

**THRIVENT VARIABLE ANNUITY ACCOUNT II**

**Statement of Additional Information**

**Dated April 30, 2019**

**Single Premium Immediate Variable Annuity Contract**

**Offered By:**

**THRIVENT FINANCIAL FOR LUTHERANS**

**Service Center:**

4321 North Ballard Road  
Appleton, WI 54919-0001  
Telephone: 800-847-4836  
E-mail: mail@thrivent.com

**Corporate Office:**

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Minneapolis, MN 55415-1665  
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This Statement of Additional Information (“SAI”) is not a prospectus, but should be read in conjunction with the prospectus dated April 30, 2019, for Thrivent Variable Annuity Account II (the “Variable Account”) describing the individual single premium immediate variable annuity contract (“the Contract”) that Thrivent Financial for Lutherans (“Thrivent Financial”) offers to persons eligible for membership in Thrivent Financial.

Much of the information contained in this SAI expands upon subjects discussed in the Prospectus. A copy of the Prospectus may be obtained by writing to us at 4321 North Ballard Road, Appleton, Wisconsin 54919-0001, by calling 1-800-847-4836, or by accessing the Securities and Exchange Commission’s Web site at [www.sec.gov](http://www.sec.gov).

Capitalized terms used in this SAI that are not otherwise defined herein shall have the meanings given to them in the Prospectus.

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## **INTRODUCTION**

The Contract is issued by Thrivent Financial. Thrivent Financial, a fraternal benefit society owned and operated for its members, was organized under Internal Revenue Code section 501(c)(8) and established in 1902 under the laws of the State of Wisconsin. Thrivent Financial is currently licensed to transact life insurance business in all 50 states and the District of Columbia. The Contract may be sold to or in connection with retirement plans that may or may not qualify for special federal tax treatment under the Internal Revenue Code. Annuity payments under the Contract are deferred until a selected later date.

Premiums will be allocated, as designated by the Contract Owner, to one or more Subaccounts of the Variable Account (a separate account of Thrivent Financial) and/or to the Fixed Account. The assets of each Subaccount will be invested solely in a corresponding Portfolio of Thrivent Series Fund, Inc. (a "Fund"), which is an open-end management investment company (commonly known as a "mutual fund"). The prospectuses for the Fund that accompany the product Prospectus describe the investment objectives and attendant risks of the Portfolios of the Fund.

Additional Subaccounts (together with the related additional Portfolios) may be added in the future. The dollar amount of each annuity payment may vary according to the investment experience of the Portfolios whose shares are held in the Subaccounts designated and/or the interest rate credited under the Fixed Account.

## **SERVICES**

### **Service Agreements and Other Service Providers**

Assurance and audit services are currently provided by PricewaterhouseCoopers LLP, whose address is 45 South Seventh Street, Suite 3400, Minneapolis, Minnesota 55402.

There are no other service agreement contracts or service providers other than those described in this Statement of Additional Information. There is no custodian.

## **PRINCIPAL UNDERWRITER**

Thrivent Investment Management Inc., an indirect subsidiary of Thrivent Financial, acts as the principal underwriter of the Contracts pursuant to a Principal Underwriting Agreement to which Thrivent Financial and the Variable Account are also parties. The Contracts are sold through Thrivent Financial representatives who are licensed by state insurance officials to sell the Contracts. These representatives are also registered representatives of Thrivent Investment Management Inc. The Contracts are offered in all states where Thrivent Financial is authorized to sell variable annuities.

There are no special purchase plans or exchange programs with respect to this Contract.

Thrivent Financial paid underwriting commissions for the last three fiscal years as shown below. Of these amounts, Thrivent Investment Management Inc. retained \$0.

| <u>2018</u> | <u>2017</u> | <u>2016</u> |
|-------------|-------------|-------------|
| \$16,191    | \$5,226     | \$11,616    |

