APARTMENT INVESTMENT & MANAGEMENT CO
Form 10-Q
July 31, 2009

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2009

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 Number 1-13232

Apartment Investment and Management Company
(Exact name of registrant as specified in its charter)

Maryland	**84-1259577**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
4582 South Ulster Street Parkway, Suite 1100 Denver, Colorado	**80237**
(Address of principal executive offices)	(Zip Code)

(303) 757-8101
(Registrant s telephone number, including area code)

Not Applicable
(Former name, former address, and former fiscal year, if changed since last report)

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 þ No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes o No o

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. (Check one):

Large accelerated filer þ	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

The number of shares of Class A Common Stock outstanding as of July 29, 2009: 117,042,795

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PART I. FINANCIAL INFORMATION

ITEM 1. Financial Statements

APARTMENT INVESTMENT AND MANAGEMENT COMPANY
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except share data)
(Unaudited)

	June 30, 2009	December 31, 2008
ASSETS		
Real estate:		
Buildings and improvements	$ 8,231,111	$ 8,145,589
Land	2,273,852	2,264,335
Total real estate	10,504,963	10,409,924
Less accumulated depreciation	(2,812,016)	(2,627,373)
Net real estate	7,692,947	7,782,551
Cash and cash equivalents	112,114	299,676
Restricted cash	257,432	256,817
Accounts receivable, net	67,729	92,923
Accounts receivable from affiliates, net	27,644	36,372
Deferred financing costs, net	59,038	56,052
Notes receivable from unconsolidated real estate partnerships, net	14,818	22,567
Notes receivable from non-affiliates, net	141,125	139,897
Investment in unconsolidated real estate partnerships	117,432	119,036
Other assets	222,081	188,765
Deferred income tax assets, net	28,332	28,326
Assets held for sale	100,729	391,884
Total assets	$ 8,841,421	$ 9,414,866
LIABILITIES AND EQUITY		
Property tax-exempt bond financing	$ 624,975	$ 669,339
Property loans payable	5,423,593	5,425,908
Term loan	350,000	400,000
Other borrowings	88,237	95,981
Total indebtedness	6,486,805	6,591,228
Accounts payable	33,335	64,241
Accrued liabilities and other	292,110	411,093
Deferred income	183,594	194,867
Security deposits	41,427	41,308
Liabilities related to assets held for sale	72,570	245,332
Total liabilities	7,109,841	7,548,069

Preferred noncontrolling interests in Aimco Operating Partnership	87,286	88,148
Preferred stock subject to repurchase agreement	30,000	
Commitments and contingencies (Note 5)		
Equity:		
Perpetual Preferred Stock	660,500	696,500
Class A Common Stock, $.01 par value, 426,157,736 shares authorized, 116,435,004 and 116,180,877 shares issued and outstanding, at June 30, 2009 and December 31, 2008, respectively	1,164	1,162
Additional paid-in capital	3,065,080	3,058,799
Accumulated other comprehensive loss	(473)	(2,249)
Notes due on common stock purchases	(1,403)	(3,607)
Distributions in excess of earnings	(2,413,472)	(2,335,628)
Total Aimco equity	1,311,396	1,414,977
Noncontrolling interests in consolidated real estate partnerships	311,384	363,672
Common noncontrolling interests in Aimco Operating Partnership	(8,486)	
Total equity	1,614,294	1,778,649
Total liabilities and equity	$ 8,841,421	$ 9,414,866

See notes to condensed consolidated financial statements.

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APARTMENT INVESTMENT AND MANAGEMENT COMPANY
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(In thousands, except per share data)
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	**2008**	**2009**	**2008**
REVENUES:				
Rental and other property revenues	$ 320,852	$ 316,970	$ 643,010	$ 633,727
Property management revenues, primarily from affiliates	1,340	1,415	2,983	3,519
Asset management and tax credit revenues	12,606	38,175	22,144	51,027
Total revenues	334,798	356,560	668,137	688,273
OPERATING EXPENSES:				
Property operating expenses	142,914	141,213	292,108	294,945
Property management expenses	472	1,254	1,905	2,589
Investment management expenses	4,716	5,807	8,506	10,194
Depreciation and amortization	122,198	105,642	240,914	204,659
Provision for operating real estate impairment losses	4,988		5,498	
General and administrative expenses	17,849	27,004	37,922	48,370
Other expenses, net	4,398	10,933	6,463	18,117
Total operating expenses	297,535	291,853	593,316	578,874
Operating income	37,263	64,707	74,821	109,399
Interest income	2,264	1,748	5,655	11,312
Provision for losses on notes receivable, net	(1,534)	(42)	(1,685)	(265)
Interest expense	(90,896)	(89,790)	(179,888)	(178,391)
Equity losses of unconsolidated real estate partnerships	(1,696)	(843)	(3,736)	(1,872)
Gain on dispositions of unconsolidated real estate and other	3,750	255	14,611	166
Loss before income taxes and discontinued operations	(50,849)	(23,965)	(90,222)	(59,651)
Income tax benefit	3,080	3,281	5,285	4,977
Loss from continuing operations	(47,769)	(20,684)	(84,937)	(54,674)
Income from discontinued operations, net	40,143	363,639	44,737	373,968
Net (loss) income	(7,626)	342,955	(40,200)	319,294
Noncontrolling interests:				

Net income attributable to noncontrolling interests in consolidated real estate partnerships	(11,695)	(58,648)	(5,422)	(61,963)
Net income attributable to preferred noncontrolling interests in Aimco Operating Partnership	(1,746)	(1,925)	(2,815)	(3,707)
Net loss (income) attributable to common noncontrolling interests in Aimco Operating Partnership	2,623	(26,427)	5,458	(22,319)
Total noncontrolling interests	(10,818)	(87,000)	(2,779)	(87,989)
Net (loss) income attributable to Aimco	(18,444)	255,955	(42,979)	231,305
Net income attributable to Aimco preferred stockholders	(11,477)	(13,670)	(24,643)	(27,878)
Net income attributable to participating securities		(3,145)		(2,497)
Net (loss) income attributable to Aimco common stockholders	$ (29,921)	$ 239,140	$ (67,622)	$ 200,930
Earnings (loss) attributable to Aimco per common share basic and diluted (Note 6):				
Loss from continuing operations attributable to Aimco (net of income attributable to preferred stockholders and participating securities)	$ (0.41)	$ (0.36)	$ (0.74)	$ (0.70)
Income from discontinued operations attributable to Aimco	0.15	2.30	0.15	2.30
Net (loss) income attributable to Aimco common stockholders	$ (0.26)	$ 1.94	$ (0.59)	$ 1.60
Weighted average common shares outstanding, basic and diluted	115,510	123,484	115,304	125,723
Dividends declared per common share	$ 0.10	$ 0.43	$ 0.10	$ 0.43

See notes to condensed consolidated financial statements.

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APARTMENT INVESTMENT AND MANAGEMENT COMPANY
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(Unaudited)

	Six Months Ended June 30, 2009	Six Months Ended June 30, 2008
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net (loss) income	$ (40,200)	$ 319,294
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Depreciation and amortization	240,914	204,659
Gain on dispositions of unconsolidated real estate and other	(14,611)	(166)
Discontinued operations	(41,958)	(308,001)
Other adjustments	23,915	29,575
Net changes in operating assets and operating liabilities	(108,659)	4,798
Net cash provided by operating activities	59,401	250,159
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of real estate		(56,534)
Capital expenditures	(147,337)	(307,378)
Proceeds from dispositions of real estate	265,937	856,932
Proceeds from sales of interests in unconsolidated real estate partnerships	12,596	
Purchases of partnership interests and other assets	(2,567)	(20,131)
Originations of notes receivable from unconsolidated real estate partnerships	(4,111)	(4,864)
Proceeds from repayment of notes receivable	4,376	5,044
Other investing activities	20,453	655
Net cash provided by investing activities	149,347	473,724
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from property loans	610,803	455,523
Principal repayments on property loans	(682,681)	(600,683)
Proceeds from tax-exempt bond financing		21,200
Principal repayments on tax-exempt bond financing	(70,774)	(32,495)
Payments on term loans	(50,000)	
Net borrowings on revolving credit facility		145,000
Repurchases of Class A Common Stock		(352,306)
Repurchases of preferred stock	(4,200)	
Payment of Class A Common Stock dividends	(72,164)	(107,808)
Payment of preferred stock dividends	(26,293)	(27,903)
Payment of distributions to noncontrolling interests	(80,626)	(119,180)

Other financing activities	(20,375)	14,471
Net cash used in financing activities	(396,310)	(604,181)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(187,562)	119,702
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	299,676	210,461
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 112,114	$ 330,163

See notes to condensed consolidated financial statements.

APARTMENT INVESTMENT AND MANAGEMENT COMPANY
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2009
(Unaudited)

NOTE 1 Organization

Apartment Investment and Management Company, or Aimco, is a Maryland corporation incorporated on January 10, 1994. We are a self-administered and self-managed real estate investment trust, or REIT, engaged in the acquisition, ownership, management and redevelopment of apartment properties. As of June 30, 2009, we owned or managed a real estate portfolio of 950 apartment properties containing 154,511 apartment units located in 44 states, the District of Columbia and Puerto Rico. We are one of the largest owners and operators of apartment properties in the United States.

As of June 30, 2009, we:

- owned an equity interest in and consolidated 111,054 units in 485 properties (which we refer to as consolidated properties), of which 108,713 units were also managed by us;
- owned an equity interest in and did not consolidate 8,915 units in 82 properties (which we refer to as unconsolidated properties), of which 3,884 units were also managed by us; and
- provided services for or managed 34,542 units in 383 properties, primarily pursuant to long-term agreements (including 32,241 units in 358 properties for which we provide asset management services only, and not also property management services). In certain cases, we may indirectly own generally less than one percent of the operations of such properties through a partnership syndication or other fund.

Through our wholly-owned subsidiaries, AIMCO-GP, Inc. and AIMCO-LP Trust, we own a majority of the ownership interests in AIMCO Properties, L.P., which we refer to as the Aimco Operating Partnership. As of June 30, 2009, we held approximately 93% of the common partnership units and equivalents of the Aimco Operating Partnership. We conduct substantially all of our business and own substantially all of our assets through the Aimco Operating Partnership. Interests in the Aimco Operating Partnership that are held by limited partners other than Aimco are referred to as OP Units. OP Units include common OP Units, partnership preferred units, or preferred OP Units, and high performance partnership units, or High Performance Units. The Aimco Operating Partnership s income is allocated to holders of common OP Units based on the weighted average number of common OP Units and equivalents outstanding during the period. The holders of the common OP Units and Class I High Performance Units receive distributions, prorated from the date of issuance, in an amount equivalent to the dividends paid to holders of Aimco Class A Common Stock (which we refer to as Common Stock). Holders of common OP Units may redeem such units for cash or, at the Aimco Operating Partnership s option, Common Stock. Preferred OP Units entitle the holders thereof to a preference with respect to distributions or upon liquidation. At June 30, 2009, 116,435,004 shares of our Common Stock were outstanding and the Aimco Operating Partnership had 8,819,906 common OP Units and equivalents outstanding for a combined total of 125,254,910 shares of Common Stock and OP Units outstanding (excluding preferred OP Units).

Except as the context otherwise requires, we, our, us and the Company refer to Aimco, the Aimco Operat Partnership and their consolidated entities, collectively.

NOTE 2 Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and Article 10 of Regulation S-X. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles in the United States of America, or GAAP, have been condensed or omitted in accordance with such rules and regulations, although management believes the disclosures are adequate to prevent the information presented from being misleading. In the opinion of management, all adjustments (consisting of normal recurring items) considered necessary for a fair presentation have been included. Operating results for the three and six months ended June 30, 2009, are not necessarily indicative of the results that may be expected for the year ending December 31, 2009.

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The balance sheet at December 31, 2008, has been derived from the audited financial statements at that date, but does not include all of the information and disclosures required by GAAP for complete financial statements. For further information, refer to the financial statements and notes thereto included in Aimco s Annual Report on Form 10-K for the year ended December 31, 2008. Certain 2008 financial statement amounts have been reclassified to conform to the 2009 presentation, including adjustments for discontinued operations.

Share and per share information for the periods presented has been retroactively adjusted for the effect of shares of Common Stock issued in connection with special dividends paid during 2008 and January 2009.

Our management evaluated for subsequent events through the time this Quarterly Report on Form 10-Q was filed on July 31, 2009.

Principles of Consolidation

The accompanying condensed consolidated financial statements include the accounts of Aimco, the Aimco Operating Partnership, and their consolidated entities. We consolidate all variable interest entities for which we are the primary beneficiary. Generally, we consolidate real estate partnerships and other entities that are not variable interest entities when we own, directly or indirectly, a majority voting interest in the entity or are otherwise able to control the entity. All significant intercompany balances and transactions have been eliminated in consolidation.

Interests in the Aimco Operating Partnership that are held by limited partners other than Aimco are reflected in the accompanying balance sheets as noncontrolling interests in Aimco Operating Partnership. Interests in partnerships consolidated into the Aimco Operating Partnership that are held by third parties are reflected in the accompanying balance sheets as noncontrolling interests in consolidated real estate partnerships. The assets of consolidated real estate partnerships owned or controlled by us generally are not available to pay creditors of Aimco or the Aimco Operating Partnership.

As used herein, and except where the context otherwise requires, partnership refers to a limited partnership or a limited liability company and partner refers to a partner in a limited partnership or a member in a limited liability company.

