

# **CUNA Mutual Holding Company and Subsidiaries**

**Consolidated Financial Statements  
As of December 31, 2020 and 2019 and for each  
Of the Three Years Ended December 31, 2020  
And Independent Auditors' Report**

## **INDEPENDENT AUDITORS' REPORT**

The Board of Directors of  
CUNA Mutual Holding Company  
Madison, Wisconsin

We have audited the accompanying consolidated financial statements of CUNA Mutual Holding Company and its subsidiaries (the "Company"), which comprise the consolidated balance sheets as of December 31, 2020, and 2019, and the related consolidated statements of operations and comprehensive income (loss), policyholders' surplus and cash flows for each of the three years in the period ended December 31, 2020, and the related notes to the consolidated financial statements.

### **Management's Responsibility for the Consolidated Financial Statements**

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditors' Responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Opinion**

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of CUNA Mutual Holding Company and its subsidiaries as of December 31, 2020, and 2019, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2020 in accordance with accounting principles generally accepted in the United States of America.

### **Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that the disclosures about short-duration contracts in Note 8 to the consolidated financial statements be presented to supplement the basic consolidated financial statements. Such information, although not a part of the basic consolidated financial statements, is required by the Financial Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic consolidated financial statements in an appropriate operational, economic, or historical context. We have applied certain

limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic consolidated financial statements, and other knowledge we obtained during our audit of the basic consolidated financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Deloitte & Touche LLP*

March 11, 2021

**CUNA MUTUAL HOLDING COMPANY AND SUBSIDIARIES**

Consolidated Balance Sheets  
 December 31, 2020 and 2019  
 (\$ in 000s)

<b>Assets</b>	2020	2019
<b>Cash and investments</b>		
Debt securities, available for sale, at fair value (amortized cost 2020 - \$15,577,412; 2019 - \$14,000,088) (credit loss allowance 2020 - \$5,079)	\$ 17,083,827	\$ 14,736,992
Debt securities, trading, at fair value (amortized cost 2020 - \$44,868; 2019 - \$47,490)	48,047	49,374
Equity securities (cost 2020 - \$325,059; 2019 - \$227,988)	329,607	258,678
Mortgage loans (credit loss allowance 2020 - \$11,890)	2,695,359	2,488,019
Policy loans	108,540	109,872
Equity in unconsolidated affiliates	-	4,855
Limited partnerships (includes 2020 - \$1,496,292; 2019 - \$1,364,251 relating to variable interest entities)	1,497,509	1,368,618
Securities lending assets	526,493	540,240
Derivative assets, at fair value	1,056,719	583,679
Other invested assets	158,784	123,050
<b>Total investments</b>	<b>23,504,885</b>	<b>20,263,377</b>
Cash and cash equivalents (includes 2020 - \$61,922; 2019 - \$24,058 relating to variable interest entities)	348,589	192,223
<b>Total cash and investments</b>	<b>23,853,474</b>	<b>20,455,600</b>
Accrued investment income	139,588	137,585
Premiums receivable, net (credit loss allowance 2020 - \$2,833)	315,961	309,587
Reinsurance recoverables (credit loss allowance 2020 - \$2,888)	217,692	163,582
Net federal income taxes recoverable	158,214	-
Deferred policy acquisition costs	675,303	626,817
Office properties, equipment and computer software at cost, net	197,432	185,724
Goodwill, net	146,448	88,827
Intangible assets, net	38,992	46,501
Other assets and receivables	411,625	307,182
Separate account assets	2,336,122	2,288,226
<b>Total assets</b>	<b>\$ 28,490,851</b>	<b>\$ 24,609,631</b>

See accompanying notes to the consolidated financial statements.

**CUNA MUTUAL HOLDING COMPANY AND SUBSIDIARIES**

Consolidated Balance Sheets, continued

December 31, 2020 and 2019

(\$ in 000s)

<b>Liabilities and Policyholders' Surplus</b>	2020	2019
<b>Liabilities</b>		
Policyholder account balances	\$ 11,086,793	\$ 9,458,195
Claim and policy benefit reserves - life and health	6,135,615	5,297,018
Loss and loss adjustment expense reserves - property and casualty	457,470	444,510
Unearned premiums	615,861	573,524
Notes and interest payable (includes 2020 - \$219,717; 2019 - \$43,746 relating to variable interest entities)	644,257	461,295
Dividends payable to policyholders	28,324	12,085
Reinsurance payable	85,401	84,887
Net deferred tax liability	241,765	129,461
Net federal income taxes payable	-	15,122
Accrued pension and postretirement benefit liability	138,189	119,945
Derivative liabilities, at fair value	766,207	351,722
Accounts payable and other liabilities (includes - 2020 - \$509; 2019 - \$383 relating to variable interest entities)	760,956	740,037
Payable for securities lending	526,493	540,240
Separate account liabilities	2,336,122	2,288,226
<b>Total liabilities</b>	<b>23,823,453</b>	<b>20,516,267</b>
<b>Commitments and contingencies (Note 13)</b>		
<b>Policyholders' surplus</b>		
Retained earnings	3,867,748	3,733,343
Accumulated other comprehensive income, net of tax expense (2020 - \$217,527; 2019 - \$103,535)	799,650	360,021
<b>Total policyholders' surplus</b>	<b>4,667,398</b>	<b>4,093,364</b>
<b>Total liabilities and policyholders' surplus</b>	<b>\$ 28,490,851</b>	<b>\$ 24,609,631</b>

**CUNA MUTUAL HOLDING COMPANY AND SUBSIDIARIES**

Consolidated Statements of Operations and Comprehensive Income (Loss)

Years Ended December 31, 2020, 2019, and 2018

(\$ in 000s)

	2020	2019	2018
<b>Revenues</b>			
Life and health premiums, net	\$ 2,013,959	\$ 2,008,371	\$ 1,670,162
Contract charges	66,800	67,501	68,810
Property and casualty premiums, net	922,089	894,709	880,027
Net investment income	703,585	709,968	741,003
Net realized investment gains (losses)			
Total other-than-temporary impairments	(6,204)	(6,608)	(10,655)
Less: Portion of (gains) losses recognized in other comprehensive income (loss)	-	(3)	449
Net other-than-temporary impairment losses recognized in operations	(6,204)	(6,611)	(10,206)
Sales and other realized investment gains (losses)	(58,082)	35,481	(53,171)
Total net realized investment gains (losses)	(64,286)	28,870	(63,377)
Commission and fee income	367,787	377,229	348,452
Other income	39,323	36,050	53,723
<b>Total revenues</b>	<b>4,049,257</b>	<b>4,122,698</b>	<b>3,698,800</b>
<b>Benefits and expenses</b>			
Life and health insurance claims and benefits, net	1,557,990	1,494,596	1,156,588
Property and casualty insurance loss and loss adjustment expenses, net	589,284	559,962	566,986
Interest credited to policyholder account balances	196,734	177,121	160,429
Policyholder dividends	42,257	25,930	26,100
Operating and other expenses	1,549,160	1,589,081	1,529,402
<b>Total benefits and expenses</b>	<b>3,935,425</b>	<b>3,846,690</b>	<b>3,439,505</b>
<b>Income from operations before income taxes and equity of unconsolidated affiliates</b>	<b>113,832</b>	<b>276,008</b>	<b>259,295</b>
Income tax expense (benefit)	(35,542)	55,237	46,032
<b>Income from operations before equity of unconsolidated affiliates</b>	<b>149,374</b>	<b>220,771</b>	<b>213,263</b>
Equity in income (loss) of unconsolidated affiliates, net of tax (benefit) (2020 - (\$1,029); 2019 - (\$299); 2018 - (\$2,229))	(3,873)	(1,125)	1,614
<b>Net income</b>	<b>145,501</b>	<b>219,646</b>	<b>214,877</b>

See accompanying notes to the consolidated financial statements.

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**CUNA MUTUAL HOLDING COMPANY AND SUBSIDIARIES**

Consolidated Statements of Operations and Comprehensive Income (Loss), continued  
Years Ended December 31, 2020, 2019, and 2018  
(\$ in 000s)

	2020	2019	2018
<b>Net income</b>	\$ 145,501	\$ 219,646	\$ 214,877
Foreign currency translation adjustment, net of tax expense (benefit) - (2020 - \$15; 2019 - \$6; 2018 - (\$21))	(5,706)	782	710
Change in unrealized gains (losses), net of tax expense (benefit) - (2020 - \$168,325; 2019 - \$190,381; 2018 - (\$115,055))	649,791	716,515	(432,256)
Reclassification adjustment for (gains) included in net income, net of tax (benefit) - (2020 - (\$8,599); 2019 - (\$2,732); 2018 - (\$8,722))	(32,350)	(10,278)	(32,810)
Change in pension liability, net of tax expense (benefit) - (2020 - (\$15,284); 2019 - \$12,036; 2018 - (\$6,028))	(57,495)	45,277	(22,675)
Change in shadow adjustments, net of tax expense (benefit) - (2020 - (\$30,466); 2019 - (\$19,467); 2018 - \$11,743)	(114,611)	(73,232)	44,176
<b>Other comprehensive income (loss)</b>	439,629	679,064	(442,855)
<b>Total comprehensive income (loss)</b>	\$ 585,130	\$ 898,710	\$ (227,978)

**CUNA MUTUAL HOLDING COMPANY AND SUBSIDIARIES**

Consolidated Statements of Policyholders' Surplus  
Years Ended December 31, 2020, 2019, and 2018  
(\$ in 000s)

	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Policyholders' Surplus
<b>Balance, January 1, 2018</b>	<b>\$ 3,262,193</b>	<b>\$ 105,039</b>	<b>\$ 3,367,232</b>
Net income	214,877	-	214,877
Cumulative effect of change in accounting for revenue recognition, net of tax	55,400	-	55,400
Cumulative effect of change in accounting for equity securities, net of tax	6,556	(6,556)	-
Cumulative effect of reclassification for stranded tax effects	(25,329)	25,329	-
Other comprehensive (loss)	-	(442,855)	(442,855)
<b>Balance, December 31, 2018</b>	<b>3,513,697</b>	<b>(319,043)</b>	<b>3,194,654</b>
Net income	219,646	-	219,646
Other comprehensive income	-	679,064	679,064
<b>Balance, December 31, 2019</b>	<b>3,733,343</b>	<b>360,021</b>	<b>4,093,364</b>
Net income	145,501	-	145,501
Cumulative effect of change in accounting for current expected credit losses, net of tax	(11,096)	-	(11,096)
Other comprehensive income	-	439,629	439,629
<b>Balance, December 31, 2020</b>	<b>\$ 3,867,748</b>	<b>\$ 799,650</b>	<b>\$ 4,667,398</b>



**CUNA MUTUAL HOLDING COMPANY AND SUBSIDIARIES**

Consolidated Statements of Cash Flows

Years Ended December 31, 2020, 2019, and 2018

(\$ in 000s)

	2020	2019	2018
<b>Cash flows from operating activities</b>			
Net income	\$ 145,501	\$ 219,646	\$ 214,877
Adjustments to reconcile net income from operations to net cash provided by operating activities:			
Undistributed (income) losses of limited partnerships	60,075	57,935	(58,039)
Net realized investment (gains) losses	64,286	(28,870)	63,377
Undistributed (income) losses of unconsolidated subsidiaries	3,873	1,125	(1,614)
Amortization of deferred policy acquisition costs	320,268	332,571	321,709
Policy acquisition costs deferred	(401,081)	(365,593)	(364,236)
Depreciation of office properties, equipment, computer software and real estate	46,535	40,546	35,214
Amortization of intangible assets	6,023	7,884	2,874
Amortization of premium and discount and low income housing tax credits	20,827	4,518	2,447
Deferred income taxes	4,224	17,321	(53,133)
Policyholder charges on investment-type contracts	(35,091)	(41,790)	(24,299)
Interest credited to policyholder account balances	196,734	177,121	160,429
Impairment of intangible assets	8,117	-	-
Impairment on office properties, equipment and computer software	744	1,993	4,219
Changes in other assets and liabilities			
Accrued investment income	(2,038)	(11,382)	(5,373)
Premiums receivable	(6,859)	11,839	1,577
Reinsurance recoverables	(56,822)	23,523	(3,774)
Net federal income taxes	(173,325)	(14,668)	36,598
Other assets and receivables	6,190	21,733	13,498
Insurance reserves	739,314	657,346	405,188
Unearned premiums	42,347	10,692	29,837
Reinsurance payable	523	(3,675)	1,965
Accounts payable and other liabilities	32,096	68,710	(69,087)
<b>Net cash provided by operating activities</b>	<b>1,022,461</b>	<b>1,188,525</b>	<b>714,254</b>

**CUNA MUTUAL HOLDING COMPANY AND SUBSIDIARIES**

Consolidated Statements of Cash Flows, continued  
Years Ended December 31, 2020, 2019, and 2018  
(\$ in 000s)

	2020	2019	2018
<b>Cash flows from investing activities</b>			
Purchases of investments			
Debt securities	\$ (3,204,123)	\$ (3,963,880)	\$ (1,993,694)
Equity securities	(97,456)	(60,864)	(86,111)
Mortgage loans	(498,016)	(461,737)	(389,978)
Limited partnerships	(281,023)	(336,872)	(278,876)
Derivative financial instruments	(869,942)	(455,923)	(88,580)
Company-owned life insurance	(95,748)	-	-
Other invested assets	(1,991,565)	(1,014,495)	(970,023)
Proceeds on sale or maturity of investments			
Debt securities	1,650,938	2,022,719	1,497,545
Equity securities	46,049	48,903	9,294
Mortgage loans	278,787	170,905	231,353
Limited partnerships	89,190	110,694	110,967
Derivative financial instruments	921,700	476,286	148,307
Other invested assets	1,925,666	1,217,117	816,289
Purchases of office properties, equipment, and software, net	(55,216)	(51,422)	(32,997)
Investment in unconsolidated affiliates	-	-	(1,329)
Net change in collateral under securities lending	6,614	298,013	-
Net change in payable for collateral under securities lending	(6,614)	(298,013)	-
Cash paid for acquisitions, net of cash acquired	(50,642)	-	(104,511)
Change in policy loans	1,246	(3,131)	(2,532)
<b>Net cash used in investing activities</b>	<b>(2,230,155)</b>	<b>(2,301,700)</b>	<b>(1,134,876)</b>

**CUNA MUTUAL HOLDING COMPANY AND SUBSIDIARIES**

Consolidated Statements of Cash Flows, continued  
Years Ended December 31, 2020, 2019, and 2018  
(\$ in 000s)

	2020	2019	2018
<b>Cash flows from financing activities</b>			
Policyholder account deposits	\$ 2,842,870	\$ 2,192,436	\$ 1,849,328
Policyholder account withdrawals	(1,595,121)	(1,232,565)	(1,246,388)
Assets on deposit	(50,666)	-	-
Notes payable - borrowings	6,245,000	4,072,000	1,489,000
Notes payable - repayments	(6,058,995)	(4,018,139)	(1,663,444)
Change in bank overdrafts	(9,277)	9,277	-
Capital lease payments	(573)	(573)	(2,800)
Payment of debt financing costs	(3,859)	-	-
<b>Net cash provided by financing activities</b>	<b>1,369,379</b>	<b>1,022,436</b>	<b>425,696</b>
<b>Change in cash and cash equivalents</b>	<b>161,685</b>	<b>(90,739)</b>	<b>5,074</b>
<b>Cash flows from discontinued operations</b>	<b>-</b>	<b>-</b>	<b>(2,126)</b>
<b>Effect of foreign exchange rate on cash</b>	<b>(5,319)</b>	<b>316</b>	<b>1,530</b>
<b>Cash and cash equivalents at beginning of year</b>	<b>192,223</b>	<b>282,646</b>	<b>278,168</b>
<b>Cash and cash equivalents at end of year</b>	<b>\$ 348,589</b>	<b>\$ 192,223</b>	<b>\$ 282,646</b>
<b>Supplemental disclosure of cash and non-cash information</b>			
Cash paid for interest	\$ 11,476	\$ 13,770	\$ 17,880
Cash paid for income taxes, net of refunds	117,709	40,733	57,826
Non-cash exchanges of debt securities	181,378	171,943	37,153
Non-cash exchanges of equity securities	36,836	-	-
Non-cash receipt (return) of debt securities from securities lending, net	(7,133)	8,623	-
Purchases of limited partnerships, non-cash	(15,333)	(24,031)	(19,754)
Distributions from limited partnerships, non-cash	15,333	24,031	19,754

## **CUNA MUTUAL HOLDING COMPANY AND SUBSIDIARIES**

Notes to Consolidated Financial Statements  
(\$ in 000s)

### **Note 1: Nature of Business**

CUNA Mutual Holding Company (“CMHC” or, with its subsidiaries, the “Company”) is a mutual insurance holding company organized under the laws of Iowa for the principal purpose of serving the insurance and financial services needs of credit unions and consumers. Its primary products include group credit life and disability sold through credit unions; retirement plans for credit union employees and other employers; and life, health and annuity policies. The Company is also engaged in the business of property and casualty insurance, retail investment brokerage, and other businesses useful to credit unions and their members. The Company markets its products for credit union members through face-to-face and direct response distribution systems, while group products are sold primarily by salaried representatives.

The Company is licensed to sell insurance in all 50 states and the District of Columbia and the majority of its revenue and the revenues of its affiliated companies are generated in the United States. It also conducts business in foreign countries through branch offices or subsidiaries. None of these foreign operations and no individual state in the United States represent more than 10% of the Company’s premiums for the years ended December 31, 2020, 2019, and 2018.

In March 2020, the World Health Organization declared the outbreak of a novel coronavirus disease (“COVID-19”) as a pandemic, which continues to spread throughout the U.S. COVID-19 is having an unprecedented impact on the U.S economy as federal, state, and local governments react to this public health crisis.

The impacts of the current COVID-19 pandemic are broad reaching, and the impacts on the Company’s financial statements to date have not been estimated. Due to the COVID-19 outbreak, there is uncertainty surrounding the potential impact on the Company’s future financial position, results of operations and related cash flows. Continued impacts of the pandemic could materially adversely affect the Company’s near-term and long-term premium revenues, policyholder benefits, earnings, liquidity, and cash flows. These potential impacts will largely depend on future developments that cannot be accurately predicted, including the duration and severity of the pandemic, government actions, and the length of time until the economy recovers.

### **Note 2: Summary of Significant Accounting Policies**

#### ***Basis of Presentation***

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”). All intercompany accounts and transactions have been eliminated. Certain amounts applicable to the prior year have been reclassified to conform to the current year presentation.

The Company consolidates a variable interest entity (“VIE”) when it is the primary beneficiary. A primary beneficiary is the entity with both the power to direct the activities of the VIE that most significantly impact the economic performance of the VIE and the obligation to absorb losses, or the right to receive benefits, that could potentially be significant to the VIE.

#### ***Use of Estimates***

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates and, in some cases, the difference could be material. Investment valuations, determinations of allowances for credit losses, deferral of policy acquisition costs and the related amortization and recoverability, embedded derivatives, valuation of goodwill and

## CUNA MUTUAL HOLDING COMPANY AND SUBSIDIARIES

Notes to Consolidated Financial Statements  
(\$ in 000s)

intangible assets, deferred tax asset valuation reserves, insurance liabilities, reinsurance balances, receivables related to contracts with customers and pension and postretirement obligations are most affected by the use of estimates and assumptions.

### **Investments**

*Debt securities:* Investments in debt securities, including bonds and redeemable preferred stocks, are classified as available for sale securities and are carried at fair value. The securities owned by the Company's broker-dealer subsidiary are classified as trading investments.

Unrealized gains and losses on available for sale debt securities, net of any deferred federal income taxes, are included in accumulated other comprehensive income (loss) as a separate component of policyholders' surplus unless designated as a hedged item in a fair value hedge. Unrealized gains and losses on securities classified as trading are reflected in the consolidated statements of operations and comprehensive income (loss), within net realized investment gains (losses).

The Company periodically evaluates its available for sale and trading debt securities for impairment. The assessment of whether impairments have occurred is based on management's case-by-case evaluation of the underlying reasons for the decline in estimated fair value. In determining whether an impairment exists, the Company considers, among other factors, financial position of the issuer, recent events affecting the issuer's business and industry sector, credit ratings and the intent and ability of the Company to hold the investment until the fair value has recovered to at least its cost basis. See further discussion in Note 3, Impairment of Available for Sale Debt Securities.

On January 1, 2020, the Company adopted Financial Accounting Standards Board ("FASB") Accounting Standards Update ("ASU") No. 2016-13, *Measurement of Credit Losses of Financial Instruments* ("ASU 2016-13"), as described in Recently Adopted Accounting Standards Updates later in Note 2. Prior to adoption of the new standard, the Company applied other than temporary impairment guidance for debt securities in an unrealized loss position. An available for sale debt security was considered other-than-temporarily impaired when the fair value was less than the amortized cost basis and its value was not expected to be recovered. Impairment analysis for debt securities under the previous guidance was generally similar except that under the new guidance: a. the length of time a security has been in an unrealized loss position, changes in fair value after the reporting date, and volatility are not factors in determining if a credit loss exists; b. the credit loss is limited to the amount by which amortized cost exceeds fair value; and c. the carrying value adjustment is recognized as an allowance, rather than a direct write-down of the amortized cost basis.

If a credit loss exists, but the Company does not have the intent to sell the security and is not more likely than not to be required to sell before recovery, an allowance for credit loss is established and the portion of loss that relates to credit loss is recorded through income as net realized investment gains (losses) and the portion of loss that relates to non-credit loss is recorded in other comprehensive income (loss).

If the Company has the intent to sell the security or it is more likely than not that the Company will be required to sell before anticipated recovery in value, the entire impairment loss is recorded through income to net realized investment gains (losses).

*Equity securities:* Investments in equity securities include common stocks, non-redeemable preferred stocks with readily determinable fair values and non-redeemable preferred stocks without readily determinable fair values. Common stocks and non-redeemable preferred stocks with readily determinable fair values are carried at fair value. The Company holds non-redeemable preferred stocks without readily determinable fair values at cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer.

## CUNA MUTUAL HOLDING COMPANY AND SUBSIDIARIES

Notes to Consolidated Financial Statements  
(\$ in 000s)

Unrealized gains and losses on common stocks and non-redeemable preferred stocks with readily determinable fair values are included in net realized investment gains (losses).

*Mortgage loans:* Mortgage loans held for investment are generally carried at their aggregate unpaid principal balance, adjusted for amortization of premiums and accretion of discounts and are net of an allowance for credit losses. The loan portfolio consists mainly of commercial mortgage loans made to borrowers throughout the United States collateralized by completed properties. The Company believes all of the loans in the portfolio share three primary credit related risks: borrower credit worthiness; sustainability of the cash flow of the property; and property valuation; therefore, the method for monitoring and assessing credit risk is consistent for the entire portfolio.

After the adoption of ASU 2016-13 on January 1, 2020, the Company records an allowance for credit losses that represents the portion of the amortized cost basis that the Company does not expect to collect. To determine the allowance for credit losses, the Company pools mortgage loans that share similar risk characteristics, considers the lifetime credit loss expected over the contractual term of the mortgage loans, adjusted for expected prepayments and any extensions, and takes into account past events, current economic conditions and forecasts of future economic conditions. Loans are pooled primarily on their internal risk ratings, key factors for which are loan-to-value ratios and debt-service coverage ratios. Annual expected loss rates are based on historical default and loss experience factors. Using average lives, the annual expected loss rates are converted into life-of-loan loss expectations.

Mortgage loans with dissimilar risk characteristics are removed from the pool and are evaluated individually for credit loss. Loans with dissimilar risk characteristics include those with significant declines in credit quality, collateral dependent loans (i.e., when the borrower is experiencing financial difficulty and foreclosure is reasonably probable), and reasonably expected troubled debt restructurings resulting from the Company making concessions to the borrower.

For those individual loans not evaluated as part of the pool beginning January 1, 2020 and for all mortgage loans deemed impaired prior to that date, the allowance for credit losses is established as follows: (a) for loans where the probable outcome is foreclosure or in-substance foreclosure, the credit loss is calculated as the difference between the carrying amount and the fair value of the collateral less costs to sell; and (b) for other impaired loans, the credit loss is calculated as the difference between the carrying amount and the present value of the expected future cash flows discounted at the lowest original effective interest rate. The original valuation allowance and subsequent changes in the valuation allowance are recorded in net realized investment gains (losses).

Prior to January 1, 2020, mortgage loans were considered to be impaired when management, based on assessments performed on a loan-by-loan basis, found that it was probable that the Company would be unable to collect amounts due according to the contractual terms of the loan agreement. Forecasts of future economic conditions and measurement of the expected credit loss over the contractual or expected term were not considered in determining the credit loss allowance.

Mortgage loans are placed on nonaccrual status if the financial condition of the borrower causes the asset to be maintained on a cash basis, if full payment of principal or interest is not expected, or if the principal or interest has been in default for more than 90 days unless the asset is both well secured and in process of collection. A loan is returned to accrual status if it meets the following criteria:

- None of the principal or accrued interest is past due and repayment of the remaining contractual obligation is expected;
- The loan becomes well secured and in the process of collection.

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The exceptions to meeting the first criterion are as follows:

- The loan has been formally restructured and repayment is assured under the modified terms;
- The loan is a purchased impaired loan;
- The borrower is making the contractual principal and interest payments and, while the loan may not be fully current, it is reasonably assured that the loan will be able to become current within a reasonable period and the borrower has shown a sustained period of being able to make the contractual payments.

When a loan is on nonaccrual status and any payments received are applied toward the principal balance, these payments are not reversed when the loan is placed back on accrual status. Generally, there is no immediate income recognition when removing a loan from nonaccrual status.

*Policy loans:* Policy loans are reported at their unpaid principal balance. A valuation allowance is not established for policy loans, as they are fully collateralized by the cash surrender value of the underlying insurance policies. Any unpaid principal or interest on the loan is deducted from the cash surrender value or the death benefit prior to settlement of the insurance policy.

*Equity in unconsolidated affiliates:* Equity in unconsolidated affiliates includes investments in companies over which the Company could exercise significant influence over the operating and financial policies of the investee. Generally, this occurs when the Company's ownership ranges from 20% to 50%. The Company accounts for these investments using the equity method whereby the Company's proportionate share of the net income (loss) of these unconsolidated affiliates is reported in the consolidated statement of comprehensive income (loss), net of related income taxes.

Equity in unconsolidated affiliates investments are assessed for impairment annually or whenever events or circumstances indicate that the carrying amount of such assets may not be fully recoverable. An impairment loss may need to be recognized as an equity loss of unconsolidated affiliates to the extent the carrying value of the assets exceeded the fair value of such assets. The estimation of fair values requires assumptions by management about factors that are uncertain including future cash flows, the appropriate discount rate and other factors. In 2020, the Company recorded a pre-tax impairment loss of \$4,829 related to these investments recorded in equity in income (loss) of unconsolidated affiliates on the consolidated statements of operations and comprehensive income (loss). There were no impairments in 2019 and 2018.

*Limited partnerships:* Limited partnerships primarily represent interests in energy, mezzanine, private equity, and real estate partnerships and are accounted for using the equity method. Accordingly, the Company's investments in these limited partnerships are carried at the value of outstanding equity as reported by the general partner. As a result of delays in the reporting of results by the partnerships, the Company generally records its equity interests on a three-month lag, as adjusted for contributions and distributions through the reporting date. Other changes in value attributable to partnership results for the fourth quarter are not recorded until the following year.

Determinations of the fair value of certain investments held by the limited partnerships are dependent upon unobservable inputs given the nature of the investments, and the fact that observable market data is frequently not available. Accordingly, the values assigned are subject to risks of variability.

*Securities lending assets:* The Company participates in a securities lending program, whereby certain securities are loaned for a short period of time from the Company's portfolio to qualifying third parties. Terms of the agreement are for borrowers of these securities to provide collateral of at least 102% of the fair value of the loaned securities; the Company is permitted by contract to sell or repledge this collateral. Acceptable collateral may be in the form of cash or U.S. government securities as outlined in the securities lending agreement. The fair value of the loaned securities is monitored daily and additional collateral is obtained if the fair value of the collateral falls below 102%

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of the fair value of the loaned securities. The loaned securities remain an asset of the Company; however, the Company records a liability for the amount of collateral held, representing its obligation to return the collateral related to the loaned securities.

