by the SEC, OTS and other regulatory organizations is an ongoing feature of our business, the outcomes of which may not be foreseeable. Changes in these laws and regulations may materially increase our direct and indirect compliance and other expenses of doing business. Our financial advisors may decide that the direct cost of compliance and the indirect cost of time spent on compliance matters outweigh the benefits of a career as a financial advisor, which could lead to financial advisor attrition. The costs of the compliance requirements we face, and the constraints they impose on our operations, could have a material adverse effect on our financial condition and results of operations.

In addition, we may be required to reduce our fee levels, or restructure the fees we charge, as a result of regulatory initiatives or proceedings that are either industry-wide or specifically targeted at our company. Reductions or other changes in the fees that we charge for our products and services could reduce our revenues and earnings. Moreover, in the years ended December 31, 2007, 2006 and 2005, we earned \$1.8 billion, \$1.6 billion and \$1.4 billion, respectively, in distribution fees. A significant portion of these revenues was paid to us by our own *RiverSource* family of mutual funds in accordance with plans and agreements of distribution adopted under Rule 12b-1 promulgated under the Investment



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Company Act of 1940, as amended, or Rule 12b-1. We believe that these fees are a critical element in the distribution of our own mutual funds. However, an industry-wide reduction or restructuring of Rule 12b-1 fees could have a material adverse effect on our ability to distribute our own mutual funds and the fees we receive for distributing other companies' mutual funds, which could, in turn, have an adverse effect on our revenues and earnings.

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Consumer lending activities at our bank are subject to applicable laws as well as regulation by various regulatory bodies. Changes in laws or regulation could affect our bank's ability to conduct business. These changes could include but are not limited to our bank's ability to market and sell products, fee pricing or interest rates that can be charged on loans outstanding, changes in communication with customers that affect payments, statements and collections of loans, and changes in accounting for the consumer lending business.

For a further discussion of the regulatory framework in which we operate, see Item 1 of our 2007 Form 10-K Business Regulation.

***A failure to appropriately deal with conflicts of interest could adversely affect our businesses.***

Our reputation is one of our most important assets. As we have expanded the scope of our businesses and our client base, we increasingly have to identify and address potential conflicts of interest, including those relating to our proprietary activities and those relating to our sales of non-proprietary products from manufacturers that have agreed to provide us marketing, sales, and account maintenance support. For example, conflicts may arise between our position as a provider, through our various subsidiaries, of financial planning services and as a manufacturer and/or distributor or broker of asset accumulation, income or insurance products that one of our affiliated financial advisors may recommend to a financial planning client. We have procedures and controls that are designed to identify and address conflicts of interest. However, identifying and appropriately dealing with conflicts of interest is complex and our reputation could be damaged if we fail, or appear to fail, to deal appropriately with conflicts of interest. In addition, the SEC and other federal and state regulators have increased their scrutiny of potential conflicts of interest. It is possible that potential or perceived conflicts could give rise to litigation or enforcement actions. It is possible also that the regulatory scrutiny of, and litigation in connection with, conflicts of interest will make our clients less willing to enter into transactions in which such a conflict may occur, and will adversely affect our businesses.

***Misconduct by our employees and affiliated financial advisors is difficult to detect and deter and could harm our business, results of operations or financial condition.***

Misconduct by our employees and affiliated financial advisors could result in violations of law by us, regulatory sanctions and/or serious reputational or financial harm. Misconduct can occur in each of our businesses and could include:

- binding us to transactions that exceed authorized limits;
- hiding unauthorized or unsuccessful activities resulting in unknown and unmanaged risks or losses;
- improperly using or disclosing confidential information;
- recommending transactions that are not suitable;

- engaging in fraudulent or otherwise improper activity;
- engaging in unauthorized or excessive trading to the detriment of customers; or
- otherwise not complying with laws or our control procedures.

We cannot always deter misconduct by our employees and affiliated financial advisors, and the precautions we take to prevent and detect this activity may not be effective in all cases. Prevention and detection among our branded franchisee advisors and our unbranded affiliated financial advisors, who are not employees of our company and tend to be located in small, decentralized offices, present additional

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challenges. We also cannot assure that misconduct by our employees and affiliated financial advisors will not lead to a material adverse effect on our business, results of operations or financial condition.