Variable Interest Entities

Financial Accounting Standards Board, or FASB, Interpretation No. 46 (revised December 2003), *Consolidation of Variable Interest Entities*, or FIN 46, addresses the consolidation by business enterprises of variable interest entities. We consolidate all variable interest entities for which we are the primary beneficiary. Generally, a variable interest entity, or VIE, is an entity with one or more of the following characteristics: (a) the total equity investment at risk is not sufficient to permit the entity to finance its activities without additional subordinated financial support; (b) as a group, the holders of the equity investment at risk lack (i) the ability to make decisions about an entity s activities through voting or similar rights, (ii) the obligation to absorb the expected losses of the entity, or (iii) the right to receive the expected residual returns of the entity; or (c) the equity investors have voting rights that are not proportional to their economic interests and substantially all of the entity s activities either involve, or are conducted on behalf of, an investor that has disproportionately few voting rights. FIN 46 requires a VIE to be consolidated in the financial statements of the entity that is determined to be the primary beneficiary of the VIE. The primary beneficiary generally is the entity that will receive a majority of the VIE s expected losses, receive a majority of the VIE s expected residual returns, or both.

In determining whether we are the primary beneficiary of a VIE, we consider qualitative and quantitative factors, including, but not limited to: the amount and characteristics of our investment; the obligation or likelihood for us or other investors to provide financial support; our and the other investors ability to control or significantly influence key decisions for the VIE; and the similarity with and significance to the business activities of us and the other investors. Significant judgments related to these determinations include estimates about the current and future fair values and performance of real estate held by these VIEs and general market conditions.

As of June 30, 2009, we were the primary beneficiary of, and therefore consolidated, 91 VIEs, which owned 68 apartment properties with 9,706 units. Real estate with a carrying value of $776.2 million collateralized $460.5 million of debt of those VIEs. The creditors of the consolidated VIEs do not have recourse to our general credit. As of June 30, 2009, we also held variable interests in 124 VIEs for which we were not the primary beneficiary. Those VIEs consist primarily of partnerships that are engaged, directly or indirectly, in the ownership and management of 175 apartment properties with 10,061 units. We are involved with those VIEs as an equity holder, lender, management agent, or through other contractual relationships. At June 30, 2009, our maximum exposure to loss as a result of our involvement with unconsolidated VIEs is limited to our recorded investments in and receivables from those VIEs totaling $107.6 million and our contractual obligation to advance funds to certain VIEs totaling $5.3 million. We may be subject to additional losses to the extent of any financial support that we voluntarily provide in the future. Additionally, the provision of financial support in the future may require us to consolidate a VIE.

Noncontrolling Interests

We adopted the provisions of FASB Statement of Financial Accounting Standards No. 160, *Noncontrolling Interests in Consolidated Financial Statements an amendment of ARB No. 51*, or SFAS 160, effective January 1, 2009. SFAS 160 clarifies that a noncontrolling interest in a subsidiary is an ownership interest in a consolidated entity, which should be reported as equity in the parent s consolidated financial statements. SFAS 160 requires disclosure, on the face of the consolidated income statements, of those amounts of consolidated net income and other comprehensive income attributable to controlling and noncontrolling interests, eliminating the past practice of reporting amounts of income attributable to noncontrolling interests as an adjustment in arriving at consolidated net income. SFAS 160 requires the parent to attribute to noncontrolling interests their share of losses even if such attribution results in a deficit noncontrolling interest balance within the parent s equity accounts, and in some instances, requires a parent to recognize a gain or loss in net income when a subsidiary is deconsolidated.

In connection with our adoption of SFAS 160, we reclassified into our consolidated equity accounts the historical balances related to noncontrolling interests in consolidated real estate partnerships and the portion of noncontrolling interests in Aimco Operating Partnership related to the Aimco Operating Partnership s common OP Units and High Performance Units. At December 31, 2008, the carrying amount of noncontrolling interests in consolidated real estate partnerships was $363.7 million and the carrying amount for noncontrolling interests in Aimco Operating Partnership attributable to common OP Units and High Performance Units was zero, due to cash distributions in excess of the positive balances related to those noncontrolling interests.

Under SFAS 160, we no longer record a charge related to cash distributions to noncontrolling interests in excess of the carrying amount of such noncontrolling interests, and we attribute losses to noncontrolling interests even if such attribution results in a deficit noncontrolling interest balance within our equity accounts. The following table illustrates the pro forma amounts of loss from continuing operations, discontinued operations and net loss that would have been attributed to Aimco common stockholders for the three and six months ended June 30, 2009, had we applied the provisions of Accounting Research Bulletin No. 51, prior to their amendment by SFAS 160 (in thousands, except per share amounts):

	Three Months Ended June 30, 2009	Six Months Ended June 30, 2009
Loss from continuing operations attributable to Aimco (net of income attributable to preferred stockholders and participating securities)	$ (54,724)	$ (112,997)
Income from discontinued operations attributable to Aimco	18,331	17,832
Net loss attributable to Aimco common stockholders	$ (36,393)	$ (95,165)
Basic and diluted earnings (loss) per common share:		
Loss from continuing operations attributable to Aimco (net of income attributable to preferred stockholders and participating securities)	$ (0.47)	$ (0.98)
Income from discontinued operations attributable to Aimco	0.15	0.15
Net loss attributable to Aimco common stockholders	$ (0.32)	$ (0.83)

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The following table presents a reconciliation of the December 31, 2008 and June 30, 2009 carrying amounts for preferred noncontrolling interests in the Aimco Operating Partnership, consolidated equity and the related amounts of equity attributable to Aimco and noncontrolling interests:

	Temporary equity		Equity			
	Preferred noncontrolling interests in Aimco Operating Partnership	Preferred stock subject to repurchase agreement	Equity attributable to Aimco	Noncontrolling interests in consolidated real estate partnerships	Common noncontrolling interests in Aimco Operating Partnership	Total equity
Balance, December 31, 2008	$ 88,148	$	$ 1,414,977	$ 363,672	$	$ 1,778,649
Contributions				3,035		3,035
Dividends/distributions	(3,412)		(37,864)	(57,458)	(924)	(96,246)
Conversions and repurchases of common units and shares	(1,016)		1,305		(1,353)	(48)
Repurchase of preferred shares			(4,200)			(4,200)
Reclassification of preferred stock to temporary equity (Note 4)		30,000	(30,000)			(30,000)
Stock based compensation cost			7,153			7,153
Other	751		1,229	(3,369)	(751)	(2,891)
Effect of changes in ownership				(307)		(307)
Change in accumulated other comprehensive loss			1,775	389		2,164
Net income (loss)	2,815		(42,979)	5,422	(5,458)	(43,015)
Balance, June 30, 2009	$ 87,286	$ 30,000	$ 1,311,396	$ 311,384	$ (8,486)	$ 1,614,294

SFAS 160 does not amend the provisions of EITF Topic D-98, *Classification and Measurement of Redeemable Securities*, or EITF D-98, which addresses the classification and measurement of redeemable securities, including noncontrolling interests in a subsidiary; however, the FASB amended EITF D-98 in March 2008 to address the interaction of EITF D-98 with SFAS 160. Pursuant to EITF D-98, the Aimco Operating Partnership s preferred OP Units, which are generally redeemable at the holders option and may be settled in cash or, at the Aimco Operating Partnership s discretion, shares of Common Stock, will continue to be classified within temporary equity in our consolidated balance sheets.

Business Combinations

We adopted the provisions of FASB Statement of Financial Accounting Standards No. 141(R), *Business Combinations a replacement of FASB Statement No. 141*, or SFAS 141(R), effective January 1, 2009. SFAS 141(R) applies to all transactions or events in which an entity obtains control of one or more businesses, including those effected without the transfer of consideration, for example by contract or through a lapse of minority veto rights. SFAS 141(R) requires the acquiring entity in a business combination to recognize the full fair value of assets acquired and liabilities assumed in the transaction (whether a full or partial acquisition); establishes the acquisition-date fair value as the measurement objective for all assets acquired and liabilities assumed; and requires expensing of most transaction and restructuring costs.

We believe most operating real estate assets meet the revised definition of a business under SFAS 141(R). Accordingly, beginning in 2009, we expense transaction costs associated with acquisitions of operating real estate or interests therein when we consolidate the asset. SFAS 141(R) does not provide implementation guidance regarding the treatment of acquisition costs incurred prior to December 31, 2008, for acquisitions that do not close until 2009 when SFAS 141(R) is effective. The SEC has indicated any of the following three transition methods are acceptable, provided that the method chosen is disclosed and applied consistently:

1) expense acquisition costs in 2008 when it is probable that the acquisition will not close in 2008;
2) expense acquisition costs January 1, 2009, upon adoption of SFAS 141(R); or
3) give retroactive treatment to the acquisition costs January 1, 2009, upon adoption of SFAS 141(R), by retroactively adjusting prior periods to record acquisition costs in the prior periods in which they were incurred, in accordance with Statement of Financial Accounting Standards No. 154, *Accounting Changes and Error Corrections.*

We elected to apply the third method and accordingly have retroactively adjusted our results of operations for the year ended December 31, 2008, by $3.5 million, which also resulted in a corresponding reduction to our December 31, 2008 equity balance. Approximately $0.1 million and $0.2 million of such acquisition costs were incurred during the three and six months ended June 30, 2008, respectively, and are reflected in investment management expenses in our accompanying condensed consolidated statements of income for those periods. These retroactive adjustments had no net effect on earnings per share amounts for the three and six months ended June 30, 2008.

Participating Securities

We adopted the provisions of FASB FSP EITF 03-6-1, *Determining Whether Instruments Granted in Share-Based Payment Transactions are Participating Securities*, or the FSP, effective January 1, 2009. The FSP clarifies that unvested share-based payment awards that participate in dividends similar to shares of common stock or common partnership units should be treated as participating securities. The FSP affects the computation of basic and diluted earnings per share for unvested restricted stock awards and shares purchased pursuant to officer stock loans, which serve as collateral for such loans, both of which entitle the holders to dividends. Refer to Note 6, which details our calculation of earnings per share and the effect of participating securities on earnings per share. We do not expect the FSP to have a material effect on future earnings per share amounts.

Derivative Financial Instruments

We primarily use long-term, fixed-rate and self-amortizing non-recourse debt to avoid, among other things, risk related to fluctuating interest rates. For our variable rate debt, we are sometimes required by our lenders to limit our exposure to interest rate fluctuations by entering into interest rate swap or cap agreements. The interest rate swap agreements moderate our exposure to interest rate risk by effectively converting the interest on variable rate debt to a fixed rate over the term of the related debt. The interest rate cap agreements effectively limit our exposure to interest rate risk by providing a ceiling on the underlying variable interest rate.

At June 30, 2009 and December 31, 2008, we had interest rate swaps with an aggregate notional amount of $52.3 million, and recorded fair values of $0.8 million and $2.6 million, respectively, reflected in other assets and accrued liabilities and other in our condensed consolidated balance sheets. At June 30, 2009, these interest rate swaps had a weighted average term of 11.6 years. In accordance with FASB Statement of Financial Accounting Standards No. 133, *Accounting for Derivative Instruments and Hedging Activities*, or SFAS 133, we have designated these interest rate swaps as cash flow hedges and recognize any changes in their fair value as an adjustment of accumulated other comprehensive income within equity to the extent of their effectiveness. For the six months ended June 30, 2009 and 2008, we recognized changes in fair value of $1.7 million and $0.1 million, respectively, of which $2.2 million and $0.1 million resulted in an adjustment to consolidated equity. We recognized $0.4 million of ineffectiveness as an adjustment of interest expense during the six months ended June 30, 2009 and we recognized no ineffectiveness during the six months ended June 30, 2008. Our consolidated comprehensive loss for the three and six months ended June 30, 2009, totaled $5.8 million and $38.0 million, respectively, and consolidated comprehensive income for the three and six months ended June 30, 2008, totaled $343.6 million and $319.4 million, respectively, before the effects of noncontrolling interests. If the forward rates at June 30, 2009 remain constant, we estimate that during the next twelve months, we would reclassify into earnings approximately $1.4 million of the unrealized losses in accumulated other comprehensive income.

From time to time, we enter into total rate of return swaps on various fixed rate secured tax-exempt bonds payable and fixed rate notes payable to convert these borrowings from a fixed rate to a variable rate and provide a financing product to lower our cost of borrowing. In exchange for our receipt of a fixed rate generally equal to the underlying borrowing s interest rate, the total rate of return swaps require that we pay a variable rate, equivalent to the Securities Industry and Financial Markets Association Municipal Swap Index, or SIFMA, rate for tax-exempt bonds payable and the 30-day LIBOR rate for notes payable, plus a risk spread. These swaps generally have an interest in the property collateralized by the related borrowings and the obligations under certain of these swaps are cross-collateralized with certain of the other swaps with a particular counterparty. The underlying borrowings are generally callable at our option, with no prepayment penalty, with 30 days advance notice, and the swaps generally have a term of less than five years. The total rate of return swaps have a contractually defined termination value generally equal to the difference between the fair value and the counterparty s purchased value of the underlying borrowings, which may require payment by us or to us for such difference. Accordingly, we believe fluctuations in the fair value of the borrowings from the inception of the hedging relationship generally will be offset by a corresponding fluctuation in the fair value of the total rate of return swaps.