The Company typically invests cash collateral in short-term securities through the use of reverse repurchase agreements. Under reverse repurchase agreements, the Company transfers cash or short-term securities to approved counterparties and receives U.S. Treasury or investment grade securities pledged as collateral. Terms of the agreement are for counterparties to provide collateral of at least 102% of the fair value of the loaned securities, depending on the type of security pledged as collateral.

Income associated with securities lending transactions is reported as a component of net investment income on the Company's consolidated statements of operations and comprehensive income (loss).

The Company's exposure to credit risk related to the securities lending program and reverse repurchase agreements is limited, due to the nature of the collateral received. The Company has counterparty exposure on these transactions in the event of a counterparty default to the extent the collateral security's value declines below the amount of cash or securities the Company delivered to acquire the collateral. The short-term nature of the transactions reduces that exposure.

*Other invested assets:* Other invested assets primarily consist of low income housing tax credit investments ("LIHTC"), investment in restricted common stock of the Federal Home Loan Bank ("FHLB"), short-term investments, margin deposits, investments receivable, real estate and student loans.

- LIHTC are investments in partnerships and limited liability entities that generate and realize low income housing tax credits. These investments are carried at amortized cost, unless considered impaired, and are accounted for using the proportional amortization method. Under the proportional amortization method, the excess of the carrying value of the investment over its estimated residual value is amortized into income tax expense during the period in which tax benefits are recognized. As further described in the Variable Interest Entities section of this note, the passive interests the Company holds in these LIHTC are considered to be VIEs.
- The FHLB restricted stock is purchased to facilitate borrowing from the FHLB and is carried at cost.
- Short-term investments include government securities and certificates of deposit and are reported at amortized cost, which approximates fair value. Short-term investments are evaluated for impairment using the same methods described above for available for sale debt securities.
- For certain derivatives, the counterparty requires margin deposits as well as daily cash settlements of margin accounts, and such amounts on deposit are included in other invested assets.
- Investments receivable are carried at cost and represent receivables for investments that have been sold. The Company has concluded that there is no possibility of nonpayment on receivables for investments that have been sold because the custodial bank delivers sold securities simultaneously when the proceeds are received. Accordingly, no allowance for credit losses is required.
- Real estate is carried at cost net of accumulated depreciation. When events or circumstances indicate the carrying value of real estate may not be recoverable, it is tested for impairment. Real estate is deemed to be impaired when the carrying value exceeds the sum of the undiscounted cash flows expected to result from the investment. Impaired real estate is written down to estimated fair value with the impairment loss being included in net realized investment gains (losses).



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- Student loans primarily represent loans made through private lending arrangements. The Company elected to carry student loans at fair value, and changes in the fair value are reported in net realized investment gains (losses).

*Net investment income:* Interest income related to mortgage-backed and other structured securities is recognized when earned using a constant effective yield method, based on anticipated prepayments and the estimated economic life of the securities. When estimates of prepayments change, the effective yield is recalculated to reflect actual payments to date and anticipated future payments, and such adjustments are reflected in net investment income. Prepayment assumptions for mortgage-backed bonds and other structured securities are based on industry averages or internal estimates. Interest income related to non-structured securities is recognized when earned using a constant effective yield method. Discounts and premiums on debt securities are amortized over the estimated lives of the respective securities on an effective yield basis. Dividends are recorded at the ex-dividend date. Investment income is also derived from real estate investments, limited partnerships, student loans, notes receivable and derivative activity. Income from real estate investments and student loans is recognized when earned. Income from investments in limited partnership interests is accounted for using the equity method generally on a three-month lag, as adjusted for contributions and distributions, and recognized in net investment income.

*Net realized investment gains (losses):* Net realized investment gains (losses) on the sale of investments are determined on a specific identification basis and are recorded on the trade date. Unrealized holding gains and losses on trading debt securities, common stocks and non-redeemable preferred stocks with readily determinable fair values are also included in net realized investment gains (losses) and are recorded on the valuation date. Impairment losses on debt securities that the Company has the intent to sell or it is more likely than not that the Company will be required to sell before the anticipated recovery value are recorded in net realized investment gains (losses).

### **Derivative Financial Instruments**

The Company uses derivative instruments, such as swaps, options, and futures, to manage exposure to various currency and market risks. All such derivatives are recorded in the consolidated balance sheets at fair value. See Note 3, Investments-Derivative Financial Instruments, and Note 4, Fair Value, for additional information on the Company's derivative financial instruments.

The Company issues products that contain embedded derivatives including equity-indexed annuities and guarantees contained in variable annuity, single premium deferred index annuity, single premium deferred modified guaranteed index annuity and flexible premium variable and index linked deferred annuity contracts. Derivatives embedded within non-derivative host contracts are separated from the host instrument when the embedded derivative is not clearly and closely related to the host instrument. Such embedded derivatives are recorded at fair value, and they are reported as part of policyholder account balances in the consolidated balance sheets, with the change in the value being recorded in net realized investment gains (losses).

The Company may designate certain derivatives as fair value hedges or cash flow hedges. At inception of the hedge, the Company formally documents the hedging relationship, risk management objective and strategy. In addition, the documentation includes a description of the hedging instrument, hedged transaction, nature of the risk being hedged and methodologies for assessing effectiveness and measuring ineffectiveness. Quarterly, the Company performs procedures to assess the effectiveness of the hedging relationship and the change in fair value associated with any ineffectiveness is recorded in net realized investment gains (losses).

*Fair value hedges:* For instruments that qualify as fair value hedges, the changes in fair value of the hedging instruments are recorded in net realized investment gains (losses). The changes in fair value of the hedged item, attributable to the risk being hedged, are also recorded in net realized investment gains (losses). The difference between the changes in fair value of the hedging instrument and the changes in fair value of the hedged item represents the ineffectiveness in an otherwise effective hedging relationship.

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*Cash flow hedges:* The Company designates certain derivative instruments as cash flow hedges when the hedging instrument is highly effective in offsetting the hedged risk of variability in cash flows that could affect net income. The changes in fair value of the swaps attributable to hedged risk are recorded in accumulated other comprehensive income (loss) to the extent the hedge is effective, with any ineffectiveness recorded in net realized investment gains (losses). Amounts are reclassified from accumulated other comprehensive income (loss) to net investment income when cash flows associated with the hedged item are included in net income.

*Non-hedge derivatives:* The Company is party to certain interest rate swaps, equity futures and options that are not designated as qualified hedging instruments. Changes in fair value and the income and expenses associated with derivatives not classified as qualified hedges are recorded in net realized investment gains (losses).

### ***Cash and Cash Equivalents***

Cash and cash equivalents include unrestricted deposits in financial institutions, money market mutual funds, and investments with maturities at the date of purchase of 90 days or less. Money market funds are stated at their net asset value. Other cash equivalents are stated at amortized cost, which approximates fair value, and are evaluated for impairment using the same methods described above for available for sale debt securities.

### ***Variable Interest Entities***

A VIE is a legal entity that does not have sufficient equity at risk to finance its activities without additional subordinated financial support or is structured such that equity investors lack the ability to make significant decisions relating to the entity's operations through voting rights or do not substantively participate in the gains and losses of the entity. Consolidation of a VIE by its primary beneficiary is not based on majority voting interest but is based on a review of the VIE's capital structure, contractual relationships and terms, nature of the VIE's operations and purpose, nature of the VIE's interests issued and the Company's involvement with the entity. When assessing the need to consolidate a VIE, the Company evaluates the design of the VIE as well as the related exposure to the variable interest holders.

The primary beneficiary is the entity that has both the power to direct the activities of the VIE that most significantly affect the entity's economic performance and the obligation to absorb losses or the right to receive benefits that could be potentially significant to the VIE. While also considering these factors, the consolidation conclusion depends on the breadth of the Company's decision-making ability and the Company's ability to influence activities that significantly affect the economic performance of the VIE.

*Consolidated VIEs:* The Company owns certain limited partnerships that hold the Company's investments in unaffiliated limited partnerships ("MCA Funds"); the MCA Funds were organized with the principal purpose of investing in limited partnerships to provide returns from distributions and capital appreciation, which is management's primary purpose for investing in all limited partnerships, including those that the Company's subsidiaries are directly invested in. The MCA Funds meet the definition of a VIE for which the Company has concluded that it is the primary beneficiary and which are consolidated at December 31, 2020 and 2019. The underlying limited partnership investments held by the MCA Funds are classified as VIEs but have not been directly consolidated in the Company's consolidated financial statements as the Company has determined it is not the primary beneficiary.

**CUNA MUTUAL HOLDING COMPANY AND SUBSIDIARIES**Notes to Consolidated Financial Statements  
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The following table presents the total assets and total liabilities associated with the VIEs which the Company has consolidated:

	Collateralized Fund Obligations	Limited Partnership Investment Vehicles	Elimination of Affiliated Notes and Interest Payable	Total
<b>December 31, 2020</b>				
Assets:				
Limited partnerships	\$ 819,294	\$ 676,998	\$ -	\$ 1,496,292
Cash and cash equivalents	59,338	2,584	-	61,922
<b>Total assets</b>	<b>\$ 878,632</b>	<b>\$ 679,582</b>	<b>\$ -</b>	<b>\$ 1,558,214</b>
Liabilities:				
Notes and interest payable	\$ 452,443	\$ -	\$ (232,726)	\$ 219,717
Accounts payable and other liabilities	509	-	-	509
<b>Total liabilities</b>	<b>\$ 452,952</b>	<b>\$ -</b>	<b>\$ (232,726)</b>	<b>\$ 220,226</b>
<b>December 31, 2019</b>				
Assets:				
Limited partnerships	\$ 269,885	\$ 1,094,366	\$ -	\$ 1,364,251
Cash and cash equivalents	19,286	4,772	-	24,058
<b>Total assets</b>	<b>\$ 289,171</b>	<b>\$ 1,099,138</b>	<b>\$ -</b>	<b>\$ 1,388,309</b>
Liabilities:				
Notes and interest payable	\$ 81,862	\$ -	\$ (38,116)	\$ 43,746
Accounts payable and other liabilities	254	129	-	383
<b>Total liabilities</b>	<b>\$ 82,116</b>	<b>\$ 129</b>	<b>\$ (38,116)</b>	<b>\$ 44,129</b>

The assets of the Company's consolidated VIEs can be used only to settle obligations of that VIE and are not available to pay or otherwise satisfy any obligations of the Company's subsidiaries.

The Company calculates the maximum exposure to loss to be the amount invested in the debt or equity of the consolidated VIE plus other commitments and guarantees to the VIE. Off-balance sheet exposure consists of commitments to underlying limited partnership investments, which were \$1,115,947 and \$929,607 as of December 31, 2020 and 2019, respectively. The off-balance sheet exposure is included within total commitments disclosed in Note 13.

*Unconsolidated VIEs:* The Company holds a variable interest in certain VIEs for which the Company is not the primary beneficiary, and, therefore, these VIEs were not consolidated on the Company's consolidated balance sheets. The Company invests in unconsolidated VIEs with the primary purpose of earning capital appreciation.

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The following table presents the carrying amount and maximum exposure to loss associated with VIEs which the Company has not consolidated:

	2020		2019	
	Carrying Amount	Maximum Exposure to Loss	Carrying Amount	Maximum Exposure to Loss
Equity securities	\$ 77,574	\$ 77,574	\$ 81,886	\$ 81,886
Debt securities, available for sale	3,000	3,000	4,229	4,229
Equity in unconsolidated affiliates	-	-	4,873	4,873
Limited partnerships	1,216	5,266	4,367	8,763
LIHTC	86,363	143,766	33,626	159,629
<b>Total assets</b>	<b>\$ 168,153</b>	<b>\$ 229,606</b>	<b>\$ 128,981</b>	<b>\$ 259,380</b>

The maximum exposure to loss relating to equity securities and equity in unconsolidated affiliates is equal to the carrying amount of the security. The maximum exposure to loss relating to limited partnerships and LIHTC is calculated to be the amount invested in the debt or equity of the VIE plus other commitments and guarantees to the VIE. As described in Note 13, the Company makes commitments to fund limited partnerships and LIHTC in the normal course of business. Excluding these commitments, the Company did not provide financial or other support to investees designated as VIEs during the years ended December 31, 2020 and 2019.

All of the Company's investments in residential mortgage-backed, commercial mortgage-backed, collateralized debt obligations and other non-mortgage asset-backed securities are also classified as unconsolidated VIEs. The maximum exposure to loss relating to these securities is equal to the carrying amount of the security. The values of these investments are disclosed in the Debt Securities section of Note 3, Investments.

**Premiums Receivable and Reinsurance Recoverables**

Premiums receivable and reinsurance recoverables are generally non-interest-bearing and have a 30 to 90 day term. The allowance for uncollectible premiums receivable is estimated based on a combination of estimated loss rates, write-off history and aging analysis. The allowance is calculated on a pooled basis for major product groups, the policyholders of which are considered to have similar risk characteristics; primarily for life insurance and personal lines auto and homeowner's insurance.

The premium on certain insurance contracts is subject to retrospective rating adjustments. Retrospective premiums are accrued in earned premium individually for each qualifying policy based on premium and claim experience. The liability is located in accounts payable and other liabilities on the consolidated balance sheets.

For reinsurance recoverables, an allowance for expected lifetime credit losses is established based on assumptions for the probability of default and loss given default, giving effect to any applicable collateral arrangements. The reinsurance recoverables are assessed for the credit loss allowance in pools, segmented by the reinsurers' publicly available credit ratings.

Prior to the adoption of ASU 2016-13 on January 1, 2020, as described in Recently Adopted Accounting Standards Updates later in Note 2, an allowance for uncollectible reinsurance recoverables was set up only when the Company concluded that it was probable that a reinsurer would not meet its obligations.

**CUNA MUTUAL HOLDING COMPANY AND SUBSIDIARIES**Notes to Consolidated Financial Statements  
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Changes in the allowance for credit losses on premiums receivable are as follows:

	Life Insurance	Auto and Home	Other	Total
Balance as of January 1, 2020	\$ 487	\$ 973	\$1,209	\$2,669
Cumulative effect of change in accounting for current expected credit losses	-	336	-	336
Net increase/(decrease) related to credit losses	43	220	(435)	(172)
Balance as of December 31, 2020	\$ 530	\$ 1,529	\$ 774	\$2,833

**Recognition of Life and Health Insurance Revenue and Related Benefits**

Credit life and disability insurance coverages are issued on either a single or monthly premium basis and revenue is recognized in relation to anticipated benefits to policyholders.

The Company has entered into retrospective rating agreements for certain credit life and credit disability contracts. Retrospective premiums are accrued as an increase or decrease to premium based on premium and claim experience for each qualifying policy and are included as part of the liability for claim and policy benefit reserves or as premium receivables.

Term-life, whole-life, accidental death and dismemberment and long-term care insurance premiums are recognized as premium income when due. Policy benefits for these products are recognized in relation to the premiums so as to result in the recognition of profits over the expected lives of the policies and contracts.

Revenue is recognized at the time of issue on immediate annuity and supplemental contracts that subject the Company to mortality or longevity risk (risk that the Company will have to make payments contingent upon the continued survival of an insured or insureds). A deferred profit liability is established for the excess of the gross premium collected over the sum of acquisition expenses incurred plus the initial benefit and maintenance expense reserve established. Deferred profits are included within life and health policy benefit reserves and are recognized over the expected benefit payment period.

Pension risk transfer premiums are recognized as revenue for the amount of the deposit less the deferred profit liability.

Amounts collected on policies not subject to significant mortality or longevity risk, principally group annuity and deferred annuity contracts (investment contracts), are recorded as increases in policyholder account balances. Revenues for investment contracts principally consist of net investment income and contract charges such as expense and surrender charges. Expenses for investment contracts consist of interest credited to contracts, benefits incurred in excess of related policyholder account balances and policy maintenance costs.

Universal life-type policies are insurance contracts with terms that are not fixed or guaranteed. Amounts received as payments for such contracts are credited to policyholder account balances. Revenues from universal life-type policies, which are recorded as contract charges in the accompanying consolidated statements of operations and comprehensive income (loss), consist of fees assessed against policyholder account balances for surrender charges, cost of insurance and policy administration. Policy benefits and claims that are charged to expense include interest credited to contracts and benefits incurred in excess of related policyholder account balances.

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### **Recognition of Property and Casualty Insurance Revenue**

Property and casualty insurance premiums are generally recognized ratably over the periods to which the premiums relate. Certain property and casualty contracts insure lenders against losses related to loan collateral, and the premium for these policies is recognized over the expected period of exposure, usually two to six years. Such premium is recognized on an accelerated basis versus on a pro rata method to reflect the higher loan balance, and therefore exposure to loss, in the early period of the loan term. An unearned premium reserve is established for the unexpired portion of insurance premiums.

The premium on certain insurance contracts is subject to retrospective rating adjustments. Retrospective premiums are accrued in earned premium individually for each qualifying policy based on premium and claim experience.

### **Commission and Fee Income**

The following table identifies commission and fee income disaggregated by major sources for the years ended December 31:

	2020	2019	2018
Brokered automobile and homeowner insurance	\$ 71,305	\$ 91,639	\$ 77,265
Annuities and broker-dealer	147,365	145,035	139,818
Retirement solutions	77,734	67,720	62,964
Lending	60,759	62,703	59,704
Other commission and fee income	10,624	10,132	8,701
<b>Total commission and fee income</b>	<b>\$ 367,787</b>	<b>\$ 377,229</b>	<b>\$ 348,452</b>

*Brokered automobile and homeowner insurance:* The Company's brokered automobile and homeowner insurance commission and fee income revenue is derived primarily by marketing third-party automobile and homeowner insurance products to credit union members through one of the Company's agency subsidiaries. Revenue is generated by the Company initiating contact between potential customers and third-party automobile and homeowner insurance carriers (leads), commissions on policy renewals for policies initiated by the marketing efforts (renewal commissions) and new business commissions. The Company has a single performance obligation to arrange for the sale of insurance products between the third-party automobile and homeowner insurance carriers and credit union members. This single performance obligation is satisfied at the time when the customer's home and automobile insurance period begins. Lead fees are a fixed amount per lead generated, and new business and renewal commissions are a fixed percentage of the policy premium. The Company estimates future renewal commissions at the beginning of the contract period based on customer persistency and lapse rates. The estimate assumes future premium changes and is discounted based upon interest rates from the appropriate cohort year. The third-party insurance carrier reduces future renewal commissions to the Company by a pro-rated amount if a credit union member cancels the insurance contract prior to the end of the coverage period; the Company includes an estimate of these cancellations in the contract asset.

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The following shows the activity in the balance of brokered automobile and homeowner insurance's contract assets and liabilities.

	Contract Assets		Contract Liabilities	
Balance as of January 1, 2019	\$	123,923	\$	60,427
Increase(decrease)		5,606		(2,047)
Balance as of December 31, 2019		129,529		58,381
(Decrease)		(9,210)		(2,744)
Balance as of December 31, 2020	\$	120,319	\$	55,637

Contract assets from renewal commissions are estimated when policies are sold; they are subsequently adjusted when renewal commissions are paid, for the unwind of the discount, or as assumptions are updated based on experience. A corresponding contract liability is also established to compensate credit unions whose members are solicited. The contract assets primarily relate to a receivable from a third-party insurance carrier, and the liabilities relate to amounts due to credit unions. These contract liabilities are settled quarterly. The contract asset does not meet the definition of a financing receivable because the Company cannot demand payment until the policies renew and payments are not due on fixed and determinable dates; therefore, an allowance for credit losses has not been established.

*Annuities and broker-dealer:* The Company's annuities and broker-dealer commission revenue and fee income are derived primarily based on contracts with mutual fund companies, insurance companies, and other product providers. Revenue consists primarily of up-front sales commissions and renewal and trailing commissions from the sale of mutual funds, annuities and other investments.

For broker-dealer commission revenue, the Company has a single performance obligation to market and sell products offered by product sponsors. Consequently, up-front commissions based on a percentage of the amount purchased are recognized as revenue on the trade date. When applicable, an estimate of chargebacks is accrued. Renewal and trailing commissions are generally earned based on a percentage of the customer's assets under management and paid over time. The Company has concluded that the estimate of these future commissions is constrained because the amount may vary widely based on customer behavior and the value of the underlying investments, among other factors. Therefore, renewal and trailing commission revenue is recorded when the account values become fixed and determinable.

Fee income mainly consists of managed account program fees for marketing and advisory services and mutual fund 12b-1 fees (distribution fees). The Company has concluded that it has a single performance obligation for managed account advisory services which is performed over time. Such fees are based on a percentage of assets under management and are recognized as revenue when the service has been performed.

For managed account marketing fees and 12b-1 fees, the Company's single performance obligation is to market the product. Both managed account marketing fees and 12b-1 fees are based on a percentage of assets under management. The Company has concluded that the estimate of these fees is constrained because the amount may vary widely based on customer behavior and the value of the underlying investments, among other factors. Therefore, the fee revenue is recorded when the account values become fixed and determinable.

Assets and liabilities associated with annuities and broker-dealer revenue are immaterial.

*Retirement solutions:* The Company's retirement solutions commission and fee income revenue is derived primarily from retirement plan administration and related investment advisory and processing services of 401(k) and pension

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plans for two primary groups of customers – credit unions and other employers obtained through the intermediary (non-credit union) market. The Company provides fund selection advice to institutional plans and receives fees for this service. The Company has a single bundled performance obligation of administering retirement plans. This single obligation is provided over the entire annual contract period, with the exception that certain services may occur only at the customer's request and are therefore provided at a point in time. The primary source of retirement solutions revenue is wrap fees. Other types of retirement solutions revenue are per person fees, transaction fees and flat rate plan fees.

Wrap fees are charged as a percent of plan assets. The corresponding revenue is recognized when the asset values are fixed at the end of a reporting period and the amount of revenue is known. Wrap fees are not charged on amounts held in fixed accounts.

Per person fees are charged per participant in a plan, and the corresponding revenue is recognized on a pro-rata basis over the plan year, which is the service period.

Transaction fees are charged for execution of a specific service or transaction, such as processing a loan or amending the plan document. The corresponding revenue is recognized when the service is performed.

Flat rate plan fees are a fixed amount charged to a plan for services, and the corresponding revenue is recognized on a pro-rata basis over the plan year, which is the service period.

Assets and liabilities associated with retirement solutions revenue are immaterial.

*Lending:* Lending revenue from contracts with customers primarily consists of revenue generated from the efforts of a marketing program and the Company's lending documents services.

The Company markets a third-party insurance carrier's warranty coverage to credit union members. The Company has a single performance obligation to arrange for the sale of insurance products between the third-party insurance carrier and the credit union members. The contract price is fixed, and collectability is reasonably assured. Revenue is recognized when the third-party insurance carrier binds a policy that was initiated by the marketing efforts of the Company.

The Company offers state and federally compliant loan and other documents used by credit unions and other financial institutions, along with related services. These documents are offered in two formats, paper documents and electronic documents. Paper documents have one bundled performance obligation to deliver paper documents to the customer and provide access to a team of compliance operation experts along with training and support services. The performance obligation related to paper documents is considered bundled because the Company does not sell compliance training and support services independently of the sale of paper documents. The contract price is fixed, and the revenue is recognized upon delivery of the documents. Electronic documents allow credit unions to access electronic documents that are continuously updated as compliance regulations change. The contract price is fixed, and revenue is recognized pro rata over the term of the contract.

Assets and liabilities associated with lending revenue are immaterial.

### ***Deferred Policy Acquisition Costs and Sales Inducements***

*Deferred costs:* The costs of acquiring insurance business that are directly related to the successful acquisition of new and renewal business are deferred to the extent that such costs are expected to be recoverable from future profits. Such costs principally include commissions and sales costs, direct response advertising costs, premium taxes, and certain policy issuance and underwriting costs.



## **CUNA MUTUAL HOLDING COMPANY AND SUBSIDIARIES**

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*Amortization of costs:* Costs deferred on property and casualty insurance products and credit life and credit disability policies are amortized over the term of the related policies in proportion to the premium recognized as earned. For term-life and whole-life insurance products, deferred policy acquisition costs are amortized in proportion to the ratio of the annual premium to the total anticipated premiums generated by the deferred acquisition costs. For investment contracts, primarily deferred annuities, and universal life-type products, deferred policy acquisition costs are amortized principally over the expected contract lives and in any one period in proportion to the relationship of actual gross profits for the period to the present value of all estimated gross profits from mortality, investment, and expense margins. Deferred policy acquisition cost assets for investment contracts and universal life-type products are adjusted for changes in the present value of estimated gross profits. Such adjustments are recorded in the period that the change in the present value of future years' gross profits becomes apparent. An additional adjustment to deferred policy acquisition costs on investment contracts and universal life-type products is made representing the effect on deferred policy acquisition costs that would occur if the unrealized gains and losses on investments related to these contracts were realized; the offset to this adjustment is included in accumulated other comprehensive income (loss). This adjustment is referred to as shadow deferred policy acquisition costs ("shadow DAC"). Deferred policy acquisition costs on participating insurance contracts are amortized over the life of the participating contracts at a constant rate based on the present value of the estimated gross margin expected to be realized.

Estimating future gross profits is a complex process requiring considerable judgment and the forecasting of events well into the future. The primary assumptions for determining the amount of the estimated gross profits are future investment returns, including capital gains and losses on assets supporting contract liabilities, interest crediting rates to contract holders, and the effects of future persistency, mortality, expenses, and hedges, if any. Financial market volatility increases the variability and risk of estimating gross profits, which in turn could impact amortization of the deferred policy acquisition costs.

*Recoverability and loss recognition:* Deferred policy acquisition costs are subject to recoverability testing at the time of policy issuance and loss recognition testing on an annual basis or when an event occurs that may indicate an inability to recover the deferred costs. To the extent that future policy premiums and investment income or gross profits are not adequate to cover the estimated anticipated losses and maintenance expenses at the time of policy issue, costs that would otherwise qualify for capitalization are not recoverable and are therefore expensed. Deferred policy acquisition costs are written down to the extent that future policy premiums and investment income or gross profits on in force policies are not adequate to cover the related estimated losses and expenses. Loss recognition in excess of the deferred policy acquisition costs balance is recognized by an increase in premium deficiency reserves, which are recorded in claim and policy benefit reserves - life and health or loss and loss adjustment expense reserves - property and casualty, as applicable, in the consolidated balance sheets. See further discussion in Claim and Policy Benefit Reserves – Life and Health in this Note 2.

*Internal replacements:* An internal replacement is defined as the modification of product benefits, features, rights or coverage that occurs by the exchange of an existing contract for a new contract, or by amendment, endorsement or rider, or by election of a feature or coverage within a contract. When an internal replacement occurs, which results in a substantial change to a policy, unamortized deferred policy acquisition costs, unearned revenues, and deferred sales inducements are expensed on the basis that the change constitutes the issuance of a new policy. Acquisition costs, sales inducements, and unearned revenue associated with the new replacement contract are deferred and amortized over the lifetime of the new contract. An internal replacement that is not a substantial change to the initial policy is accounted for as a continuation of the existing contract and the existing deferred policy acquisition costs, sales inducements and unearned revenue are carried over to the replacement contract.

*Sales inducements:* The costs of sales inducements offered on sales to new policyholders are deferred and recorded in other assets and receivables. These costs are primarily related to deferred annuities and are in the form of additional credits to the policyholder's account balance or enhancements to interest credited for a specified period, which are beyond amounts currently being credited to existing contracts. Deferred sales inducements are amortized over the expected contract life in relation to the present value of estimated gross profits from mortality, investment and expense margins.

**CUNA MUTUAL HOLDING COMPANY AND SUBSIDIARIES**Notes to Consolidated Financial Statements  
(\$ in 000s)**Office Properties, Equipment and Computer Software**

Office properties, equipment and computer software are carried at cost net of accumulated depreciation. Depreciation is determined on a straight-line basis over the estimated useful lives of the assets. The useful life of office equipment and purchased software is generally three to seven years. The useful life of capitalized costs for internally developed software ranges from three to ten years, while the useful life for office properties is generally 20 years. The following table provides a summary of office properties, equipment and computer software.

	2020	2019
Office properties	\$ 213,015	\$ 214,113
Office equipment	75,317	83,195
Computer software	272,273	249,567
Total cost of office properties, equipment and computer software	560,605	546,875
Accumulated depreciation	(363,173)	(361,151)
Office properties, equipment and computer software at cost, less accumulated depreciation	\$ 197,432	\$ 185,724

Depreciation expense totaled \$46,371, \$41,056, and \$34,813 in 2020, 2019 and 2018, respectively.

In 2020, 2019 and 2018, the Company recognized impairment losses of \$744, \$1,993 and \$4,219, respectively, related to computer software and office properties. The impairment losses are included in operating and other expenses within the consolidated statements of operations and comprehensive income (loss) for the years ended December 31, 2020, 2019 and 2018.