***Legal and regulatory actions are inherent in our businesses and could result in financial losses or harm our businesses.***

We are, and in the future may be, subject to legal and regulatory actions in the ordinary course of our operations, both domestically and internationally. Various regulatory and governmental bodies have the authority to review our products and business practices and those of our employees and independent financial advisors and to bring regulatory or other legal actions against us if, in their view, our practices, or those of our employees or affiliated financial advisors, are improper. Pending legal and regulatory actions include proceedings relating to aspects of our businesses and operations that are specific to us and proceedings that are typical of the industries and businesses in which we operate. Some of these proceedings have been brought on behalf of various alleged classes of complainants. In certain of these matters, the plaintiffs are seeking large and/or indeterminate amounts, including punitive or exemplary damages. See Item 3 of our 2007 Form 10-K Legal Proceedings. Substantial legal liability in these or future legal or regulatory actions could have a material adverse financial effect or cause significant reputational harm, which in turn could seriously harm our business prospects.

***A downgrade or a potential downgrade in our financial strength or credit ratings could adversely affect our financial condition and results of operations.***

Financial strength ratings, which various ratings organizations publish as a measure of an insurance company's ability to meet contractholder and policyholder obligations, are important to maintaining public confidence in our products, the ability to market our products and our competitive position. Any downgrade in our financial strength ratings, or the announced potential for a downgrade, could have a significant adverse effect on our financial condition and results of operations in many ways, including:

- reducing new sales of insurance products, annuities and investment products;
  
- adversely affecting our relationships with our affiliated financial advisors and third-party distributors of our products;
  
- materially increasing the number or amount of policy surrenders and withdrawals by contractholders and policyholders;
  
- requiring us to reduce prices for many of our products and services to remain competitive; and

- adversely affecting our ability to obtain reinsurance or obtain reasonable pricing on reinsurance.

A downgrade in our credit ratings could also adversely impact our future cost and speed of borrowing and have an adverse effect on our financial condition, results of operations and liquidity.

In view of the difficulties experienced recently by many financial institutions, including our competitors in the insurance industry, we believe it is possible that the ratings organizations will heighten the level of scrutiny that they apply to such institutions, will increase the frequency and scope of their credit reviews, will request additional information from the companies that they rate, and may adjust upward the capital and other requirements employed in the ratings organization's models for maintenance of ratings levels.

We cannot predict what actions rating agencies may take, or what actions we may take in response to the actions of rating agencies, which could adversely affect our business. As with other companies in the

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financial services industry, our ratings could be changed at any time and without any notice by the ratings organizations.

***If our reserves for future policy benefits and claims, or for our bank lending portfolio, are inadequate, we may be required to increase our reserve liabilities, which could adversely affect our results of operations and financial condition.***

We establish reserves as estimates of our liabilities to provide for future obligations under our insurance policies, annuities and investment certificate contracts. We also establish reserves as estimates of the potential for loan losses in our consumer lending portfolios. Reserves do not represent an exact calculation, but rather are estimates of contract benefits or loan losses and related expenses we expect to incur over time. The assumptions and estimates we make in establishing reserves require certain judgments about future experience and, therefore, are inherently uncertain. We cannot determine with precision the actual amounts that it will pay for contract benefits, the timing of payments, or whether the assets supporting its stated reserves will increase to the levels it estimates before payment of benefits or claims. We monitor our reserve levels continually. If we were to conclude that our reserves are insufficient to cover actual or expected contract benefits or loan collections, we would be required to increase our reserves and incur income statement charges for the period in which we make the determination, which could adversely affect our results of operations and financial condition. For more information on how we set our reserves, see Note 2 to our Consolidated Financial Statements included in our 2007 Annual Report to Shareholders.

***Morbidity rates or mortality rates that differ significantly from our pricing expectations could negatively affect profitability.***

We set prices for *RiverSource* life insurance and some annuity products based upon expected claim payment patterns, derived from assumptions we make about the morbidity rates, or likelihood of sickness, and mortality rates, or likelihood of death, of our policyholders and contractholders. The long-term profitability of these products depends upon how our actual experience compares with our pricing assumptions. For example, if morbidity rates are higher, or mortality rates are lower, than our pricing assumptions, we could be required to make greater payments under disability income insurance policies and immediate annuity contracts than we had projected. The same holds true for long term care policies we previously underwrote to the extent of the risks that we have retained. If mortality rates are higher than our pricing assumptions, we could be required to make greater payments under our life insurance policies and annuity contracts with guaranteed minimum death benefits than we had projected.