In accordance with SFAS 133, we designate total rate of return swaps as hedges of the risk of overall changes in the fair value of the underlying borrowings. At each reporting period, we estimate the fair value of these borrowings and the total rate of return swaps and recognize any changes therein as an adjustment of interest expense. We evaluate the effectiveness of these fair value hedges at the end of each reporting period and recognize an adjustment of interest expense as a result of any ineffectiveness.

As of June 30, 2009 and December 31, 2008, we had borrowings payable subject to total rate of return swaps with aggregate outstanding principal balances of $418.9 million and $421.7 million, respectively. At June 30, 2009, the weighted average fixed receive rate under the total return swaps was 6.8% and the weighted average variable pay rate was 1.1%, based on the applicable SIFMA and 30-day LIBOR rates effective as of that date. Information related to the fair value of these instruments at June 30, 2009 and December 31, 2008, is discussed further below.

Fair Value Measurements

We adopted the provisions of FASB Statement of Financial Accounting Standards No. 157, *Fair Value Measurements*, or SFAS 157, that apply both to recurring and nonrecurring fair value measurements of financial assets and liabilities effective January 1, 2008, and the provisions that apply to fair value measurements of non-financial assets and liabilities effective January 1, 2009, and at those times determined no transition adjustments were required.

The table below presents (in thousands) the amounts at December 31, 2008 and June 30, 2009 (and the changes in fair value between such dates) for significant items measured in our consolidated balance sheets at fair value, as defined in SFAS 157. Certain of these fair value measurements are based on significant unobservable inputs classified within Level 3 of the SFAS 157 valuation hierarchy. When a determination is made to classify a fair value measurement within Level 3 of the valuation hierarchy, the determination is based upon the significance of the unobservable factors to the overall fair value measurement. However, such fair value measurements typically include, in addition to the unobservable or Level 3 inputs, observable inputs that can be validated to observable external sources; accordingly, the changes in fair value in the table below are due in part to observable factors that are part of the valuation methodology.

	Fair value at December 31, 2008	Unrealized gains (losses) included in earnings (1)(2)	Unrealized gains (losses) included in equity	Fair value at June 30, 2009
Level 2:				
Interest rate swaps (3)	$ (2,557)	$ (440)	$ 2,164	$ (833)
Level 3:				
Total rate of return swaps (4)	(29,495)	(85)		(29,580)
Changes in fair value of debt instruments subject to total rate of return swaps (5)	29,495	85		29,580
Total	$ (2,557)	$ (440)	$ 2,164	$ (833)

(1) Unrealized gains (losses) relate to periodic revaluations of fair value and have not resulted from the settlement of a swap position.

(2) Included in interest expense in the

accompanying condensed consolidated statements of income.

(3) The fair value of interest rate swaps is estimated using an income approach with primarily observable inputs including information regarding the hedged variable cash flows and forward yield curves relating to the variable interest rates on which the hedged cash flows are based.

(4) Total rate of return swaps have contractually-defined termination values generally equal to the difference between the fair value and the counterparty s purchased value of the underlying borrowings. We calculate the termination value, which we believe is representative of the fair value, of total rate of return swaps using a market approach by reference to estimates of the fair value of the underlying borrowings, which are discussed below, and an evaluation of potential changes in the credit quality of the counterparties to these arrangements.

(5)

We estimate the fair value of debt instruments using an income and market approach, including comparison of the contractual terms to observable and unobservable inputs such as market interest rate risk spreads, collateral quality and loan-to-value ratios on similarly encumbered assets within our portfolio. These borrowings are collateralized and non-recourse to us; therefore, we believe changes in our credit rating will not materially affect a market participant s estimate of the borrowings fair value.

In addition to the amounts in the table above, during the three and six months ended June 30, 2009, we recognized $19.7 million and $16.9 million, respectively, of net provisions for operating real estate impairment losses (including amounts in discontinued operations) to reduce the carrying amounts of certain real estate properties to their estimated fair value (or fair value less estimated costs to sell). We estimate the fair value of real estate using income and market valuation techniques using information such as broker estimates, purchase prices for recent transactions on comparable assets and net operating income capitalization analyses using observable and unobservable inputs such as capitalization rates, asset quality grading, geographic location analysis, and local supply and demand observations. Based on the significance of the unobservable inputs, we classify these fair value measurements within Level 3 of the valuation hierarchy.

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We believe that the aggregate fair value of our cash and cash equivalents, receivables, payables and short-term secured debt approximates their aggregate carrying value at June 30, 2009 and December 31, 2008, due to their relatively short-term nature and high probability of realization. We estimate fair value for our notes receivable and debt instruments using present value techniques that include income and market valuation approaches using observable inputs such as market rates for debt with the same or similar terms and unobservable inputs such as collateral quality and loan-to-value ratios on similarly encumbered assets. Because of the significance of unobservable inputs to these fair value measurements, we classify them within Level 3 of the fair value hierarchy. Present value calculations vary depending on the assumptions used, including the discount rate and estimates of future cash flows. In many cases, the fair value estimates may not be realizable in immediate settlement of the instruments. The estimated aggregate fair value of our notes receivable was approximately $151.1 million and $161.6 million at June 30, 2009 and December 31, 2008, respectively, as compared to their carrying amounts of $155.9 million and $162.5 million. The estimated aggregate fair value of our consolidated debt (including amounts reported in liabilities related to assets held for sale) was approximately $6.6 billion and $6.7 billion at June 30, 2009 and December 31, 2008, respectively, as compared to aggregate carrying amounts of $6.6 billion and $6.8 billion. The fair values of our derivative instruments at June 30, 2009 and December 31, 2008 are included in the table presented above.

Concentration of Credit Risk

Financial instruments that potentially could subject us to significant concentrations of credit risk consist principally of notes receivable and total rate of return swaps. Approximately $86.3 million of our notes receivable at June 30, 2009, are collateralized by properties in the West Harlem area of New York City. There are no other significant concentrations of credit risk with respect to our notes receivable due to the large number of partnerships that are borrowers under the notes and the geographic diversification of the properties that collateralize the notes.

At June 30, 2009, we had total rate of return swap positions with two financial institutions totaling $419.3 million. We periodically evaluate counterparty credit risk associated with these arrangements. At the current time, we have concluded we do not have material exposure. In the event this counterparty were to default under these arrangements, loss of the net interest benefit we generally receive under these arrangements, which is equal to the difference between the fixed rate we receive and the variable rate we pay, may adversely impact our results of operations and operating cash flows.

Use of Estimates

The preparation of our condensed consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts included in the financial statements and accompanying notes thereto. Actual results could differ from those estimates.

Income Taxes

In March 2008, we were notified by the Internal Revenue Service, or the IRS, that it intended to examine the 2006 Federal tax return for the Aimco Operating Partnership. During June 2008, the IRS issued AIMCO-GP, Inc., the general partner and tax matters partner of the Aimco Operating Partnership, a summary report including the IRS s proposed adjustments to the Aimco Operating Partnership s 2006 Federal tax return. In addition, in May 2009, we were notified by the IRS that it intended to examine the 2007 Federal tax return for the Aimco Operating Partnership. A summary report related to the 2007 examination has not yet been issued. We do not expect the 2006 proposed adjustments or the 2007 examination to have any material effect on our unrecognized tax benefits, financial condition or results of operations.

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NOTE 3 Real Estate Dispositions

Real Estate Dispositions (Discontinued Operations)

We are currently marketing for sale certain real estate properties that are inconsistent with our long-term investment strategy. At the end of each reporting period, we evaluate whether such properties meet the criteria to be classified as held for sale, including whether such properties are expected to be sold within 12 months. Additionally, certain properties that do not meet all of the criteria to be classified as held for sale at the balance sheet date may nevertheless be sold and included in discontinued operations in the subsequent 12 months; thus, the number of properties that may be sold during the subsequent 12 months could exceed the number classified as held for sale. At June 30, 2009 and December 31, 2008, we had nine and 38 properties, with an aggregate of 2,381 and 8,978 units, respectively, classified as held for sale. Amounts classified as held for sale in the accompanying condensed consolidated balance sheets are as follows (in thousands):

	June 30, 2009	December 31, 2008
Real estate, net	$ 98,029	$ 385,394
Other assets	2,700	6,490
Assets held for sale	$ 100,729	$ 391,884
Property debt	$ 71,709	$ 237,903
Other liabilities	861	7,429
Liabilities related to assets held for sale	$ 72,570	$ 245,332

During the six months ended June 30, 2009, we sold 29 properties with an aggregate of 6,597 units and during the year ended December 31, 2008, we sold 151 consolidated properties with an aggregate of 37,202 units. For the three and six months ended June 30, 2009 and 2008, discontinued operations includes the results of operations for the periods prior to the date of sale for all properties sold or classified as held for sale as of June 30, 2009.

The following is a summary of the components of income from discontinued operations and the related amounts of income from discontinued operations attributable to Aimco and to noncontrolling interests for the three and six months ended June 30, 2009 and 2008 (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Rental and other property revenues	$ 13,721	$ 103,429	$ 31,496	$ 211,288
Property operating expenses	(8,020)	(52,543)	(19,314)	(105,803)
Depreciation and amortization	(3,776)	(20,853)	(8,654)	(50,266)
Real estate impairment losses	(14,760)	(6,536)	(11,396)	(6,536)
Other expenses, net	(2,533)	(2,009)	(3,945)	(2,742)
Operating (loss) income	(15,368)	21,488	(11,813)	45,941
Interest income	7	185	66	782
Interest expense	(1,773)	(17,765)	(5,524)	(37,558)
(Loss) income before gain on dispositions of real estate and income tax	(17,134)	3,908	(17,271)	9,165

Gain on dispositions of real estate	58,615	375,623	63,165	380,387
Income tax expense	(1,338)	(15,892)	(1,157)	(15,584)
Income from discontinued operations, net	$ 40,143	$ 363,639	$ 44,737	$ 373,968
Income from discontinued operations attributable to:				
Noncontrolling interests in consolidated real estate partnerships	$ (21,007)	$ (53,802)	$ (25,121)	$ (58,173)
Noncontrolling interests in Aimco Operating Partnership	(1,476)	(25,840)	(1,512)	(26,337)
Total noncontrolling interests	(22,483)	(79,642)	(26,633)	(84,510)
Aimco	$ 17,660	$ 283,997	$ 18,104	$ 289,458

Gain on dispositions of real estate is reported net of incremental direct costs incurred in connection with the transaction, including any prepayment penalties incurred upon repayment of mortgage loans collateralized by the property being sold. Such prepayment penalties totaled $11.6 million and $11.7 million for the three and six months ended June 30, 2009, respectively, and $23.8 million and $25.1 million for the three and six months ended June 30, 2008, respectively. We classify interest expense related to property debt within discontinued operations when the related real estate asset is sold or classified as held for sale.

In connection with properties sold during the three and six months ended June 30, 2009, we included $3.0 million of goodwill related to our real estate segment in the carrying amounts of the properties in determining the gain or loss on such disposals. The amounts of goodwill allocated to these properties were based on the relative fair values of the properties disposed of and the retained portions of the reporting units to which the goodwill was allocated. During 2008, we did not allocate any goodwill to disposals as real estate properties were not considered businesses under then applicable GAAP.

Gain on Dispositions of Unconsolidated Real Estate and Other

During the three months ended June 30, 2009, we recognized approximately $3.2 million of gains on the disposition of an interest in an unconsolidated real estate partnership and approximately $0.6 million of gains related to properties sold by unconsolidated real estate partnerships.

During the six months ended June 30, 2009, we recognized approximately $11.8 million of gains on the disposition of interests in unconsolidated real estate partnerships, of which $8.6 million relates to our receipt in 2009 of additional proceeds related to our disposition during 2008 of an interest in an unconsolidated real estate partnership. We additionally recognized approximately $2.8 million of gains related to properties sold by unconsolidated real estate partnerships and the disposal of undeveloped land parcels during the six months ended June 30, 2009.

NOTE 4 Other Significant Transactions

Restructuring Costs

In connection with 2008 property sales and an expected reduction in redevelopment and transactional activities, during the three months ended December 31, 2008, we initiated an organizational restructuring program that included reductions in workforce and related costs, reductions in leased corporate facilities and abandonment of certain redevelopment projects and business pursuits. This restructuring effort resulted in a restructuring charge of $22.8 million, which consisted of: severance costs of $12.9 million; unrecoverable lease obligations of $6.4 million related to space that we will no longer use; and the write-off of deferred transaction costs totaling $3.5 million associated with certain acquisitions and redevelopment opportunities that we will no longer pursue. We completed the workforce reductions by March 31, 2009. In connection with the completion of the workforce reductions, we reversed approximately $1.7 million of excess severance costs. During the six months ended June 30, 2009, we abandoned additional leased corporate facilities and redevelopment projects, which resulted in an additional restructuring charge of approximately $1.7 million. As of June 30, 2009, the only remaining accrual associated with the restructuring activity is a $6.1 million estimate for unrecoverable lease obligations, which will be paid over the remaining terms of the affected leases.

The net effect of the severance related reversal and the additional 2009 abandonments had an insignificant effect on earnings for the six months ended June 30, 2009, and is included in other expense, net in our consolidated statement of income. The amounts related to our restructuring charges have not been allocated to our reportable segments based on the methods used to evaluate segment performance.