**Goodwill and Intangible Assets**

Goodwill is not amortized, but is subject to an impairment test annually, or whenever events or circumstances indicate the carrying amount may not be recoverable. Definite-lived intangible assets are amortized over their estimated useful lives, ranging from three to fifteen years. Amortization is based on the pattern in which the economic benefits are expected to be realized, when determinable; otherwise, straight-line amortization is used. Definite-lived intangible assets are subject to an impairment test whenever events or circumstances indicate the carrying amount may not be recoverable.

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The following table provides a rollforward of goodwill and intangible assets.

	Goodwill	Definite-lived Intangible Assets
Gross balance at January 1, 2018	\$ 34,832	\$ 13,010
Accumulated amortization at January 1, 2018	-	(10,315)
Balance, net, at January 1, 2018	34,832	2,695
Acquisition of subsidiary	54,606	54,564
Amortization	-	(2,874)
Balance, net, at December 31, 2018	89,438	54,385
Adjustment on acquisition of subsidiaries	(611)	-
Amortization	-	(7,884)
Balance, net, at December 31, 2019	88,827	46,501
Acquisition of subsidiary	57,621	6,630
Impairment	-	(8,117)
Amortization	-	(6,022)
Balance, net, at December 31, 2020	146,448	38,992
Add: Accumulated amortization at December 31, 2020	-	12,402
Gross balance at December 31, 2020	\$ 146,448	\$ 51,394

Definite-lived intangible assets primarily consist of technology, customer lists, relationships and trade names. The weighted average amortization period of definite-lived assets was 11 years in 2020, 2019 and 2018, respectively.

In 2020, the Company impaired \$8,117 of definite-lived intangible assets related to a product that offers a technology platform to financial institutions which facilitates lending to small businesses. The impairment loss is included in operating and other expenses within the consolidated statements of operations and comprehensive income (loss) for the year ended December 31, 2020.

In 2020, the Company acquired a provider of an end-to-end digital lending solution that offers financial institutions the ability to offer pre-approved loans to consumers, which resulted in an addition of \$6,630 intangible assets and \$57,621 of goodwill.

In 2018, the Company acquired a provider of technology solutions to help financial institutions comply with state and federal regulations related to customer lending and deposit transactions, which resulted in an addition of \$39,230 of intangible assets and \$35,834 of goodwill. The Company also acquired an offeror of a technology platform to financial institutions which facilitates lending to small businesses, which resulted in an addition of \$9,800 of intangible assets and \$18,772 of goodwill. Finally, the Company acquired a provider of data and analytics solutions, which resulted in an addition of \$5,534 of intangible assets. In 2019, the Company adjusted goodwill

**CUNA MUTUAL HOLDING COMPANY AND SUBSIDIARIES**Notes to Consolidated Financial Statements  
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related to Compliance System, Inc. (“Compliance Systems”) and Mirador Financial, Inc. (“Mirador”) related to post close purchase accounting adjustments.

The following table is a summary of the estimated aggregate amortization expense for intangible assets.

		<b>Estimated Aggregated Amortization Expense</b>
2021	\$	4,444
2022		3,983
2023		3,983
2024		3,957
2025		3,957
Thereafter		18,668
<b>Total estimated amortization expenses</b>		<b>\$ 38,992</b>

**Other Assets and Receivables**

Other assets and receivables primarily consists of company-owned life insurance (“COLI”), receivables from unaffiliated entities, assets on deposit, prepaid assets and leases. COLI and the COLI contingency reserve are carried at the cash surrender value. Changes to the cash surrender value are recorded in other income in the consolidated statements of operations and comprehensive income (loss). Receivables from unaffiliated entities and prepaid assets occur from transactions with unaffiliated entities in the normal course of business.

The Company, as a lessee, has entered into various lease agreements for office space and equipment. At contract inception, the Company determines that an arrangement contains a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. For contracts that contain a lease, the Company recognizes the right-of-use (“ROU”) asset in other assets and receivables and the lease liability in accounts payable and other liabilities. Leases with an initial term of 12 months or less are not recorded on the balance sheet. ROU assets represent the Company’s right to use an underlying asset for the lease term and lease liabilities represent the Company’s obligation to make lease payments arising from the lease. ROU assets and lease liabilities are determined using the Company’s incremental borrowing rate based upon information available at commencement date to recognize the present value of lease payments over the lease term. Lease terms may include options to extend or terminate the lease and are included in the lease measurement when it is reasonably certain that the Company will exercise that option. The majority of the Company’s leases are operating leases related to office space. The Company recognizes lease expense for operating leases on a straight-line basis over the lease term. For the year ended December 31, 2019, the Company did not recognize ROU assets on the consolidated balance sheets for all assets containing a leases. Leases classified as an operating lease were recorded as lease expenses in operating and other expenses within the consolidated statements of operations and comprehensive income (loss) for the year ended December 31, 2019. See Note 2, Summary of Significant Account Policies—Recently Adopted Accounting Standard Update, for further discussion of the change in lease accounting.

**Separate Accounts**

Separate accounts represent customer accounts related to certain contracts issued by the Company, such as variable annuities, variable life insurance policies, and flexible premium variable and index linked deferred annuities, where investment income and investment gains and losses accrue directly to the contract holders who bear the investment risk. In some contracts the Company provides certain guarantees. Such guarantees may include a

## **CUNA MUTUAL HOLDING COMPANY AND SUBSIDIARIES**

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minimum account value upon death or minimum withdrawal or accumulation benefits. The liabilities for these guarantees are not included in the separate accounts as they are obligations of the Company. See Note 3, Investments—Embedded Derivatives, for further discussion of the guarantees for minimum withdrawal or accumulation benefits. The additional liability held for minimum death benefits is equal to the current benefit ratio multiplied by the cumulative revenue from the contract's issue date, less cumulative excess death benefits from the issue date, plus interest, and floored at zero. The reserve for minimum death benefit guarantees was \$1,211 and \$1,245 as of December 31, 2020 and 2019, respectively, and is reported in policyholder account balances in the consolidated balance sheets.

Contract holders are able to invest in investment funds managed for their benefit. Approximately 54% and 56% of the separate account assets are invested in unit investment trusts that are registered with the Securities and Exchange Commission ("SEC") as of December 31, 2020 and 2019, respectively.

Separate account assets are legally segregated and may only be used to settle separate account liabilities. Separate account assets are carried at fair value, which is based on daily quoted net asset values ("NAVs") at which the Company could transact on behalf of the contract holder. Separate account liabilities are equal to the separate account assets and represent contract holders' claims to the related assets. Contract holder deposits to and withdrawals from the separate accounts are recorded directly to the separate account assets and liabilities and are not included in the Company's consolidated statements of operations and comprehensive income (loss).

Charges made by the Company to the contract holders' balances include fees for maintenance, administration, cost of insurance, and surrenders of contracts prior to the contractually specified dates. Such fees are reflected as revenues (contract charges) in the accompanying consolidated statements of operations and comprehensive income (loss) when they are assessed to the contract holder by the Company.

### ***Policyholder Account Balances***

The Company recognizes a liability at the stated account value for policyholder deposits that are not subject to significant policyholder mortality or longevity risk, for universal life-type policies and for funding agreements with the FHLB. The account value equals the sum of the original deposit and accumulated interest, less any withdrawals and expense charges. Average credited rates for the various products ranged from 1.2% to 3.2% in 2020, 1.4% to 3.3% in 2019 and 1.2% to 3.4% in 2018. Future minimum guaranteed interest rates during the life of the contracts vary from 0.1% to 4.5%. The funding agreements with the FHLB have floating interest rates that range from 0.4% to 2.3% in 2020, 2.1% to 3.2% in 2019 and 2.8% to 3.1% in 2018.

### ***Claim and Policy Benefit Reserves – Life and Health***

Life and health claim and policy benefit reserves consist principally of future policy benefit reserves and reserves for estimates of future payments on incurred claims reported but not yet paid and unreported incurred claims.

*Claim reserves:* Estimates for future payments on incurred claims are developed using actuarial principles and assumptions based on past experience adjusted for current trends. Any change in the probable ultimate liabilities is reflected in net income in the period in which the change is determined. Gross reserves for unpaid claims and claim adjustment expenses of \$235,866 and \$251,724 on certain claims, principally those resulting from a disability, are discounted at rates between 0.63% and 0.99% as of December 31, 2020 and 2019, respectively. The aggregate discount deducted from gross reserves was \$5,171 and \$5,378 as of December 31, 2020 and 2019, respectively. Interest accretion, a result of unwinding the prior year discount, of \$2,723, \$2,444, and \$1,726 was recorded in life and health insurance claims and benefits within the consolidated statements of operations and comprehensive income (loss) for the years ended December 31, 2020, 2019 and 2018, respectively.

Incurred but not reported ("IBNR") reserves are recorded as the difference between paid losses to-date and the ultimate loss selections for each accident year. Expected development on reported credit disability claims are

## CUNA MUTUAL HOLDING COMPANY AND SUBSIDIARIES

Notes to Consolidated Financial Statements  
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calculated using continuance tables, which provide the probability that a claim, at a given age, will have additional payments. These tables are calculated using actual historic company experience. Expected development is combined with paid losses for use in actuarial techniques using reported losses.

Actuarial techniques for unpaid claims and claim adjustment expenses primarily include paid and reported development techniques, their corresponding Bornhuetter-Ferguson methods (a combination of the expected loss ratio and paid development or reported development method), and prior ultimate loss selections. Expected loss ratio inputs for an accident year are generally based on the most recent quarterly financial forecast, which considers historic loss experience and current trends. Reserves for adjusting expenses are set as a percentage of the unpaid loss estimate, based on internal studies.

Within any one line of business, the methods that are given more influence vary based primarily on the maturity of the accident year, the mix of business and the particular internal and external influences impacting the claims experience or the methods.

*Future policy benefit reserves:* For term-life, whole-life and long-term care insurance products, future policy benefit reserves are computed using the net level premium method based on assumptions related to estimated future investment yield, mortality, morbidity, withdrawals, expenses and dividends, if applicable. The assumptions are set at issue and persist until a loss recognition event occurs. Mortality, morbidity and withdrawal assumptions reflect the Company's historical experience and industry standards. Interest rate assumptions range from 2.0% to 8.0% as of December 31, 2020 and 2019, respectively. Provisions for adverse deviation have been reflected in the interest assumption and also in the mortality and morbidity assumptions where deemed necessary.

The Company assesses the adequacy of future policy benefit reserves by performing a gross premium valuation ("GPV") to determine if there is a premium deficiency. The GPV estimates required reserves using best estimate assumptions as of the date of the assessment without provisions for adverse deviation. The GPV required reserves are then compared to the existing recorded reserves. If the GPV required reserves are greater than the existing recorded reserves, the assumptions are unlocked and future policy benefit reserves are increased to the greater amount. Any such increase is reflected in the results of operations in the period in which the need for an adjustment is determined.

The 2020 GPV analysis on long-term care insurance showed that there was a premium deficiency of \$100,730, of which an estimated \$58,476 is recoverable from reinsurers, resulting in an increase of \$42,254 to life and health insurance claims and benefits, net in the consolidated statements of operations and comprehensive income (loss). The long-term care reserves held as of December 31, 2020 represent management's best estimate assumptions as of that date with no margin for adverse deviation. The premium deficiency was primarily driven by estimates of higher expected morbidity and persistency.

The Company recognized \$130,849 of shadow loss recognition reserves in other comprehensive income as of December 31, 2020 related to unrealized investment gains on invested assets attributed to long-term care, immediate annuities and payout annuities, which led to lower expected future investment income. There were no shadow loss recognition reserves recognized as of December 31, 2019.

The Company is also required to accrue additional future policy benefit reserves when the overall reserve is adequate, but profits are projected in early periods followed by losses in later periods. When this pattern of profits followed by losses exists, the Company accrues the additional profits followed by losses liability over time, increasing reserves in the profitable periods to offset subsequent estimated losses. The Company calculates the additional reserves using current best estimates of future results, consistent with assumptions used for loss recognition testing. The profits followed by losses reserve, if required, is reported in claim and policy benefit reserves – life and health on the consolidated balance sheets. For long-term care policies, the gross profits followed by losses reserve was \$34,803 and the amount net of reinsurance was \$39,010, as of December 31, 2019. There was no profits followed by losses reserve related to long-term care policies as of December 31, 2020.

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For immediate annuities or similar contracts with life contingencies, the reserve is calculated as the present value of future benefits. The mortality rates used are based on standard industry valuation tables, modified for the Company's experience if appropriate, and the interest rates used, set at issue, range from 1.3% to 9.2% and 1.9% to 9.2% as of December 31, 2020 and 2019, respectively.

### ***Loss and Loss Adjustment Expense Reserves – Property and Casualty***

Loss and loss adjustment expense reserves for property and casualty products represent the estimated claim cost and loss adjustment expense necessary to cover the ultimate cost of investigating and settling all losses incurred and unpaid as of the balance sheet date. Such reserve estimates are based on individual case estimates for reported losses, estimates for IBNR losses based on past experience and estimated adjustments for ultimate loss expectations based on historical experience patterns and current economic trends and are stated net of estimated salvage and subrogation recoverables of \$17,604 and \$17,531 at December 31, 2020 and 2019, respectively. Any change in the probable ultimate liabilities is reflected in net income in the period the change is determined to be necessary; such adjustments generally arise from new information emerging and could be material.

The Company's primary property and casualty insurance products include auto, homeowners, business protection, debt protection, and guaranteed asset protection ("GAP"). Except as specifically discussed by business line below, actuarial techniques for unpaid loss and loss adjustment expenses primarily include paid and reported development techniques, their corresponding Bornhuetter-Ferguson methods (a combination of the expected loss ratio and paid development or reported development method), and prior ultimate loss selections. Expected loss ratio inputs for an accident year are generally based on the most recent internal forecast, which considers historic loss experience and current trends.

IBNR reserves are based on the ultimate loss for each accident year. The Company reviews the ultimate losses and adjusts for the sum of paid losses to date and the case reserves on open claims. The Company records the net value as the IBNR reserves. Case reserves are established, based on available information, or are provided by the primary insurer for assumed reinsurance.

An exception to the general approach described above for determining unpaid loss and loss adjustment expense is in the calculation of reserves for catastrophe losses on assumed personal lines auto and homeowners policies. Such reserves are estimated by the primary insurer and the Company's default approach is to use these reserves directly without additional analysis. The Company assesses the reasonableness of these loss reserves by periodic discussions with the primary insurer and other techniques. In certain circumstances, the Company may rely on internal projections for personal lines catastrophe reserves. Circumstances that may result in reliance on the Company's own projections are large industry catastrophic events or late in the year catastrophes for which the primary insurer has not yet provided projections.

For the debt protection product, expected development on reported claims are calculated using continuance tables, which provide the probability that a claim, at a given age, will have additional payments. These tables are calculated using actual historic company experience for disability, and worst case for unemployment coverage. Expected development on case reserves is combined with paid losses for use in actuarial techniques using reported losses.

For both the debt protection and GAP products, reserves for adjusting and other expenses ("AOE") are set as a percentage of the unpaid loss estimate, based on internal studies. Business protection AOE reserves are estimated annually using the Wendy Johnson method, a count-based technique.

Within any one line of business, the methods that are given more influence vary, based primarily on the maturity of the accident year, the mix of business and the particular internal and external influences impacting the claims experience or the methods.

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### ***Policyholder Dividends***

Policyholder dividends are paid on certain policies, primarily individual life insurance. Dividends are approved by the Board of Directors, based on experience of the participating policies, and recorded on an accrual basis. Dividends are paid on policies representing 15.2% and 20.4% of the life and health policy benefit reserves as of December 31, 2020 and 2019, respectively.

The Company pays dividends pursuant to a dividend protection mechanism (“DPM”) agreement with the states of New York and Iowa. If the contribution to surplus of the participating policies subject to the DPM exceeds a threshold, the Company is required to pay dividends in excess of the amounts paid using current dividend scales. The Company has determined that additional dividends of \$16,200 must be paid by December 31, 2025 in order to comply with the DPM, which was accrued in dividends payable to policyholders in the consolidated balance sheets.

### ***Reinsurance***

Reinsurance premiums, claims and benefits, commission expense reimbursements, and reserves related to reinsured business ceded are accounted for on a basis consistent with the accounting for the underlying direct policies that have been ceded and the terms of the reinsurance contracts. Premiums and insurance claims and benefits in the consolidated statements of operations and comprehensive income (loss) are reported net of the amounts ceded to other companies under such reinsurance contracts. Ceded insurance reserves and ceded benefits paid are included in reinsurance recoverables in the consolidated balance sheets. A prepaid reinsurance asset is also recorded for the portion of unearned premiums related to ceded policies.

### ***Benefit Plans***

The Company recognizes costs for its defined benefit pension and postretirement benefit plans as employees perform services to earn the benefits. Net periodic benefit cost is determined using management estimates and actuarial assumptions to derive service cost, interest cost and expected return on plan assets. Net periodic benefit cost also includes the applicable amortization of any prior service cost (credit) arising from changes in prior years’ benefit costs due to plan amendments, as well as the applicable amortization of actuarial gains or losses arising from experience different than assumed or changes in actuarial assumptions. In 2020 and 2019, the components of net periodic benefit costs other than the service cost component are (\$12,938) and \$11,589 and reflected in operating and other expenses in the Company’s consolidated statements of operations and comprehensive income (loss).

The Company recognizes the funded status of the benefit obligations for each of its plans on the consolidated balance sheets. The actuarial gains or losses, prior service costs and credits that have not been included in net periodic benefit costs are charged, net of income tax, to accumulated other comprehensive income (loss). Each period, changes in funded status are charged or credited, net of income tax, to other comprehensive income (loss).

Calculations of benefit obligations for postretirement medical benefits reflect a reduction for subsidies expected from the federal government pursuant to the Medicare Prescription Drug, Improvement and Modernization Act of 2003. The cost of benefits provided to former or inactive employees after employment, but before retirement, is recognized during an employee’s service years if certain requirements are met. Postretirement medical benefits are generally funded on a pay as you go basis.

### ***Income Taxes***

The Company recognizes taxes payable or refundable and deferred taxes for the tax consequences of differences between the financial reporting and tax basis of assets and liabilities. Deferred tax assets and liabilities are measured by applying the enacted tax rates to the difference between the financial statement and tax basis of assets and liabilities. Deferred income tax assets can be realized through future earnings, including but not limited



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to the generation of future income, reversal of existing temporary differences and available tax planning strategies. The Company records a valuation allowance for deferred tax assets if it determines it is more likely than not that the asset will not be realized. See Note 5, Income Tax, for further discussion.

The Company is subject to tax-related audits. These audits may result in additional tax assets or liabilities. In establishing tax liabilities, the Company determines whether a tax position is more likely than not to be sustained under examination by the appropriate taxing authority. Tax positions that do not meet the more likely than not standard are not recognized. Tax positions that meet this standard are recognized in the consolidated financial statements within net deferred tax assets or liabilities or net federal income taxes recoverable or payable.

The Coronavirus Aid, Relief, and Economic Security Act ("CARES Act") was enacted by the U.S. federal government on March 27, 2020. The significant income tax provisions of this legislation and impact on the Company's consolidated financial statements are described in Note 5, Income Tax.

### ***Foreign Exchange***

The Company's consolidated financial statements are impacted by changes in foreign currency exchange rates related to foreign-based subsidiaries and branch operations and investment holdings denominated in foreign currencies.

The accounts of foreign based subsidiaries and branch operations are measured using the local currency as the functional currency. Revenues and expenses of these operations are translated into U.S. dollars at the average exchange rate for the period. Assets and liabilities of these operations are translated at the exchange rate as of the end of the reporting period. The resulting gains or losses from translating foreign currency are included in accumulated other comprehensive income (loss) as a separate component of policyholders' surplus.

The foreign exchange impacts of investment holdings classified as available for sale are included in accumulated other comprehensive income (loss) as a separate component of policyholders' surplus. Foreign exchange transaction gains (losses) are reflected in operating and other expenses in the Company's consolidated statements of operations and comprehensive income (loss) and were \$3,890, (\$1,021), and (\$2,186) for the years ended December 31, 2020, 2019, and 2018, respectively.

### ***Recently Adopted Accounting Standard Updates***

The Company adopted FASB ASU No. 2016-02, *Leases* ("ASU 2016-02"), on January 1, 2020 on a modified retrospective basis. Adoption of ASU 2016-02 increased other assets and receivables and increased accounts payable and other liabilities by \$7,954; there was no impact on net income or policyholders' surplus. The new standard requires lessees to recognize assets and liabilities for the rights and obligations created by lease arrangements with terms of more than 12 months. The classification of leases and income statement impact for lessees depends on whether the leases meet certain criteria, including whether the lessee obtains effective control of the underlying asset. Accounting by lessors was largely unchanged from the current accounting guidance.

The Company adopted FASB ASU No. 2016-13, *Measurement of Credit Losses of Financial Instruments* ("ASU 2016-13"), on January 1, 2020 on a modified retrospective basis. The new standard replaced the existing incurred loss recognition model with an expected loss recognition model for affected financial assets held at amortized cost, primarily mortgage loans, reinsurance recoverables, premiums receivable, and other short-term receivables. The allowance for expected credit losses is deducted from the amortized cost basis of the affected financial assets. Entities must consider all available relevant information when estimating expected credit losses, including details about past events, current conditions, and reasonable and supportable forecasts over the contractual life of an asset. Financial assets may be evaluated individually or on a pooled basis when they share similar risk characteristics. The measurement of credit losses for available for sale debt securities measured at fair value was not significantly affected by the guidance change, except that credit losses recognized on these securities are

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limited to the amount by which amortized cost exceeds fair value and the carrying value adjustment is recognized via an allowance (not as a direct write-down). As permitted by ASU 2016-13, the Company has elected two practical expedients: (1) a credit loss allowance on securities lending assets is only required if the value of the collateral is less than the amortized cost of the loaned securities and (2) a credit loss allowance on margin account assets is only required if the value of the collateral is less than the margin account. The Company also elected not to measure an allowance for credit losses on accrued investment income. Accrued investment income is written off through impairment losses at the time the debtor defaults or is expected to default on interest payments. The adoption of ASU 2016-13 resulted in a cumulative effect adjustment which decreased retained earnings by \$11,096, which is net of a tax benefit of \$2,950. For previously impaired debt securities, the new guidance was applied prospectively. New disclosures required by ASU 2016-13 have been included in Note 3, Investments.

The Company adopted ASU No. 2017-04, *Simplifying the Test for Goodwill Impairment*, on January 1, 2020, which did not have an impact on its consolidated financial statements. The new standard simplifies the accounting for goodwill impairments by eliminating the second step of the goodwill impairment test, which is to measure the implied fair value of goodwill. Under the new standard, the impairment loss will be the amount the carrying value of the reporting unit exceeds the fair value of the reporting unit.

### **Accounting Standards Updates Pending Adoption**

In August 2018, the FASB issued ASU No. 2018-12, *Targeted Improvements to the Accounting for Long-Duration Contracts* ("ASU 2018-12"). A subsequently issued ASU extended the effective date to 2023 for entities which meet the definition of a SEC filer and are not classified as a smaller reporting company by the SEC. Other entities are required to adopt in 2025. Early adoption is permitted. The new standard makes significant changes to accounting requirements for long-duration insurance contracts, including long-term care, traditional and limited payment life insurance, and annuities. These are core products to the Company. The significant provisions are shown below.

- Under current guidance, the liability for future policy benefits for long-duration products is established based on assumptions set at issue which are not changed unless there is a premium deficiency. Under ASU 2018-12, these assumptions, which include mortality, morbidity, persistency, expenses, and the discount rate, must be reviewed for changes at least annually. The existing guidance is retained for participating policies. When assumptions other than the discount rate are changed, the liability is recomputed, and a cumulative catch-up adjustment is recorded in the current year income statement. The discount rate, which is based on the yield of an upper-medium-grade fixed income instrument, must be updated each reporting period; changes in the liability resulting from the discount rate are recorded in other comprehensive income.
- The liability for future policy benefits can no longer include a provision for adverse deviation except for participating policies.
- Because liability assumptions are updated periodically, the test for premium deficiency is no longer required for nonparticipating traditional and limited payment contracts.
- ASU 2018-12 introduces the concept of market risk benefits for product features that protect the contract holder from capital market risk, which must be accounted for at fair value.
- Deferred acquisition costs will generally be amortized to expense on a constant level basis, either individually or grouped consistent with reserve cohorts, over the expected term of the contracts in force. Amortization based on estimated gross profits or gross margins will be eliminated. The deferred policy acquisition costs asset does not need to be tested for impairment, no interest is accreted, and shadow adjustments are no longer required.
- Insurers must provide disclosures that allow financial statement users to understand the amount, timing, and uncertainty of future cash flows arising from the insurance liabilities.

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(\$ in 000s)

The Company is currently evaluating the impact of ASU 2018-12 on its consolidated financial statements. The future impact may be material.

In March 2020, the FASB issued ASU No. 2020-04, *Reference Rate Reform (Topic 848)* ("ASU 2020-04"). The amendments in this update provide optional guidance for a limited period of time to ease the potential burden in accounting for (or recognizing the effects of) reference rate reform on financial reporting. A reference rate is an interest rate benchmark used to establish an interest rate for derivatives, floating rate debt, and other contracts. ASU 2020-04 provides optional expedients and exceptions for applying GAAP to contracts, hedging relationships and other transactions impacted by reference rate reform. If certain criteria are met, an entity will not be required to remeasure or reassess contracts impacted by reference rate reform. Additionally, changes to the critical terms of a hedging relationship affected by reference rate reform will not require entities to de-designate the relationship if certain requirements are met. The expedients and exceptions provided by the amendments do not apply to contract modifications made and hedging relationships entered into or evaluated after December 31, 2022, with certain exceptions. The amendments are effective for contract modifications made between March 12, 2020 and December 31, 2022. The standard may be elected and applied as reference rate reform unfolds. The Company is currently evaluating the potential impact of ASU 2020-04 on its consolidated financial statements.

**CUNA MUTUAL HOLDING COMPANY AND SUBSIDIARIES**Notes to Consolidated Financial Statements  
(\$ in 000s)**Note 3: Investments****Debt Securities**

The amortized cost, gross unrealized gains and losses, credit loss allowance, and estimated fair values of debt securities at December 31, 2020 are as follows:

	Amortized Cost	Gross Unrealized		Credit Loss Allowance	Estimated Fair Value
		Gains	Losses		
Available for sale securities					
U.S. government and agencies	\$ 301,571	\$ 34,367	\$ (29)	\$ -	\$ 335,909
States and political subdivisions	1,152,361	159,278	(327)	-	1,311,312
Foreign government securities	82,764	2,020	(1,060)	-	83,724
Domestic corporate securities	8,032,334	983,654	(12,500)	(2,492)	9,000,996
Mortgage-backed securities					
Residential mortgage-backed	785,999	42,200	(31)	(258)	827,910
Commercial mortgage-backed	982,507	54,298	(1,590)	-	1,035,215
Other structured securities	1,819,867	22,507	(9,300)	(183)	1,832,891
Foreign corporate securities	2,420,009	247,917	(9,910)	(2,146)	2,655,870
<b>Total available for sale securities</b>	<b>15,577,412</b>	<b>1,546,241</b>	<b>(34,747)</b>	<b>(5,079)</b>	<b>17,083,827</b>
Trading securities <sup>1</sup>					
Domestic corporate securities	39,872	2,761	-	-	42,633
Foreign corporate securities	4,996	418	-	-	5,414
<b>Total trading securities</b>	<b>44,868</b>	<b>3,179</b>	<b>-</b>	<b>-</b>	<b>48,047</b>
<b>Total debt securities</b>	<b>\$ 15,622,280</b>	<b>\$ 1,549,420</b>	<b>\$ (34,747)</b>	<b>\$ (5,079)</b>	<b>\$ 17,131,874</b>

<sup>1</sup>Gains and losses on trading securities are included in net realized investment gains (losses) on the consolidated statements of operations and comprehensive income (loss).