## **STANDARD AND POOR'S DISCLAIMER**

The S&P 500, S&P MidCap 400, and S&P SmallCap 600 Indexes are products of S&P Dow Jones Indices LLC or its affiliates ("SPDJI"), and have been licensed for use by Thrivent Financial for Lutherans ("Thrivent Financial"). Standard & Poor's® and S&P® are registered trademarks of Standard & Poor's Financial Services LLC ("S&P") and Dow Jones® is a registered trademark of Dow Jones Trademark Holdings LLC ("Dow Jones"). The trademarks have been licensed to SPDJI and have been sublicensed for use for certain purposes by Thrivent Financial. Thrivent Financial variable insurance products are not sponsored, endorsed, sold or promoted by SPDJI, Dow Jones, S&P, and of their respective affiliates (collectively, "S&P Dow Jones Indices"). S&P Dow Jones Indices does not make any representation or warranty, express or implied, to the owners of Thrivent Financial variable insurance products or any member of the public regarding the advisability of purchasing variable insurance contracts generally or in the Thrivent Financial variable insurance contracts particularly or the ability of the S&P 500, S&P MidCap 400, and S&P SmallCap 600 Indexes to track general market performance. S&P Dow Jones Indices only relationship to Thrivent Financial with respect to the S&P 500, S&P MidCap 400, and S&P SmallCap 600 Indexes is the licensing of the Indexes and certain trademarks, service marks and/or trade names of S&P Dow Jones Indices and/or its licensors. The S&P 500, S&P MidCap 400, and S&P Small Cap 600 Indexes are determined, composed and calculated by S&P Dow Jones Indices without regard to Thrivent Financial or the Thrivent Financial variable insurance products. S&P Dow Jones Indices have no obligation to take the needs of Thrivent Financial or the owners of the Thrivent Financial variable insurance products into consideration in determining, composing or calculating the S&P 500, S&P MidCap 400, and S&P SmallCap 600 Indexes. S&P Dow Jones Indices is not responsible for and has not participated in the determination of the prices, and amount of the Thrivent Financial variable insurance products or the timing of the issuance or sale of the Thrivent Financial variable insurance contract or in the determination or calculation of the equation by which a Thrivent Financial variable insurance product is to be converted into cash, surrendered or redeemed, as the case may be. S&P Dow Jones Indices has no obligation or liability in connection with the administration, marketing or trading of the Thrivent Financial variable insurance product. There is no assurance that investment products based on the S&P 500, S&P MidCap 400, and S&P SmallCap 600 Indexes will accurately track index performance or provide positive investment returns. S&P Dow Jones Indices LLC is not an investment advisor. Inclusion of a security within an index is not a recommendation by S&P Dow Jones Indices to buy, sell, or hold such security, nor is it considered to be investment advice.

S&P DOW JONES INDICES DOES NOT GUARANTEE THE ADEQUACY, ACCURACY, TIMELINESS AND/OR THE COMPLETENESS OF THE S&P 500, S&P MIDCAP 400, AND S&P SMALLCAP 600 INDEXES OR ANY DATA RELATED THERETO OR ANY COMMUNICATION, INCLUDING BUT NOT LIMITED TO, ORAL OR WRITTEN COMMUNICATION (INCLUDING ELECTRONIC COMMUNICATIONS) WITH RESPECT THERETO. S&P DOW JONES INDICES SHALL NOT BE SUBJECT TO ANY DAMAGES OR LIABILITY FOR ANY ERRORS, OMISSIONS, OR DELAYS THEREIN. S&P DOW JONES INDICES MAKES NO EXPRESS OR IMPLIED WARRANTIES, AND EXPRESSLY DISCLAIMS ALL WARRANTIES, OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE OR AS TO RESULTS TO BE OBTAINED BY THRIVENT FINANCIAL, OWNERS OF THE THRIVENT FINANCIAL VARIABLE INSURANCE PRODUCTS, OR ANY OTHER PERSON OR ENTITY FROM THE USE OF THE S&P 500, S&P MIDCAP 400, AND S&P SMALLCAP 600 INDEXES OR WITH RESPECT TO ANY DATA RELATED THERETO. WITHOUT LIMITING ANY OF THE FOREGOING, IN NO EVENT WHATSOEVER SHALL S&P DOW JONES INDICES BE LIABLE FOR ANY INDIRECT, SPECIAL, INCIDENTAL, PUNITIVE, OR CONSEQUENTIAL DAMAGES INCLUDING BUT NOT LIMITED TO, LOSS OF PROFITS, TRADING LOSSES, LOST TIME OR GOODWILL, EVEN IF THEY HAVE BEEN ADVISED OF THE POSSIBILITY OF SUCH DAMAGES, WHETHER IN CONTRACT, TORT, STRICT LIABILITY, OR OTHERWISE. THERE ARE NO THIRD PARTY BENEFICIARIES OF ANY AGREEMENTS OR ARRANGEMENTS BETWEEN S&P DOW JONES INDICES AND THRIVENT FINANCIAL, OTHER THAN THE LICENSORS OR S&P DOW JONES INDICES.