Amended Credit Facility

On May 1, 2009, we entered into a Sixth Amendment to our Amended and Restated Senior Secured Credit Agreement with a syndicate of financial institutions, which we refer to as the Credit Agreement. The Sixth Amendment provides for a reduction in the aggregate amount of commitments and loans under the Credit Agreement from $985.0 million, comprised of a $350.0 million term loan and $635.0 million of revolving loan commitments to $530.0 million, comprised of a $350.0 million term loan and $180.0 million of revolving loan commitments. Pursuant to the Sixth Amendment, our revolving credit facility matures May 1, 2011, and may be extended for an additional year, subject to certain conditions, including payment of a 45.0 basis point fee on the total revolving commitments, and repayment of the entire $350.0 million term loan by February 1, 2011.

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Partial Repurchase of Series A Community Reinvestment Act Perpetual Preferred Stock

In June 2009, we entered into an agreement to repurchase $36.0 million in liquidation preference of our Series A Community Reinvestment Act Preferred Stock, or CRA Preferred Stock, at a 30% discount to the redemption value. Pursuant to this agreement, the holder of the CRA Preferred Stock may require us to repurchase 12 shares, or $6.0 million in liquidation preference, of CRA Preferred Stock for $4.2 million on June 30, 2009, and an additional 60 shares, or $30.0 million in liquidation preference, of CRA Preferred Stock over the next three years, for $21.0 million. If required, these additional repurchases will be for up to $10.0 million in liquidation preference in May 2010, 2011 and 2012.

In June 2009, we were required to complete the first repurchase under this agreement. In accordance with Emerging Issues Task Force Topic D-42, *The Effect on the Calculation of Earnings Per Share for the Redemption or Induced Conversion of Preferred Stock*, or EITF Topic D-42, the $1.8 million excess of the carrying value over the repurchase price, offset by $0.2 million of issuance costs previously recorded as a reduction of additional paid-in capital, is reflected as a reduction of net income attributable to preferred stockholders for purposes of calculating earnings per share for the three and six months ended June 30, 2009.

Based on the holder s ability to require us to repurchase an additional 60 shares of CRA Preferred Stock pursuant to this agreement, at June 30, 2009, we reclassified into temporary equity $30.0 million in liquidation preference of CRA Preferred Stock, or the maximum redemption value of such preferred stock.

Common Stock Repurchases

Our Board of Directors has, from time to time, authorized us to repurchase shares of our outstanding capital stock. During the six months ended June 30, 2009, we did not repurchase any shares of Common Stock. During the six months ended June 30, 2008, we repurchased 12,655,582 shares of Common Stock for cash totaling $323.5 million. We also paid cash totaling $28.7 million in January 2008 to settle repurchases of Common Stock in December 2007. As of June 30, 2009, we were authorized to repurchase approximately 19.3 million additional shares.

Information Technology Hardware/Software Write-off

During the six months ended June 30, 2008, we reassessed our approach to communication technology needs at our properties, which resulted in the discontinuation of an infrastructure project and a $4.8 million write-off of related hardware and capitalized internal and consulting costs included in other assets. The write-off, which is net of estimated sales proceeds, is included in other expense, net. During the six months ended June 30, 2008, we additionally recorded a $1.0 million write off of certain software and hardware assets that are no longer consistent with our information technology strategy. This write-off is included in depreciation and amortization.

NOTE 5 Commitments and Contingencies

Commitments

In connection with our redevelopment and capital improvement activities, we have commitments of approximately $19.5 million related to construction projects, most of which we expect to incur during the remainder of 2009. Additionally, we enter into certain commitments for future purchases of goods and services in connection with the operations of our properties. Those commitments generally have terms of one year or less and reflect expenditure levels comparable to our historical expenditures.

We have committed to fund an additional $5.3 million in second mortgage loans on certain properties in West Harlem in New York City. In certain circumstances, we also could be required to acquire the properties for cash and/or assumption of first mortgage debt totaling approximately $149.0 million to $216.0 million, in addition to amounts funded and committed under the related loan agreement.

We have a $30.0 million obligation under a sale-leaseback arrangement which we account for as a financing in our consolidated balance sheets. Under the terms of the sale-leaseback arrangement, the other party to this arrangement has the right to require us to purchase its interests in the partnership that owns the properties under lease, thus effectively requiring us to repay the obligation. Such put option expires on December 3, 2011.

Tax Credit Arrangements

We are required to manage certain consolidated real estate partnerships in compliance with various laws, regulations and contractual provisions that apply to our historic and low-income housing tax credit syndication arrangements. In some instances, noncompliance with applicable requirements could result in projected tax benefits not being realized and require a refund or reduction of investor capital contributions, which are reported as deferred income in our consolidated balance sheet, until such time as our obligation to deliver tax benefits is relieved. The remaining compliance periods for our tax credit syndication arrangements range from less than one year to 15 years. We do not anticipate that any material refunds or reductions of investor capital contributions will be required in connection with these arrangements.

Legal Matters

In addition to the matters described below, we are a party to various legal actions and administrative proceedings arising in the ordinary course of business, some of which are covered by our general liability insurance program, and none of which we expect to have a material adverse effect on our consolidated financial condition, results of operations or cash flows.

Limited Partnerships

In connection with our acquisitions of interests in real estate partnerships, we are sometimes subject to legal actions, including allegations that such activities may involve breaches of fiduciary duties to the partners of such real estate partnerships or violations of the relevant partnership agreements. We may incur costs in connection with the defense or settlement of such litigation. We believe that we comply with our fiduciary obligations and relevant partnership agreements. Although the outcome of any litigation is uncertain, we do not expect any such legal actions to have a material adverse effect on our consolidated financial condition, results of operations or cash flows.

Environmental

Various Federal, state and local laws subject property owners or operators to liability for management, and the costs of removal or remediation, of certain hazardous substances present on a property, including lead-based paint. Such laws often impose liability without regard to whether the owner or operator knew of, or was responsible for, the release or presence of the hazardous substances. The presence of, or the failure to manage or remedy properly, hazardous substances may adversely affect occupancy at affected apartment communities and the ability to sell or finance affected properties. In addition to the costs associated with investigation and remediation actions brought by government agencies, and potential fines or penalties imposed by such agencies in connection therewith, the presence of hazardous substances on a property could result in claims by private plaintiffs for personal injury, disease, disability or other infirmities. Various laws also impose liability for the cost of removal, remediation or disposal of hazardous substances through a licensed disposal or treatment facility. Anyone who arranges for the disposal or treatment of hazardous substances is potentially liable under such laws. These laws often impose liability whether or not the person arranging for the disposal ever owned or operated the facility. In connection with the ownership, operation and management of properties, we could potentially be liable for environmental liabilities or costs associated with our properties or properties we acquire or manage in the future.

We have determined that our legal obligations to remove or remediate hazardous substances may be conditional asset retirement obligations, as defined in FASB Interpretation No. 47, *Conditional Asset Retirement Obligations*. Except in limited circumstances where the asset retirement activities are expected to be performed in connection with a planned construction project or property casualty, we believe that the fair value of our asset retirement obligations cannot be reasonably estimated due to significant uncertainties in the timing and manner of settlement of those obligations. Asset retirement obligations that are reasonably estimable as of June 30, 2009, are immaterial to our consolidated financial condition, results of operations and cash flows.

Mold

We have been named as a defendant in lawsuits that have alleged personal injury and property damage as a result of the presence of mold. In addition, we are aware of lawsuits against owners and managers of multifamily properties asserting claims of personal injury and property damage caused by the presence of mold, some of which have resulted in substantial monetary judgments or settlements. We have only limited insurance coverage for property damage loss claims arising from the presence of mold and for personal injury claims related to mold exposure. We have implemented policies, procedures, third-party audits and training, and include a detailed moisture intrusion and mold assessment during acquisition due diligence. We believe these measures will prevent or eliminate mold exposure from our properties and will minimize the effects that mold may have on our residents. To date, we have not incurred any material costs or liabilities relating to claims of mold exposure or to abate mold conditions. Because the law regarding mold is unsettled and subject to change, we can make no assurance that liabilities resulting from the presence of or exposure to mold will not have a material adverse effect on our consolidated financial condition, results of operations or cash flows.

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NOTE 6 Earnings per Share

We calculate earnings per share based on the weighted average number of shares of Common Stock, common stock equivalents and dilutive convertible securities outstanding during the period. The following table illustrates the calculation of basic and diluted earnings per share for the three and six months ended June 30, 2009 and 2008 (in thousands, except per share data):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	**2008**	**2009**	**2008**
Numerator:				
Loss from continuing operations	$ (47,769)	$ (20,684)	$ (84,937)	$ (54,674)
Loss (income) from continuing operations attributable to noncontrolling interests	11,665	(7,358)	23,854	(3,479)
Income attributable to preferred stockholders	(11,477)	(13,670)	(24,643)	(27,878)
Income attributable to participating securities		(3,145)		(2,497)
Numerator for basic and diluted earnings per share: Loss from continuing operations attributable to Aimco (net of income attributable to preferred stockholders and participating securities)	$ (47,581)	$ (44,857)	$ (85,726)	$ (88,528)
Income from discontinued operations	$ 40,143	$ 363,639	$ 44,737	$ 373,968
Income from discontinued operations attributable to noncontrolling interests	(22,483)	(79,642)	(26,633)	(84,510)
Income from discontinued operations attributable to Aimco	$ 17,660	$ 283,997	$ 18,104	$ 289,458
Net (loss) income	$ (7,626)	$ 342,955	$ (40,200)	$ 319,294
Income attributable to noncontrolling interests	(10,818)	(87,000)	(2,779)	(87,989)
Income attributable to preferred stockholders	(11,477)	(13,670)	(24,643)	(27,878)
Income attributable to participating securities		(3,145)		(2,497)
Numerator for basic and diluted earnings per share: Net (loss) income attributable to Aimco common stockholders	$ (29,921)	$ 239,140	$ (67,622)	$ 200,930
Denominator:				
Denominator for basic and diluted earnings per share weighted average number of shares of Common Stock outstanding	115,510	123,484	115,304	125,723
Effect of dilutive securities:				
Dilutive potential common shares				
Denominator for diluted earnings per share	115,510	123,484	115,304	125,723

Earnings (loss) per common share:								
Basic and diluted earnings (loss) per common share:								
Loss from continuing operations attributable to Aimco (net of income attributable to preferred stockholders)	$	(0.41)	$	(0.36)	$	(0.74)	$	(0.70)
Income from discontinued operations attributable to Aimco		0.15		2.30		0.15		2.30
Net (loss) income attributable to Aimco common stockholders	$	(0.26)	$	1.94	$	(0.59)	$	1.60

As of June 30, 2009 and 2008, the common share equivalents that could potentially dilute basic earnings per share in future periods totaled 10.9 million and 10.6 million, respectively. These securities, representing stock options, have been excluded from the earnings per share computations for the three and six months ended June 30, 2009 and 2008, because their effect would have been anti-dilutive. Participating securities, representing unvested restricted stock and shares purchased pursuant to officer loans, receive dividends similar to shares of common stock and totaled 0.8 million and 1.3 million at June 30, 2009 and 2008, respectively. The effect of participating securities is reflected in basic and diluted earnings per share computations for the periods presented above using the two-class method of allocating distributed and undistributed earnings.

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Various classes of preferred OP Units of the Aimco Operating Partnership are outstanding. Depending on the terms of each class, these preferred OP Units are convertible into common OP Units or redeemable for cash or, at the Aimco Operating Partnership s option, Common Stock, and are paid distributions varying from 5.9% to 9.6% per annum per unit, or equal to the dividends paid on Common Stock based on the conversion terms. As of June 30, 2009, a total of 3.2 million preferred OP Units were outstanding with redemption values of $86.4 million and were redeemable for approximately 9.8 million shares of Common Stock or cash at our option.

NOTE 7 Recent Accounting Developments

In June 2009, the FASB issued Statement of Financial Accounting Standards No. 167, *Amendments to FASB Interpretation No. 46(R)*, or SFAS 167, which is effective for fiscal years beginning after November 15, 2009 and introduces a more qualitative approach to evaluating VIEs for consolidation. SFAS 167 requires a company to perform an analysis to determine whether its variable interests gives it a controlling financial interest in a VIE. This analysis identifies the primary beneficiary of a VIE as the entity that has (a) the power to direct the activities of the VIE that most significantly impact the VIE s economic performance, and (b) the obligation to absorb losses or the right to receive benefits that could potentially be significant to the VIE. In determining whether it has the power to direct the activities of the VIE that most significantly affect the VIE s performance, SFAS 167 requires a company to assess whether it has an implicit financial responsibility to ensure that a VIE operates as designed. SFAS 167 requires continuous reassessment of primary beneficiary status rather than periodic, event-driven assessments as previously required, and incorporates expanded disclosure requirements. We have not yet determined the effect that SFAS 167 will have on our consolidated financial statements.

In June 2009, the FASB issued Statement of Financial Accounting Standards No. 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles a replacement of FASB Statement No. 162*, or SFAS 168, which is effective for financial statements issued for interim and annual periods ending after September 15, 2009. Upon the effective date of SFAS 168, the FASB Accounting Standards Codification, or the Codification, will become the single source of authoritative GAAP recognized by the FASB to be applied by nongovernmental entities. Rules and interpretive releases of the Securities and Exchange Commission, or SEC, under authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. The Codification will supersede all then-existing non-SEC accounting and reporting standards. All other non-grandfathered non-SEC accounting literature not included in the Codification will become non-authoritative. Following SFAS 168, the FASB will issue Accounting Standards Updates that serve to update the Codification. We do not anticipate that SFAS 168 will have a significant effect on our financial statements.