**CUNA MUTUAL HOLDING COMPANY AND SUBSIDIARIES**Notes to Consolidated Financial Statements  
(\$ in 000s)

The amortized cost, gross unrealized gains and losses, and estimated fair values of debt securities at December 31, 2019 are as follows:

	Amortized Cost	Gross Unrealized		Estimated Fair Value
		Gains	Losses	
Available for sale securities				
U.S. government and agencies	\$ 343,953	\$ 10,564	\$ (149)	\$ 354,368
States and political subdivisions	1,157,138	114,472	(932)	1,270,678
Foreign government securities	77,246	1,093	(989)	77,350
Domestic corporate securities	7,422,751	475,818	(16,356)	7,882,213
Mortgage-backed securities				
Residential mortgage-backed	794,708	26,146	(572)	820,282
Commercial mortgage-backed	796,156	20,084	(2,499)	813,741
Other structured securities	1,189,685	6,659	(7,836)	1,188,508
Foreign corporate securities	2,218,451	116,210	(4,809)	2,329,852
Total available for sale securities	14,000,088	771,046	(34,142)	14,736,992
Trading securities <sup>1</sup>				
Domestic corporate securities	38,492	1,638	-	40,130
Foreign corporate securities	8,998	246	-	9,244
Total trading securities	47,490	1,884	-	49,374
Total debt securities	\$ 14,047,578	\$ 772,930	\$ (34,142)	\$ 14,786,366

<sup>1</sup> Gains and losses on trading securities are included in net realized investment gains (losses) on the consolidated statements of operations and comprehensive income (loss).

**CUNA MUTUAL HOLDING COMPANY AND SUBSIDIARIES**Notes to Consolidated Financial Statements  
(\$ in 000s)

The amortized cost, net of credit loss allowances, and estimated fair values of investments in debt securities at December 31, 2020, by contractual maturity, are shown below. Expected maturities may differ from contractual maturities because certain borrowers have the right to call or prepay obligations with or without call or prepayment penalties. Due to the potential for prepayment on mortgage-backed and other structured securities, such securities have not been displayed in the table below by contractual maturity.

	<b>Amortized Cost, Net of Credit Loss Allowance</b>	<b>Estimated Fair Value</b>
Due in one year or less	\$ 387,707	\$ 390,177
Due after one year through five years	2,620,072	2,814,695
Due after five years through ten years	4,860,997	5,386,669
Due after ten years	4,165,131	4,844,317
Mortgage-backed securities		
Residential mortgage-backed	785,999	827,910
Commercial mortgage-backed	982,507	1,035,215
Other structured securities	1,819,867	1,832,891
<b>Total debt securities</b>	<b>\$ 15,622,280</b>	<b>\$ 17,131,874</b>

**Equity Securities**

The cost, gross unrealized gains and losses, and estimated fair values of equity securities which are carried at fair value at December 31 are as follows:

	<b>Cost</b>	<b>Gross Unrealized Gains</b>	<b>Losses</b>	<b>Estimated Fair Value</b>
2020	\$ 182,680	\$ 19,371	\$ (10,823)	\$ 191,228
2019	151,773	13,848	(3,179)	162,442

All investments with unrealized losses included in net realized investment gains (losses) are still owned at December 31, 2020.

The Company owns certain equity securities without readily determinable values for which the Company made an election to hold such securities at cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer. Observable price changes resulting in upward or downward adjustments, as applicable, are obtained from the prices of newly issued securities or sales of existing securities. Impairments are based on the Company's internally developed fair value compared to book value.

**CUNA MUTUAL HOLDING COMPANY AND SUBSIDIARIES**Notes to Consolidated Financial Statements  
(\$ in 000s)

The following table shows the changes in carrying value of equity securities without readily determinable fair values:

	2020	2019
Carrying value at January 1	\$ 96,236	\$ 41,315
Add: Additional investments	21,808	38,654
Add: Upward adjustments	27,647	19,002
Less: Impairments	(3,723)	(2,735)
Less: Downward adjustments	(3,589)	-
<b>Carrying value at December 31</b>	<b>\$ 138,379</b>	<b>\$ 96,236</b>

The cumulative upwards adjustments, downward adjustments and impairments for equity securities without readily determinable fair values are \$47,669, \$3,589 and \$7,958, for 2020, 2019 and 2018, respectively.

***Mortgage Loans***

At December 31, 2020, the commercial mortgage loan portfolio had an average remaining life of 6.0 years, with all principal due prior to 2051. The Company limits its concentrations of credit risk by diversifying its mortgage loan portfolio so that loans made in any one major metropolitan area are not greater than 20% of the aggregate mortgage loan portfolio balance. No loan to a single borrower represented more than 1.1% of the aggregate mortgage loan portfolio balance.

The Company's mortgage loans are located throughout the United States. The following table identifies states with greater than 5% of the commercial mortgage portfolio at December 31:

	2020	2019
California	21.1%	19.4%
Texas	7.0	7.7
New York	6.0	*
Wisconsin	5.6	5.8
Washington	5.5	5.6
Florida	5.3	6.2
Illinois	5.2	5.5

\*Amount is below 5%

**CUNA MUTUAL HOLDING COMPANY AND SUBSIDIARIES**Notes to Consolidated Financial Statements  
(\$ in 000s)

The types of properties collateralizing the commercial mortgage loans at December 31 are as follows:

	2020	2019
Multi-family	32.8%	31.4%
Industrial	26.8	27.4
Retail	21.5	24.3
Office	14.4	13.1
Other	4.5	3.8
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>

There were no restructures in 2020 or 2019 that were considered troubled debt restructurings and at December 31, 2020 and 2019, the Company had no commitments to lend additional funds to mortgagors whose existing mortgage terms have been restructured in a troubled debt restructuring. The mortgage loan portfolio is current at December 31, 2020 and 2019. At December 31, 2020 and 2019, there were no loans in default status.

The Company's process for determining past due or delinquency status begins when a payment date is missed. The Company places loans on nonaccrual status when it is probable that income is uncollectible. There were no mortgage loans in nonaccrual status at December 31, 2020 or 2019. Mortgage loans deemed uncollectible are written off against the allowance for credit losses. The allowance is also adjusted for any subsequent recoveries.

The following table shows the changes in allowance for credit losses on mortgage loans:

	2020
Balance as of January 1	\$ -
Cumulative effect of change in accounting for current expected credit losses	10,998
Net increase related to expected credit losses	892
<b>Balance as of December 31</b>	<b>\$ 11,890</b>

The Company measures and assesses the credit quality of mortgage loans by using loan to value and debt service coverage ratios. The loan to value ratio compares the principal amount of the loan to the fair value of the underlying property collateralizing the loan and is commonly expressed as a percentage. Loan to value ratios greater than 100% indicate that the principal amount is greater than the collateral value. Therefore, all else being equal, a lower loan to value ratio generally indicates a higher quality loan. The debt service coverage ratio compares a property's net operating income to its debt service payments. Debt service coverage ratios of less than 1.0 indicate that property operations do not generate enough income to cover its current debt payments. Therefore, a higher debt service coverage ratio generally indicates a higher quality loan. The loan to value and debt service coverage ratios were updated as of December 31, 2020 and 2019.



**CUNA MUTUAL HOLDING COMPANY AND SUBSIDIARIES**Notes to Consolidated Financial Statements  
(\$ in 000s)

Loan to value and debt service coverage ratios were as follows at December 31:

Loan to Value	2020		2019	
	Principal Amount	Average Debt Service Coverage Ratio	Principal Amount	Average Debt Service Coverage Ratio
Less than 65%	\$ 2,347,702	2.49	\$ 2,171,241	2.45
65% to 74%	291,430	1.84	278,616	1.66
75% to 100%	68,117	1.50	38,162	1.49
<b>Total mortgage loans</b>	<b>\$ 2,707,249</b>	<b>2.43</b>	<b>\$ 2,488,019</b>	<b>2.38</b>

Loan to value and debt service coverage ratios by vintage year are as follows at December 31:

Origination Year	2020						Total
	Loan to Value Less than 65%	Debt-Service Coverage Ratio	Loan to Value 65% to 74%	Debt-Service Coverage Ratio	Loan to Value 75% to 100%	Debt-Service Coverage Ratio	
2020	\$ 432,520	2.67	\$ 8,270	1.37	\$ 10,386	1.68	\$ 451,176
2019	271,477	2.49	146,522	2.03	32,188	1.66	450,187
2018	242,574	2.44	58,001	1.88	8,610	1.30	309,185
2017	271,310	2.41	37,750	1.80	3,709	1.21	312,769
2016	210,934	2.88	17,038	2.12	-	-	227,972
Prior	919,208	2.41	23,848	1.46	12,904	1.42	955,960
<b>Total</b>	<b>\$ 2,348,023</b>	<b>2.49</b>	<b>\$ 291,429</b>	<b>1.84</b>	<b>\$ 67,797</b>	<b>1.50</b>	<b>\$ 2,707,249</b>

**CUNA MUTUAL HOLDING COMPANY AND SUBSIDIARIES**Notes to Consolidated Financial Statements  
(\$ in 000s)**Limited Partnerships**

The carrying values of limited partnerships by type were as follows at December 31:

	2020	2019
Energy	\$ 114,435	\$ 154,091
Mezzanine	628,406	543,605
Private equity	720,029	633,071
Real estate	34,639	37,851
<b>Total limited partnerships</b>	<b>\$ 1,497,509</b>	<b>\$ 1,368,618</b>

The Company made additional investments in limited partnerships of \$296,356, \$360,853, and \$298,630 in 2020, 2019, and 2018, respectively. See Note 13, Commitments and Contingencies, for additional information regarding the Company's funding commitments to limited partnerships.

The limited partnerships owned were designed to be liquidated after full funding, generally ten to twelve years, at the discretion of the general partners, and investors do not have the option to redeem their interests. For the Company's investments in limited partnerships, the majority of liquidations are expected to occur between 2021 and 2033.

**Other Invested Assets**

Other invested assets are recorded at amortized cost, unless otherwise indicated in the table below. Other invested assets as of December 31 are as follows:

	2020	2019
Low income housing tax credit investments	\$ 86,363	\$ 33,626
FHLB restricted stock, at cost	58,421	49,665
Investments receivable	5,832	3,019
Short-term investments	2,991	23,631
Margin deposits	2,738	5,080
Real estate, at cost less accumulated depreciation	2,439	2,418
Student loans, at fair value	-	5,611
<b>Total other invested assets</b>	<b>\$ 158,784</b>	<b>\$ 123,050</b>

The number of remaining years of unexpired tax credits related to LIHTC ranged from 9 to 11 years as of December 31, 2020. The Company expects to hold these investments until 2029 to 2031. The net amount of LIHTC, cost amortization and other tax benefits recognized during 2020, 2019 and 2018 was \$4,532, \$5,024 and \$1,177, respectively; the full amount was recognized as a component of income tax expense in the consolidated statements of operations and comprehensive income (loss) for the years ended December 31, 2020, 2019 and 2018.

**CUNA MUTUAL HOLDING COMPANY AND SUBSIDIARIES**Notes to Consolidated Financial Statements  
(\$ in 000s)**Net Investment Income**

Sources of net investment income for the years ended December 31 are summarized as follows:

	2020	2019	2018
Gross investment income (loss):			
Debt securities, available for sale and trading	\$539,638	\$524,908	\$495,076
Equity securities	9,925	7,528	5,383
Mortgage loans	116,567	104,448	95,241
Policy loans	7,613	7,383	7,093
Limited partnerships	49,530	80,479	147,764
Derivative financial instruments	1,315	1,353	679
Short-term investments and other	10,116	12,712	17,864
Total gross investment income	734,704	738,811	769,099
Less: Investment expenses	(31,119)	(28,843)	(28,096)
Net investment income	\$703,585	\$709,968	\$741,003

Limited partnerships generally carry their investments at fair value. Changes in fair value are a component of the results of operations reported by the partnerships and are therefore included in the Company's recorded share of income.

**Accrued Investment Income**

The Company excludes accrued interest receivable from the amortized cost basis of mortgage loans and debt securities. Accrued investment income is written off through impairment losses at the time the debtor defaults or is expected to default on interest payments. Accordingly, there is no allowance for credit losses on accrued interest income. Components of accrued investment income as of December 31 are shown in the table below.

	2020	2019
Debt securities	\$ 121,837	\$ 120,328
Mortgage loans	8,067	8,101
Equity securities	1,087	275
Other	8,597	8,881
Total accrued investment income	\$ 139,588	\$ 137,585

**CUNA MUTUAL HOLDING COMPANY AND SUBSIDIARIES**Notes to Consolidated Financial Statements  
(\$ in 000s)**Net Realized Investment Gains (Losses)**

Net realized investment gains (losses) for the years ended December 31 are summarized as follows:

	2020	2019	2018
Debt securities, available for sale:			
Gross gains on sales	\$ 28,222	\$ 28,730	\$ 4,738
Gross losses on sales	(3,889)	(6,358)	(8,029)
Other	1,637	(1,791)	271
Impairment losses	(5,015)	(987)	(2,729)
Debt securities, trading:			
Other	1,295	1,910	(294)
Equity securities:			
Gross gains on sales	6,860	21,361	1,653
Gross losses on sales	(2,464)	(129)	(275)
Other	6,718	303	38
Impairment losses	(3,400)	(2,735)	(1,500)
Unrealized gains (losses)	24,604	29,322	(7,784)
Mortgage loans:			
Impairment losses	(892)	-	-
Equity in unconsolidated affiliates:			
Gross gains on sales	91	2,420	3,083
Limited partnerships:			
Impairment losses	(2,867)	(2,889)	-
Derivative financial instruments	105,319	270,577	(99,611)
Derivative financial instruments embedded	(220,277)	(307,876)	48,269
Student loans receivable	258	(1,171)	(572)
Real estate:			
Gross gains on sales	-	-	5,647
Gross losses on sales	-	(1,298)	-
Other	(263)	-	(977)
Impairment losses	-	(107)	(264)
Other:			
Other	(223)	(412)	(41)
Impairment losses	-	-	(5,000)
<b>Net realized investment gains (losses)</b>	<b>\$ (64,286)</b>	<b>\$ 28,870</b>	<b>\$ (63,377)</b>

Proceeds from the sale of debt securities were \$452,354, \$1,049,621 and \$579,191 in 2020, 2019 and 2018, respectively. Proceeds from the sale of equity securities were \$43,787, \$36,675 and \$9,294 in 2020, 2019 and 2018, respectively.

In 2014, the Company sold its 50% ownership interest in CMG Mortgage Insurance Company ("CMG MI") and CMG Mortgage Assurance Company, affiliated entities that offered residential mortgage guaranty insurance and insurance policies on second mortgages for loans originated by credit unions. As a result of the sale, the Company established a \$40,412 asset for contingent future payments in other assets based on an estimated discounted cash

## **CUNA MUTUAL HOLDING COMPANY AND SUBSIDIARIES**

Notes to Consolidated Financial Statements  
(\$ in 000s)

flow analysis. The asset for contingent future payments was based on the performance of inforce policies, which were under CMG MI at the time of sale, over the six-year post-sale period, as defined in the purchase agreement. The Company collected the remaining \$3,275 in 2020. There is no asset for contingent payment related to the sale CMG MI as of December 31, 2020.

### ***Impairments of Available for Sale Debt Securities***

Investment securities are reviewed for impairment on an ongoing basis. The Company creates a watchlist of securities based primarily on the fair value of an investment security relative to its amortized cost basis. When the fair value drops below the Company's amortized cost basis, the Company monitors the security for impairment. The determination of impairment requires significant judgment on the part of the Company and depends on several factors, including, but not limited to:

- The existence of any plans to sell the investment security.
- The underlying reason for the decline in fair value (credit concerns, interest rates, etc.).
- The financial condition and near-term prospects of the issuer/borrower, including the ability to meet contractual obligations, relevant industry trends and conditions and cash flow analysis.
- The Company's intent and ability to retain the investment for a period of time sufficient to allow for an anticipated recovery in fair value.
- The Company's ability to recover all amounts due according to the contractual terms of the agreements.
- The Company's collateral position, in the case of bankruptcy or restructuring.

A debt security is considered impaired when the fair value is less than the amortized cost basis and its value is not expected to recover through the Company's anticipated holding period of the security. If a credit loss exists, but the Company does not intend to sell the impaired debt security and is not more likely than not to be required to sell before recovery, it is required to bifurcate the impairment into the loss that is attributable to credit and non-credit related loss. The credit portion of the impairment is the difference between the present value of the expected future cash flows and amortized cost and is limited to the difference between the fair value and amortized cost. Only the estimated credit loss amount is recognized as an allowance in net realized investment gains (losses), with the remainder of the loss amount recognized in other comprehensive income (loss). If the Company intends to sell the security or if it is more likely than not that the Company will be required to sell before anticipated recovery in value, the Company records a realized loss equal to the difference between the amortized cost and fair value. The fair value of the impaired security becomes its new cost basis.

For securitized debt securities, the Company considers factors including, but not limited to, commercial and residential property changes in value that vary by property type and location and average cumulative collateral loss rates that vary by vintage year. These assumptions require the use of significant management judgment and include the probability of issuer default and estimates regarding timing and amount of expected recoveries. In addition, projections of expected future debt security cash flows may change based upon new information regarding the performance of the issuer and/or underlying collateral.

For certain securitized financial assets with contractual cash flows, the Company is required to periodically update its best estimate of cash flows over the life of the security. If the fair value of a securitized financial asset is less than its cost or amortized cost and there has been a decrease in the present value of the estimated cash flows since the last revised estimate, considering both timing and amount, an impairment charge is recognized. The Company also considers its intent and ability to retain a temporarily impaired security until recovery. Estimating future cash flows involves judgment and includes both quantitative and qualitative factors. Such determinations incorporate various information and assessments regarding the future performance of the underlying collateral. In addition, projections of expected future cash flows may change based upon new information regarding the performance of the underlying collateral.

**CUNA MUTUAL HOLDING COMPANY AND SUBSIDIARIES**Notes to Consolidated Financial Statements  
(\$ in 000s)

A rollforward of the allowance for credit losses by available for sale debt security type is presented in the following table:

	Foreign Corporate Securities	Domestic Corporate Securities	Residential Mortgage- Backed Securities	Other Structured Securities	Total
Balance as of January 1, 2020	\$ -	\$ -	\$ -	\$ -	\$ -
Net increase related to expected credit losses	2,146	2,492	258	183	5,079
Ending balance at December 31, 2020	\$ 2,146	\$ 2,492	\$ 258	\$ 183	\$ 5,079

A rollforward of the amount of the credit component of impairment recognized in other comprehensive income (loss) related to available for sale debt securities is presented in the following table:

	2020	2019	2018
Beginning balance of credit losses on debt securities at January 1	\$(13,123)	\$(24,134)	\$(29,470)
Additions for credit impairments recognized on			
Securities not previously impaired	(4,332)	(824)	(1,274)
Securities previously impaired	(68)	-	(9,895)
Reductions for credit impairments previously recognized			
Securities that matured or were sold during the period	11,931	11,820	16,225
Securities with an increase in expected cash flows	12	15	280
Ending balance at December 31	\$ (5,580)	\$(13,123)	\$(24,134)

Management believes it has made an appropriate provision for impaired securities owned at December 31, 2020. As a result of the subjective nature of these estimates, however, additional provisions may subsequently be determined to be necessary as new facts emerge and a greater understanding of economic trends develops. Consistent with the Company's past practices, additional impairment will be recorded as appropriate and as determined by the Company's regular monitoring procedures of additional facts. In light of the variables involved, such additional impairment charges could be significant.

**CUNA MUTUAL HOLDING COMPANY AND SUBSIDIARIES**Notes to Consolidated Financial Statements  
(\$ in 000s)**Net Unrealized Investment Gains (Losses)**

The components of net unrealized investment gains (losses) and shadow adjustments included in accumulated other comprehensive income (loss) at December 31 were as follows:

	2020	2019	2018
Debt securities, available for sale	\$ 1,511,494	\$ 736,904	\$ (146,481)
Derivatives	20,667	15,681	7,353
Total net unrealized investment gains (losses) included in accumulated other comprehensive income (loss)	1,532,161	752,585	(139,128)
Deferred policy acquisition cost adjustments	(86,899)	(54,572)	20,122
Unrealized shadow loss recognition	(130,849)	-	-
Unearned premium adjustment	94	(18,006)	(1,222)
Other	(2,701)	(291)	(4,637)
Total shadow adjustments included in accumulated other comprehensive income (loss)	(220,355)	(72,869)	14,263
Deferred income taxes	(275,325)	(146,065)	25,511
Net unrealized investment gains (losses) in accumulated other comprehensive income (loss)	\$ 1,036,481	\$ 533,651	\$ (99,354)

**CUNA MUTUAL HOLDING COMPANY AND SUBSIDIARIES**Notes to Consolidated Financial Statements  
(\$ in 000s)

Information regarding the Company's debt securities with unrealized losses at December 31, 2020 is presented below, segregated between those that have been in a continuous unrealized loss position for less than twelve months and those that have been in a continuous unrealized loss position for twelve or more months.

	Months in Unrealized Loss Position				Total		Unrealized Credit Losses
	Less Than Twelve Months		Twelve Months or Greater		Fair Value	Unrealized Loss	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss			Fair Value
<b>Debt Securities</b>							
U.S. government and agencies	\$ 17,143	\$ (29)	\$ -	\$ -	\$ 17,143	\$ (29)	\$ -
States and political subdivisions	17,738	(124)	7,945	(203)	25,683	(327)	-
Foreign government securities	-	-	11,233	(1,060)	11,233	(1,060)	-
Domestic corporate securities	255,677	(10,989)	41,162	(4,003)	296,839	(14,992)	(1,229)
Mortgage-backed securities							
Residential mortgage-backed	64,140	(269)	7,505	(20)	71,645	(289)	-
Commercial mortgage-backed	82,604	(1,098)	25,004	(492)	107,608	(1,590)	-
Other structured securities	390,905	(4,201)	538,623	(5,282)	929,528	(9,483)	-
Foreign corporate securities	120,199	(8,769)	23,507	(3,287)	143,706	(12,056)	(78)
<b>Total of debt securities</b>	<b>\$ 948,406</b>	<b>\$ (25,479)</b>	<b>\$ 654,979</b>	<b>\$ (14,347)</b>	<b>\$1,603,385</b>	<b>\$ (39,826)</b>	<b>\$ (1,307)</b>

At December 31, 2020, the Company owned 459 debt securities with a fair value of \$1,603,385 in an unrealized investment loss position. Of these, 177, with a fair value of \$654,979 have been in an unrealized loss position for twelve or more months. The \$14,347 unrealized loss for debt securities with a loss period twelve months or greater represents a 2.1% price impairment of amortized cost. The price impairment on the remaining 282 debt securities is 2.6% of amortized cost. The total fair value of debt securities with unrealized losses at December 31, 2020 and which are rated investment grade, is \$1,438,659 or 89.7% of the total fair value of all debt securities in an unrealized loss position. For these purposes, "investment grade" is defined by the Company to be securities rated BBB or greater.



**CUNA MUTUAL HOLDING COMPANY AND SUBSIDIARIES**Notes to Consolidated Financial Statements  
(\$ in 000s)

Information regarding the Company's debt with unrealized losses at December 31, 2019 is presented below, segregated between those that have been in a continuous unrealized loss position for less than twelve months and those that have been in a continuous unrealized loss position for twelve or more months.

	Months in Unrealized Loss Position						Unrealized OTTI Losses
	Less Than Twelve Months		Twelve Months or Greater		Total		
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	
<b>Debt Securities</b>							
U.S. government and agencies	\$ 24,802	\$ (149)	\$ -	\$ -	\$ 24,802	\$ (149)	\$ -
States and political subdivisions	74,944	(784)	11,505	(148)	86,449	(932)	-
Foreign government securities	29,014	(989)	-	-	29,014	(989)	-
Domestic corporate securities	398,784	(4,547)	158,625	(11,809)	557,409	(16,356)	(6,247)
Mortgage-backed securities							
Residential mortgage-backed	139,579	(464)	30,943	(108)	170,522	(572)	-
Commercial mortgage-backed	268,979	(2,499)	-	-	268,979	(2,499)	-
Other structured securities	598,216	(4,272)	244,722	(3,564)	842,938	(7,836)	-
Foreign corporate securities	127,698	(1,709)	79,388	(3,100)	207,086	(4,809)	(541)
<b>Total of debt securities</b>	<b>\$ 1,662,016</b>	<b>\$ (15,413)</b>	<b>\$ 525,183</b>	<b>\$ (18,729)</b>	<b>\$ 2,187,199</b>	<b>\$ (34,142)</b>	<b>\$ (6,788)</b>

At December 31, 2019, the Company owned 399 debt securities with a fair value of \$2,187,199 in an unrealized investment loss position. Of these, 108, with a fair value of \$525,183 have been in an unrealized loss position for twelve or more months. The \$18,729 unrealized loss for debt securities with a loss period twelve months or greater represents a 3.4% price impairment of amortized cost. The price impairment on the remaining 291 debt securities is 0.9% of amortized cost. The total fair value of debt securities with unrealized losses at December 31, 2019 and which are rated investment grade, is \$2,038,681 or 93.2% of the total fair value of all debt securities in an unrealized loss position. For these purposes, "investment grade" is defined by the Company to be securities rated BBB or greater.

## **CUNA MUTUAL HOLDING COMPANY AND SUBSIDIARIES**

Notes to Consolidated Financial Statements  
(\$ in 000s)

### ***Investment Credit Risk***

The Company maintains a diversified investment portfolio including issuer, sector and geographic stratification, where applicable, and has established exposure limits, diversification standards, and review procedures to mitigate credit risk.

### ***Derivative Financial Instruments***

Consistent with its risk management strategy, the Company utilizes derivative financial instruments to help maximize risk-adjusted investment returns; reduce interest rate risks of long-term assets; manage exposure to various credit, currency and market risks; and manage exposure to various equity and fixed income market sectors. See related disclosures in Note 2, Summary of Significant Accounting Policies – Derivative Financial Instruments, and Fair Value Measurement – Recurring Basis in Note 4.

*Futures contracts:* Futures contracts (“futures”) are a commitment to purchase or deliver securities or currency in the future at a predetermined price or yield and are usually settled net in cash. When a futures contract is entered into, a margin account is established with the broker based on the requirements of the futures exchange.

The Company utilizes short positions in foreign currency futures to manage the foreign currency fair value risk exposure to investments denominated in foreign currencies. Foreign currency futures designated as hedging the foreign currency risk of foreign currency denominated long-term bonds are classified as foreign currency fair value hedges. The Company assesses the effectiveness of foreign currency fair value hedges based on the changes in fair value attributable to changes in spot prices. The change in the fair value of the foreign currency futures related to the changes in the difference between the spot price and the futures price is excluded from the assessment of hedge effectiveness and recognized in net income. Ineffectiveness could be present in a hedging relationship even if the assessment of effectiveness demonstrates an effective relationship. The ineffectiveness in a fair value hedge is calculated as the portion of the change in the fair value of hedging instrument that does not offset the change in the fair value of the hedged item.

Foreign currency futures that are not designated to specific foreign currency risk are not accounted for using hedge accounting. All changes in the fair value of undesignated foreign currency futures are recorded in net realized investment gains (losses).

The Company utilized short positions in equity futures to manage equity risk related to the MCA Funds. Equity futures are not accounted for using hedge accounting. All changes in the fair value of undesignated equity futures risk are recorded in net realized investment gains (losses).

*Cross currency swaps:* Cross currency swaps represent the Company’s agreement with other parties to exchange, at specified intervals, the difference between functional currency (U.S. Dollar) fixed or floating rate interest amounts and foreign currency fixed or floating rate interest amounts calculated by reference to agreed-upon notional principal amounts. Generally, exchanges of functional currency (U.S. Dollar) and foreign currency notional amounts are made at the initiation and maturity of the contract. The Company uses cross currency swaps to eliminate the variability in functional currency equivalent cash flows of foreign currency denominated debt instruments. The Company designates cross currency swaps as foreign currency cash flow hedges when the swap offsets the hedged transaction and is deemed highly effective. The changes in fair value of the cross currency swaps attributable to the hedged risk is recorded in accumulated other comprehensive income (loss) to the extent it is effective. The amounts in accumulated other comprehensive income (loss) will be reclassified into net income in the same periods during which the hedged forecasted transactions affect net income. If the cross currency swaps were not deemed effective, the change in fair value of the cross currency swaps would be recorded in net realized investment gains (losses).

## **CUNA MUTUAL HOLDING COMPANY AND SUBSIDIARIES**

Notes to Consolidated Financial Statements  
(\$ in 000s)

*Interest rate swaps:* The Company uses interest rate swaps to reduce market risks from changes in interest rates and to properly align the risk characteristics of assets and liabilities. When using interest rate swaps, the Company agrees with other parties to exchange, at specified intervals, the difference between fixed-rate and floating-rate interest amounts calculated by reference to an agreed notional principal amount. Generally, no cash is exchanged at the outset of the contract and no principal payments are made by either party. The individual interest rate swap contracts normally provide for a single net payment to be made by one counterparty at each due date.