The risk that our claims experience may differ significantly from our pricing assumptions is particularly significant for our long term care insurance products notwithstanding our ability to implement future price increases. As with life insurance, long term care insurance policies provide for long-duration coverage and, therefore, our actual claims experience will emerge over many years. However, as a relatively new product in the market, long term care insurance does not have the extensive claims experience history of life insurance, and, as a result, our ability to forecast future claim rates for long term care insurance is more limited than for life insurance. We have sought to moderate these uncertainties to some extent by partially reinsuring long term care policies we previously underwrote and by limiting our present long term care insurance offerings to policies underwritten fully by an unaffiliated third party, and we have also implemented rate increases on certain inforce policies as described in Item 1 of our 2007 Form 10-K Business Our Segments Protection RiverSource Insurance Products Long Term Care Insurance . There can be no assurance that we will not be required to implement additional rate increases in the future or that we will receive regulatory approval to the full extent and timing of any rate increases that we may seek.

***We may face losses if there are significant deviations from our assumptions regarding the future persistency of our insurance policies and annuity contracts.***

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The prices and expected future profitability of our life insurance and deferred annuity products are based in part upon assumptions related to persistency, which is the probability that a policy or contract will

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remain in force from one period to the next. The effect of persistency on profitability varies for different products. For most of our life insurance and deferred annuity products, actual persistency that is lower than our persistency assumptions could have an adverse impact on profitability, especially in the early years of a policy or contract, primarily because we would be required to accelerate the amortization of expenses we deferred in connection with the acquisition of the policy or contract.

For our long term care insurance, actual persistency that is higher than our persistency assumptions could have a negative impact on profitability. If these policies remain in force longer than we assumed, then we could be required to make greater benefit payments than we had anticipated when we priced or partially reinsured these products. Some of our long term care insurance policies have experienced higher persistency and poorer loss experience than we had assumed, which led us to increase premium rates on certain of these policies.

Because our assumptions regarding persistency experience are inherently uncertain, reserves for future policy benefits and claims may prove to be inadequate if actual persistency experience is different from those assumptions. Although some of our products permit us to increase premiums during the life of the policy or contract, we cannot guarantee that these increases would be sufficient to maintain profitability. Additionally, some of these pricing changes require regulatory approval, which may not be forthcoming. Moreover, many of our products do not permit us to increase premiums or limit those increases during the life of the policy or contract, while premiums on certain other products (primarily long term care insurance) may not be increased without prior regulatory approval. Significant deviations in experience from pricing expectations regarding persistency could have an adverse effect on the profitability of our products.

***We may be required to accelerate the amortization of deferred acquisition costs, which would increase our expenses and reduce profitability.***

Deferred acquisition costs ( DAC ) represent the costs of acquiring new business, principally direct sales commissions and other distribution and underwriting costs that have been deferred on the sale of annuity, life and disability income insurance and, to a lesser extent, marketing and promotional expenses for personal auto and home insurance, and distribution expense for certain mutual fund products. For annuity and universal life products, DAC are amortized based on projections of estimated gross profits over amortization periods equal to the approximate life of the business. For other insurance products, DAC are generally amortized as a percentage of premiums over amortization periods equal to the premium-paying period. For certain mutual fund products, we generally amortize DAC over fixed periods on a straight-line basis.

Our projections underlying the amortization of DAC require the use of certain assumptions, including interest margins, mortality rates, persistency rates, maintenance expense levels and customer asset value growth rates for variable products. We periodically review and, where appropriate, adjust our assumptions. When we change our assumptions, we may be required to accelerate the amortization of DAC or to record a charge to increase benefit reserves.

As of December 31, 2007 and 2006, we had \$4.5 billion of DAC and we amortized \$551 million, \$472 million and \$431 million, respectively, of DAC as a current-period expense for the years ended December 31, 2007, 2006 and 2005, respectively. For more information regarding DAC, see the information contained in our 2007 Annual Report to Shareholders under the captions Management's Discussion and Analysis Critical Accounting Policies Deferred Acquisition Costs and Recent Accounting Pronouncements.