NOTE 8 Business Segments

Statement of Financial Accounting Standards No. 131, *Disclosures about Segments of an Enterprise and Related Information*, or SFAS 131, requires that segment disclosures present the measure(s) used by the chief operating decision maker for purposes of assessing such segments performance. Our chief operating decision maker, as defined by SFAS 131, uses various generally accepted industry financial measures to assess the performance of the business, including: Net Asset Value, or NAV, which is the estimated fair value of our assets, net of debt; Funds From Operations, or FFO; Adjusted Funds From Operations, or AFFO, which is FFO less spending for Capital Replacements; same store property operating results; net operating income; net operating income less spending for capital replacements, or Free Cash Flow; changes in NAV plus cash dividends, or Economic Income; financial coverage ratios; and leverage as shown on our balance sheet. The chief operating decision maker emphasizes net operating income as a key measurement of segment profit or loss. Segment net operating income is generally defined as segment revenues less direct segment operating expenses.

We have two reportable segments: real estate and investment management.

Real Estate Segment

Our real estate segment owns and operates properties that generate rental and other property-related income through the leasing of apartment units to a diverse base of residents. Our real estate segment s net operating income also includes income from property management services performed for unconsolidated partnerships and unrelated parties.

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Investment Management Segment

Our investment management segment includes portfolio strategy, capital allocation, joint ventures, tax credit syndication, acquisitions, dispositions and other transaction activities. Within our owned portfolio, we refer to these activities as Portfolio Management, and their benefit is seen in property operating results and in investment gains. For affiliated partnerships, we refer to these activities as Asset Management, for which we are separately compensated through fees paid by third party investors. The expenses of this segment consist primarily of the costs of departments that perform these activities. These activities are conducted in part by our taxable subsidiaries, and the related net operating income may be subject to income taxes. Our investment management segment s operating results also include gains on dispositions of non-depreciable assets, accretion of loan discounts resulting from transactional activities and certain other income in arriving at income (loss) from continuing operations for the segment.

The following tables present the revenues, net operating income (loss) and income (loss) from continuing operations of our real estate and investment management segments for the three and six months ended June 30, 2009 and 2008 (in thousands):

	Real Estate Segment	Investment Management Segment	Corporate Not Allocated to Segments and Certain Eliminations	Total
Three Months Ended June 30, 2009:				
Rental and other property revenues	$ 320,852	$	$	$ 320,852
Property management revenues, primarily from affiliates	1,340			1,340
Asset management and tax credit revenues		13,091	(485)	12,606
Total revenues	322,192	13,091	(485)	334,798

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For purposes of determining whether a market disruption event has occurred:

(1) close of trading means the scheduled closing time of the relevant stock exchange with respect to the Fund or any successor fund; and

(2) the scheduled closing time of the relevant stock exchange or any related futures or options exchange on any trading day for the Fund or any successor fund means the scheduled weekday closing time of such relevant stock exchange or related futures or options exchange on such trading day, without regard to after hours or any other trading outside the regular trading session hours.

Anti-dilution Adjustments Relating to the Fund; Alternate Calculation

Anti-dilution Adjustments

The calculation agent will adjust the adjustment factor as specified below if any of the events specified below occurs with respect to the Fund and the effective date or ex-dividend date, as applicable, for such event is after the pricing date and on or prior to the calculation date.

The adjustments specified below do not cover all events that could affect the Fund, and there may be other events that could affect the Fund for which the calculation agent will not make any such adjustments, including, without limitation, an ordinary cash dividend. Nevertheless, the calculation agent may, in its sole discretion, make additional adjustments to any terms of the securities upon the occurrence of other events that affect or could potentially affect the market price of, or shareholder rights in, the Fund, with a view to offsetting, to the extent practical, any such change, and preserving the relative investment risks of the securities. In addition, the calculation agent may, in its sole discretion, make adjustments or a series of adjustments that differ from those described herein if the calculation agent determines that such adjustments do not properly reflect the economic consequences of the events specified in this pricing supplement or would not preserve the relative investment risks of the securities. All determinations made by the calculation agent in making any adjustments to the terms of the securities, including adjustments that are in addition to, or that differ from, those described in this pricing supplement, will be made in good faith and a commercially reasonable manner, with the aim of ensuring an equitable result. In determining whether to make any adjustment to the terms of the securities, the calculation agent may consider any adjustment made by the Options Clearing Corporation or any other equity derivatives clearing organization on options contracts on the Fund.

For any event described below, the calculation agent will not be required to adjust the adjustment factor unless the adjustment would result in a change to the adjustment factor then in effect of at least 0.10%. The adjustment factor resulting from any adjustment will be rounded up or down, as appropriate, to the nearest one-hundred thousandth.

(A) *Stock Splits and Reverse Stock Splits*

If a stock split or reverse stock split has occurred, then once such split has become effective, the adjustment factor will be adjusted to equal the *product* of the prior adjustment factor and the number of securities which a holder of one share (or other applicable security) of the Fund before the effective date of such stock split or reverse stock split would have owned or been entitled to receive immediately following the applicable effective date.

(B) *Stock Dividends*

If a dividend or distribution of shares (or other applicable securities) to which the securities are linked has been made by the Fund ratably to all holders of record of such shares (or other applicable security), then the adjustment factor will be adjusted on the ex-dividend date to equal the prior adjustment factor plus the *product* of the prior adjustment factor and the number of shares (or other applicable security) of the Fund which a holder of one share (or other applicable security) of the Fund before the ex-dividend date would have owned or been entitled to receive immediately following that date; provided, however, that no adjustment will be made for a distribution for which the number of securities of the Fund paid or distributed is based on a fixed cash equivalent value.

(C) *Extraordinary Dividends*

If an extraordinary dividend (as defined below) has occurred, then the adjustment factor will be adjusted on the ex-dividend date to equal the *product* of the prior adjustment factor and a fraction, the numerator of which is the closing price per share (or other applicable security) of the Fund on the trading day preceding the ex-dividend date, and the denominator of which is the amount by

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which the closing price per share (or other applicable security) of the Fund on the trading day preceding the ex-dividend date exceeds the extraordinary dividend amount (as defined below).

For purposes of determining whether an extraordinary dividend has occurred:

(1) extraordinary dividend means any cash dividend or distribution (or portion thereof) that the calculation agent determines, in its sole discretion, is extraordinary or special; and

(2) extraordinary dividend amount with respect to an extraordinary dividend for the securities of the Fund will equal the amount per share (or other applicable security) of the Fund of the applicable cash dividend or distribution that is attributable to the extraordinary dividend, as determined by the calculation agent in its sole discretion.

A distribution on the securities of the Fund described below under the section entitled Reorganization Events below that also constitutes an extraordinary dividend will only cause an adjustment pursuant to that Reorganization Events section.

(D) *Other Distributions*

If the Fund declares or makes a distribution to all holders of the shares (or other applicable security) of the Fund of any non-cash assets, excluding dividends or distributions described under the section entitled Stock Dividends above, then the calculation agent may, in its sole discretion, make such adjustment (if any) to the adjustment factor as it deems appropriate in the circumstances. If the calculation agent determines to make an adjustment pursuant to this paragraph, it will do so with a view to offsetting, to the extent practical, any change in the economic position of a holder of the securities that results solely from the applicable event.

(E) *Reorganization Events*

If the Fund, or any successor fund, is subject to a merger, combination, consolidation or statutory exchange of securities with another exchange traded fund, and the Fund is not the surviving entity (a reorganization event), then, on or after the date of such event, the calculation agent shall, in its sole discretion, make an adjustment to the adjustment factor or the method of determining the payment at stated maturity or any other terms of the securities as the calculation agent determines appropriate to account for the economic effect on the securities of such event, and determine the effective date of that adjustment. If the calculation agent determines that no adjustment that it could make will produce a commercially reasonable result, then the calculation agent may deem such event a liquidation event (as defined below).

Liquidation Events

If the Fund is de-listed, liquidated or otherwise terminated (a liquidation event), and a successor or substitute exchange traded fund exists that the calculation agent determines, in its sole discretion, to be comparable to the Fund, then, upon the calculation agent s notification of that determination to the trustee and the Bank, any subsequent fund closing price for the Fund will be determined by reference to the fund closing price of such successor or substitute exchange traded fund (such exchange traded fund being referred to herein as a successor fund), with such adjustments as the calculation agent determines are appropriate to account for the economic effect of such substitution on holders of the securities.

If the Fund undergoes a liquidation event prior to, and such liquidation event is continuing on, the date that any fund closing price of the Fund is to be determined and the calculation agent determines that no successor fund is available at such time, then the calculation agent will, in its discretion, calculate the fund closing price for the Fund on such date by a computation methodology that the calculation agent determines will as closely as reasonably possible replicate the Fund, provided that if the calculation agent determines in its discretion that it is not practicable to replicate the Fund (including but not limited to the instance in which the underlying index sponsor discontinues publication of the underlying index), then the calculation agent will calculate the fund closing price for the Fund in accordance with the formula last used to calculate such fund closing price before such liquidation event, but using only those securities that were held by the Fund immediately prior to such liquidation event without any rebalancing or substitution of such securities following such liquidation event.

If a successor fund is selected or the calculation agent calculates the fund closing price as a substitute for the Fund, such successor fund or fund closing price will be used as a substitute for the Fund for all purposes, including for purposes of determining whether a market disruption event exists. Notwithstanding these alternative arrangements, a liquidation event with respect to the Fund may adversely affect the value of the securities.

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If any event is both a reorganization event and a liquidation event, such event will be treated as a reorganization event for purposes of the securities unless the calculation agent makes the determination referenced in the last sentence of the section entitled Anti-dilution Adjustments Reorganization Events above.

Alternate Calculation

If at any time the method of calculating the Fund or a successor fund, or the underlying index, is changed in a material respect, or if the Fund or a successor fund is in any other way modified so that the Fund does not, in the opinion of the calculation agent, fairly represent the price of the securities of the Fund or such successor fund had such changes or modifications not been made, then the calculation agent may, at the close of business in New York City on the date that any fund closing price is to be determined, make such calculations and adjustments as, in the good faith judgment of the calculation agent, may be necessary in order to arrive at a closing price of the Fund comparable to the Fund or such successor fund, as the case may be, as if such changes or modifications had not been made, and calculate the fund closing price and the payment at stated maturity with reference to such adjusted closing price of the Fund or such successor fund, as applicable.

Calculation Agent

We or one of our affiliates will act as calculation agent for the securities and may appoint agents to assist it in the performance of its duties. See Risk Factors We Or One Of Our Affiliates Will Be The Calculation Agent And, As A Result, Potential Conflicts Of Interest Could Arise in this pricing supplement. We may appoint a different calculation agent without your consent and without notifying you.

The calculation agent will determine the redemption amount you receive at stated maturity. In addition, the calculation agent will, among other things:

- determine whether a market disruption event has occurred;
- determine if adjustments are required to the fund closing price of the Fund under various circumstances; and
- if the Fund undergoes a liquidation event, select a successor fund (as defined above) or, if no successor fund is available, determine the fund closing price.

All determinations made by the calculation agent will be at the sole discretion of the calculation agent and, in the absence of manifest error, will be conclusive for all purposes and binding on us and you. All percentages and other amounts resulting from any calculation with respect to the securities will be rounded at the calculation agent s discretion. The calculation agent will have no liability for its determinations.

Appointment of Independent Calculation Experts

If a calculation or valuation described above under Market Disruption Events or Liquidation Events contemplated to be made by the calculation agent involves the application of material discretion and is not based on information or calculation methodologies compiled or utilized by, or derived from, independent third party sources, we will appoint one or more calculation experts to confirm such calculation or valuation. Such calculation experts will be independent from us and active participants in the financial markets in the relevant jurisdiction in which futures or options contracts on the shares of the Fund are traded. Calculation experts will not assume any obligation or duty to, or any relationship of agency or trust for or with, the holders of the securities or us. Holders of the securities will be entitled to rely on any valuation or calculations made by such calculation experts and such valuations or calculations will (except in the case of manifest error) be final and binding on us, the calculation agent and the holders of the securities. Calculation experts will not be responsible for good faith errors or omissions in the making of any such valuations or calculations. Calculation experts may, with the consent of us, delegate any of their obligations and functions to a third party as they deem appropriate, but acting honestly and reasonably at all times. The valuations and calculations of calculation experts will be made available to the holders of the securities upon request.

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Events of Default and Acceleration

If the securities have become immediately due and payable following an event of default (as defined in the section Description of Senior Debt Securities Events of Default in the accompanying prospectus) with respect to the securities, the amount payable on the securities will be equal to the redemption amount, calculated as though the date of acceleration were the calculation date.

If the securities have become immediately due and payable following an event of default, you will not be entitled to any payments with respect to the securities in addition to the redemption amount, calculated as set forth in the preceding paragraph. For more information, see Description of Senior Debt Securities Events of Default beginning on page 7 of the accompanying prospectus.

Withholding

We or the applicable paying agent will deduct or withhold from a payment on a security any present or future tax, duty, assessment or other governmental charge that we determine is required by law or the interpretation or administration thereof to be deducted or withheld. Payments on a security will not be increased by any amount to offset such deduction or withholding.