Certain interest rate swaps are designated as cash flow hedges. The Company assesses the effectiveness of cash flow hedges based on a comparison of the change in fair value of the actual swap to the change in fair value of a "perfect" hypothetical swap which has terms that identically match the critical terms of the hedged items. Accordingly, the fair value of the actual swap is recorded at fair value on the balance sheet and accumulated other comprehensive income (loss) is adjusted to the lesser of the change in the actual swap's fair value or the hypothetical swap's fair value. If the amount in accumulated other comprehensive income (loss) is limited to the hypothetical swap's fair value, the difference, representing ineffectiveness is recorded in net realized investment gains (losses). The amounts in accumulated other comprehensive income (loss) will be reclassified into net income in the same periods during which the cash flows associated with the hedged forecasted transactions affect net income. If the hedges are not deemed highly effective, the change in fair value of the interest rate swaps would be recorded in net realized investment gains (losses) with no offset from the hedged items. All changes in the fair value of undesignated interest rate swaps are recorded in net realized investment gains (losses).

Certain interest rate swaps are designated as fair value hedges. The Company assesses the effectiveness of fair value hedges based on the changes in fair value attributable to changes in the benchmark interest rate. If the hedges are not deemed highly effective, the change in fair value of the interest rate swaps are recorded in net realized investment gains (losses) with no offset from the hedged item. All changes in the fair value of undesignated interest rate swaps is recorded in net realized investment gains (losses).

Interest rate swaps that are not designated to specific interest rate risk are not accounted for using hedge accounting. All changes in the fair value of undesignated interest rate swaps are recorded in net realized investment gains (losses).

*Options:* Options are contracts that grant the purchaser, for a premium payment, the right to receive an amount of money based on a specified formula within a specified period of time.

The Company purchases over-the-counter call and put options to mitigate the risk related to equity-indexed annuities, single premium deferred index annuities, single premium deferred modified guaranteed index annuities and flexible premium variable and index linked deferred annuities. These annuity contracts guarantee a return of principal to the customer and credit interest based on certain indices, primarily the S&P 500 Index. A portion of the deposit from each customer is invested primarily in fixed income securities. A portion of the premium is used to purchase the call and put options to hedge the potential changes in interest credited to the customer as a direct result of the changes in the related indices.

**CUNA MUTUAL HOLDING COMPANY AND SUBSIDIARIES**Notes to Consolidated Financial Statements  
(\$ in 000s)

The following table provides a summary of the fair value and notional amount of derivative financial instruments at December 31, 2020 and 2019.

	2020			2019		
	Notional Amount	Estimated Fair Value		Notional Amount	Estimated Fair Value	
		Assets	Liabilities		Assets	Liabilities
Derivatives designated as hedging instruments:						
Futures contracts	\$ -	\$ -	\$ -	\$ 8,103	\$ -	\$ (145)
Cross currency swaps	143,635	1,639	(6,770)	110,708	2,763	(1,248)
Interest rate swaps	115,000	23,116	(3,172)	115,000	10,945	(432)
Total derivatives designated as hedging instruments	258,635	24,755	(9,942)	233,811	13,708	(1,825)
Derivatives not designated as hedging instruments:						
Futures contracts	-	-	-	88,398	-	(908)
Purchased option contracts	7,069,277	1,031,964	-	5,829,021	569,971	-
Written option contracts	7,679,489	-	(756,265)	6,222,435	-	(348,989)
Total derivatives not designated as hedging instruments	14,748,766	1,031,964	(756,265)	12,139,854	569,971	(349,897)
Total derivative financial instruments	\$15,007,401	\$1,056,719	\$(766,207)	\$12,373,665	\$583,679	\$(351,722)

**CUNA MUTUAL HOLDING COMPANY AND SUBSIDIARIES**Notes to Consolidated Financial Statements  
(\$ in 000s)

The following table provides the statement of operations and comprehensive income (loss) classification and impact of derivatives used in qualifying and non-qualifying hedge relationships, excluding embedded derivatives, and the offset of the hedged item in an effective hedge for the years ended December 31:

	2020	2019	2018
Net realized investment gains (losses)			
Currency futures, fair value hedge	\$ 382	\$ (409)	\$ 686
Currency futures, ineffectiveness in hedge	29	-	(8)
Cross currency swaps - cash flow hedge	-	1,409	-
Currency futures, undesignated	54	218	307
Call options - undesignated	1,014	482	88
Interest rate swaps, fair value hedge	(2,201)	(2,063)	452
Equity futures, undesignated	(56,143)	(11,048)	-
Equity options, undesignated, single premium deferred modified guaranteed index annuity	10,629	404	-
Equity options, undesignated, single premium deferred index annuity	119,430	235,867	(83,032)
Equity options, undesignated, flexible premium variable and index linked deferred annuity	30,874	37,033	(14,928)
Equity options, undesignated	1,251	8,684	(3,176)
<b>Total net realized investment gains (losses) on derivatives</b>	<b>105,319</b>	<b>270,577</b>	<b>(99,611)</b>
Other comprehensive income (loss)			
Cross currency swaps, cash flow hedge	(6,646)	(1,612)	6,043
Interest rate swaps, cash flow hedge	11,632	9,940	(3,237)
<b>Total other comprehensive income (loss) on derivatives</b>	<b>4,986</b>	<b>8,328</b>	<b>2,806</b>
<b>Total derivative impact</b>	<b>\$110,305</b>	<b>\$278,905</b>	<b>\$ (96,805)</b>

**CUNA MUTUAL HOLDING COMPANY AND SUBSIDIARIES**Notes to Consolidated Financial Statements  
(\$ in 000s)

The following amounts were recorded on the consolidated balance sheets related to cumulative basis adjustments for fair value hedges as of December 31:

	2020		2019	
	Amortized Cost of the Hedged Asset (Liabilities)	Cumulative Fair Value Hedging Adjustment Included in the Amortized Cost of the Hedged Asset (Liabilities)	Amortized Cost of the Hedged Asset (Liabilities)	Cumulative Fair Value Hedging Adjustment Included in the Amortized Cost of the Hedged Asset (Liabilities)
Debt securities, available for sale, at fair value	\$ 56,796	\$ 1,871	\$ 54,580	\$ (331)

The following table presents the components of accumulated other comprehensive income (loss), before income tax, related to cash flow hedges:

	2020	2019	2018
Unrealized gain on derivatives included in accumulated other comprehensive income (loss) as of January 1	\$ 15,681	\$ 7,353	\$ 4,547
Gains deferred in accumulated other comprehensive income on the effective portion of cash flow hedges	4,986	8,328	2,806
Unrealized gain on derivatives included in accumulated other comprehensive income (loss) as of December 31	\$ 20,667	\$ 15,681	\$ 7,353

The Company is hedging its exposure to the variability in future cash flows for a maximum of 35 years on forecasted transactions excluding those transactions related to the payment of variable interest on existing instruments. None of these cash flow hedges were discontinued as a result of no longer being probable that the original forecasted transactions would occur by the end of the originally specified time period or within two months of that date.

The Company is exposed to credit losses in the event of nonperformance by the counterparties to its derivative instruments. The Company monitors the credit standing of the counterparties and has entered into cash collateral agreements based on the credit rating of the counterparty. The Company anticipates that the counterparties will be able to fully satisfy their obligations under the contracts given their high credit ratings and collateral requirements. The futures contracts are traded on a regulated exchange and, in the opinion of management, have low counterparty risk.

**CUNA MUTUAL HOLDING COMPANY AND SUBSIDIARIES**Notes to Consolidated Financial Statements  
(\$ in 000s)

The following table presents non-cash collateral received on margin accounts related to derivative transactions not recorded on the consolidated balance sheets as of December 31:

	<b>2020</b>	
U.S. government and agencies	\$	69,337
<b>Total margin account non-cash collateral</b>	<b>\$</b>	<b>69,337</b>

None of the non-cash collateral received on margin accounts related to derivative transactions has been pledged or sold as of December 31, 2020. There was no non-cash collateral as of December 31, 2019.

***Embedded Derivatives***

The Company issues products that contain embedded derivatives, including equity-indexed annuities, guarantees contained in variable annuity policies, single premium deferred index annuities, single premium deferred modified guaranteed index annuities and flexible premium variable and index linked deferred annuities. Such embedded derivatives are required to be separated from their host contracts and accounted for at fair value. The following table presents the fair value of embedded derivatives, which are reported as part of policyholder account balances in the consolidated balance sheets, as of December 31:

	<b>2020</b>		<b>2019</b>	
Single premium deferred index annuities	\$	940,374	\$	799,912
Flexible premium variable and index linked deferred annuities		239,797		147,328
Equity-indexed annuities		32,437		49,628
Guarantees on variable annuities		21,971		15,349
Single premium deferred modified guaranteed index annuities		65,784		4,762
<b>Total embedded derivatives</b>	<b>\$</b>	<b>1,300,363</b>	<b>\$</b>	<b>1,016,979</b>

The increase in fair value related to embedded derivatives was \$218,993, \$304,936, and \$52,040 for the years ended December 31, 2020, 2019, and 2018, respectively, and was recorded within net realized investment gains (losses).

***Asset Restrictions***

At December 31, 2020 and 2019, \$4,772,617 and \$3,526,860, respectively, of debt securities were restricted from corporate use related to the single premium deferred index annuity, single premium deferred modified guaranteed index annuity and flexible premium variable and index linked deferred annuity products. The Company had mortgage loans, equity securities, short-term investments, and cash and cash equivalents of \$745,383 and \$570,471 that were restricted as of December 31, 2020 and 2019, respectively, also related to the single premium deferred index annuity, single premium deferred modified guaranteed index annuity and flexible premium variable and index linked deferred annuity products.

**CUNA MUTUAL HOLDING COMPANY AND SUBSIDIARIES**Notes to Consolidated Financial Statements  
(\$ in 000s)***Assets on Deposit, Designated, and Pledged as Collateral***

Iowa law requires that assets equal to a life insurer's "legal reserve" must be designated for the Iowa Department of Commerce, Insurance Division ("Insurance Department"). The legal reserve is equal to the net present value of all outstanding policies and contracts involving life contingencies. The Company designates assets for the Insurance Department for the protection of all policyholders and for other regulatory jurisdictions who require cash and securities be deposited for the benefit of policyholders. The Company also has assets pledged to the FHLB and to the debtholders of the Company's collateralized fund obligations (see Note 11, Notes and Interest Payable).

The carrying value of assets on deposit, designated or pledged by designee as of December 31 are as follows:

	2020	2019
Iowa Insurance Department	\$ 10,696,591	\$ 9,791,276
Federal Home Loan Bank	1,573,505	1,150,250
Debtholders of collateralized fund obligations	217,478	269,885
Other regulatory jurisdictions	45,151	55,397
<b>Total assets on deposit, designated and pledged as collateral</b>	<b>\$ 12,532,725</b>	<b>\$ 11,266,808</b>

The carrying value of assets designated for Iowa as of December 31 are as follows:

	2020	2019
Debt securities and short-term investments	\$ 9,156,326	\$ 8,407,675
Mortgage loans	1,432,499	1,274,508
Contract loans	107,766	109,093
<b>Total assets designated</b>	<b>\$ 10,696,591</b>	<b>\$ 9,791,276</b>



**CUNA MUTUAL HOLDING COMPANY AND SUBSIDIARIES**Notes to Consolidated Financial Statements  
(\$ in 000s)**Securities Lending**

Securities on loan from the Company are included within debt securities, available for sale, on the consolidated balance sheets. The following table identifies the types of securities on loan as of December 31, 2020 and 2019.

	2020		2019	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Debt securities				
U.S. government and agencies	\$ 13,524	\$ 14,601	\$ 37,123	\$ 37,196
Domestic corporate securities	369,675	410,018	413,495	438,578
Foreign corporate securities	72,662	81,295	43,436	45,932
Foreign government securities	-	-	1,000	1,000
Equity securities	3,987	4,594	-	-
<b>Total securities on loan</b>	<b>\$ 459,848</b>	<b>\$ 510,508</b>	<b>\$ 495,054</b>	<b>\$ 522,706</b>

The collateral liability by security type and remaining length of the securities lending agreements were as follows for the year ended December 31, 2020:

	Remaining Length of Securities Lending Agreements		Total
	Open <sup>1</sup>		
Cash and cash equivalents	\$	525,003	\$ 525,003
U.S. government and agencies		1,490	1,490
<b>Total collateral liability</b>	<b>\$</b>	<b>526,493</b>	<b>\$ 526,493</b>

<sup>1</sup> The related loaned security could be returned to the Company during the next business day, which would require the Company to immediately return the cash collateral.

The collateral liability by security type and remaining length of the securities lending agreements were as follows for the year ended December 31, 2019.

	Remaining Length of Securities Lending Agreements		Total
	Open <sup>1</sup>		
Cash and cash equivalents	\$	531,617	\$ 531,617
U.S. government and agencies		8,623	8,623
<b>Total collateral liability</b>	<b>\$</b>	<b>540,240</b>	<b>\$ 540,240</b>

<sup>1</sup> The related loaned security could be returned to the Company during the next business day, which would require the Company to immediately return the cash collateral.

At December 31, 2020 and 2019, the total collateral on deposit from counterparties was equal to the Company's obligation to return collateral on deposit from counterparties. The collateral on deposit is unrestricted.

**CUNA MUTUAL HOLDING COMPANY AND SUBSIDIARIES**

Notes to Consolidated Financial Statements  
(\$ in 000s)

The amortized cost of the reinvested cash collateral by security type and maturity date of the invested asset was as follows for the year ended December 31, 2020.

	Remaining Time Until Maturity			Total
	30 Days or Less	31 to 60 Days	61 to 90 Days	
Reverse repurchase agreements	\$ 261,503	\$ 102,500	\$ 161,000	\$ 525,003

The amortized cost of the reinvested cash collateral by security type and maturity date of the invested asset was as follows for the year ended December 31, 2019.

	Remaining Time Until Maturity			Total
	30 Days or Less	31 to 60 Days	61 to 90 Days	
Reverse repurchase agreements	\$ 156,617	\$ 210,000	\$ 165,000	\$ 531,617

During 2020 and 2019, the Company had a maximum of \$587,979 and \$597,123 respectively, of securities on loan at any one time.

The Company earns income from the cash collateral or receives a fee from the borrower. Income related to the securities lending program was \$1,054, \$1,086 and \$1,049 for the years ended December 31, 2020, 2019 and 2018, respectively, and is included in net investment income within the consolidated statements of operations and comprehensive income (loss).

**Note 4: Fair Value**

The Company uses fair value measurements to record fair value of certain assets and liabilities and to estimate fair value of financial instruments not recorded at fair value but required to be disclosed at fair value. Certain financial instruments, such as insurance policy liabilities other than investment-type contracts and investments accounted for using the equity method, are excluded from the fair value disclosure requirements.

**Valuation Hierarchy**

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value of assets and liabilities into three broad levels. The Company has categorized its financial instruments, based on the degree of subjectivity inherent in the valuation technique, as follows:

- Level 1: Inputs are directly observable and represent quoted prices for identical assets or liabilities in active markets the Company has the ability to access at the measurement date.
- Level 2: All significant inputs are observable, either directly or indirectly, other than quoted prices included in Level 1, for the asset or liability. This includes: (i) quoted prices for similar instruments in

## **CUNA MUTUAL HOLDING COMPANY AND SUBSIDIARIES**

Notes to Consolidated Financial Statements  
(\$ in 000s)

active markets, (ii) quoted prices for identical or similar instruments in markets that are not active, (iii) inputs other than quoted prices that are observable for the instruments and (iv) inputs that are derived principally from or corroborated by observable market data by correlation or other means.

- Level 3: One or more significant inputs are unobservable and reflect the Company's estimates of the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk.

For purposes of determining the fair value of the Company's assets and liabilities, observable inputs are those inputs used by market participants in valuing financial instruments, which are developed based on market data obtained from independent sources. The Company uses prices and inputs that are current as of the measurement date. In some instances, valuation inputs used to measure fair value fall into different levels of the fair value hierarchy. The category level in the fair value hierarchy is determined based on the lowest level input that is significant to the fair value measurement in its entirety.

The hierarchy requires the use of market observable information when available for measuring fair value. The availability of observable inputs varies by investment.

### ***Valuation Process***

The Company is responsible for the determination of fair value and the supporting assumptions and methodologies. The Company gains assurance on the overall reasonableness and consistent application of valuation methodologies and inputs and compliance with accounting standards through the execution of various processes and controls designed to provide assurance that the Company's assets and liabilities are appropriately valued.

The Company has policies and guidelines that require the establishment of valuation methodologies and consistent application of such methodologies. These policies and guidelines govern the use of inputs and price source hierarchies and provide controls around the valuation processes. These controls include appropriate review and analysis of prices against market activity or indicators of reasonableness, approval of price source changes, price overrides, methodology changes and classification of fair value hierarchy levels. The valuation policies and guidelines are reviewed and updated as appropriate.

### ***Transfers Between Levels***

There were 47 transfers of debt securities totaling \$206,708 into Level 2 from Level 3 during the year ended December 31, 2020. The transfers into Level 2 occurred due to a change from a model using one or more significant inputs that were unobservable to a model using all significant inputs that were observable. There were 42 transfers of debt securities totaling \$269,293 into Level 3 from Level 2 during the year ended December 31, 2020. The transfers into Level 3 occurred due to a change to a model using one or more inputs that were unobservable.

There was one transfer totaling \$6,458 into Level 2 from Level 3 during the year ended December 31, 2019. The transfers into level 2 were other structured securities. The transfer into Level 2 occurred due to a change from a model using one or more significant inputs that were unobservable to a model using all significant inputs that were observable.

**CUNA MUTUAL HOLDING COMPANY AND SUBSIDIARIES**Notes to Consolidated Financial Statements  
(\$ in 000s)**Fair Value Measurement – Recurring Basis**

The following table summarizes the Company's assets and liabilities that are measured at fair value on a recurring basis as of December 31, 2020.

<b>Assets, at Fair Value</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Cash equivalents <sup>1</sup>	\$ 232,675	\$ -	\$ -	\$ 232,675
Debt securities				
U.S. government and agencies	-	335,909	-	335,909
States and political subdivisions	-	1,311,312	-	1,311,312
Foreign government securities	-	83,724	-	83,724
Domestic corporate securities	-	8,878,702	164,927	9,043,629
Mortgage-backed securities:				
Residential mortgage-backed	-	827,910	-	827,910
Commercial mortgage-backed	-	1,011,944	23,271	1,035,215
Other structured securities	-	551,158	1,281,733	1,832,891
Foreign corporate securities	-	2,496,521	164,763	2,661,284
Total debt securities	-	15,497,180	1,634,694	17,131,874
Equity securities	106,707	76,731	7,790	191,228
Short-term investments	2,991	-	-	2,991
Derivative assets	-	1,056,719	-	1,056,719
Securities lending assets	-	526,493	-	526,493
Separate account assets	-	2,336,122	-	2,336,122
<b>Total assets</b>	<b>\$ 342,373</b>	<b>\$ 19,493,245</b>	<b>\$ 1,642,484</b>	<b>\$ 21,478,102</b>

<b>Liabilities, at Fair Value</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Derivative liabilities	\$ -	\$ 766,207	\$ -	\$ 766,207
Derivatives embedded in annuity contracts	-	-	1,300,363	1,300,363
Securities lending liabilities	-	526,493	-	526,493
<b>Total liabilities</b>	<b>\$ -</b>	<b>\$ 1,292,700</b>	<b>\$ 1,300,363</b>	<b>\$ 2,593,063</b>

<sup>1</sup> Excludes cash of \$115,914 that is not subject to fair value accounting.

**CUNA MUTUAL HOLDING COMPANY AND SUBSIDIARIES**Notes to Consolidated Financial Statements  
(\$ in 000s)

The following table summarizes the Company's assets and liabilities that are measured at fair value on a recurring basis as of December 31, 2019.

<b>Assets, at Fair Value</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Cash equivalents <sup>1</sup>	\$ 96,309	\$ -	\$ -	\$ 96,309
Debt securities				
U.S. government and agencies	-	354,368	-	354,368
States and political subdivisions	-	1,270,678	-	1,270,678
Foreign government securities	-	77,350	-	77,350
Domestic corporate securities	-	7,862,625	59,718	7,922,343
Mortgage-backed securities:				
Residential mortgage-backed	-	650,607	169,675	820,282
Commercial mortgage-backed	-	777,939	35,802	813,741
Other structured securities	-	338,007	850,501	1,188,508
Foreign corporate securities	-	2,307,405	31,691	2,339,096
Total debt securities	-	13,638,979	1,147,387	14,786,366
Equity securities	58,081	59,746	44,615	162,442
Short-term investments	1,501	22,130	-	23,631
Student loans	-	-	5,611	5,611
Receivable for sale of unconsolidated affiliate	-	-	3,275	3,275
Derivative assets	-	583,679	-	583,679
Securities lending assets	-	540,240	-	540,240
Separate account assets	-	2,288,226	-	2,288,226
<b>Total assets</b>	<b>\$ 155,891</b>	<b>\$ 17,133,000</b>	<b>\$ 1,200,888</b>	<b>\$ 18,489,779</b>
<b>Liabilities, at Fair Value</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Derivative liabilities	\$ 177	\$ 351,545	\$ -	\$ 351,722
Derivatives embedded in annuity contracts	-	-	1,016,979	1,016,979
Securities lending liabilities	-	540,240	-	540,240
<b>Total liabilities</b>	<b>\$ 177</b>	<b>\$ 891,785</b>	<b>\$ 1,016,979</b>	<b>\$ 1,908,941</b>

<sup>1</sup> Excludes cash of \$95,914 that is not subject to fair value accounting.

**Determination of Fair Values**

The Company determines the estimated fair value of its investments using primarily the market approach and the income approach. The use of quoted prices and matrix pricing or similar techniques are examples of market approaches, while the use of discounted cash flow methodologies is an example of the income approach. A summary of valuation techniques for classes of financial assets and liabilities by fair value hierarchy level are as follows:

## **CUNA MUTUAL HOLDING COMPANY AND SUBSIDIARIES**

Notes to Consolidated Financial Statements  
(\$ in 000s)

### Level 1 Measurements

*Cash equivalents:* Consists of money market funds; valuation is based on the closing price as of the balance sheet date.

For all other Level 1 measurements, valuation is based on unadjusted quoted prices for identical assets in active markets that the Company can access.

*Equity securities:* Consists of U.S. and Canadian exchange traded common and preferred stocks.

*Short-term investments:* Consists of certificates of deposit.

*Derivative liabilities:* Consists of exchange traded derivatives (primarily futures and options) that are actively traded.

### Level 2 Measurements

For the majority of assets classified as Level 2 investments, the Company values the assets using third-party pricing sources, which generally rely on quoted prices for similar assets in markets that are active and observable market data. A portion of the domestic corporate securities' fair value is determined using matrix pricing.

*U.S. government and agencies:* U.S. Treasury securities and debentures issued by agencies of the U.S. government are valued based on observable inputs such as the U.S. Treasury yield curve, market indicated spreads and quoted prices for identical assets in markets that are not active and/or similar assets in markets that are active.

*States and political subdivisions:* Consists of municipal general obligation and revenue bonds for which pricing is determined based on observable inputs such as the U.S. Treasury yield curve, market indicated spreads by security rating and comparable trades in the municipal bond markets.

*Foreign government securities:* Consists primarily of Canadian and Australian sovereign and provincial debentures. Valued based on observable inputs such as the applicable market yield curve, market indicated spreads by security rating, and quoted prices for identical assets in markets that are not active and/or similar assets in markets that are active.

*Domestic corporate securities:* Valued based on observable inputs such as the U.S. Treasury yield curve, market indicated spreads by security rating and quoted prices for identical assets in markets that are not active and/or similar assets in markets that are active.

*Mortgage-backed securities (residential and commercial):* Valuation is principally based on observable inputs including quoted prices for similar assets in markets that are active and observable market data such as trades, bid price or spread, two-sided markets, benchmark curves, discount rates, derivative indices and loan level information.

*Other structured securities:* Valued based on observable inputs including quoted prices for identical or similar assets in markets that are not active.

*Foreign corporate securities:* Valued based on observable inputs such as the applicable, country-specific market yield curve, market indicated spreads by security rating and quoted prices for identical assets in markets that are not active and/or similar assets in markets that are active.

*Equity securities:* Consists of U.S., Canadian and European common and preferred stocks; valuation is based on observable inputs such as quoted prices for identical assets in markets that are not active and/or similar assets in markets that are active.

## CUNA MUTUAL HOLDING COMPANY AND SUBSIDIARIES

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*Short-term investments:* Consists of U.S. Treasury securities; valuation is based on the closing price as of the balance sheet date.

*Derivative assets and liabilities:* Consists of derivatives such as interest-rate swaps, options, currency forwards, equity futures and other over-the-counter derivatives. Valuation inputs having a significant effect on fair value include market quoted interest rates, market-implied volatility and other observable inputs regularly used by industry participants in the over-the-counter derivatives markets.

*Securities lending assets and liabilities:* Consists of reverse repurchase agreements and debt securities; valuation is based on the closing price for reverse repurchase agreements as of the balance sheet date and on observable inputs such as the U.S. Treasury yield curve and quoted prices for identical assets in markets that are not active and/or similar assets in markets that are active for debt securities as of the balance sheet date.

*Separate account assets:* Consists of mutual funds and unit investment trusts in which the contract holder could redeem its investment at NAV per share at the measurement date with the investee.

### Level 3 Measurements

Most of the Company's financial instruments classified as Level 3 include less liquid securities such as mortgage-backed securities, other structured securities, certain domestic and foreign corporate securities and other equity securities and derivatives embedded in annuity contracts.

*Domestic corporate securities and foreign corporate securities:* For the majority of domestic corporate and foreign corporate securities, valuations are obtained from an independent third-party broker without adjustment. The Company believes however, the types of inputs third parties may use would likely be similar to those used to price securities for which inputs are available to the Company, and therefore may include, but not be limited to, loss severity rates, constant default rates and credit spreads. For certain domestic corporate and foreign corporate securities in 2020 the Company used credit spreads of 1.80% to 3.80% obtained from an independent third-party broker and used without adjustment to develop the fair value using an internal model.

*Equity securities:* Consists primarily of private equity investments that are valued using internal appraisals that rely on unadjusted information obtained from general partners of the private equity investments.

*Mortgage-backed securities (residential and commercial):* Valuations are obtained from independent, third-party pricing sources without adjustment. The Company believes the types of inputs third parties may use would likely be similar to those used to price securities for which inputs are available to the Company, and therefore may include, but not be limited to, loss severity rates, constant prepayment speeds and rates, market spreads, constant default rates and counterparty credit spreads.

*Other structured securities:* For the majority of the other structured securities portfolio, valuations are obtained from independent, third-party pricing sources without adjustment. The Company believes the types of inputs third parties may use would likely be similar to those used to price securities for which inputs are available to the Company, and therefore may include, but not be limited to, loss severity rates, constant prepayment rates, constant default rates and counterparty credit spreads. For the remainder of the other structured securities portfolio, valuations are based on internal models, which include unobservable inputs such as market spreads and prepayment speeds.

Also, consists of valuations and/or spreads that are obtained from an independent, third-party broker without adjustment. The Company believes the types of inputs third parties may use would likely be similar to those used to price securities for which inputs are available to the Company, and therefore may include, but not be limited to, loss severity rates, constant default rates and credit spreads.

**CUNA MUTUAL HOLDING COMPANY AND SUBSIDIARIES**Notes to Consolidated Financial Statements  
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The following table presents information about significant unobservable inputs used in Level 3 for mortgage-backed securities and other structured securities measured at fair value developed by internal models as of December 31, 2020 and 2019:

Predominant Valuation Method	Significant Unobservable Input	Range of Values - Unobservable Input	
		2020	2019
<b>Mortgage-backed and other structured securities</b>			
Discounted cash flow	Market spreads	1.50% to 2.25%	1.05% to 6.23%
	Prepayment speeds	n/a	0 or 42 PSA prepayment speed assumption

*Student loans:* Valuation is determined using internal models based on discounted cash flow analyses, using average interest rates currently being offered by the Company's private lenders. In addition, the Company makes assumptions regarding the annual default rate, prepayment rate and credit spreads. Loans with similar characteristics are aggregated for purposes of the calculations. The unobservable inputs are default and prepayment rates. However, these rates have a nominal impact on fair value. Increases in these unobservable inputs, in isolation, will generally have an inverse correlation with the fair value measurement. In 2019, the Company discounted the student loans to 80.75% of the unpaid principal balance to reflect an estimate of the price that market participants would bid for the portfolio. In 2020, the Company sold its student loan portfolio.