## **INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM AND FINANCIAL STATEMENTS**

The statutory financial statements of Thrivent Financial for Lutherans as of December 31, 2018 and December 31, 2017 and for each of the three years in the period ended December 31, 2018 and the financial statements of each of the subaccounts of Thrivent Variable Annuity Account II as of December 31, 2018 and for the period then ended and the statement of changes in net assets for the period ended December 31, 2018 included in this Statement of Additional Information have been so included in reliance on the reports of PricewaterhouseCoopers LLP, an independent registered public accounting firm, given on the authority of said firm as experts in auditing and accounting.

## **Report of Independent Auditors**

To the Board of Directors of Thrivent Financial for Lutherans:

We have audited the accompanying statutory financial statements of Thrivent Financial for Lutherans, which comprise the statutory statements of assets, liabilities and surplus as of December 31, 2018 and 2017, and the related statutory statements of operations, surplus and of cash flow for each of the three years in the period ended December 31, 2018.

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the accounting practices prescribed or permitted by the State of Wisconsin Office of the Commissioner of Insurance. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on the 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Company's preparation and fair presentation of the 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 financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles**

As described in Note 1 to the financial statements, the financial statements are prepared by the Company on the basis of the accounting practices prescribed or permitted by the State of Wisconsin Office of the Commissioner of Insurance, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

The effects on the financial statements of the variances between the statutory basis of accounting described in Note 12 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

### **Adverse Opinion on U.S. Generally Accepted Accounting Principles**

In our opinion, because of the significance of the matter discussed in the "Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles" paragraph, the financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Company as of December 31, 2018 and 2017, or the results of its operations or its cash flows for each of the three years in the period ended December 31, 2018.

**Report of Independent Auditors, continued**

**Opinion on Statutory Basis of Accounting**

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets, liabilities and surplus of the Company as of December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2018, in accordance with the accounting practices prescribed or permitted by the State of Wisconsin Office of the Commissioner of Insurance described in Note 1.

/s/PricewaterhouseCoopers LLP

February 18, 2019

**Thrivent Financial for Lutherans**  
Statutory-Basis Statements of Assets, Liabilities and Surplus  
As of December 31, 2018 and 2017  
(in millions)

|   | <u>2018</u>     | <u>2017</u>     |
|---|-----------------|-----------------|
| <b>Admitted Assets</b>  |                 |                 |
| Bonds .....   | \$43,283        | \$43,291        |
| Stocks .....  | 2,382           | 2,141           |
| Mortgage loans .....  | 8,999           | 8,202           |
| Real estate .....   | 65              | 59              |
| Cash, cash equivalents and short-term investments .....         | 1,430           | 1,573           |
| Contract loans .....  | 1,159           | 1,161           |
| Receivables for securities .....                                | 85              | 49              |
| Limited partnerships .....                                      | 3,844           | 3,197           |
| Other invested assets .....                                     | 194             | 204             |
| Total cash and invested assets .....                            | <u>61,441</u>   | <u>59,877</u>   |
| Accrued investment income .....                                 | 436             | 432             |
| Due premiums and considerations .....                           | 119             | 121             |
| Other assets .....  | 45              | 47              |
| Assets held in separate accounts .....                          | <u>28,468</u>   | <u>30,492</u>   |
| <b>Total Admitted Assets</b> .....                              | <u>\$90,509</u> | <u>\$90,969</u> |
| <b>Liabilities</b>  |                 |                 |
| Aggregate reserves for life, annuity and health contracts ..... | \$46,074        | \$45,380        |
| Deposit liabilities .....                                       | 3,543           | 3,421           |
| Contract claims .....   | 329             | 338             |
| Dividends due in following calendar year .....                  | 325             | 320             |
| Interest maintenance reserve .....                              | 471             | 491             |
| Asset valuation reserve .....                                   | 1,367           | 1,217           |
| Transfers due from separate account .....                       | (486)           | (582)           |
| Payable for securities .....                                    | 376             | 556             |
| Securities lending obligation .....                             | 243             | 365             |
| Other liabilities .....   | 710             | 746             |
| Liabilities related to separate accounts .....                  | <u>28,427</u>   | <u>30,448</u>   |
| <b>Total Liabilities</b> .....                                  | <u>81,379</u>   | <u>82,700</u>   |
| <b>Surplus</b>  |                 |                 |
| Unassigned funds .....  | 9,088           | 8,268           |
| Other surplus .....   | 42              | 1               |
| <b>Total Surplus</b> .....                                      | <u>9,130</u>    | <u>8,269</u>    |
| <b>Total Liabilities and Surplus</b> .....                      | <u>\$90,509</u> | <u>\$90,969</u> |

The accompanying notes are an integral part of these statutory-basis financial statements.