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The SPDR® S&P 500® ETF Trust

State Street Global Advisors Trust Company (SSGATC) act as trustee of the SPDR® S&P 500® ETF Trust (the SPY), and PDR Services, LLC (wholly owned by NYSE Euronext) acts as sponsor of the SPY. The SPY is a unit investment trust that issues securities called Standard & Poor s Depositary Receipts or SPDRs. The SPY is an exchange-traded fund that trades on the NYSE Arca, Inc. under the ticker symbol SPY. The SPY is an investment company registered under the Investment Company Act. SPDRs represent an undivided ownership interest in a portfolio of all, or substantially all, of the common stocks of the S&P 500® Index (the SPX), which is the Underlying Index for SPY. Information provided to or filed with the SEC by the SPY pursuant to the Securities Act and the Investment Company Act can be located by reference to SEC file numbers 033-46080 and 811-06125, respectively, through the SEC s website at http://www.sec.gov.

Investment Objective and Strategy

The SPY s objective is to provide investment results that, before expenses, generally correspond to the price and yield performance of the SPX. The SPY holds stocks and cash and is not actively managed by traditional methods, which typically involve effecting changes in the holdings of stocks and cash on the basis of judgments made relating to economic, financial and market considerations. To maintain the correspondence between the composition and weightings of the stocks held by the SPY and the component stocks of the SPX, SSGATC adjusts the holdings of the SPY from time to time to conform to periodic changes in the identity and/or relative weightings of the component stocks. SSGATC aggregates certain of these adjustments and makes changes to the holdings of the SPY at least monthly or more frequently in the case of significant changes to the SPX. Any change in the identity or weighting of a component stock will result in a corresponding adjustment to the prescribed holdings of the SPY effective on any day that the New York Stock Exchange is open for business following the day on which the change to the SPX takes effect after the close of the market. The value of SPDRs fluctuates in relation to changes in the value of the holdings of the SPY. The market price of each individual SPDR may not be identical to the net asset value of such SPDR.

Although the SPY may at any time fail to own certain of the component stocks, the SPY will be substantially invested in the component stocks. It is possible that, for a short period of time, the SPY may not fully replicate the performance of the SPX due to temporary unavailability of certain component securities in the secondary market or due to other extraordinary circumstances. In addition, the SPY is not able to replicate exactly the performance of the SPX because the total return generated by the SPY s portfolio of stocks and cash is reduced by the expenses of the SPY and transaction costs incurred in adjusting the actual balance of the SPY s portfolio. The returns of the SPY may be affected by certain management fees and other expenses, which are detailed in its prospectus.

Historical Data

We obtained the closing prices listed below from Bloomberg Professional® Service (Bloomberg) without independent verification. You can obtain the prices of the Fund at any time from Bloomberg under the ticker symbol SPY .

We have not undertaken an independent review or due diligence of the information obtained from Bloomberg. The historical performance of the Fund should not be taken as an indication of future performance, and no assurances can be given as to the ending price of the Fund. We cannot give you assurance that the performance of the Fund will result in any positive return on your initial investment.

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The following graph sets forth daily closing prices of the Fund for the period from January 1, 2013 to November 30, 2018. The closing price on November 30, 2018 was $275.65.

THE S&P 500® INDEX

The S&P 500® Index is intended to provide an indication of the pattern of common stock price movement. The calculation of the level of the Index is based on the relative value of the aggregate market value of the common stocks of 500 companies as of a particular time compared to the aggregate average market value of the common stocks of 500 similar companies during the base period of the years 1941 through 1943.

Relevant criteria employed by S&P Dow Jones Indices LLC (S&P) include the viability of the particular company, the extent to which that company represents the industry group to which it is assigned, the extent to which the market price of that company s common stock generally is responsive to changes in the affairs of the respective industry and the market value and trading activity of the common stock of that company. Eleven main groups of companies constitute the S&P 500® Index, with the approximate percentage of the market capitalization of the S&P 500® Index included in each group as of November 30, 2018 indicated in parentheses: Information Technology (19.9%); Health Care (15.8%); Financials (13.7%); Consumer Discretionary (9.9%); Communication Services (9.9%); Industrials (9.4%); Consumer Staples (7.4%); Energy (5.4%); Utilities (3.1%); Real Estate (2.9%) and Materials (2.6%). S&P may from time to time, in its sole discretion, add companies to, or delete companies from, the S&P 500® Index to achieve the objectives stated above. As of the close of business on September 21, 2018, S&P and MSCI, Inc. updated the Global Industry Classification Sector (GICS) structure. Among other things, the update broadened the Telecommunications Services sector and renamed it the Communication Services sector. The renamed sector includes the previously existing Telecommunication Services Industry group, as well as the Media Industry group, which was moved from the Consumer Discretionary sector and renamed the Media & Entertainment Industry group. The Media & Entertainment Industry group contains three industries: Media, Entertainment and Interactive Media & Services. The Media industry continues to consist of the Advertising, Broadcasting, Cable & Satellite and Publishing sub-industries. The Entertainment industry contains the Movies & Entertainment subindustry (which includes online entertainment streaming companies in addition to companies previously classified in such industry prior to September 21, 2018) and the Interactive Home Entertainment subindustry (which includes companies previously classified in the Home Entertainment Software subindustry prior to September 21, 2018 (when the Home Entertainment Software sub-industry was a subindustry in the Information Technology sector), as well as producers of interactive gaming products, including mobile gaming applications). The Interactive Media & Services industry and sub-industry includes companies engaged in content and information creation or distribution through proprietary platforms, where revenues are derived primarily through pay-per-click advertisements, and includes search engines, social media and networking platforms, online classifieds and online review companies. The GICS structure changes were effective for the S&P 500® Index as of the open of business on September 24, 2018 to coincide with the September 2018 quarterly rebalancing.

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S&P calculates the S&P 500® Index by reference to the prices of the constituent stocks of the S&P 500® Index without taking account of the value of dividends paid on those stocks. As a result, the return on the notes will not reflect the return you would realize if you actually owned the S&P 500® Index constituent stocks and received the dividends paid on those stocks.

Index Computation

Historically, the market value of any component stock of the S&P 500® Index was calculated as the product of the market price per share and the number of then outstanding shares of such component stock. In March 2005, S&P began shifting the S&P 500® Index halfway from a market capitalization weighted formula to a float-adjusted formula, before moving the S&P 500® Index to full float adjustment on September 16, 2005. S&P s criteria for selecting stocks for the S&P 500® Index did not change with the shift to float adjustment. However, the adjustment affects each company s weight in the S&P 500® Index.

Under float adjustment, the share counts used in calculating the S&P 500® Index reflect only those shares that are available to investors, not all of a company s outstanding shares. Float adjustment excludes shares that are closely held by control groups, other publicly traded companies or government agencies.

In September 2012, all shareholdings representing more than 5% of a stock s outstanding shares, other than holdings by block owners, were removed from the float for purposes of calculating the S&P 500® Index. Generally, these control holders will include officers and directors, private equity, venture capital and special equity firms, other publicly traded companies that hold shares for control, strategic partners, holders of restricted shares, employee stock ownership plans, employee and family trusts, foundations associated with the company, holders of unlisted share classes of stock, government entities at all levels (other than government retirement/pension funds) and any individual person who controls a 5% or greater stake in a company as reported in regulatory filings. However, holdings by block owners, such as depositary banks, pension funds, mutual funds and ETF providers, 401(k) plans of the company, government retirement/pension funds, investment funds of insurance companies, asset managers and investment funds, independent foundations and savings and investment plans, will ordinarily be considered part of the float.

Treasury stock, stock options, restricted shares, equity participation units, warrants, preferred stock, convertible stock, and rights are not part of the float. Shares held in a trust to allow investors in countries outside the country of domicile, such as depositary shares and Canadian exchangeable shares are normally part of the float unless those shares form a control block.

For each stock, an investable weight factor (IWF) is calculated by dividing the available float shares, by the total shares outstanding. As of September 21, 2012, available float shares are defined as the total shares outstanding less shares held by control holders. This calculation is subject to a 5% minimum threshold for control blocks. For example, if a company s officers and directors hold 3% of the company s shares, and no other control group holds 5% of the company s shares, S&P would assign that company an IWF of 1.00, as no control group meets the 5% threshold. However, if a company s officers and directors hold 3% of the company s shares and another control group holds 20% of the company s shares, S&P would assign an IWF of 0.77, reflecting the fact that 23% of the company s outstanding shares are considered to be held for control. As of July 31, 2017, companies with multiple share class lines are no longer eligible for inclusion in the S&P 500® Index. Constituents of the S&P 500® Index prior to July 31, 2017 with multiple share class lines will be grandfathered in and continue to be included in the S&P 500® Index. If a constituent company of the S&P 500® Index reorganizes into a multiple share class line structure, that company will remain in the S&P 500® Index at the discretion of the S&P Index Committee in order to minimize turnover.

The S&P 500® Index is calculated using a base-weighted aggregate methodology. The level of the S&P 500® Index reflects the total market value of all 500 component stocks relative to the base period of the years 1941 through 1943. An indexed number is used to represent the results of this calculation in order to make the level easier to work with and track over time. The actual total market value of the component stocks during the base period of the years 1941 through 1943 has been set to an indexed level of 10. This is often indicated by the notation 1941- 43 = 10. In practice, the daily calculation of the S&P 500® Index is computed by dividing the total market value of the component stocks by the index divisor. By itself, the index divisor is an arbitrary number. However, in the context of the calculation of the S&P 500® Index, it serves as a link to the original base period level of the S&P 500® Index. The index divisor keeps the S&P 500® Index comparable over time and is the manipulation point for all adjustments to the S&P 500® Index, which is index maintenance.

Index Maintenance

Index maintenance includes monitoring and completing the adjustments for company additions and deletions, share changes, stock splits, stock dividends and stock price adjustments due to company restructuring or spinoffs. Some corporate actions, such as stock

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splits and stock dividends require changes in the common shares outstanding and the stock prices of the companies in the S&P 500® Index, and do not require index divisor adjustments.

To prevent the level of the S&P 500® Index from changing due to corporate actions, corporate actions which affect the total market value of the S&P 500® Index require an index divisor adjustment. By adjusting the index divisor for the change in market value, the level of the S&P 500® Index remains constant and does not reflect the corporate actions of individual companies in the S&P 500® Index. Index divisor adjustments are made after the close of trading and after the calculation of the Index closing level.

Changes in a company s shares outstanding and IWF due to its acquisition of another public company are made as soon as reasonably possible. At S&P s discretion, de minimis merger and acquisition share changes are accumulated and implemented with the quarterly share rebalancing.

All other changes of less than 5% are accumulated and made quarterly on the third Friday of March, June, September, and December.

Changes in a company s total shares outstanding of 5% or more due to public offerings are made as soon as reasonably possible. Other changes of 5% or more (for example, due to tender offers, Dutch auctions, voluntary exchange offers, company stock repurchases, private placements, acquisitions of private companies or non-index companies that do not trade on a major exchange, redemptions, exercise of options, warrants, conversion of preferred stock, notes, debt, equity participations, at-the-market stock offerings or other recapitalizations) are made weekly, and are generally announced on Fridays for implementation after the close of trading the following Friday (one week later). If a 5% or more share change causes a company s IWF to change by five percentage points or more, the IWF is updated at the same time as the share change. IWF changes resulting from partial tender offers are considered on a case-by-case basis.

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USE OF PROCEEDS AND HEDGING

The net proceeds from the sale of the securities will be used as described under Use of Proceeds in the accompanying prospectus supplement and the prospectus and to hedge our market risks associated with our obligation to pay at maturity the redemption amount of the securities.

We may hedge our obligations under the securities by, among other things, purchasing securities, futures, options or other derivative instruments with returns linked or related to changes in the value of the Fund and/or securities underlying the Fund, and we may adjust these hedges by, among other things, purchasing or selling securities, futures, options or other derivative instruments at any time. Our cost of hedging will include the projected profit that our counterparty expects to realize in consideration for assuming the risks inherent in hedging our obligations under the securities. Because hedging our obligations entails risk and may be influenced by market forces beyond our or our counterparty s control, such hedging may result in a profit that is more or less than expected, or could result in a loss. It is possible that we could receive substantial returns from these hedging activities while the value of the securities declines.

We expect to hedge our obligations under the securities through one of our affiliates and/or another unaffiliated counterparty.

We have no obligation to engage in any manner of hedging activity and we will do so solely at our discretion and for our own account. No holder of the securities will have any rights or interest in our hedging activity or any positions we or any unaffiliated counterparty may take in connection with our hedging activity. The hedging activity discussed above may adversely affect the value of the securities from time to time. See Risk Factors The Estimated Value of the Securities Is Not An Indication Of The Price, If Any, At Which Wells Fargo Securities Or Any Other Person May Be Willing To Buy The Securities From You In The Secondary Market and Our Economic Interests And Those of Any Dealer Participating In The Offering Of Securities Will Potentially Be Adverse To Your Interests in this pricing supplement for a discussion of these adverse effects.