*Receivable for sale of unconsolidated affiliate:* Consists of an asset for contingent future payments, which is included in other assets and receivables on the consolidated balance sheet, from the sale of CMG MI, which is valued based on an internal discounted cash flow model, using the unobservable inputs disclosed in the table below. The asset for contingent future payments is based on the performance of a block of inforce mortgage guaranty policies, which were issued by CMG MI prior to the sale, over the six-year post-sale earn-out period ending January 30, 2020, as defined in the purchase agreement. See Note 3, Investments, Net Realized Investment Gains (Losses) for details on the sale of CMG MI.

The following table presents information about significant unobservable inputs used at December 31, 2019:

Predominant Valuation Method	Significant Unobservable Input	2019	
<b>Receivable for sale of unconsolidated affiliate</b>			
Discounted cash flow	Discount rate		11%
	Net premiums earned	\$	7,953
	Loss and LAE ratio		61% to 62%
	Expense ratio		18% of net premiums earned



## **CUNA MUTUAL HOLDING COMPANY AND SUBSIDIARIES**

Notes to Consolidated Financial Statements  
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*Derivatives embedded in annuity contracts:* Valuation is determined using internal models. The Company formerly offered certain variable annuity products with guaranteed minimum benefit riders. The riders included guaranteed minimum withdrawal benefit (“GMWB”) riders and guaranteed minimum accumulation benefit (“GMAB”) riders. GMWB and GMAB riders are embedded derivatives, which are measured at fair value separately from the host variable annuity contract. Equity-indexed annuities, single premium deferred modified guaranteed index annuity, single premium deferred index annuities and flexible premium variable and index linked deferred annuities also contain embedded derivatives; the option is related to the performance of a stock index.

The fair value of GMWB and GMAB embedded derivatives is estimated using the present value of future benefits minus the present value of future fees using actuarial and capital market assumptions related to the projected cash flows over the expected lives of the contracts. The Company projects cash flows from the derivatives under multiple capital market scenarios using observable risk-free rates, then includes an adjustment for the Company’s own credit and risk margins for non-capital market inputs.

In estimating the fair value of the embedded derivatives of the equity-indexed annuity, single premium deferred index annuity, single premium deferred modified guaranteed index annuity and flexible premium variable and index linked deferred annuity, the Company attributes a present value to the embedded derivative equal to the discounted sum of the excess cash flows of the index related fund value over the minimum guaranteed fund value. The current year portion of the embedded derivative is adjusted for known market conditions. The discount factor at which the embedded derivative is valued contains an adjustment for the Company’s own credit and risk margins for unobservable non-capital market inputs.

The Company’s own credit adjustment is determined taking into consideration publicly available information relating to the Company’s debt as well as its claims paying ability.

These derivatives may be more costly than expected in volatile or declining equity markets. Changes in market conditions include, but are not limited to, changes in interest rates, equity indices, market volatility and foreign currency exchange rates. Changes in fair value may be impacted by changes in the Company’s own credit standing. Lastly, changes in actuarial assumptions regarding policyholder behavior and risk margins related to non-capital market inputs may result in significant fluctuations in the fair value of the derivatives that could materially affect net income.

## CUNA MUTUAL HOLDING COMPANY AND SUBSIDIARIES

Notes to Consolidated Financial Statements  
(\$ in 000s)

The following table presents information about significant unobservable inputs used in Level 3 embedded derivative liabilities measured at fair value developed by internal models as of December 31, 2020 and 2019:

Predominant Valuation Method	Significant Unobservable Input	Range of Values - Unobservable Input	
		2020	2019
<b>Guarantees on variable annuities</b>			
Stochastic modeling	Lapse rates, including risk margin	2% to 35%. Weighted average is 14.21%.	0% to 36%. Weighted average is 11.22%.
	Company's own credit margin	122-300 basis points add on to discount rate. Weighted average is 204 basis points.	121-152 basis points add on to discount rate. Weighted average is 140 basis points.
<b>Equity-Indexed annuities</b>			
Discounted cash flow	Lapse rates	1.0% to 4.5% with an excess lapse rate up to 98% at the end of the index period. Weighted average is 59.51%.	1% to 4.5% with an excess lapse rate up to 98% at the end of the index period. Weighted average is 33.35%.
	Company's own credit and risk margin	72-250 basis points add on to discount rate. Weighted average is 127 basis points.	71-102 basis points add on to discount rate. Weighted average is 91 basis points.
<b>Single premium deferred annuities</b>			
Discounted cash flow	Lapse rates	0.5% to 15% with an excess lapse rate at the end of the index period of 50% or 75%. Weighted average is 5.20%.	1% to 4% with an excess lapse rate at the end of the index period of 50% or 75%. Weighted average is 4.88%.
	Company's own credit and risk margin	72-250 basis points add on to discount rate. Weighted average is 121 basis points.	71-102 basis points add on to discount rate. Weighted average is 91 basis points.
<b>Flexible premium deferred annuities</b>			
Discounted cash flow	Lapse rates	0.5% to 10% with an excess lapse rate at the end of the index period of 5%-20%. Weighted average is 2.74%.	2% to 10% with an excess lapse rate at the end of the index period of 5%-20%. Weighted average is 2.56%.
	Company's own credit and risk margin	72-250 basis points add on to discount rate. Weighted average is 117 basis points.	71-102 basis points add on to discount rate. Weighted average is 90 basis points.

**CUNA MUTUAL HOLDING COMPANY AND SUBSIDIARIES**

Notes to Consolidated Financial Statements  
(\$ in 000s)

The following table is a continuation of information about significant unobservable inputs used in Level 3 embedded derivative liabilities measured at fair value developed by internal models as of December 31, 2020 and 2019:

Predominant Valuation Method	Significant Unobservable Input	Range of Values - Unobservable Input	
		2020	2019
<b>Single premium deferred modified guaranteed annuities</b>			
Discounted cash flow	Lapse rates	0.5% to 13% with an excess lapse rate at the end of the index period of 1%-2%. Weighted average is 0.5%.	0.5% to 13% with an excess lapse rate at the end of the index period of 1%-2%. Weighted average is 0.5%.
	Company's own credit and risk margin	72-250 basis points add on to discount rate. Weighted average is 121 basis points.	71-102 basis points add on to discount rate. Weighted average is 91 basis points.

**CUNA MUTUAL HOLDING COMPANY AND SUBSIDIARIES**Notes to Consolidated Financial Statements  
(\$ in 000s)**Changes in Level 3 Fair Value Measurement**

The following table sets forth the fair values of assets and liabilities classified as Level 3 within the fair value hierarchy at December 31, 2020:

	Balance January 1, 2020	Total Realized/Unrealized Gain (Loss) Included in:			Net Purchases, (Sales) and (Maturities)	Transfer into (out of) Level 3	Balance December 31, 2020 <sup>2</sup>
		Earnings <sup>1</sup>	Other Comprehensive Income (Loss)				
<b>Debt securities</b>							
Domestic corporate securities	\$ 59,718	\$ (800)	\$ (691)	\$ 14,617	\$ 92,083	\$ 164,927	
<b>Mortgage-backed securities</b>							
Residential mortgage-backed	169,675	1,531	948	(17,218)	(154,936)	-	
Commercial mortgage-backed	35,802	1,188	(1,340)	(6,454)	(5,925)	23,271	
Other structured securities	850,501	972	4,538	424,348	1,374	1,281,733	
Foreign corporate securities	31,691	22	(1,429)	4,490	129,989	164,763	
<b>Total debt securities</b>	<b>1,147,387</b>	<b>2,913</b>	<b>2,026</b>	<b>419,783</b>	<b>62,585</b>	<b>1,634,694</b>	
Equity securities	140,851	2,032	(665)	(38,191)	(96,237)	7,790	
Student loans	5,611	-	-	(5,611)	-	-	
Receivable for sale of unconsolidated affiliate	3,275	(3,275)	-	-	-	-	
<b>Total assets</b>	<b>\$ 1,297,124</b>	<b>\$ 1,670</b>	<b>\$ 1,361</b>	<b>\$ 375,981</b>	<b>\$ (33,652)</b>	<b>\$ 1,642,484</b>	
<b>Derivatives embedded</b>							
in annuity contracts	\$ 1,016,979	\$ 218,993	\$ -	\$ 64,391	\$ -	\$ 1,300,363	
<b>Total liabilities</b>	<b>\$ 1,016,979</b>	<b>\$ 218,993</b>	<b>\$ -</b>	<b>\$ 64,391</b>	<b>\$ -</b>	<b>\$ 1,300,363</b>	

<sup>1</sup> Included in net income is amortization of premium/discount, impairments, net realized gains and losses and lapses associated with embedded derivatives.

<sup>2</sup> There were no significant unrealized gains (losses) for the period included in net income attributable to the fair value relating to assets and liabilities classified as Level 3 that are still held at December 31, 2020.

**CUNA MUTUAL HOLDING COMPANY AND SUBSIDIARIES**Notes to Consolidated Financial Statements  
(\$ in 000s)

The following table provides the components of the items included in Level 3 net purchases, sales and maturities for 2020:

	Purchases	(Sales)	(Maturities)	Net Purchases, (Sales) and (Maturities)
Debt securities				
Domestic corporate securities	\$ 17,717	\$ (1,750)	\$ (1,350)	\$ 14,617
Mortgage-backed securities				
Residential mortgage-backed	-	-	(17,218)	(17,218)
Commercial mortgage-backed	-	-	(6,454)	(6,454)
Other structured securities	484,529	(10,598)	(49,583)	424,348
Foreign corporate securities	4,931	-	(441)	4,490
Total debt securities	507,177	(12,348)	(75,046)	419,783
Equity securities	4,410	(42,601)	-	(38,191)
Student loans	-	(5,611)	-	(5,611)
Total assets	\$ 511,587	\$ (60,560)	\$ (75,046)	\$ 375,981
Derivatives embedded in annuity contracts	\$ 146,939	\$ -	\$ (82,548)	\$ 64,391
Total liabilities	\$ 146,939	\$ -	\$ (82,548)	\$ 64,391

**CUNA MUTUAL HOLDING COMPANY AND SUBSIDIARIES**

 Notes to Consolidated Financial Statements  
 (\$ in 000s)

The following table sets forth the fair values of assets and liabilities classified as Level 3 within the fair value hierarchy at December 31, 2019:

	Balance January 1, 2019	Total Realized/Unrealized Gain (Loss) Included in:			Net Purchases, (Sales) and (Maturities)	Transfer into (out of) Level 3	Balance December 31, 2019 <sup>2</sup>
		Earnings <sup>1</sup>	Other Comprehensive Income (Loss)				
<b>Debt securities</b>							
Domestic corporate securities	\$ 79,530	\$ (1,029)	\$ (11,254)	\$ (7,529)	\$ -	\$ 59,718	
<b>Mortgage-backed securities</b>							
Residential mortgage-backed	106,868	4,739	3,965	54,103	-	169,675	
Commercial mortgage-backed	26,479	382	(153)	9,094	-	35,802	
Other structured securities	438,013	(112)	2,514	416,544	(6,458)	850,501	
Foreign corporate securities	16,377	-	968	14,346	-	31,691	
<b>Total debt securities</b>	<b>667,267</b>	<b>3,980</b>	<b>(3,960)</b>	<b>486,558</b>	<b>(6,458)</b>	<b>1,147,387</b>	
Equity securities	78,337	16,468	13,941	32,105	-	140,851	
Student loans	8,892	(1,171)	-	(2,110)	-	5,611	
Receivable for sale of unconsolidated affiliate	31,598	(28,323)	-	-	-	3,275	
<b>Total assets</b>	<b>\$ 786,094</b>	<b>\$ (9,046)</b>	<b>\$ 9,981</b>	<b>\$ 516,553</b>	<b>\$ (6,458)</b>	<b>\$ 1,297,124</b>	
<b>Derivatives embedded</b>							
in annuity contracts	\$ 589,215	\$ 304,936	\$ -	\$ 122,828	\$ -	\$ 1,016,979	
<b>Total liabilities</b>	<b>\$ 589,215</b>	<b>\$ 304,936</b>	<b>\$ -</b>	<b>\$ 122,828</b>	<b>\$ -</b>	<b>\$ 1,016,979</b>	

<sup>1</sup> Included in net income is amortization of premium/discount, impairments, net realized gains and losses and lapses associated with embedded derivatives.

<sup>2</sup> There were no significant unrealized gains (losses) for the period included in net income attributable to the fair value relating to assets and liabilities classified as Level 3 that are still held at December 31, 2019.

**CUNA MUTUAL HOLDING COMPANY AND SUBSIDIARIES**Notes to Consolidated Financial Statements  
(\$ in 000s)

The following table provides the components of the items included in Level 3 net purchases, sales and maturities for 2019:

	Purchases	Sales	Maturities	Net Purchases, (Sales) and (Maturities)
Debt securities				
Domestic corporate securities	\$ 23,979	\$ 19,808	\$ 11,700	\$ (7,529)
Mortgage-backed securities				
Residential mortgage-backed	87,821	8,141	25,577	54,103
Commercial mortgage-backed	27,000	7,000	10,906	9,094
Other structured securities	596,952	167,176	13,232	416,544
Foreign corporate securities	15,459	-	1,113	14,346
Total debt securities	751,211	202,125	62,528	486,558
Equity securities	57,245	24,146	994	32,105
Student loans	-	2,110	-	(2,110)
Total assets	\$ 808,456	\$ 228,381	\$ 63,522	\$ 516,553
Derivatives embedded in annuity contracts	\$ 155,910	\$ -	\$ 33,082	\$ 122,828
Total liabilities	\$ 155,910	\$ -	\$ 33,082	\$ 122,828

**Fair Value Measurements for Financial Instruments on a Nonrecurring Basis**

The following table presents information for assets measured at fair value on a nonrecurring basis during the periods and still held at the reporting dates. All such assets are equity securities without readily determinable fair values for which the Company made an election to hold such securities at cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or similar investment of the same issuer.

	At December 31,		Years Ended December 31,		
	2020	2019	2020	2019	2018
	Carrying Value After Remeasurement		Realized Gains (Losses)		
Level 2	\$ 35,481	\$ 73,506	\$ 27,647	\$ 19,002	\$ 1,020
Level 3	-	912	(3,723)	(2,735)	(1,500)
Total	\$ 35,481	\$ 74,418	\$ 23,924	\$ 16,267	\$ (480)

**CUNA MUTUAL HOLDING COMPANY AND SUBSIDIARIES**

Notes to Consolidated Financial Statements  
(\$ in 000s)

The securities were remeasured at fair value primarily because there was an observable price on an identical or similar investment and to a lesser extent because there was evidence of impairment. The fair values reported in the table were established at various dates within the periods and do not represent the fair value as of the end of the reporting period. Securities for which there were no impairments or price adjustments during the periods are not reflected in the table. See Note 3, Investments - Equity Securities, for information about all equity securities without readily determinable fair values.

The Level 2 fair values were based on prices of newly issued securities or sales of existing securities. The Level 3 fair values were based on internal estimates related to security impairments.

***Fair Value Measurements for Financial Instruments Not Reported at Fair Value***

Accounting standards require disclosure of fair value information about certain on and off-balance sheet financial instruments which are not recorded at fair value on a recurring basis.

The carrying amounts and estimated fair values of the Company's financial instruments that are not measured at fair value on a recurring basis, at December 31 are as follows:

	2020		2019	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
<b>Financial instruments recorded as assets</b>				
Mortgage loans	\$ 2,707,249	\$ 2,901,733	\$ 2,488,019	\$ 2,597,480
Policy loans	108,540	203,878	109,872	179,161
FHLB restricted stock	58,421	58,421	49,665	49,665
Margin account asset	2,738	2,738	5,081	5,081
LIHTC	86,363	86,363	33,626	33,626
COLI	96,365	96,365	-	-
Cash	115,914	115,914	95,914	95,914
<b>Financial instruments recorded as liabilities</b>				
Investment-type contracts <sup>1</sup>	9,831,261	10,873,267	10,049,068	9,097,066
Margin account liability	215,856	215,856	231,980	231,980
Notes and interest payable	649,327	662,487	462,995	477,438
Separate account liabilities	2,336,122	2,336,122	2,288,226	2,288,226

<sup>1</sup> The carrying amount and estimated fair value excludes the related embedded derivative for certain products which is held at fair value.



**CUNA MUTUAL HOLDING COMPANY AND SUBSIDIARIES**Notes to Consolidated Financial Statements  
(\$ in 000s)**Note 5: Income Tax**

The Company and certain of its domestic subsidiaries file a consolidated federal income tax return. The Company has entered into a tax sharing agreement with its subsidiaries. The agreement provides for the allocation of tax expense based on each subsidiary's contribution to the consolidated federal income tax liability. Pursuant to the agreement, subsidiaries that have incurred losses are reimbursed regardless of the utilization of the loss in the current year.

**Income Tax Expense (Benefit)**

Income tax expense attributable to income for the years ended December 31 is as follows:

	2020	2019	2018
Current tax expense (benefit)	\$ (55,627)	\$ 26,076	\$ 94,416
Deferred tax expense (benefit)	4,224	17,321	(53,133)
LIHTC amortization	15,861	11,840	4,749
<b>Total income tax expense (benefit)</b>	<b>\$ (35,542)</b>	<b>\$ 55,237</b>	<b>\$ 46,032</b>

**Reconciliation to U.S. Tax Rate**

Income tax expense differs from the amount computed by applying the U.S. federal corporate income tax rate to income before income taxes and equity of unconsolidated affiliates due to the items listed in the following reconciliation for the years ended December 31:

	2020	2019	2018
Tax expense computed at federal corporate tax rate	\$ 23,905	\$ 57,962	\$ 54,452
Tax-exempt investment income	(4,639)	(4,585)	(4,474)
Income tax related to prior years	(433)	6,937	(2,431)
Dividends-received deduction	(978)	(1,277)	(1,106)
Meals and entertainment	558	982	1,045
Foreign operations	(1,725)	305	147
Transition tax on deemed repatriation	-	-	60
COLI	581	-	-
Other comprehensive income adjustment	3,400	-	-
Income tax benefit of net operating loss carryback	(52,836)	-	-
Low income housing tax credits and benefits (net of amortization of cost)	(4,532)	(5,024)	(1,177)
Nondeductible penalties	(30)	(33)	(627)
Other, net	1,187	(30)	143
<b>Total income tax expense (benefit)</b>	<b>\$ (35,542)</b>	<b>\$ 55,237</b>	<b>\$ 46,032</b>

**CUNA MUTUAL HOLDING COMPANY AND SUBSIDIARIES**Notes to Consolidated Financial Statements  
(\$ in 000s)**Deferred Income Taxes**

Deferred income taxes reflect the net tax effect of temporary differences between the carrying amounts of assets and liabilities for financial statement purposes and the amounts for income tax purposes. Significant components of the Company's deferred tax assets and liabilities at December 31, 2020 and 2019 are as follows:

	2020	2019
Deferred tax assets		
Policy liabilities and reserves	\$ 152,856	\$ 134,372
Pension and other employee benefits	49,594	33,669
Unearned revenue	30,936	17,227
Loss reserve discounting	14,454	9,489
Accrued expenses	35,822	38,571
Dividends payable to policyholders	7,838	5,623
Loss carryforwards	15,649	10,433
Undistributed net income of unconsolidated affiliates	312	1,061
Charitable contributions carryforward	1,261	-
Other	6,808	5,332
Gross deferred tax assets	315,530	255,777
Less valuation allowance	(9,717)	(8,664)
Gross deferred tax assets less valuation allowance	305,813	247,113
Deferred tax liabilities		
Unrealized investment gains	275,325	146,472
Investments	53,743	77,815
Deferred policy acquisition costs	103,036	92,607
Deferred and uncollected premium	8,660	8,556
Fixed assets and real estate	16,004	14,429
Intangible assets	4,998	6,144
Prepaid expenses	4,537	4,798
Tax accounting method changes	56,227	-
Accrued income	24,482	25,237
Other	566	516
Gross deferred tax liabilities	547,578	376,574
Net deferred tax asset (liability)	\$ (241,765)	\$ (129,461)

**Valuation Allowance**

The Company records a valuation allowance for deferred tax assets if it determines it is more likely than not the assets will not be realized. In evaluating the need for a valuation allowance, the Company considered the fact that

## CUNA MUTUAL HOLDING COMPANY AND SUBSIDIARIES

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certain of its subsidiaries have incurred cumulative tax losses in various state jurisdictions. Based on its evaluation, the Company determined the state deferred tax assets are not more likely than not to be realized. As a result, the Company recorded a valuation allowance of \$9,717 and \$8,664 as of December 31, 2020 and 2019, respectively, against the state deferred tax assets including deferred tax assets related to state net operating loss carryforwards. The valuation allowance increased \$1,053 in 2020 primarily due to additional state operating losses incurred in 2020.

### Other Tax Items

As of December 31, 2020 and 2019, the Company had federal operating loss carryforwards of \$28,726 and \$14,101, respectively; the related tax benefits are \$6,033 and \$2,961, respectively. Federal operating loss carryforwards of \$14,244 expire in years 2034 through 2038, with the remaining \$14,482 carrying forward indefinitely. The Company had no federal capital loss carryforwards and no federal or state tax credit carryforwards as of December 31, 2020 and 2019. As of December 31, 2020 and 2019, the Company had state operating loss carryforwards of \$163,992 and \$128,725, respectively; the related tax benefits are \$9,617 and \$7,472, respectively. These carryforwards expire in various years through 2040.

The Company generally does not provide U.S. deferred taxes or foreign withholding taxes on the undistributed earnings of its non-U.S. affiliates and associated companies since the earnings are intended to be reinvested indefinitely. In addition, the undistributed earnings have previously been subject to U.S. income tax and are generally no longer subject to U.S. income tax upon repatriation. Therefore, no deferred tax has been provided on the undistributed earnings as of December 31, 2020 and 2019.

### Unrecognized Tax Benefits

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

	2020	2019
Balance at January 1	\$ 35,485	\$ 36,078
Additions (reductions) based on tax positions related to the current year	4,044	(661)
Reductions for settlements	(1,521)	-
Reduction for expiration of statutes	(1,074)	-
Additions for prior years' tax positions	266	1,523
Reductions for prior years' tax positions	(1,593)	(1,455)
Balance at December 31	\$ 35,607	\$ 35,485

Included in the balance of unrecognized tax benefits at December 31, 2020 and 2019 are \$16,974 and \$19,590, respectively, of unrecognized tax benefits that, if recognized would affect the effective income tax rate in future periods. Management anticipates the closing of certain positions related to insurance deductions and credits may result in a decrease to the Company's unrecognized tax benefits during 2021 of up to \$5,396.

The Company recognizes interest and penalties accrued related to unrecognized tax benefits in income tax expense in the consolidated statements of operations and comprehensive income (loss). During the years ended December 31, 2020, 2019 and 2018, the Company recognized a decrease of \$695 and increases of \$2,201, and \$1,170 in interest and penalties, respectively. The Company had accrued \$8,306 and \$9,001 for the payment of interest and penalties at December 31, 2020 and 2019, respectively.

## **CUNA MUTUAL HOLDING COMPANY AND SUBSIDIARIES**

Notes to Consolidated Financial Statements  
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The Company files income tax returns in the U.S. federal jurisdiction and various state and foreign jurisdictions. For the major jurisdictions where it operates, the Company is generally no longer subject to income tax examination by tax authorities for the years ended before 2014. Income tax liabilities have settled with the U.S. federal taxing authority for tax year 2015, and the statute of limitations is closed. Amended refund claims filed for tax years 2010 and 2012 are currently under examination as part of the Joint Committee on Taxation approval process.

### ***CARES Act***

The CARES Act includes several significant income tax provisions including providing for a five-year carryback of certain net operating losses, suspending the limitation on net operating losses which can be used to offset income, and increasing the limitation on interest deductions. As a result of the five-year carryback provision, the Company recorded an additional income tax benefit of \$52,836 for the year ended December 31, 2020.

**CUNA MUTUAL HOLDING COMPANY AND SUBSIDIARIES**Notes to Consolidated Financial Statements  
(\$ in 000s)**Note 6: Reinsurance**

The Company enters into reinsurance agreements to reduce overall risk, including exposure to large losses and catastrophic events. The Company retains the risk of loss in the event that a reinsurer is unable to meet the obligations assumed under the reinsurance agreements. The Company also assumes insurance risk that was directly written by other insurance entities. The effects of reinsurance on premiums and on claims, benefits, and losses incurred for the years ended December 31 are as follows:

	2020		2019		2018	
	Life & Health Insurance	Property & Casualty Insurance	Life & Health Insurance	Property & Casualty Insurance	Life & Health Insurance	Property & Casualty Insurance
<b>Premiums</b>						
Direct - written	\$ 2,018,752	\$ 585,145	\$ 2,015,840	\$ 527,575	\$ 1,677,989	\$ 500,332
Direct - change in unearned	3,132	(40,361)	2,973	(26,557)	2,826	(23,949)
Direct - earned	2,021,884	544,784	2,018,813	501,018	1,680,815	476,383
Assumed - written	1,578	397,969	(18)	416,841	754	438,783
Assumed - change in unearned	-	(5,363)	-	(8,862)	-	(5,049)
Assumed - earned	1,578	392,606	(18)	407,979	754	433,734
Ceded - written	(9,482)	(15,307)	(10,401)	(13,762)	(11,045)	(30,238)
Ceded - change in unearned	(21)	7	(23)	(526)	(362)	148
Ceded - earned	(9,503)	(15,300)	(10,424)	(14,288)	(11,407)	(30,090)
Premiums - written, net	2,010,848	967,807	2,005,421	930,654	1,667,698	908,877
Premiums - change in unearned, net	3,111	(45,718)	2,950	(35,945)	2,464	(28,850)
Premiums - earned, net	\$ 2,013,959	\$ 922,089	\$ 2,008,371	\$ 894,709	\$ 1,670,162	\$ 880,027
<b>Claims, benefits, and losses and loss adjustment expenses incurred</b>						
Direct	\$ 1,631,581	\$ 336,553	\$ 1,509,050	\$ 300,054	\$ 1,183,428	\$ 291,401
Assumed	(3,389)	252,793	2,084	269,239	2,658	290,165
Ceded	(70,202)	(62)	(16,538)	(9,331)	(29,498)	(14,580)
Claims, benefits, and losses and loss adjustment expenses, net	\$ 1,557,990	\$ 589,284	\$ 1,494,596	\$ 559,962	\$ 1,156,588	\$ 566,986

**CUNA MUTUAL HOLDING COMPANY AND SUBSIDIARIES**

Notes to Consolidated Financial Statements  
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The balance of reinsurance recoverables at December 31, 2020 and 2019 was \$217,692 and \$163,582, respectively. These balances are subject to uncertainties similar to the estimates of the gross reserves for claims and policy benefits and loss and loss adjustment expenses. The collection of the balances is also subject to risks. The Company evaluates the risks of collection of these balances in determining the need to establish an allowance for uncollectible reinsurance recoverable. In making this determination, the Company considers, among other factors, the credit rating of the reinsurers, its past collection experience, the aging of balances, and any known credit concerns or disputes over contract interpretations. The aggregate recoverable balance of the largest reinsurer was \$196,946 or 90% and \$130,734 or 80% of the total reinsurance recoverable at December 31, 2020 and December 31, 2019, respectively. No other reinsurer accounts for more than 10% of the balance at December 31, 2020 and 2019.

Changes in the allowance for credit losses on reinsurance recoverables, segmented by reinsurer credit ratings, were as follows:

	A through aa-	Baa1 or Baa2	BBB+ and below	Total
Balance as of January 1,	\$ -	\$ -	\$ -	\$ -
Cumulative effect of change in accounting for current expected credit losses	1,676	326	709	2,711
Net increase/(decrease) related to credit losses	91	25	61	177
<b>Balance as of December 31, 2020</b>	<b>\$ 1,767</b>	<b>\$ 351</b>	<b>\$ 770</b>	<b>\$ 2,888</b>

In July 2018, an assumed reinsurance agreement for collateral protection products was terminated. In accordance with a previously negotiated agreement, the Company received a termination buyout payment of \$29,862 which was recorded in other income on the consolidated statements of operations and comprehensive income (loss).