***Breaches of security, or the perception that our technology infrastructure is not secure, could harm our business.***



Our business requires the appropriate and secure utilization of consumer and other sensitive information. Our operations require the secure transmission of confidential information over public

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networks. Security breaches in connection with the delivery of our products and services, including products and services utilizing the Internet, and the trend toward broad consumer and general public notification of such incidents, could significantly harm our business, financial condition or results of operations. Even if we successfully protect our technology infrastructure and the confidentiality of sensitive data, we could suffer harm to our business and reputation if attempted security breaches are publicized. We cannot be certain that advances in criminal capabilities, discovery of new vulnerabilities, attempts to exploit vulnerabilities in our systems, data thefts, physical system or network break-ins or inappropriate access, or other developments will not compromise or breach the technology or other security measures protecting the networks used in connection with our products and services.

***Protection from system interruptions is important to our business. If we experience a sustained interruption to our telecommunications or data processing systems, it could harm our business.***

System or network interruptions could delay and disrupt our ability to develop, deliver or maintain our products and services, causing harm to our business and reputation and resulting in loss of customers or revenue. These interruptions can include fires, floods, earthquakes, power losses, equipment failures, failures of internal or vendor software or systems and other events beyond our control.

***Risk management policies and procedures may not be fully effective in mitigating risk exposure in all market environments or against all types of risk, including employee and financial advisor misconduct.***

We have devoted significant resources toward developing our risk management policies and procedures and will continue to do so in the future. Nonetheless, our policies and procedures to identify, monitor and manage risks may not be fully effective in mitigating our risk exposure in all market environments or against all types of risk. Many of our methods of managing risk and exposures are based upon our use of observed historical market behavior or statistics based on historical models. During periods of market volatility or due to unforeseen events, the historically derived correlations upon which these methods are based may not be valid. As a result, these methods may not accurately predict future exposures, which could be significantly greater than what our models indicate. This could cause us to incur investment losses or cause our hedging and other risk management strategies to be ineffective. Other risk management methods depend upon the evaluation of information regarding markets, clients, catastrophe occurrence or other matters that are publicly available or otherwise accessible to us, which may not always be accurate, complete, up-to-date or properly evaluated.

Moreover, we are subject to the risks of errors and misconduct by our employees and affiliated financial advisors such as fraud, non-compliance with policies, recommending transactions that are not suitable, and improperly using or disclosing confidential information which is difficult to detect in advance and deter, and could harm our business, results of operations or financial condition. We are further subject to the risk of nonperformance or inadequate performance of contractual obligations by third party vendors of products and services that are used in our businesses. Management of operational, legal and regulatory risks requires, among other things, policies and procedures to record properly and verify a large number of transactions and events, and these policies and procedures may not be fully effective in mitigating our risk exposure in all market environments or against all types of risk. Insurance and other traditional risk-shifting tools may be held by or available to us in order to manage certain exposures, but they are subject to terms such as deductibles, coinsurance, limits and policy exclusions, as well as risk of counterparty denial of coverage, default or insolvency.

***As a holding company, we depend on the ability of our subsidiaries to transfer funds to us to pay dividends and to meet our obligations.***

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We act as a holding company for our insurance and other subsidiaries. Dividends from our subsidiaries and permitted payments to us under our intercompany arrangements with our subsidiaries are our principal sources of cash to pay shareholder dividends and to meet our other financial obligations. These obligations include our operating expenses and interest and principal on our borrowings. If the cash we receive from our subsidiaries pursuant to dividend payment and intercompany arrangements is

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insufficient for us to fund any of these obligations, we may be required to raise cash through the incurrence of additional debt, the issuance of additional equity or the sale of assets. If any of this happens, it could adversely affect our financial condition and results of operations.

Insurance, banking and securities laws and regulations regulate the ability of many of our subsidiaries (such as our insurance, banking and brokerage subsidiaries and our face-amount certificate company) to pay dividends or make other distributions. See Item 1 of our 2007 Form 10-K Regulation as well as the information contained in our 2007 Annual Report to Shareholders under the heading Management's Discussion and Analysis Liquidity and Capital Resources. In addition to the various regulatory restrictions that constrain our subsidiaries ability to pay dividends to our company, the rating agencies impose various capital requirements on our company and our insurance company subsidiaries in order for us to maintain our ratings and the ratings of our insurance subsidiaries, which also constrains our and their ability to pay dividends.

*Changes in U.S. federal income or estate tax law could make some of our products less attractive to clients.*

Many of the products we issue or on which our businesses are based (including both insurance products and non-insurance products) enjoy favorable treatment under current U.S. federal income or estate tax law. Changes in U.S. federal income or estate tax law could thus make some of our products less attractive to clients.