**Thrivent Financial for Lutherans**  
Statutory-Basis Statements of Operations  
For the Years Ended December 31, 2018, 2017, and 2016  
(in millions)

|   | <u>2018</u>    | <u>2017</u>   | <u>2016</u>   |
|---|----------------|---------------|---------------|
| <b>Revenues</b>   |                |               |               |
| Premiums.....   | \$4,981        | \$5,021       | \$5,451       |
| Considerations for supplementary contracts with life contingencies.....         | 134            | 113           | 78            |
| Net investment income.....  | 2,713          | 2,709         | 2,768         |
| Separate account fees.....  | 683            | 649           | 580           |
| Amortization of interest maintenance reserve.....                               | 161            | 130           | 118           |
| Other revenues.....   | 40             | 46            | 48            |
| <b>Total Revenues</b> .....   | <u>8,712</u>   | <u>8,668</u>  | <u>9,043</u>  |
| <b>Benefits and Expenses</b>  |                |               |               |
| Death benefits.....   | 1,101          | 1,029         | 1,005         |
| Surrender benefits.....   | 2,677          | 2,317         | 1,928         |
| Change in reserves.....   | 693            | 1,441         | 1,712         |
| Other benefits.....   | 1,648          | 1,504         | 1,414         |
| Total benefits.....   | <u>6,119</u>   | <u>6,291</u>  | <u>6,059</u>  |
| Commissions.....  | 271            | 270           | 286           |
| General insurance expenses.....   | 734            | 682           | 637           |
| Fraternal benefits and expenses.....  | 200            | 180           | 173           |
| Transfers to (from) separate accounts, net.....                                 | 4              | 483           | 902           |
| Total expenses and net transfers.....   | <u>1,209</u>   | <u>1,615</u>  | <u>1,998</u>  |
| <b>Total Benefits and Expenses</b> .....  | <u>7,328</u>   | <u>7,906</u>  | <u>8,057</u>  |
| <b>Gain from Operations before Dividends and Capital Gains and Losses</b> ..... | <u>1,384</u>   | <u>762</u>    | <u>986</u>    |
| Dividends.....  | 324            | 319           | 315           |
| <b>Gain from Operations before Capital Gains and Losses</b> .....               | <u>1,060</u>   | <u>443</u>    | <u>671</u>    |
| Realized capital gains (losses), net.....                                       | 146            | 74            | (115)         |
| <b>Net Income</b> .....   | <u>\$1,206</u> | <u>\$ 517</u> | <u>\$ 556</u> |

The accompanying notes are an integral part of these statutory-basis financial statements.



**Thrivent Financial for Lutherans**  
Statutory-Basis Statements of Surplus  
For the Years Ended December 31, 2018, 2017 and 2016  
(in millions)

|  | <u>2018</u>    | <u>2017</u>    | <u>2016</u>    |
|--|----------------|----------------|----------------|
| <b>Surplus, Beginning of Year</b> .....                | \$8,269        | \$7,726        | \$7,127        |
| Net income .....                                       | 1,206          | 517            | 556            |
| Change in unrealized investment gains and losses ..... | (260)          | 85             | 68             |
| Change in non-admitted assets.....                     | 8              | (11)           | (6)            |
| Change in asset valuation reserve .....                | (150)          | (118)          | (99)           |
| Change in surplus of separate account.....             | (3)            | (3)            | (6)            |
| Reserve Adjustment .....                               | —              | 84             | —              |
| Corporate home office building sale.....               | 42             | —              | —              |
| Pension liability adjustment .....                     | 18             | (11)           | 86             |
| <b>Surplus, End of Year</b> .....                      | <u>\$9,130</u> | <u>\$8,269</u> | <u>\$7,726</u> |

The accompanying notes are an integral part of these statutory-basis financial statements.