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THE ESTIMATED VALUE OF THE SECURITIES

The estimated value of the securities set forth on the cover of this pricing supplement is equal to the sum of the values of the following hypothetical components: (1) a fixed-income debt component with the same maturity as the securities, valued using our internal funding rate for structured debt described below, and (2) the derivative or derivatives underlying the economic terms of the securities. The estimated value does not represent a minimum price at which Wells Fargo Securities or any other person would be willing to buy your securities in any secondary market (if any exists) at any time. The internal funding rate used in the determination of the Bank s estimated value generally represents a discount from the credit spreads for our conventional fixed-rate debt. The discount is based on, among other things, our view of the funding value of the securities as well as the higher issuance, operational and ongoing liability management costs of the securities in comparison to those costs for our conventional fixed-rate debt. For additional information, see Risk Factors Our Estimated Value Was Not Determined By Reference To Credit Spreads For Our Conventional Fixed-Rate Debt in this pricing supplement. The value of the derivative or derivatives underlying the economic terms of the securities is derived from the Bank s or a third party hedge provider s internal pricing models. These models are dependent on inputs such as the traded market prices of comparable derivative instruments and on various other inputs, some of which are market-observable, and which can include volatility, dividend rates, interest rates and other factors, as well as assumptions about future market events and/or environments. Accordingly, the Bank s estimated value of the securities was determined when the terms of the securities were set based on market conditions and other relevant factors and assumptions existing at that time. See Risk Factors Our Estimated Value Does Not Represent Future Values Of The Securities And May Differ From Others Estimates in this pricing supplement.

The Bank s estimated value of the securities is lower than the principal amount of the securities because costs associated with selling, structuring and hedging the securities are included in the principal amount of the securities. These costs include the selling commissions paid to affiliated or unaffiliated dealers, the projected profits that our hedge counterparties, which may include our affiliates, expect to realize for assuming risks inherent in hedging our obligations under the securities and the estimated cost of hedging our obligations under the securities. Because hedging our obligations entails risk and may be influenced by market forces beyond our control, this hedging may result in a profit that is more or less than expected, or it may result in a loss. We or one or more of our affiliates will retain any profits realized in hedging our obligations under the securities. See Risk Factors Our Estimated Value of the Securities Is Lower Than The Principal Amount Of The Securities in this pricing supplement.

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SUPPLEMENTAL PLAN OF DISTRIBUTION

The securities are being purchased by Wells Fargo Securities as principal, pursuant to a distribution agreement between Wells Fargo Securities and us. We have agreed to pay certain of Wells Fargo Securities expenses in connection with the offering of the securities.

From time to time, Wells Fargo Securities and its affiliates have engaged, and in the future may engage, in transactions with and performance of services for us for which they have been, and may be, paid customary fees. In particular, Wells Fargo Securities or one of its affiliates may be our swap counterparty for a hedge relating to our obligations under the securities.

In the future, Wells Fargo Securities and its affiliates may repurchase and resell the offered securities in market-making transactions, with resales being made at prices related to prevailing market prices at the time of resale or otherwise. Unless you are informed otherwise in the confirmation of sale, this pricing supplement and the accompanying prospectus supplement and prospectus are being used in connection with the initial distribution of the securities and not in a market-making transaction.

Wells Fargo Securities has committed to purchase all of these securities in the initial public offering of the securities if any are purchased.

Wells Fargo Securities proposes to offer the securities to certain securities dealers, including securities dealers acting as custodians, at the principal amount of the securities less a concession not in excess of $17.50 per security. Such securities dealers may include WFA (the trade name of the retail brokerage business of Wells Fargo Clearing Services, LLC and Wells Fargo Advisors Financial Network, LLC, each an affiliate of Wells Fargo Securities). In addition to the selling concession allowed to WFA, Wells Fargo Securities will pay $0.75 per security of the underwriting discount to WFA as a distribution expense fee for each security sold by WFA.

The principal amount of the securities includes the underwriting discount received by Wells Fargo Securities and the projected profit that our hedge counterparties expect to realize in consideration for assuming the risks inherent in hedging our obligations under the securities. We expect to hedge our obligations through an affiliate of Wells Fargo Securities, one of our affiliates and/or another unaffiliated counterparty. Because hedging our obligations entails risks and may be influenced by market forces beyond the counterparties control, such hedging may result in a profit that is more or less than expected, or could result in a loss. The underwriting discount and projected profit of our hedge counterparties reduce the economic terms of the securities. In addition, the fact that the principal amount includes these items is expected to adversely affect the secondary market prices of the securities. These secondary market prices are also likely to be reduced by the cost of unwinding the related hedging transaction. See Use of Proceeds and Hedging in this pricing supplement.

The securities are a new issue of securities with no established trading market. The securities will not be listed on a national securities exchange. Wells Fargo Securities may make a market for the securities, as applicable laws and regulations permit, but is not obligated to do so and may discontinue making a market at any time without notice. No assurance can be given as to the liquidity of any trading market for the securities.

We will deliver the securities against payment therefor in New York, New York on December 5, 2018, which is the third scheduled business day following the pricing date. Under Rule 15c6-1 of the Securities Exchange Act of 1934, trades in the secondary market generally are required to settle in two business days, unless the parties to any such trade expressly agree otherwise. Accordingly, purchasers who wish to trade securities on any date prior to two business days before delivery will be required, by virtue of the fact that the securities will settle in three business days (T + 3), to specify alternative settlement arrangements to prevent a failed settlement.

Settlement for the securities will be made in immediately available funds. The securities will be in the Same Day Funds Settlement System at DTC and, to the extent any secondary market trading in the securities is effected through the facilities of such depositary, such trades will be settled in immediately available funds.

Canadian Imperial Bank of Commerce has agreed to indemnify Wells Fargo Securities against certain liabilities, including liabilities under the Securities Act of 1933.

No action has been or will be taken by Canadian Imperial Bank of Commerce, Wells Fargo Securities or any broker-dealer affiliates of either Canadian Imperial Bank of Commerce or Wells Fargo Securities that would permit a public offering of the securities or possession or distribution of this pricing supplement or the accompanying prospectus and prospectus supplement in any jurisdiction, other than the United States, where action for that purpose is required. No offers, sales or deliveries of the securities, or distribution of

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this pricing supplement or the accompanying prospectus supplement and prospectus, may be made in or from any jurisdiction except in circumstances which will result in compliance with any applicable laws and regulations and will not impose any obligations on Canadian Imperial Bank of Commerce, Wells Fargo Securities or any broker-dealer affiliates of either Canadian Imperial Bank of Commerce or Wells Fargo Securities.

For the following jurisdictions, please note specifically:

Argentina

CIBC s Senior Global Medium-Term Notes program and the related offer of securities and the sale of securities under the terms and conditions provided herein does not constitute a public offering in Argentina. Consequently, no public offering approval has been requested or granted by the Comisión Nacional de Valores, nor has any listing authorization of the securities been requested on any stock market in Argentina.

Brazil

The securities may not be offered or sold to the public in Brazil. Accordingly, this pricing supplement and the accompanying prospectus supplement and prospectus have not been submitted to the Comissão de Valores Mobiliáros for approval. Documents relating to this offering may not be supplied to the public as a public offering in Brazil or be used in connection with any offer for subscription or sale to the public in Brazil.

Chile

The securities have not been registered with the Superintendencia de Valores y Seguros in Chile and may not be offered or sold publicly in Chile. No offer, sales or deliveries of the securities, or distribution of this pricing supplement or the accompanying prospectus supplement and prospectus, may be made in or from Chile except in circumstances that will result in compliance with any applicable Chilean laws and regulations.

China

Neither this pricing supplement nor the accompanying prospectus constitutes an offer to sell or the solicitation of an offer to buy any securities in the People s Republic of China (excluding Hong Kong, Macau and Taiwan, the PRC) to any person to whom it is unlawful to make the offer or solicitation in the PRC. The Issuer does not represent that this document may be lawfully distributed, or that any securities may be lawfully offered, in compliance with any applicable registration or other requirements in the PRC, or pursuant to an exemption available thereunder, or assume any responsibility for facilitating any such distribution or offering. Neither this document nor any advertisement or other offering material may be distributed or published in the PRC, except under circumstances that will result in compliance with any applicable laws and regulations.

European Economic Area

The securities may not be offered, sold or otherwise made available to any retail investor in the European Economic Area. For the purposes of this provision:

(a) the expression retail investor means a person who is one (or more) of the following:

(i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, MiFID II); or

(ii) a customer within the meaning of Directive 2002/92/EC, where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or

(iii) not a qualified investor as defined in Directive 2003/71/EC; and

(b) the expression offer includes the communication in any form and by any means of sufficient information on the terms of the offer and the securities offered so as to enable an investor to decide to purchase or subscribe the securities.

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Mexico

The securities have not been registered with the National Registry of Securities maintained by the Mexican National Banking and Securities Commission and may not be offered or sold publicly in Mexico. This pricing supplement and the accompanying prospectus supplement and prospectus may not be publicly distributed in Mexico.

Paraguay

This is a private and personal offering. The securities offered have not been approved by or registered with the National Securities Commission (Comisión Nacional de Valores) and are not part of a public offering as defined by the Paraguayan Securities Law. The information contained herein is for informational and marketing purposes only and should not be taken as an investment advice.

Peru

The securities have not been and will not be registered with the Capital Markets Public Registry of the Capital Markets Superintendence (SMV) nor the Lima Stock Exchange Registry (RBVL) for their public offering in Peru under the Peruvian Capital Markets Law (Law N°861/ Supreme Decree N°093-2002) and the decrees and regulations thereunder.

Consequently, the securities may not be offered or sold, directly or indirectly, nor may this pricing supplement, the accompanying supplements or any other offering material relating to the securities be distributed or caused to be distributed in Peru to the general public. The securities may only be offered in a private offering without using mass marketing, which is defined as a marketing strategy utilising mass distribution and mass media to offer, negotiate or distribute securities to the whole market. Mass media includes newspapers, magazines, radio, television, mail, meetings, social networks, Internet servers located in Peru, and other media or technology platforms.

Taiwan

The securities may be made available outside Taiwan for purchase by Taiwan residents outside Taiwan but may not be offered or sold in Taiwan.

Uruguay

The sale of the securities qualifies as a private placement pursuant to section 2 of Uruguayan law 18,627. The securities must not be offered or sold to the public in Uruguay, except in circumstances which do not constitute a public offering or distribution under Uruguayan laws and regulations. The securities are not and will not be registered with the Financial Services Superintendency of the Central Bank of Uruguay.

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CERTAIN UNITED STATES FEDERAL INCOME TAX CONSIDERATIONS

The following discussion supplements the discussion in the section called Material Income Tax Consequences United States Taxation in the accompanying prospectus, and is subject to the limitations and exceptions set forth therein. Capitalized terms used in this section without definition shall have the respective meanings given such terms in the accompanying prospectus.

The following summary describes certain U.S. federal income tax consequences relevant to the purchase, ownership, and disposition of the securities. This summary applies only to holders that acquire their securities in this offering for a price equal to the initial offering price, which we understand will be at par, and hold such securities as capital assets, within the meaning of Section 1221 of the U.S. Internal Revenue Code of 1986, as amended (the Code). This summary does not apply to any holder that is subject to special rules, such as:

- a dealer in securities,
- a trader in securities that elects to use a mark-to-market method of tax accounting for its securities holdings,
- a bank,
- a life insurance company,
- a tax-exempt organization,
- a person that owns the securities as part of a straddle or a hedging or conversion transaction for tax purposes,
- a person that purchases or sells the securities as part of a wash sale for tax purposes,
- a regulated investment company or real estate investment trust,

- a U.S. holder (as defined in the accompanying prospectus) whose functional currency for tax purposes is not the U.S. dollar,

- a U.S. holder subject to the alternative minimum tax, or

- U.S. expatriates.

This discussion is based upon current provisions of the Code, existing and proposed Treasury Regulations thereunder, current administrative rulings, judicial decisions and other applicable authorities. All of the foregoing are subject to change, which change may apply retroactively and could affect the continued validity of this summary. This summary does not describe any tax consequences arising under the laws of any state, locality or taxing jurisdiction other than the U.S. federal government. This discussion also does not purport to be a complete analysis of all tax considerations relating to the securities.

You should consult your tax advisor concerning the U.S. federal income tax and other tax consequences of your investment in the securities in your particular circumstances, including the application of state, local or other tax laws and the possible effects of changes in federal or other tax laws.

If a partnership holds the securities, the U.S. federal income tax treatment of a partner will generally depend on the status of the partner and the tax treatment of the partnership. You should consult your tax advisor concerning the U.S. federal income tax and other tax consequences of your investment in the securities if you are a partner in a partnership holding the securities.

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General

As the law applicable to the U.S. federal taxation of instruments such as the securities is technical and complex, the discussion below necessarily represents only a general summary. The U.S. federal income tax consequences of your investment in the securities are uncertain. No statutory, judicial or administrative authority directly discusses how the securities should be treated for U.S. federal income tax purposes.

In the opinion of our counsel, Mayer Brown LLP, it would be generally reasonable to treat the securities as pre-paid cash-settled derivative contracts that are eligible for open transaction treatment. The terms of the securities will provide that you agree to treat the securities in this manner for all U.S. federal income tax purposes.

Unless otherwise stated, the following discussion is based on the characterization described above. The discussion in this section reflects the opinion of Mayer Brown that there is a significant possibility of a significant loss of principal on an investment in the securities.

Tax Consequences to U.S. Holders

Subject to the discussion below of Section 1260 of the Code, if you are a U.S. holder, you should generally recognize capital gain or loss upon the sale, exchange or payment on maturity in an amount equal to the difference between the amount you receive at such time and your tax basis in the securities. In general, your tax basis in the securities will be equal to the price you paid for them. Such gain or loss should generally be long-term capital gain or loss if you have held your securities for more than one year. Capital gain recognized by an individual U.S. holder is generally taxed at preferential rates where the property is held for more than one year. The deductibility of capital losses is subject to limitations.