*We are subject to tax contingencies that could adversely affect our provision for income taxes.*

We are subject to the income tax laws of the U.S., its states and municipalities and those of the foreign jurisdictions in which we have significant business operations. These tax laws are complex and may be subject to different interpretations. We must make judgments and interpretations about the application of these inherently complex tax laws when determining the provision for income taxes and must also make estimates about when in the future certain items affect taxable income in the various tax jurisdictions. Disputes over interpretations of the tax laws may be settled with the taxing authority upon examination or audit.

In addition, changes to the Internal Revenue Code, administrative rulings or court decisions could increase our provision for income taxes. For example, on August 16, 2007, the Internal Revenue Service ( IRS ) issued a revenue ruling which purports, among other things, to modify the calculation of the deduction for dividends received by life insurance companies. Subsequently, on September 25, 2007, the IRS issued another revenue ruling that suspended the August 16 ruling and announced a new regulation project on the issue. The income tax benefit of the separate account dividends received deduction for current year dividends was approximately \$46 million for the fiscal year ended December 31, 2007.

**Risks Relating to Our Common Stock**

*The market price of our shares may fluctuate.*

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The market price of our common stock may fluctuate widely, depending upon many factors, some of which may be beyond our control, including:

- changes in expectations concerning our future financial performance and the future performance of the financial services industry in general, including financial estimates and recommendations by securities analysts;
- differences between our actual financial and operating results and those expected by investors and analysts;
- strategic moves by us or our competitors, such as acquisitions or restructurings;

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- changes in the regulatory framework of the financial services industry and regulatory action; and
- changes in general economic or market conditions.

Stock markets in general have experienced volatility that has often been unrelated to the operating performance of a particular company. These broad market fluctuations may adversely affect the trading price of our common stock.

*Provisions in our certificate of incorporation and bylaws and of Delaware law may prevent or delay an acquisition of our company, which could decrease the market value of our common stock.*

Our certificate of incorporation and bylaws and Delaware law contain provisions that are intended to deter coercive takeover practices and inadequate takeover bids by making them unacceptably expensive to the raider and to encourage prospective acquirors to negotiate with our board of directors rather than to attempt a hostile takeover. These provisions include, among others:

- a board of directors that is divided into three classes with staggered terms;
- elimination of the right of our shareholders to act by written consent;
- rules regarding how shareholders may present proposals or nominate directors for election at shareholder meetings;
- the right of our board of directors to issue preferred stock without shareholder approval; and
- limitations on the right of shareholders to remove directors.

Delaware law also imposes some restrictions on mergers and other business combinations between us and any holder of 15% or more of our outstanding common stock.

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We believe these provisions protect our shareholders from coercive or otherwise unfair takeover tactics by requiring potential acquirors to negotiate with our board of directors and by providing our board of directors with more time to assess any acquisition proposal, and are not intended to make our company immune from takeovers. However, these provisions apply even if the offer may be considered beneficial by some shareholders and could delay or prevent an acquisition that our board of directors determines is not in the best interests of our company and our shareholders.

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**ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**



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The following table presents the information with respect to purchases made by or on behalf of Ameriprise Financial, Inc. or any affiliated purchaser (as defined in Rule 10b-18(a)(3) under the Securities Exchange Act of 1934), of our common stock during the third quarter of 2008:

| (a)<br>Period                            | (b)<br>Total Number<br>of Shares<br>Purchased | Average Price<br>Paid per Share | (c)<br>Total Number of Shares<br>Purchased as Part of<br>Publicly Announced<br>Plans or Programs(1) | (d)<br>Approximate Dollar<br>Value of Shares that May<br>Yet Be Purchased Under<br>the Plans or Programs(1) |
|--|---|---------------------------------|---|---|
| <b>July 1 to July 31, 2008</b>           |   |                                 |   |   |
| Share repurchase program(1)              | 2,037,282                                     | \$ 39.76(2)                     | 2,037,282   | \$ 1,317,753,284  |
| Employee transactions(3)                 | 1,904   | \$ 40.05                        | N/A   | N/A   |
| <b>August 1 to August 31, 2008</b>       |   |                                 |   |   |
| Share repurchase program(1)              |   | \$                              |   | \$ 1,317,753,284  |
| Employee transactions(3)                 | 702   | \$ 42.32                        | N/A   | N/A   |
| <b>September 1 to September 30, 2008</b> |   |                                 |   |   |
| Share repurchase program(1)              | 300,000                                       | \$ 43.11(2)                     | 300,000   | \$ 1,304,819,604  |
| Employee transactions(3)                 | 441   | \$ 44.77                        | N/A   | N/A   |
| <b>Totals</b>                            |   |                                 |   |   |
| Share repurchase program                 | 2,337,282                                     | \$ 40.19                        | 2,337,282   |   |
| Employee transactions                    | 3,047   | \$ 41.26                        | N/A   |   |
|  | 2,340,329                                     |                                 | 2,337,282   |   |