**Thrivent Financial for Lutherans**  
Statutory-Basis Statements of Cash Flow  
For the Years Ended December 31, 2018, 2017, and 2016  
(in millions)

|  | <u>2018</u>     | <u>2017</u>     | <u>2016</u>     |
|--|-----------------|-----------------|-----------------|
| <b>Cash from Operations</b>  |                 |                 |                 |
| Premiums .....   | \$ 5,116        | \$ 5,133        | \$ 5,523        |
| Net investment income .....  | 2,363           | 2,316           | 2,289           |
| Other revenues .....   | 722             | 695             | 625             |
|  | <u>8,201</u>    | <u>8,144</u>    | <u>8,437</u>    |
| Benefit- and loss-related payments .....                                     | (5,323)         | (4,696)         | (4,214)         |
| Transfers to separate account, net .....                                     | 93              | (498)           | (923)           |
| Commissions and expenses .....   | (1,205)         | (1,118)         | (1,065)         |
| Dividends .....  | (319)           | (317)           | (311)           |
| <b>Net Cash from Operations</b> .....  | <u>1,447</u>    | <u>1,515</u>    | <u>1,924</u>    |
| <b>Cash from Investments</b>   |                 |                 |                 |
| Proceeds from investments sold, matured or repaid:                           |                 |                 |                 |
| Bonds .....  | 7,392           | 7,919           | 6,870           |
| Stocks .....   | 1,276           | 1,027           | 923             |
| Mortgage loans .....   | 775             | 823             | 809             |
| Other .....  | 820             | 834             | 884             |
|  | <u>10,263</u>   | <u>10,603</u>   | <u>9,486</u>    |
| Cost of investments acquired or originated:                                  |                 |                 |                 |
| Bonds .....  | (7,518)         | (8,939)         | (8,841)         |
| Stocks .....   | (1,648)         | (1,189)         | (1,008)         |
| Mortgage loans .....   | (1,575)         | (1,253)         | (1,034)         |
| Other .....  | (1,033)         | (764)           | (745)           |
|  | <u>(11,774)</u> | <u>(12,145)</u> | <u>(11,628)</u> |
| Transactions under mortgage dollar roll program, net .....                   | 168             | (204)           | 598             |
| Change in net amounts due to/from broker .....                               | (215)           | 193             | (651)           |
| Change in collateral held for securities lending .....                       | (122)           | (158)           | 138             |
| Change in contract loans .....   | 3               | 3               | 6               |
| <b>Net Cash from Investments</b> .....                                       | <u>(1,677)</u>  | <u>(1,708)</u>  | <u>(2,051)</u>  |
| <b>Cash from Financing and Miscellaneous Sources</b>                         |                 |                 |                 |
| Net deposits (payments) on deposit-type contracts .....                      | 9               | 37              | 57              |
| Other .....  | 78              | (2)             | (7)             |
| <b>Net Cash from Financing and Miscellaneous Sources</b> .....               | <u>87</u>       | <u>35</u>       | <u>50</u>       |
| <b>Net Change in Cash, Cash Equivalents and Short-Term Investments</b> ..... | (143)           | (158)           | (77)            |
| Cash, Cash Equivalents and Short-Term Investments, Beginning of Year .....   | 1,573           | 1,731           | 1,808           |
| <b>Cash, Cash Equivalents and Short-Term Investments, End of Year</b> .....  | <u>\$ 1,430</u> | <u>\$ 1,573</u> | <u>\$ 1,731</u> |
| Supplemental information:  |                 |                 |                 |
| <u>Non-cash investing activities not included above</u>                      |                 |                 |                 |
| Mortgage Loan Refinancing .....  | \$ 91           | \$ 145          | \$ 143          |

The accompanying notes are an integral part of these statutory-basis financial statements.

**Thrivent Financial for Lutherans**  
Notes to Statutory-Basis Financial Statements  
For the Years Ended December 31, 2018, 2017, and 2016

**1. Nature of Operations and Significant Accounting Policies**

**Nature of Operations**

Thrivent Financial for Lutherans (“Thrivent Financial”) is a fraternal benefit society that provides to its members life insurance, retirement products, disability income and long-term care insurance, as well as Medicare supplement insurance. Thrivent Financial is licensed to conduct business throughout the United States and distributes its products to its members primarily through a network of career financial representatives. Thrivent Financial also offers its members additional related financial products and services, such as investment funds and trust services, through its subsidiaries and affiliates.

**Significant Accounting Principles**

The accompanying statutory-basis financial statements have been prepared in accordance with statutory accounting practices (“SAP”) prescribed by the State of Wisconsin Office of the Commissioner of Insurance.