The constructive ownership rules of Section 1260 of the Code could possibly apply to securities that have a term in excess of one year and reference a pass-thru entity (as defined in Section 1260(c)(2) of the Code). Examples of pass-thru entities include (but are not limited to) regulated investment companies (e.g., most exchange-traded funds, including the SPDR® S&P 500® ETF Trust), real estate investment trusts, passive foreign investment companies and partnerships. It is not entirely clear how Section 1260 applies to variable contracts such as the securities that reference pass-thru entities. If the securities were subject to Section 1260 of the Code, then, among other consequences, all or a portion of any long-term capital gain that you realize upon the sale, redemption or stated maturity of the securities would be recharacterized as ordinary income (and you would be subject to an interest charge on deferred tax liability with respect to such recharacterized amount) to the extent that such capital gain exceeds the amount of long-term capital gain that you would have realized had you purchased interests in the Fund on the date that you purchased the securities and sold those interests on the date of the sale, redemption or stated maturity of the securities. Accordingly, you should consult your tax advisor about the potential application of Section 1260 of the Code to the securities.

Possible Alternative Tax Treatments of an Investment in the Securities

As noted above, there is no judicial or administrative authority discussing how the securities should be treated for U.S. federal income tax purposes. Therefore, other treatments would also be reasonable and the Internal Revenue Service might assert that treatment other than that described above is more appropriate.

The U.S. Treasury Department and the Internal Revenue Service released a notice in 2007 that may affect the taxation of holders of the securities. According to the notice, the Internal Revenue Service and the U.S. Treasury Department are considering whether the holder of an instrument such as the securities should be required to accrue ordinary income on a current basis, and they are seeking taxpayer comments on the subject. The notice also states that the Internal Revenue Service and the U.S. Treasury Department are also considering other relevant issues, including whether gain or loss from such instruments should be treated as ordinary or capital and whether the special constructive ownership rules of Section 1260 of the Code might be applied to such instruments. While it is not clear whether the securities would be viewed as similar to instruments discussed in such notice, it is possible that future guidance could materially and adversely affect the tax consequences of an investment in the securities, possibly with retroactive effect.

Similarly, the Internal Revenue Service might assert, and a possible alternative treatment with respect to the securities would be, to treat the securities as a single debt instrument. Such a debt instrument may be subject to the special tax rules governing contingent payment debt instruments.

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If the securities are subject to such special rules applicable to contingent payment debt instruments, the amount of interest U.S. holders are required to take into account for each accrual period will be determined by constructing a projected payment schedule for the securities and applying rules similar to those for accruing original issue discount or OID on a hypothetical noncontingent debt instrument with that projected payment schedule. In addition to accruing interest income in accordance with the comparable yield, a U.S. holder will be required to make adjustments if the actual amount that holder receives in any taxable year differs from the projected payment schedule. These rules could possibly have the effect of requiring U.S. holders to include amounts in income in respect of the securities prior to receipt of cash attributable to that income.

If the securities are subject to such special rules applicable to contingent payment debt instruments, U.S. holders will recognize gain or loss on the sale, redemption or maturity of securities in an amount equal to the difference, if any, between the amount of cash received at that time and their adjusted basis in the securities. In general, a U.S. holder s adjusted basis in such securities will equal the amount the holder paid for the securities, increased by the amount of interest that was previously accrued with respect to the securities. Any such gain will generally be ordinary income and any such loss that will generally be ordinary loss to the extent the interest included as income in the current or previous taxable years, and thereafter will be capital loss.

Information Reporting and Backup Withholding

The proceeds received from a sale, exchange or retirement of the securities may be subject to information reporting and, if the holder fails to provide certain identifying information (such as an accurate taxpayer identification number in the case of a U.S. holder) or meet certain other conditions, may also be subject to backup withholding at the rate specified in the Code. A non-U.S. holder (or financial institution holding the securities on behalf of the non-U.S. holder) that provides the applicable withholding agent with the appropriate Internal Revenue Service Form W-8 will generally establish an exemption from backup withholding. Amounts withheld under the backup withholding rules are not additional taxes and may be refunded or credited against the holder s U.S. federal income tax liability, provided the relevant information is timely furnished to the Internal Revenue Service.

You are urged to consult your tax advisor concerning the significance, and the potential impact, of the above considerations.

Additional Information for U.S. Holders.

For information regarding backup withholding and information reporting considerations with respect to the securities, please see the discussion under Material Income Tax Consequences United States Taxation U.S. Backup Withholding and Information Reporting in the accompanying prospectus.

Tax Consequences to Non-U.S. Holders

For purposes of this discussion, the term non-U.S. holder means a beneficial owner of a security that is not a partnership or other entity treated as a partnership and is not a U.S. holder. If you are a non-U.S. holder, you generally will not be subject to U.S. federal income or withholding tax for amounts paid in respect of the securities, provided that the payment is not effectively connected with your conduct of a U.S. trade or business. Notwithstanding the foregoing, gain from the sale or exchange of the securities or their settlement at maturity may be subject to U.S. federal income tax if you are a nonresident alien individual and are present in the U.S. for 183 days or more during the taxable year of the settlement at maturity, sale or exchange and certain other conditions are satisfied.

If you are engaged in the conduct of a trade or business within the U.S., and if gain realized on the settlement at maturity, sale or exchange of the securities is effectively connected with the conduct of such trade or business (and, if certain tax treaties apply, is attributable to a permanent establishment maintained by you in the U.S.), you generally will be subject to U.S. federal income tax on such gain on a net income basis in the same manner as if you were a U.S. holder as described under the heading Tax Consequences to U.S. Holders, above. In addition, non-U.S. holders that are foreign corporations may also be subject to a branch profits tax equal to 30% (or such lower rate provided by any applicable tax treaty) of a portion of their earnings and profits that are withdrawn from the U.S. for the taxable year that are effectively connected with their conduct of a trade or business in the U.S., subject to certain adjustments.

Notwithstanding the above, if we determine that there is a material risk that we will be required to withhold on any payments on the securities, we may withhold on any such payment to a non-U.S. holder at a 30% rate, unless such non-U.S. holder has provided to us (i) a valid Internal Revenue Service Form W-8ECI or (ii) a valid Internal Revenue Service Form W-8BEN or Internal Revenue Service Form W-8BEN-E claiming tax treaty benefits that reduce or eliminate withholding. If we elect to withhold and such non-U.S. holder has provided us with a valid Internal Revenue Service Form W-8BEN or Internal Revenue Service Form W-8BEN-E claiming

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tax treaty benefits that reduce or eliminate withholding, we may nevertheless withhold up to 30% on any payments if there is any possible characterization of the payments that would not be exempt from withholding under the treaty.

Section 871(m) of the Code and Treasury regulations promulgated thereunder (Section 871(m)) generally impose a 30% withholding tax on dividend equivalents paid or deemed paid to non-U.S. holders with respect to certain financial instruments linked to U.S. equities or indices that include U.S. equities (such equities and indices, U.S. Underlying Equities). Section 871(m) generally applies to instruments that substantially replicate the economic performance of one or more U.S. Underlying Equities, as determined upon issuance, based on tests set forth in the applicable Treasury regulations (a Specified Security). Specifically, and subject to a pre-2021 exemption for non-delta one instruments, Section 871(m) will apply if, at issuance, a financial instrument either meets (i) a delta test, if it is a simple contract, or (ii) a substantial equivalence test, if it is a complex contract. Section 871(m) provides certain exceptions to this withholding regime, in particular for instruments linked to certain broad-based indices that meet requirements set forth in the applicable Treasury regulations as well as securities that track such indices. The securities should not be subject to Section 871(m) because the Fund tracks an index which should constitute a qualified index.

As discussed above, alternative characterizations of the securities for U.S. federal income tax purposes are possible. Should an alternative characterization, by reason of change or clarification of the law, by regulation or otherwise, cause payments on the securities to become subject to withholding tax, we will withhold tax at the applicable statutory rate. Additionally, as discussed above, the Internal Revenue Service has indicated that it is considering whether income in respect of instruments such as the securities should be subject to withholding tax. Prospective non-U.S. holders of the securities should consult their own tax advisors in this regard.

The gross estate of a non-U.S. holder domiciled outside the United States includes only property situated in the United States. A security may be subject to U.S. federal estate tax if an individual non-U.S. holder holds the security at the time of his or her death. Individual non-U.S. holders should consult their tax advisors regarding the U.S. federal estate tax consequences of holding the securities at death.

Additional Information for Investors

For information regarding the applicability of FATCA to the securities, please see the discussion under Material Income Tax Consequences United States Taxation FATCA Withholding in the accompanying prospectus. FATCA may impose a 30% withholding tax on payments of gross proceeds from the sale, exchange or redemption of property that gives rise to U.S.-source dividends or interest. The Internal Revenue Service recently announced in published guidance its intent to amend the regulations to extend the effective date of withholding on gross proceeds to 1 January 2019. Similarly, the Internal Revenue Service announced its intention to delay the effective date of withholding tax on foreign passthru payments to the later of 1 January 2019 or the date of publication of final U.S. Treasury regulations defining such term.

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CERTAIN CANADIAN FEDERAL INCOME TAX CONSIDERATIONS

In the opinion of Blake, Cassels & Graydon LLP, our Canadian tax counsel, the following summary describes the principal Canadian federal income tax considerations under the *Income Tax Act* (Canada) (the Canadian Tax Act) generally applicable at the date hereof to an investor who acquires beneficial ownership of a security pursuant to this pricing supplement and who for the purposes of the Canadian Tax Act and at all relevant times: (a) is neither resident nor deemed to be resident in Canada; (b) deals at arm s length with the Issuer and any transferee resident (or deemed to be resident) in Canada to whom the investor disposes of the security; (c) does not use or hold and is not deemed to use or hold the security in, or in the course of, carrying on a business in Canada; (d) is entitled to receive all payments (including any interest and principal) made on the security, and (e) is not a, and deals at arm s length with any, specified shareholder of the Issuer for purposes of the thin capitalization rules in the Canadian Tax Act (a Non-Resident Holder). A specified shareholder for these purposes generally includes a person who (either alone or together with persons with whom that person is not dealing at arm s length for the purposes of the Canadian Tax Act) owns or has the right to acquire or control or is otherwise deemed to own 25% or more of the Issuer s shares determined on a votes or fair market value basis. Special rules which apply to non-resident insurers carrying on business in Canada and elsewhere are not discussed in this summary.

This summary is supplemental to and should be read together with the description of material Canadian federal income tax considerations relevant to a Non-Resident Holder owning securities under Material Income Tax Consequences Canadian Taxation in the accompanying prospectus and a Non-Resident Holder should carefully read that description as well.

This summary is of a general nature only and is not intended to be, nor should it be construed to be, legal or tax advice to any particular Non-Resident Holder. Non-Resident Holders are advised to consult with their own tax advisors with respect to their particular circumstances.

Based on Canadian tax counsel s understanding of the Canada Revenue Agency s administrative policies, and having regard to the terms of the securities, interest payable on the securities should not be considered to be participating debt interest as defined in the Canadian Tax Act and accordingly, a Non-Resident Holder should not be subject to Canadian non-resident withholding tax in respect of amounts paid or credited or deemed to have been paid or credited by the Issuer on a security as, on account of or in lieu of payment of, or in satisfaction of, interest.

Non-Resident Holders should consult their own tax advisors regarding the consequences to them of a disposition of the securities to a person with whom they are not dealing at arm s length for purposes of the Canadian Tax Act.

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VALIDITY OF THE SECURITIES

In the opinion of Blake, Cassels & Graydon LLP, as Canadian counsel to the Bank, the issue and sale of the securities has been duly authorized by all necessary corporate action of the Bank in conformity with the indenture, and when the securities have been duly executed, authenticated and issued in accordance with the indenture, the securities will be validly issued and, to the extent validity of the securities is a matter governed by the laws of the Province of Ontario or the federal laws of Canada applicable therein, will be valid obligations of the Bank, subject to applicable bankruptcy, insolvency and other laws of general application affecting creditors rights, equitable principles, and subject to limitations as to the currency in which judgments in Canada may be rendered, as prescribed by the *Currency Act* (Canada). This opinion is given as of the date hereof and is limited to the laws of the Province of Ontario and the federal laws of Canada applicable therein. In addition, this opinion is subject to customary assumptions about the trustee s authorization, execution and delivery of the indenture and the genuineness of signature, and to such counsel s reliance on the Bank and other sources as to certain factual matters, all as stated in the opinion letter of such counsel dated February 27, 2017, which has been filed as Exhibit 5.2 to the Bank s Registration Statement on Form F-3 filed with the SEC on February 27, 2017.

In the opinion of Mayer Brown LLP, when the securities have been duly completed in accordance with the indenture and issued and sold as contemplated by the prospectus supplement and the prospectus, the securities will constitute valid and binding obligations of the Bank, entitled to the benefits of the indenture, subject to bankruptcy, insolvency, fraudulent transfer, reorganization, moratorium and similar laws of general applicability relating to or affecting creditors rights and to general equity principles. This opinion is given as of the date hereof and is limited to the laws of the State of New York. This opinion is subject to customary assumptions about the trustee s authorization, execution and delivery of the indenture and such counsel s reliance on the Bank and other sources as to certain factual matters, all as stated in the legal opinion dated February 27, 2017, which has been filed as Exhibit 5.1 to the Bank s Registration Statement on Form F-3 filed with the SEC on February 27, 2017.