(1) On April 22, 2008, we announced that our Board of Directors authorized us to repurchase up to \$1.5 billion worth of our common stock through April 22, 2010. The share repurchase program does not require the purchase of any minimum number of shares, and depending on market conditions and other factors, these purchases may be commenced or suspended at any time without prior notice. Acquisitions under the share repurchase program may be made in the open market, through block trades or other means. In light of the current market environment, we have temporarily suspended our stock repurchase program.

(2) Includes commissions and other transaction costs of approximately \$0.02 per share.

(3) Restricted shares withheld pursuant to the terms of awards under the amended and revised Ameriprise Financial 2005 Incentive Compensation Plan (the Plan ) to offset tax withholding obligations that occur upon vesting and release of restricted shares. The Plan provides that the value of the shares withheld shall be the average of the high and low prices of common stock of Ameriprise Financial, Inc. on the date the relevant transaction occurs.

**ITEM 6. EXHIBITS**

The list of exhibits required to be filed as exhibits to this report are listed on page E-1 hereof, under Exhibit Index, which is incorporated herein by reference.

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**SIGNATURES**

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Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

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AMERIPRISE FINANCIAL, INC.  
(Registrant)

Date: November 4, 2008

By

/s/ Walter S. Berman  
Walter S. Berman  
Executive Vice President and  
Chief Financial Officer

Date: November 4, 2008

By

/s/ David K. Stewart  
David K. Stewart  
Senior Vice President and  
Controller  
(Principal Accounting Officer)

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**EXHIBIT INDEX**

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Pursuant to the rules and regulations of the Securities and Exchange Commission, Ameriprise Financial, Inc. has filed certain agreements as exhibits to this Quarterly Report on Form 10-Q. These agreements may contain representations and warranties by the parties. These representations and warranties have been made solely for the benefit of the other party or parties to such agreements and (i) may have been qualified by disclosures made to such other party or parties, (ii) were made only as of the date of such agreements or such other date(s) as may be specified in such agreements and are subject to more recent developments, which may not be fully reflected in Ameriprise Financial, Inc.'s public disclosure, (iii) may reflect the allocation of risk among the parties to such agreements and (iv) may apply materiality standards different from what may be viewed as material to investors. Accordingly, these representations and warranties may not describe Ameriprise Financial, Inc.'s actual state of affairs at the date hereof and should not be relied upon.

The following exhibits are filed as part of this Quarterly Report on Form 10-Q. The exhibit numbers followed by an asterisk (\*) indicate exhibits electronically filed herewith. All other exhibit numbers indicate exhibits previously filed and are hereby incorporated herein by reference.

| <b>Exhibit</b> | <b>Description</b> |
|----------------|--------------------|
|----------------|--------------------|



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- 3.1 Amended and Restated Certificate of Incorporation of Ameriprise Financial, Inc. (incorporated by reference to Exhibit 3.1 to the Current Report on Form 8-K, File No. 1-32525, filed on October 4, 2005).
- 3.2 Amended and Restated Bylaws of Ameriprise Financial, Inc. (incorporated by reference to Exhibit 3.2 to the Annual Report on Form 10-K, File No. 1-32525, filed on February 27, 2007).
- 4.1 Form of Specimen Common Stock Certificate (incorporated by reference to Exhibit 4.1 to Amendment No. 3 to Form 10 Registration Statement, File No. 1-32525, filed on August 19, 2005).

Other instruments defining rights of holders of long-term debt securities of the registrant are omitted pursuant to Section (b)(4)(iii)(A) of Item 601 of Regulation S-K. The registrant agrees to furnish copies of these instruments to the SEC upon request.

- 31.1\* Certification of James M. Cracchiolo pursuant to Rule 13a-14(a) promulgated under the Securities Exchange Act of 1934, as amended.
- 31.2\* Certification of Walter S. Berman pursuant to Rule 13a-14(a) promulgated under the Securities Exchange Act of 1934, as amended.
- 32\* Certification of James M. Cracchiolo and Walter S. Berman pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.