In October 2018, the Company agreed to a loss portfolio transfer agreement to cede workers compensation reserves to a third party. The Company paid a premium of \$18,800, which was recorded in property and casualty premiums, net, on the consolidated statements of operations and comprehensive income (loss), to cede \$17,154 of loss and loss adjustment expense reserves – property and casualty as recorded on the consolidated balance sheets.

**CUNA MUTUAL HOLDING COMPANY AND SUBSIDIARIES**Notes to Consolidated Financial Statements  
(\$ in 000s)**Note 7: Deferred Policy Acquisition Costs**

A summary of the deferred policy acquisition costs (“DAC”) deferred and amortized as of and for the year ended December 31, 2020 and 2019 is shown in the following table:

	2020		2019	
	Life and Health Insurance	Property and Casualty Insurance	Life and Health Insurance	Property and Casualty Insurance
Balance at beginning of year	\$568,553	\$ 58,264	\$616,394	\$ 52,094
Policy acquisition costs deferred	284,916	116,165	256,089	109,504
Policy acquisition costs amortized and adjustments for changes in life and health gross profit assumptions	(210,869)	(109,399)	(229,238)	(103,332)
DAC effect of change in net unrealized (gains) on securities available for sale	(32,327)	-	(74,694)	-
<b>Balance at end of year</b>	<b>\$610,273</b>	<b>\$ 65,030</b>	<b>\$568,551</b>	<b>\$ 58,266</b>

The Company pays credit unions for production of new and renewal business sold for the Company. These costs primarily relate to credit life and credit disability policies as well as accidental death and dismemberment and certain term and whole life products sold to credit union members, products of other insurers sold on a brokered basis, and certain investment products. Such costs totaled \$349,637, \$355,157, and \$331,477 for the years ended December 31, 2020, 2019, and 2018, respectively. These costs are also deferred unless the expenses are associated with non-insurance products or brokered business.

**CUNA MUTUAL HOLDING COMPANY AND SUBSIDIARIES**Notes to Consolidated Financial Statements  
(\$ in 000s)**Note 8: Liability for Loss and Loss Adjustment Expenses**

The following table presents activity relating to unpaid loss and loss adjustment expense reserves for property and casualty, certain accident and health, and certain life insurance policies:

	2020			2019		
	Life Insurance	Accident and Health Insurance	Property and Casualty Insurance	Life Insurance	Accident and Health Insurance	Property and Casualty Insurance
Balance as of January 1	\$ 71,285	\$ 348,154	\$ 444,510	\$ 54,093	\$ 354,686	\$ 461,660
Less experience refunds liability	16,660	48,169	28,699	18,142	49,464	25,373
Less reinsurance recoverables	413	18,474	13,253	227	19,653	16,236
Net balance as of January 1	54,212	281,511	402,558	35,724	285,569	420,051
Incurred, net of reinsurance recoverables and experience refunds, related to						
Current year	449,463	213,192	620,964	369,112	227,784	599,809
Prior years	(23,777)	(15,587)	(31,680)	3,453	(2,282)	(39,847)
Total incurred	425,686	197,605	589,284	372,565	225,502	559,962
Paid, net of reinsurance recoverables and experience refunds, related to						
Current year	391,853	90,523	387,439	317,436	93,342	377,901
Prior years	27,608	133,729	174,478	36,641	136,218	199,554
Total paid	419,461	224,252	561,917	354,077	229,560	577,455
Net balance at December 31	60,437	254,864	429,925	54,212	281,511	402,558
Plus experience refunds liability	15,219	52,675	19,220	16,660	48,169	28,699
Plus reinsurance recoverables	415	20,018	8,325	413	18,474	13,253
Balance at December 31	\$ 76,071	\$ 327,557	\$ 457,470	\$ 71,285	\$ 348,154	\$ 444,510

For life products, the 2020 decrease in prior year incurred losses primarily relates to positive development driven from large universal life and variable universal life claims, and the 2019 increase in prior year incurred losses primarily relates to negative development driven from large universal life and variable universal life claims. For accident and health products, the 2020 decrease in prior year incurred losses primarily relates to favorable development across all products driven by fewer reported losses than expected, and the 2019 decrease in prior year incurred losses primarily relates to favorable development across all products driven by fewer reported losses than expected. For property and casualty products, the 2020 decrease in incurred losses for prior years primarily relates to fidelity, debt protection, and personal auto and homeowners, and the 2019 decrease in incurred losses for prior years primarily relates to fidelity, debt protection, workers compensation and GAP. Fidelity, debt protection, personal auto and homeowners experienced fewer reported losses than expected. This was partly offset by significant defense costs for a single commercial liability claim.

The following presents information about incurred and paid loss and loss adjustment expense development as of December 31, 2020, net of reinsurance, as well as the cumulative number of reported claims and the total of IBNR reserves plus expected development on reported claims included in the net incurred claims amounts recorded for lending, consumer – auto, consumer – homeowners, business protection, and workers' compensation. See Note 2, Summary of Significant Accounting Policies, for the accounting policy and methodology for determining reserves



## CUNA MUTUAL HOLDING COMPANY AND SUBSIDIARIES

Notes to Consolidated Financial Statements  
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for loss and loss adjustment expense, including both reported and IBNR claims. The cumulative number of reported claims is identified by coverage and excludes reported claims for industry pools and facilities where information is not available. The information about incurred and paid loss and loss adjustment expense development for the years 2011 to 2020, and the average annual percentage payout of incurred claims by age as of December 31, 2020, is presented as required supplementary information.

### Lending Insurance

The Company's lending products primarily protect credit unions and members from losses related to death, disability, involuntary unemployment and insufficient loan collateral.

Cumulative net incurred loss and allocated loss adjustment expenses are shown in the following table:

Accident Year	For the year ended December 31,										Total of IBNR Liabilities Plus Expected Development on Reported Claims	Cumulative Number of Incurred Claim Counts
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020		
2011	\$ 309,650	\$ 298,220	\$ 295,326	\$ 296,427	\$ 295,996	\$ 296,414	\$ 296,101	\$ 296,669	\$ 296,666	\$ 296,971	\$ 2,260	130,016
2012	-	310,573	302,543	300,879	300,437	300,329	300,053	300,639	300,770	301,076	3,349	136,830
2013	-	-	342,325	330,638	324,175	322,881	323,288	323,664	323,303	323,699	4,163	151,205
2014	-	-	-	366,360	351,743	342,061	339,869	338,567	338,691	338,767	4,936	159,449
2015	-	-	-	-	390,188	370,531	365,117	361,264	360,975	360,699	6,008	167,347
2016	-	-	-	-	-	424,253	404,818	398,946	396,553	396,351	10,211	180,407
2017	-	-	-	-	-	-	450,204	429,462	426,256	424,026	20,125	190,487
2018	-	-	-	-	-	-	-	452,937	434,626	427,970	35,255	197,979
2019	-	-	-	-	-	-	-	-	452,716	444,700	65,590	206,251
2020	-	-	-	-	-	-	-	-	-	465,719	151,510	189,906
										<u>\$ 3,779,978</u>	<u>\$ 303,407</u>	

Cumulative net paid loss and allocated loss adjustment expenses are shown in the following table:

Accident Year	For the year ended December 31,									
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
2011	\$ 160,732	\$ 232,852	\$ 259,866	\$ 276,202	\$ 285,191	\$ 289,569	\$ 291,691	\$ 293,017	\$ 293,930	\$ 294,711
2012	-	163,196	238,890	264,967	280,570	289,249	293,484	295,561	296,818	297,727
2013	-	-	184,966	262,155	287,382	303,118	312,106	316,414	318,380	319,536
2014	-	-	-	202,174	280,496	305,234	319,910	328,240	332,133	333,831
2015	-	-	-	-	218,779	302,293	327,253	342,320	350,794	354,690
2016	-	-	-	-	-	249,947	338,892	363,776	378,322	386,140
2017	-	-	-	-	-	-	271,105	364,279	389,752	403,901
2018	-	-	-	-	-	-	-	278,560	369,670	392,715
2019	-	-	-	-	-	-	-	-	288,514	379,110
2020	-	-	-	-	-	-	-	-	-	312,499
Total										<u>3,474,860</u>
All outstanding liabilities before 2011, net of reinsurance										<u>5,946</u>
Liabilities for loss and loss adjustment expenses, net of reinsurance										<u>\$ 311,064</u>

**CUNA MUTUAL HOLDING COMPANY AND SUBSIDIARIES**

Notes to Consolidated Financial Statements  
(\$ in 000s)

**Consumer – Auto Insurance**

Cumulative net incurred loss and allocated loss adjustment expenses are shown in the following table:

Accident Year	For the years ended December 31,										Total of IBNR Liabilities Plus Expected Development on Reported Claims	Cumulative Number of Incurred Claim Counts	
	2011 (unaudited)	2012 (unaudited)	2013 (unaudited)	2014 (unaudited)	2015 (unaudited)	2016 (unaudited)	2017 (unaudited)	2018 (unaudited)	2019 (unaudited)	2020			
2011	\$ 89,911	\$ 91,204	\$ 90,298	\$ 91,472	\$ 90,466	\$ 90,310	\$ 90,383	\$ 90,256	\$ 90,285	\$ 90,258	\$	20	247,237
2012	-	113,730	114,119	115,901	113,963	113,549	113,493	113,348	113,272	113,276		50	283,800
2013	-	-	133,523	138,477	135,505	135,794	135,736	136,142	136,346	136,317		111	319,410
2014	-	-	-	157,850	152,507	150,510	150,339	151,189	150,992	150,909		292	338,839
2015	-	-	-	-	161,143	158,097	159,356	161,490	161,762	160,896		707	342,461
2016	-	-	-	-	-	173,437	173,314	176,574	178,041	177,869		1,330	349,027
2017	-	-	-	-	-	-	183,014	177,526	176,814	176,920		4,426	329,604
2018	-	-	-	-	-	-	-	179,836	175,292	171,593		9,604	305,331
2019	-	-	-	-	-	-	-	-	172,589	166,284		22,683	260,048
2020	-	-	-	-	-	-	-	-	-	149,502		58,778	161,176
										<u>\$1,493,824</u>	<u>\$</u>	<u>98,001</u>	

Cumulative net paid loss and allocated loss adjustment expenses are shown in the following table:

Accident Year	For the years ended December 31,										2020
	2011 (unaudited)	2012 (unaudited)	2013 (unaudited)	2014 (unaudited)	2015 (unaudited)	2016 (unaudited)	2017 (unaudited)	2018 (unaudited)	2019 (unaudited)		
2011	\$ 55,450	\$ 72,237	\$ 80,646	\$ 85,511	\$ 87,985	\$ 89,191	\$ 89,788	\$ 90,033	\$ 90,155	\$ 90,185	
2012	-	66,831	91,619	100,779	106,869	110,536	111,958	112,712	112,998	113,117	
2013	-	-	80,215	106,179	118,338	127,220	132,282	134,445	135,497	135,817	
2014	-	-	-	88,434	117,064	133,021	141,601	147,243	149,002	149,804	
2015	-	-	-	-	93,041	125,636	141,364	151,619	157,594	159,003	
2016	-	-	-	-	-	101,381	137,344	155,177	166,365	171,734	
2017	-	-	-	-	-	-	102,031	136,409	154,437	164,863	
2018	-	-	-	-	-	-	-	96,578	130,796	148,186	
2019	-	-	-	-	-	-	-	-	94,037	122,555	
2020	-	-	-	-	-	-	-	-	-	-	71,525
Total											<u>1,326,789</u>
All outstanding liabilities before 2011, net of reinsurance											<u>603</u>
Liabilities for loss and loss adjustment expenses, net of reinsurance											<u>\$ 167,638</u>

**CUNA MUTUAL HOLDING COMPANY AND SUBSIDIARIES**

Notes to Consolidated Financial Statements  
(\$ in 000s)

**Consumer – Homeowners Insurance**

Cumulative net incurred loss and allocated loss adjustment expenses are shown in the following table:

Accident Year	For the years ended December 31,										Total of IBNR Liabilities Plus Cumulative Expected Number of Development on Reported Claims Incurred Claim Counts		
	2011 (unaudited)	2012 (unaudited)	2013 (unaudited)	2014 (unaudited)	2015 (unaudited)	2016 (unaudited)	2017 (unaudited)	2018 (unaudited)	2019 (unaudited)	2020	As of December 31, 2020		
2011	\$ 45,034	\$ 43,109	\$ 42,479	\$ 42,813	\$ 42,779	\$ 41,719	\$ 41,597	\$ 41,593	\$ 41,570	\$ 41,547	\$	(11)	33,278
2012	-	49,215	46,667	46,441	45,985	44,781	44,780	44,782	44,702	44,691		-	32,055
2013	-	-	52,695	50,279	49,197	47,559	47,585	47,560	47,413	47,447		(9)	27,996
2014	-	-	-	59,129	56,058	54,269	54,005	53,652	53,319	53,259		8	31,046
2015	-	-	-	-	62,034	57,876	57,884	57,577	57,332	57,247		42	32,221
2016	-	-	-	-	-	62,932	58,940	57,817	58,068	58,011		95	33,742
2017	-	-	-	-	-	-	68,182	65,217	64,351	63,588		794	36,726
2018	-	-	-	-	-	-	-	61,433	63,189	62,500		1,024	33,655
2019	-	-	-	-	-	-	-	-	60,049	54,713		2,387	28,186
2020	-	-	-	-	-	-	-	-	-	72,816		15,842	24,026
										\$ 555,819	\$	20,172	

Cumulative net paid loss and allocated loss adjustment expenses are shown in the following table:

Accident Year	For the years ended December 31,										2020
	2011 (unaudited)	2012 (unaudited)	2013 (unaudited)	2014 (unaudited)	2015 (unaudited)	2016 (unaudited)	2017 (unaudited)	2018 (unaudited)	2019 (unaudited)	2020	
2011	\$ 33,357	\$ 40,366	\$ 41,479	\$ 42,171	\$ 42,217	\$ 41,328	\$ 41,457	\$ 41,536	\$ 41,561	\$ 41,562	\$ 41,562
2012	-	33,142	43,052	44,311	44,927	44,202	44,447	44,648	44,649	44,645	44,645
2013	-	-	37,576	45,369	46,768	46,764	47,056	47,267	47,371	47,393	47,393
2014	-	-	-	41,926	51,361	52,163	52,598	53,217	53,196	53,228	53,228
2015	-	-	-	-	44,769	54,040	55,922	56,572	56,716	56,848	56,848
2016	-	-	-	-	-	44,531	54,228	56,432	57,070	57,573	57,573
2017	-	-	-	-	-	-	46,643	60,108	61,306	62,181	62,181
2018	-	-	-	-	-	-	-	44,152	57,840	59,967	59,967
2019	-	-	-	-	-	-	-	-	39,350	49,728	49,728
2020	-	-	-	-	-	-	-	-	-	-	46,240
Total											519,365
All outstanding liabilities before 2011, net of reinsurance											48
Liabilities for loss and loss adjustment expenses, net of reinsurance											\$ 36,502

## CUNA MUTUAL HOLDING COMPANY AND SUBSIDIARIES

Notes to Consolidated Financial Statements  
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### Business Protection

The Company's business protection products help to protect credit unions from a wide range of risks. Products offered include fidelity bond, business auto, cyber and security incident coverage, management and professional liability coverage, plastic card coverage, and property and business liability coverage. Through an arrangement with a third party, collateral protection is assumed. In 2018, the collateral protection assumed reinsurance agreement was terminated. See Note 6, Reinsurance, for further details on the termination.

Cumulative net incurred loss and allocated loss adjustment expenses are shown in the following table:

Accident Year	For the years ended December 31,										Total of IBNR Liabilities Plus Cumulative Expected Number of Incurred Claim Counts		
	2011 (unaudited)	2012 (unaudited)	2013 (unaudited)	2014 (unaudited)	2015 (unaudited)	2016 (unaudited)	2017 (unaudited)	2018 (unaudited)	2019 (unaudited)	2020	As of December 31, 2020	As of December 31, 2020	
2011	\$ 97,198	\$ 77,760	\$ 78,040	\$ 73,632	\$ 74,401	\$ 75,475	\$ 71,653	\$ 71,374	\$ 71,109	\$ 71,039	\$	(413)	9,833
2012	-	117,434	104,196	90,562	84,709	83,334	82,588	82,611	82,498	82,498		(683)	9,819
2013	-	-	106,367	91,346	83,374	80,665	79,744	82,880	83,321	83,238		391	9,590
2014	-	-	-	107,964	104,126	95,661	91,347	89,526	88,552	88,275		(661)	9,694
2015	-	-	-	-	97,708	87,192	81,681	72,364	72,475	72,941		(209)	9,719
2016	-	-	-	-	-	104,464	91,041	77,392	74,448	74,619		(369)	9,985
2017	-	-	-	-	-	-	112,626	96,858	90,498	92,853		2,493	10,799
2018	-	-	-	-	-	-	-	118,071	115,293	109,538		16,183	10,144
2019	-	-	-	-	-	-	-	-	90,919	87,771		16,913	9,716
2020	-	-	-	-	-	-	-	-	-	97,975		30,585	8,161
										<u>\$ 860,747</u>	<u>\$</u>	<u>64,230</u>	

Cumulative net paid loss and allocated loss adjustment expenses are shown in the following table:

Accident Year	For the years ended December 31,										2020
	2011 (unaudited)	2012 (unaudited)	2013 (unaudited)	2014 (unaudited)	2015 (unaudited)	2016 (unaudited)	2017 (unaudited)	2018 (unaudited)	2019 (unaudited)	2020	
2011	\$ 26,442	\$ 48,756	\$ 58,350	\$ 65,793	\$ 68,218	\$ 71,228	\$ 70,592	\$ 71,498	\$ 71,470	\$ 71,400	\$ 71,400
2012	-	34,549	58,367	76,104	79,662	80,983	82,423	82,713	82,654	82,981	82,981
2013	-	-	34,696	59,476	71,165	75,937	77,748	79,893	82,210	82,427	82,427
2014	-	-	-	37,553	61,949	82,530	84,911	86,642	88,028	88,263	88,263
2015	-	-	-	-	34,520	55,409	65,560	68,631	70,991	72,079	72,079
2016	-	-	-	-	-	38,543	56,616	66,603	69,627	71,576	71,576
2017	-	-	-	-	-	-	37,226	67,305	80,692	85,886	85,886
2018	-	-	-	-	-	-	-	35,203	73,148	84,506	84,506
2019	-	-	-	-	-	-	-	-	30,542	52,381	52,381
2020	-	-	-	-	-	-	-	-	-	-	37,643
Total											<u>729,142</u>
All outstanding liabilities before 2011, net of reinsurance											<u>(3,705)</u>
Liabilities for loss and loss adjustment expenses, net of reinsurance											<u>\$ 127,900</u>

**CUNA MUTUAL HOLDING COMPANY AND SUBSIDIARIES**

Notes to Consolidated Financial Statements  
(\$ in 000s)

**Workers' Compensation**

Cumulative net incurred loss and allocated loss adjustment expenses are shown in the following table:

Accident Year	For the years ended December 31,										Total of IBNR Liabilities Plus Expected Development on Reported Claims		Cumulative Number of Incurred Claim Counts
	2011 (unaudited)	2012 (unaudited)	2013 (unaudited)	2014 (unaudited)	2015 (unaudited)	2016 (unaudited)	2017 (unaudited)	2018 (unaudited)	2019 (unaudited)	2020	As of December 31, 2020		
2011	\$ 4,941	\$ 5,731	\$ 5,788	\$ 6,589	\$ 6,323	\$ 6,126	\$ 5,959	\$ 5,887	\$ 5,871	\$ 5,776	\$ 722	1,276	
2012	-	6,116	5,590	5,124	4,826	4,873	4,520	4,424	4,299	4,257	449	1,226	
2013	-	-	6,213	6,851	6,801	6,456	6,187	6,047	5,949	5,767	1,033	1,036	
2014	-	-	-	1,822	1,081	835	669	624	473	444	-	168	
2015	-	-	-	-	320	-	-	40	50	40	40	-	
2016	-	-	-	-	-	320	-	60	60	50	50	-	
2017	-	-	-	-	-	-	320	80	60	55	55	-	
2018	-	-	-	-	-	-	-	80	56	60	60	-	
2019	-	-	-	-	-	-	-	-	80	70	70	-	
2020	-	-	-	-	-	-	-	-	-	80	80	-	
										<u>\$ 16,599</u>	<u>\$ 2,559</u>		

Cumulative net paid loss and allocated loss adjustment expenses are shown in the following table:

Accident Year	For the years ended December 31,										2020
	2011 (unaudited)	2012 (unaudited)	2013 (unaudited)	2014 (unaudited)	2015 (unaudited)	2016 (unaudited)	2017 (unaudited)	2018 (unaudited)	2019 (unaudited)		
2011	\$ 1,141	\$ 2,711	\$ 3,577	\$ 3,910	\$ 4,155	\$ 4,253	\$ 4,588	\$ 4,770	\$ 4,800	\$ 4,902	\$ 4,902
2012	-	944	2,057	2,689	3,042	3,185	3,286	3,343	3,427	3,534	3,534
2013	-	-	1,065	2,532	3,264	3,853	4,198	4,312	4,472	4,588	4,588
2014	-	-	-	209	340	388	416	444	443	444	444
2015	-	-	-	-	-	-	-	-	-	-	-
2016	-	-	-	-	-	-	-	-	-	-	-
2017	-	-	-	-	-	-	-	-	-	-	-
2018	-	-	-	-	-	-	-	-	-	-	-
2019	-	-	-	-	-	-	-	-	-	-	-
2020	-	-	-	-	-	-	-	-	-	-	-
Total											<u>13,468</u>
All outstanding liabilities before 2011, net of reinsurance											<u>3,544</u>
Liabilities for loss and loss adjustment expenses, net of reinsurance											<u>\$ 6,675</u>

**CUNA MUTUAL HOLDING COMPANY AND SUBSIDIARIES**Notes to Consolidated Financial Statements  
(\$ in 000s)

Claim frequency is measured per individual claimant. All reported claims are included in the claim frequency statistic, whether or not they resulted in a liability. The average percentage payout of net incurred claims by product line is shown in the following unaudited table:

(unaudited)	1 year	2 years	3 years	4 years	5 years	6 years	7 years	8 years	9 years	10 years
Consumer - auto	57.1%	19.5%	9.6%	5.9%	3.4%	1.2%	0.7%	0.3%	0.1%	0.0%
Consumer - homeowners	74.7	18.7	2.8	1.1	0.2	-0.2	0.3	0.1	0.0	0.0
Lending	61.0	22.8	7.2	4.4	2.6	1.3	0.6	0.4	0.3	0.3
Business protection	40.8	29.2	15.6	5.3	2.5	2.3	0.6	0.5	0.2	-0.1
Workers' compensation	26.9	27.0	13.3	7.7	5.0	2.0	2.5	2.4	1.5	1.8

The reconciliation of the net incurred and paid loss development tables to the liability for loss and loss adjustment expenses in the consolidated balance sheets is shown in the table below:

	December 31, 2020
Net outstanding liabilities	
Lending	\$ 311,064
Consumer - auto	167,638
Consumer - homeowners	36,502
Business protection	127,900
Workers' compensation	6,675
Other lines of business	3,557
Liabilities for unpaid loss and loss adjustment expenses, net of reinsurance	653,336
Reinsurance recoverable on unpaid claims	
Lending	-
Consumer - auto	4
Consumer - homeowners	5
Business protection	519
Workers' compensation	6,978
Other lines of business	-
Total reinsurance recoverable on unpaid losses	7,506
Insurance lines other than short-duration	-
Unallocated claims adjustment expenses	20,131
Impact of discounting	(5,171)
Other	4,955
Total gross liability for unpaid loss and loss adjustment expense	\$ 680,757

**CUNA MUTUAL HOLDING COMPANY AND SUBSIDIARIES**Notes to Consolidated Financial Statements  
(\$ in 000s)**Note 9: Benefit Plans**

The Company has noncontributory defined benefit pension plans that cover most full-time employees. Certain employees and directors are also eligible for non-qualified defined benefit plans. Retirement benefits for the qualified plans are provided using a cash balance formula for all employees; employees who were hired prior to certain dates, depending on the plan, have frozen grandfathered benefits determined using a traditional formula. Benefits vest according to plan schedules. The Company's policy is to fund pension costs as required to meet the minimum funding requirements under the Employee Retirement Income Security Act of 1974.

The Company has postretirement benefit plans that provide certain medical and life insurance benefits to eligible participants and dependents. The cost of postretirement benefits is recognized over the period the employees perform services to earn the benefits.

The measurement date for all benefit plans is December 31.

The non-represented noncontributory defined pension plan was closed to new participants after 2019.

Amounts recognized in accumulated other comprehensive income (loss) related to pension and other postretirement benefit plans as of December 31, 2020 and 2019 are as follows:

	Pension benefits		Other postretirement benefits	
	2020	2019	2020	2019
Net prior service costs (benefit)	\$ (471)	\$ (2,452)	\$ (137)	\$ (208)
Net actuarial (gain) loss	266,796	209,155	9,125	(4,070)
Total recognized in accumulated other comprehensive income (loss), before tax	266,325	206,703	8,988	(4,278)
Tax expense (benefit)	(56,016)	(43,408)	(1,887)	898
Total recognized in accumulated other comprehensive income (loss), net of tax	\$ 210,309	\$ 163,295	\$ 7,101	\$ (3,380)

The following table provides aggregated information for unfunded plans as of December 31:

	Pension benefits		Other postretirement benefits	
	2020	2019	2020	2019
Projected benefit obligation	\$ (311,657)	\$ (43,542)	\$ -	\$ -
Accumulated benefit obligation	(306,564)	(41,347)	(91,094)	(76,403)
Fair value of plan assets	264,562	-	-	-

**CUNA MUTUAL HOLDING COMPANY AND SUBSIDIARIES**Notes to Consolidated Financial Statements  
(\$ in 000s)

The following table provides aggregated information for plans with plan assets exceeding benefit obligations as of December 31:

	Pension benefits		Other postretirement benefits	
	2020	2019	2020	2019
Projected benefit obligation	\$ (760,304)	\$ (895,823)	\$ -	\$ -
Accumulated benefit obligation	(741,622)	(876,028)	-	-
Fair value of plan assets	764,428	949,632	-	-

The following table provides information for the plans for the years ended December 31:

	Pension benefits			Other postretirement benefits		
	2020	2019	2018	2020	2019	2018
Employer contributions	\$ 2,548	\$ 12,633	\$ 52,777	\$ 2,124	\$ 2,595	\$ 2,160
Benefit payments	48,929	43,378	54,639	2,124	2,595	2,160
Net periodic benefit cost	(4,204)	21,048	8,169	4,901	4,547	4,677

**Actuarial Assumptions**

The Company's actuarial assumptions used to develop pension and other postretirement benefit obligations for the years ended December 31 were as follows:

	Pension benefits		Other postretirement benefits	
	2020	2019	2020	2019
Discount rate	2.8%	3.9%	2.9%	3.9%
Assumed rate of annual compensation increase	4.3	4.3	4.3	4.3

The assumed health care cost trend rate used in measuring the accumulated postretirement benefit obligation is 5.7% at 2020, reducing to 3.7% by 2074.



**CUNA MUTUAL HOLDING COMPANY AND SUBSIDIARIES**Notes to Consolidated Financial Statements  
(\$ in 000s)

The Company's actuarial assumptions used to develop pension and other postretirement benefit expenses for the years ended December 31 were as follows:

	Pension benefits			Other postretirement benefits		
	2020	2019	2018	2020	2019	2018
Discount rate	3.9%	4.8%	4.2%	3.9%	4.8%	4.1%
Assumed rate of annual compensation increase	4.3	4.3	4.3	4.3	4.3	4.3
Expected long-term rate of return on plan assets	7.1	6.8	6.8	N/A	N/A	N/A
Interest credited rate for cash balance plan	1.7	3.2	2.4	N/A	N/A	N/A

In determining the discount rate for the years ended December 31, 2020, 2019, and 2018, the Company used a hypothetical bond portfolio of actual AA-rated securities matching the expected monthly benefits in the plans. In determining the expected long-term rate of return on plan assets, the Company used the current investment allocation applied to a long-term historical indexed rate of return for the appropriate asset classes.

**Estimated Future Benefit Payments**

Estimated future benefit payments for the years ended December 31 are as follows:

	Pension Benefits	Other Postretirement Benefits Including Medicare Subsidy
Estimated future benefit payments		
2021	\$ 55,226	\$ 2,356
2022	56,140	3,021
2023	56,818	3,655
2024	57,606	4,012
2025	57,711	4,380
2026-2030	292,450	21,471

The Company anticipates making a minimum contribution to the pension plans of approximately \$10,000 in 2021 with future amounts to be determined based on asset performance and liabilities. For other postretirement benefits, the employer contribution will be equivalent to the estimated 2021 benefit payments.

**Pension Plan Assets**

The Company's current investment targets are 75 percent debt, 15 percent equity, 8 percent limited partnerships and 2 percent cash, achieved primarily by investments in domestic large-cap and mid-cap equity mutual funds and investment grade corporate bond mutual funds. The Company limits its concentrations of risk by diversifying its plan assets through investment in funds rather than individual holdings. The Company has established certain exposure limits, diversification standards, and review procedures to mitigate risk.

**CUNA MUTUAL HOLDING COMPANY AND SUBSIDIARIES**

Notes to Consolidated Financial Statements  
(\$ in 000s)

The Company's pension plan asset allocation at December 31, by asset category, as a percentage of plan assets, and the target allocation, is shown below:

The investment strategy is intended to match market asset movements with discount rate related liability changes as closely as possible. This strategy is intended to limit the range of contributions needed by the Company to maintain the plan at minimum funding levels.

	2020	2019	2021 Target Allocation
Mutual funds with debt securities	72.7%	72.6%	75.0%
Mutual funds with equity securities	17.6	16.2	15.0
Limited partnerships	6.6	7.0	8.0
Cash equivalents	3.1	4.2	2.0
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

The Company invests the pension plans' assets with the goal of meeting short- and long-term obligations, employing optimization techniques to achieve the highest expected return under a target level of portfolio risk. The portfolio risk target is based on the pension plans' funded status, payout features, and participants' characteristics. This methodology considers asset class correlations to assure appropriate portfolio diversification. Asset class allocations are allowed to approximate target with a small tolerance to changes in overall portfolio risk.

The expected rates of return and variance for each asset class are derived using statistical techniques based on long-term historical data. Returns and correlations are adjusted slightly to reflect trends and portfolio manager expectations.

The fair value of the Company's pension plan assets by asset category at December 31, 2020 are presented in the following table.

Plan Assets, at Fair Value	Level 1	Level 2	Level 3	Total
Cash equivalents	\$ 32,109	\$ -	\$ -	\$ 32,109
Mutual funds with debt securities	747,902	-	-	747,902
Mutual funds with equity securities	153,923	-	-	153,923
Equity securities	27,113	-	-	27,113
Limited partnerships	-	-	67,944	67,944
<b>Total plan assets</b>	<b>\$ 961,047</b>	<b>\$ -</b>	<b>\$ 67,944</b>	<b>\$ 1,028,991</b>

**CUNA MUTUAL HOLDING COMPANY AND SUBSIDIARIES**

Notes to Consolidated Financial Statements  
(\$ in 000s)

The fair value of the Company's pension plan assets by asset category at December 31, 2019 are presented in the following table.

Plan Assets, at Fair Value	Level 1	Level 2	Level 3	Total
Cash equivalents	\$ 39,878	\$ -	\$ -	\$ 39,878
Mutual funds with debt securities	689,352	-	-	689,352
Mutual funds with equity securities	152,035	-	-	152,035
Equity securities	1,523	-	-	1,523
Limited partnerships	-	-	66,844	66,844
<b>Total plan assets</b>	<b>\$882,788</b>	<b>\$ -</b>	<b>\$66,844</b>	<b>\$949,632</b>

There were no transfers between levels during the years ended December 31, 2020 or 2019.

A summary of valuation techniques for classes of pension plan assets by fair value hierarchy level are as follows:

**Level 1 Measurements**

*Cash equivalents:* Consists of money market mutual funds that have daily quoted NAVs at which the Company could transact.

*Mutual funds with debt securities and mutual funds with equity securities:* Consists of actively traded mutual funds that have daily quoted NAVs at which the Company could transact.

*Equity securities:* Consists of actively traded hedge funds that have daily quoted NAVs and public equity securities for which valuation is based on unadjusted quoted prices for identical assets in active markets that the Company can access.

**Level 3 Measurements**

*Limited partnerships:* Valuation of limited partnerships is based on the fair value of the partnership as determined by the general partner based on the underlying holdings.

Level 3 purchases totaled \$9,625 and \$11,192 for the years ended December 31, 2020 or 2019.

***Other Post-Employment Benefits***

The Company has a plan to provide severance pay and continuation of certain life and health benefits during the severance period to qualifying inactive or former employees. The Company also provides certain life and health benefits to employees in disability status. The liability for these other post-employment benefits was \$8,676 and \$8,585 at December 31, 2020 and 2019, respectively, and is included in accounts payable and other liabilities in the consolidated balance sheets.

***Defined Contribution Plans***

The Company sponsors thrift and savings plans, which cover substantially all regular full-time employees and agents who meet certain eligibility requirements. Under the plans, the Company may make contributions based on

## CUNA MUTUAL HOLDING COMPANY AND SUBSIDIARIES

Notes to Consolidated Financial Statements  
(\$ in 000s)

certain criteria. The Company's contributions for the years ended December 31, 2020, 2019, and 2018 were \$19,913, \$18,300, and \$17,487, respectively.

### **Other Deferred Compensation Plans**

The Company also has a variety of deferred compensation plans for key executives and directors. The accrued liability for these plans was \$104,239 and \$95,805 as of December 31, 2020 and 2019, respectively, and is included in accounts payable and other liabilities in the consolidated balance sheets.

### **Note 10: Statutory Financial Data and Dividend Restrictions**

CMHC's subsidiary insurance company, CMFG Life Insurance Company ("CMFG Life"), files statutory basis financial statements with the Iowa Insurance Department; Iowa is the subsidiary's state of domicile. Statutory capital and surplus as of December 31, 2020 and 2019 and statutory basis net income for the years ended 2020, 2019, and 2018 for CMFG Life is presented in the table below.

	Statutory Capital and Surplus		Statutory Basis Net Income		
	2020	2019	2020	2019	2018
CMFG Life Insurance Company	\$ 2,175,026	\$ 2,197,648	\$ 162,818	\$ 204,516	\$ 127,743

CMFG Life follows a statutory accounting practice as prescribed by the Insurance Department. For statutory purposes, CMFG Life holds debt securities in its separate account for its single premium deferred index annuity, single premium deferred modified guaranteed index annuity and flexible premium variable and index linked deferred annuity. Insurance entities are required to report assets allocated to the separate account at fair value. As a result of the prescribed practice, the Company reports debt securities allocated to this separate account for its single premium deferred index annuity, single premium deferred modified guaranteed index annuity and flexible premium variable and index linked deferred annuity at amortized cost, or for those investments with a National Association of Insurance Commissioners ("NAIC") designation of 6, the lower of amortized cost or fair value. Statutory basis net income is not affected by this prescribed practice.

CMFG Life is subject to statutory regulations as to the payment of dividends. Based on statutory regulations, CMFG Life could pay dividends to its parent company of up to \$250,239 during 2021, without prior approval of the Insurance Department. Dividends in excess of this amount are classified as extraordinary dividends under Iowa law, and require approval by the Insurance Department prior to payment.

Risk-based capital ("RBC") requirements promulgated by the NAIC require U.S. insurers to maintain minimum capitalization levels that are determined based on formulas incorporating credit risk, insurance risk, interest rate risk, and general business risk. At December 31, 2020, CMFG Life and its insurance subsidiaries' adjusted surplus exceeded the RBC minimum requirements, as required by the NAIC.

**CUNA MUTUAL HOLDING COMPANY AND SUBSIDIARIES**Notes to Consolidated Financial Statements  
(\$ in 000s)**Note 11: Notes and Interest Payable**

The following table provides the details of notes and interest payable and capital lease obligations at December 31:

	2020	2019
CMFG Life Insurance Company		
Surplus notes (net of deferred debt acquisition costs 2020 - \$504; 2019 - \$594)	\$ 79,505	\$ 87,416
FHLB borrowings	345,036	330,133
MCA Fund II Holding LLC		
Collateralized fund obligations - MCA Fund II LP (net of deferred debt acquisition costs 2020 - \$715; 2019 - \$1,106)	23,172	43,746
MCA Fund III Holding LLC		
Collateralized fund obligations - MCA Fund III LP (net of deferred debt acquisition costs 2020 - \$3,851)	196,544	-
<b>Total notes and interest payable, net of deferred debt acquisition costs</b>	<b>\$ 644,257</b>	<b>\$ 461,295</b>

**CMFG Life Insurance Company – Surplus Notes**

The 8.5% surplus notes, which were issued in 2010, are due July 2030. Interest on the notes is payable semi-annually. The surplus notes are subordinated, unsecured obligations of CMFG Life, ranking subordinate to the claims of policyholders and all other creditors. CMFG Life may not pay any principal, interest or make whole amounts (fees paid on prepayment of principal) unless it has given notice to the applicable insurance regulatory authority and received approval to make any such payment. On July 31, 2020, the first annually scheduled principal payment was due and paid after receiving the aforementioned regulatory approval. Annually scheduled principal payments will be made until July 2030, subject to regulatory approval. CMFG Life is required to comply with certain financial covenants including maintenance of a minimum statutory RBC ratio and minimum total adjusted statutory capital level. At December 31, 2020, CMFG Life was in compliance with these covenants.

**CMFG Life Insurance Company – Borrowings – Federal Home Loan Bank**

CMFG Life has borrowing capacity as a result of contractual arrangements with the FHLB as evidenced by Advances, Collateral Pledge, and Security Agreements. These agreements provide that CMFG Life is entitled to borrow from the FHLB if it purchases FHLB restricted stock and provides securities as collateral for such borrowings. The Company must hold FHLB membership stock equal to 0.12% of the Company's total assets, with an overall limitation of \$10,000. The Company must also hold activity stock of 4% of the amount of outstanding advances. Interest on borrowings was calculated daily at floating rates that ranged from 0.28% to 1.85% in 2020, 1.72% to 2.76% in 2019, and 1.49% to 2.63% in 2018. All borrowings were short-term in nature with maturity dates less than 90 days. Payments were due on the line of credit at various dates through 2020 with options of renewal available.

**TruStage Financial Group, Inc. – Credit Agreement – Wells Fargo Bank**

In November 2019, TruStage Financial Group, Inc. ("TruStage"), CMFG Life, CUMIS Insurance Society, Inc. ("CUMIS") and CUNA Mutual Investment Corporation entered into a \$400,000 five-year unsecured revolving credit agreement with Wells Fargo Bank, National Association and other lenders. The agreement matures in November 2024. The facility has an unused fee assessed at 0.15% on the unused principal at December 31, 2020. Interest amounts are calculated based on certain benchmark interest rates plus a spread that ranges from 1.125% to

**CUNA MUTUAL HOLDING COMPANY AND SUBSIDIARIES**Notes to Consolidated Financial Statements  
(\$ in 000s)

1.625% based on TruStage's debt to capital ratio. TruStage is required to comply with financial covenants including a maximum ratio of total debt to capital and a minimum consolidated net worth. CMFG Life and CUMIS are required to comply with minimum statutory RBC ratios. TruStage, CMFG Life and CUMIS were in compliance with these covenants at December 31, 2020 and 2019. As of December 31, 2020 and 2019, there were no outstanding borrowings under the facility and accordingly, the entire \$400,000 facility was available for general corporate purposes.

**MCA Fund II Holding LLC – Collateralized Fund Obligations – MCA Fund II LP**

On June 28, 2017, MCA Fund II Holding LLC ("MCA II Holding"), a consolidated subsidiary of the Company, issued \$230,000 of collateralized notes ("MCA Fund II Notes") due August 2028, as follows:

Class	Initial Principal Amount		Note Rate
	Affiliated	Unaffiliated	
Class A notes	\$ 15,000	\$ 105,000	Three month LIBOR + 1.65%
Class B notes	45,000	45,000	Three month LIBOR + 2.65%
Class C deferrable notes	20,000	-	Three month LIBOR + 4.50%
Total collateralized notes	\$ 80,000	\$ 150,000	

For the years ended December 31, the issued collateralized notes had the following amount of principal and interest outstanding:

Class	Principal and Interest Outstanding at December 31,				Note Rate
	2020		2019		
	Affiliated	Unaffiliated	Affiliated	Unaffiliated	
Class A notes	\$ 2,388	\$ 16,717	\$ 4,484	\$ 31,387	Three month LIBOR + 1.65%
Class B notes	7,170	7,170	13,465	13,465	Three month LIBOR + 2.65%
Class C deferrable notes	20,121	-	20,167	-	Three month LIBOR + 4.50%
Total collateralized notes	\$ 29,679	\$ 23,887	\$ 38,116	\$ 44,852	

The MCA Fund II Notes are secured by a pledge of MCA II Holding's limited partnership interest in MCA Fund II LP, which are otherwise not available to pay or satisfy any other obligations of the Company. Payment of principal and interest on the MCA Fund II Notes is made quarterly. Unless redeemed or repaid earlier, each class of notes will mature and be payable on August 15, 2028. However, prior to August 2028, the indenture under which the MCA Fund II Notes were issued provides that cash proceeds from investments will be used, subject to certain limitations and conditions, to pay Company expenses, principal of the MCA Fund II Notes and make payments to equity investors. The indenture also provides for optional redemption of the MCA Fund II Notes by MCA II Holding in whole, but not in part, at any time on or after June 28, 2019 or following designated tax events. The affiliated intercompany portion of the MCA Fund II Notes has been eliminated within these consolidated financial statements.

**CUNA MUTUAL HOLDING COMPANY AND SUBSIDIARIES**Notes to Consolidated Financial Statements  
(\$ in 000s)**MCA Fund III Holding LLC – Collateralized Fund Obligations – MCA Fund III LP**

On October 28, 2020, MCA Fund III Holding LLC (“MCA III Holding”), a consolidated subsidiary of the Company, issued \$402,200 of notes (“MCA Fund III Notes”) due November 2035, as follows:

Class	Initial Principal Amount		Note Rate
	Affiliated	Unaffiliated	
Class A notes	\$ 67,800	\$ 162,000	3.25%
Class B notes	62,600	38,000	4.25
Class C notes	71,800	-	6.00
Total collateralized notes	\$ 202,200	\$ 200,000	

For the years ended December 31, the issued collateralized notes had the following amount of principal and interest outstanding:

Class	Principal and Interest Outstanding at December 31, 2020		Note Rate
	Affiliated	Unaffiliated	
Class A notes	\$ 67,916	\$ 162,278	3.25%
Class B notes	62,793	38,117	4.25
Class C notes	72,339	-	6.00
Total collateralized notes	\$ 203,048	\$ 200,395	

The MCA Fund III Notes are secured by a pledge of MCA III Holding’s limited partnership interest in MCA Fund III LP. Payment of principal and interest on the Notes is made quarterly. Unless redeemed or repaid earlier, each class of MCA Fund III Notes will mature and be payable November 15, 2035. Prior to November 2035, the indenture under which the MCA Fund III Notes were issued provides that cash proceeds from investments will be used, subject to certain limitations and conditions, to pay Company expenses, principal and interest of the notes and make payments to holders of the MCA Fund III Holding LLC limited liability company interests. The indenture also provides for optional redemption of the MCA Fund III Notes by MCA III Holding in whole, but not in part, at any time on or after October 28, 2021 or following designated tax events. The affiliated intercompany portion of the MCA Fund III Notes has been eliminated within the consolidated financial statements.

**Liquidity Loan Facility**

On June 28, 2017, MCA II Holding, Wells Fargo Bank NA as Trustee, and Barclays Bank plc as Liquidity Lender entered into a Liquidity Loan Facility. Outstanding loans available under the Liquidity Loan Facility are limited to the lesser of (a) \$17,500 or (b) 10% of the outstanding principal amount of the Class A and Class B Notes II. Proceeds of borrowings under the Liquidity Loan Facility may only be used for purposes allowed under the indenture.

**CUNA MUTUAL HOLDING COMPANY AND SUBSIDIARIES**Notes to Consolidated Financial Statements  
(\$ in 000s)

MCA II Holding can elect an interest rate applicable to loans under the Liquidity Loan Facility equal to either (i) LIBOR plus 1.50% or (ii) the Alternate Base Rate plus 0.50%. The Alternate Base Rate is the greater of (a) the Liquidity Lender's prime rate, and (b) the Federal Funds Effective Rate (as defined in the Liquidity Loan Facility) in effect on such day plus 0.50%. The Liquidity Loan Facility terminates on the earliest of August 15, 2028, the repayment of the Class A and Class B Notes, or the acceleration of either the principal of the Notes II or amounts owed under the Liquidity Loan Facility. MCA II Holding must pay a quarterly commitment fee equal to 0.125% of the unfunded amount available under the Liquidity Loan Facility, which is included in other expenses in the consolidated statement of comprehensive income (loss). As of December 31, 2020 or 2019, there were no outstanding borrowings under the Liquidity Loan Facility.

**CMFG Life Insurance Company – Funding Agreements – Federal Home Loan Bank**

The Company issued \$200,000 and, \$275,000 in funding agreements to the FHLB in 2020 and 2019, respectively. As of December 31, 2020, \$110,000 in funding agreements used a fixed rate, and \$690,000 used a variable rate. Fixed interest on agreements ranged from 0.6% to 1.0% with original maturities ranging from three to five years in 2020. Variable interest on agreements is calculated daily at floating rates that range from 0.4% and 2.3% in 2020, 2.1% and 3.2% in 2019 and 1.5% to 3.1% in 2018. The original maturities of the agreements range from four to seven years. Recognized liabilities of \$800,479 and \$601,885, as of December 31, 2020 and 2019, respectively, are included in policyholder account balances in the consolidated balance sheets, and are matched to specific assets so that liabilities and assets are aligned. The funding agreements are subject to prepayment penalties equal to the net present value of future interest cash flows lost due to the prepayment, if any, plus any cost of terminating or offsetting any related hedging transactions.

**CMFG Life Insurance Company – Federal Home Loan Bank Information**

The FHLB restricted stock owned, borrowing capacity, collateral pledged, aggregate borrowing and policyholder account balances for the line of credit and funding agreements are shown in the following table. The table also discloses the line item where certain balances are included on the consolidated balance sheets:

	2020	2019
Membership stock	\$ 12,621	\$ 12,465
Activity stock	45,800	37,200
<b>Total FHLB</b>	<b>\$ 58,421</b>	<b>\$ 49,665</b>
<b>Estimated borrowing capacity</b>	<b>\$ 1,145,000</b>	<b>\$ 930,000</b>
Collateral pledged as of reporting date:		
Carrying value (included in debt securities, available for sale, and mortgage loans)	\$ 1,498,587	\$ 1,150,250
FHLB discounted value	1,145,000	930,000
<b>Borrowing as of reporting date (included in notes and interest payable)</b>	<b>\$ 345,000</b>	<b>\$ 330,000</b>
Borrowing at time of maximum collateral	1,075,000	845,000
Maximum borrowing during reporting period	1,300,000	930,000
<b>Funding agreements (included in policyholder account balances)</b>	<b>800,479</b>	<b>601,885</b>



**CUNA MUTUAL HOLDING COMPANY AND SUBSIDIARIES**Notes to Consolidated Financial Statements  
(\$ in 000s)**Note 12: Accumulated Other Comprehensive Income (Loss)**

The components of accumulated other comprehensive income (loss) are as follows:

	Foreign Currency Translation Gains (Losses)	Unrealized Investment Gains (Losses)	Pension and Other Postretirement Benefits	Shadow Adjustments	Accumulated Other Comprehensive Income (Loss)
<b>Balance, January 1, 2019</b>	\$ (14,497)	\$ (113,187)	\$ (205,192)	\$ 13,833	\$ (319,043)
Change in foreign currency translation, net of tax - \$6	782	-	-	-	782
Change in unrealized holding gains (losses), net of tax - \$187,649	-	706,237	-	-	706,237
Change in pension and other postretirement benefits, net of tax - \$12,036	-	-	45,277	-	45,277
Change in shadow adjustments, net of tax - (\$19,467)	-	-	-	(73,232)	(73,232)
<b>Balance, December 31, 2019</b>	(13,715)	593,050	(159,915)	(59,399)	360,021
Change in foreign currency translation, net of tax - \$15	(5,706)	-	-	-	(5,706)
Change in unrealized holding gains (losses), net of tax - \$159,726	-	617,441	-	-	617,441
Change in pension and other postretirement benefits, net of tax - (\$15,284)	-	-	(57,495)	-	(57,495)
Change in shadow adjustments, net of tax - (\$30,466)	-	-	-	(114,611)	(114,611)
<b>Balance, December 31, 2020</b>	\$ (19,421)	\$ 1,210,491	\$ (217,410)	\$ (174,010)	\$ 799,650

**CUNA MUTUAL HOLDING COMPANY AND SUBSIDIARIES**Notes to Consolidated Financial Statements  
(\$ in 000s)**Reclassification Adjustments**

Accumulated other comprehensive income (loss) includes amounts related to net unrealized investment gains (losses), which were reclassified to net income. Reclassifications from accumulated other comprehensive income (loss) for the year ended December 31, 2020, 2019, and 2018 are included in the following table:

	2020	2019	2018
Reclassifications from accumulated other comprehensive income (loss):			
Net unrealized gains (losses) on available for sale securities included in net realized investment gains (losses)	\$ (40,949)	\$ (13,010)	\$ (41,532)
Tax benefit	(8,599)	(2,732)	(8,722)
Net reclassifications of gains from accumulated other comprehensive income (loss)	\$ (32,350)	\$ (10,278)	\$ (32,810)

**Note 13: Commitments and Contingencies****Investment Commitments**

The Company has the following investment commitments outstanding at December 31:

	2020	2019
Limited partnerships		
Energy	\$ 44,674	\$ 57,968
Mezzanine	583,929	466,988
Private equity	443,818	374,725
Real estate	47,575	34,321
LIHTC	57,403	126,003
Mortgage loans	24,000	14,550
Private placement debt securities	21,250	45,446
Total investment commitments	\$ 1,222,649	\$ 1,120,001

## CUNA MUTUAL HOLDING COMPANY AND SUBSIDIARIES

Notes to Consolidated Financial Statements  
(\$ in 000s)

### Leases

The Company has entered into long-term operating leases for office space and equipment; the leases have remaining lease terms from less than one to seven years, some of which include options to extend the leases. An analysis of all economic and non-economic factors associated with leases containing certain options, including factors such as the existence of cancellation penalties, leasehold improvements made to the underlying assets and location of the underlying assets, is conducted to determine whether those leases are reasonably certain to renew, and hence, should be included in the lease term that is used to establish the ROU assets and lease liabilities for those arrangements.

The Company does not have residual guarantees associated with its lessee arrangements, nor are there any significant restrictions or covenants associated with its lease arrangements.

ROU assets and lease liabilities are included within other assets and receivables and accounts payable and other liabilities in the consolidated balance sheets. ROU assets and lease liabilities are \$9,372 and \$6,986, respectively, as of December 31, 2020. The weighted average remaining lease term is 4.8 years as of December 31, 2020, and the weighted average discount rate is 3.3% as of December 31, 2020.

Lease payment obligations are as of December 31 are as follows:

	2020
2021	\$ 2,654
2022	2,178
2023	1,593
2024	1,030
2025	722
2026	715
Thereafter	497
Total lease liability	\$ 9,389

### Insurance Guaranty Funds

The Company is liable for guaranty fund assessments related to certain unaffiliated insurance companies that have become insolvent during 2020 and prior years. The Company includes a provision for all known assessments that will be levied as well as an estimate of amounts that it believes will be assessed in the future relating to past insolvencies. The Company has established a liability of \$1,038 and \$1,281 at December 31, 2020 and 2019, respectively, for guaranty fund assessments. The Company also estimates the amount recoverable from future premium tax payments related to these assessments and has established an asset of \$658 and \$861 at December 31, 2020 and 2019, respectively. Recoveries of assessments from premium taxes are generally made over a five-year period.

### Legal Matters

Various legal and regulatory actions, including state market conduct exams and federal tax audits, are currently pending that involve the Company and specific aspects of its conduct of business. Like other members of the insurance industry, the Company is routinely involved in a number of lawsuits and other types of proceedings, some

## **CUNA MUTUAL HOLDING COMPANY AND SUBSIDIARIES**

Notes to Consolidated Financial Statements  
(\$ in 000s)

of which may involve claims for substantial or indeterminate amounts. These actions are based on a variety of issues and involve a range of the Company's practices. The ultimate outcome of these disputes is unpredictable.

These matters in some cases raise difficult and complicated factual and legal issues and are subject to many uncertainties and complexities, including but not limited to, the underlying facts of each matter; novel legal issues; variations between jurisdictions in which matters are being litigated, heard or investigated; differences in applicable laws and judicial interpretations; the length of time before many of these matters might be resolved by settlement, through litigation or otherwise and, in some cases, the timing of their resolutions relative to other similar matters involving other companies. In connection with regulatory examinations and proceedings, government authorities may seek various forms of relief, including penalties, restitution and changes in business practices. The Company may not be advised of the nature and extent of relief sought until the final stages of the examination or proceeding. In the opinion of management, the ultimate liability, if any, resulting from all such pending actions will not materially affect the consolidated financial statements of the Company.

### **Note 14: Acquisitions**

#### ***Cunexus Solutions, Inc.***

The Company has been an investor in Cunexus Solutions Inc. ("Cunexus") since 2016. Cunexus provides an end-to-end digital lending solution that offers financial institutions the ability to offer pre-approved loans to consumers. Prior to October 14, 2020 (the "acquisition date"), the Company owned approximately 20.9% of the Cunexus equity valued at \$8,000 immediately prior to the acquisition and recorded the investment in equity securities on the consolidated balance sheets at cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer. On October 14, 2020, the Company acquired the remaining 79.1% of the equity for a net cash payment of \$52,986, resulting in Cunexus becoming a wholly-owned subsidiary of the Company in the consolidated financial statements.

The Company incurred \$1,460 of acquisition-related costs recorded in operating and other expenses in the consolidated statements of operations and comprehensive income (loss).

The Company determined the fair values of the assets and liabilities acquired with the difference between purchase price and the fair values of the identified net assets recorded as goodwill. As a result of this process, \$64,251 was assigned to intangibles as follows:

- \$6,400 Customer lists and relationships (amortized over 10 or 15 years on straight-line basis)
- \$230 Other intangibles (amortized 100% in 2020)
- \$57,621 Goodwill (indefinite-lived asset and not amortized).

The acquisition of Cunexus further strengthens the Company's ability to provide digital solutions to its consumers and allow for future cross-selling opportunities for its lending insurance products.

**CUNA MUTUAL HOLDING COMPANY AND SUBSIDIARIES**Notes to Consolidated Financial Statements  
(\$ in 000s)

The following represents the fair values of the assets and liabilities of Cunexus acquired at the acquisition date:

	<b>Assets and Liabilities Assumed</b>
<b>Assets</b>	
Cash and cash equivalents	\$ 2,745
Office properties, equipment and computer software at cost less accumulated depreciation	3,900
Other assets and receivables	1,106
Goodwill, net	57,621
Intangible assets, net	6,630
<b>Total assets</b>	<b>72,002</b>
<b>Liabilities</b>	
Accounts payable and other liabilities	5,002
<b>Total liabilities</b>	<b>5,002</b>
<b>Fair value of Cunexus as of October 14, 2020</b>	<b>\$ 67,000</b>

The Company has accounted for its acquisition of Cunexus in accordance with ASC 805, *Business Combinations*. Accordingly, the Company adjusted its carrying value of its previously acquired 20.9% equity interest to fair value on the acquisition date. The effect of this adjustment was to increase the previously recorded value, which resulted in a gain of \$6,014 recorded as net realized investment gains (losses) in the consolidated statements of operations and comprehensive income (loss).

**Note 15: Subsequent Events**

The Company evaluated subsequent events through March 11, 2021, the date the financial statements were available for issuance.

On March 8, 2021, the Company entered into a definitive agreement to acquire certain subsidiaries, real estate, and related assets of Assurant, Inc. ("Assurant") for approximately \$1,300,000, including the purchase of 100% of the outstanding stock of American Memorial Life Insurance Company, Union Security Insurance Company, and Assurant Life of Canada, which are providers of prepaid funeral insurance and final expense insurance products in the United States and Canada. The acquisition is expected to close in the second half of 2021, subject to applicable regulatory approvals and other customary closing conditions. The purchase price is to be paid in cash at closing, and the Company anticipates that some portion will be financed through a combination of short-term bank financing and long-term debt issuance.