**Use of Estimates**

The preparation of statutory-basis financial statements in conformity with SAP requires management to make estimates and assumptions that affect the amounts reported in the statutory-basis financial statements and accompanying notes. The more significant estimates involve those relating to fair values of investments, reserves for life, health and annuity contracts, and pension and other retirement benefit liabilities. Actual results could differ from those estimates.

The significant accounting practices used in preparation of the statutory-basis financial statements are summarized as follows:

*Investments*

*Bonds:* Bonds are generally carried at amortized cost, depending on the nature of the security and as prescribed by National Association of Insurance Commissioners (“NAIC”) guidelines. Discounts or premiums on bonds are amortized over the term of the securities using the modified scientific method. Discounts or premiums on loan-backed and structured securities are amortized over the term of the securities using the modified scientific method, adjusted to reflect anticipated pre-payment patterns. Interest income is recognized when earned.

Thrivent Financial uses a mortgage dollar roll program to enhance the yield on its mortgage-backed security (“MBS”) portfolio. MBS dollar rolls are transactions whereby Thrivent Financial sells an MBS to a counterparty and subsequently enters into a commitment to purchase another security at a later date. Thrivent Financial’s mortgage dollar roll program generally includes a series of MBS dollar rolls extending for more than a year. Thrivent Financial had \$252 million and \$420 million in the mortgage dollar roll program as of December 31, 2018 and 2017, respectively.

*Stocks:* Preferred stocks are generally carried at amortized cost. Common stocks of unaffiliated companies are stated at fair value. Common stocks of unconsolidated subsidiaries and affiliates are carried on their statutory equity basis. Investments in affiliated mutual funds are carried at net asset value (“NAV”).

## Thrivent Financial for Lutherans

### Notes to Statutory-Basis Financial Statements, continued

#### 1. Nature of Operations and Significant Accounting Policies, continued

Mortgage loans: Mortgage loans are generally carried at their unpaid principal balances less valuation adjustments. Interest income is accrued on the unpaid principal balance using the loan's contractual interest rate. Discounts or premiums are amortized over the term of the loans using the effective interest method. Interest income and amortization of premiums and discounts are recorded as a component of net investment income along with prepayment fees and mortgage loan fees.

Real estate: Home office real estate is valued at original cost plus capital expenditures less accumulated depreciation and encumbrances. Depreciation expense is determined using the straight-line method over the estimated useful lives of the properties. Real estate expected to be disposed of is carried at the lower of cost or fair value, less estimated costs to sell.

Cash, cash equivalents and short-term investments: Included in cash and cash equivalents are demand deposits and highly liquid investments purchased with an original maturity of three months or less, which are carried at amortized cost. Also included in cash equivalents are investments in money market mutual funds, which are carried at fair value. Short-term investments have contractual maturities of one year or less at the time of acquisition. Included in short-term investments are investments in commercial paper and agency notes, which are carried at amortized cost.

Contract loans: Contract loans are generally carried at their aggregate unpaid balances. Contract loans are collateralized by the cash surrender value of the associated insurance contracts.

Limited partnerships: Limited partnerships consist primarily of equity limited partnerships, which are valued on the underlying audited U.S. generally accepted accounting principles ("GAAP") equity of the investee. Income is recognized on distributions received that are not in excess of undistributed earnings.

Other invested assets: Other invested assets include derivative instruments, real estate joint ventures, surplus notes and Thrivent Financial's investment interest in Thrivent Education Funding, LLC (TEF). Derivatives are primarily carried at fair value. Real estate joint ventures are valued on the underlying audited equity of the investee. Surplus notes are carried at amortized cost. TEF is a wholly owned affiliate of Thrivent Financial and is valued based on GAAP equity.

Securities lending: Securities loaned under Thrivent Financial's securities lending agreement are carried in the Statutory-Basis Statements of Assets, Liabilities and Surplus at amortized cost or fair value, depending on the nature of the security and as prescribed by NAIC guidelines. Thrivent Financial generally receives cash collateral in an amount that is in excess of the market value of the securities loaned, and the cash collateral is invested in highly-liquid, highly-rated securities which are included in bonds and cash, cash equivalents and short-term investments on the Statutory-Basis Statements of Assets, Liabilities and Surplus. A liability is also recognized for the amount of the collateral. Market values of securities loaned and corresponding collateral are monitored daily, and additional collateral is obtained as necessary. Thrivent Financial requires a minimum level of collateral to be held for loaned securities. Thrivent Financial presents securities lending agreements on a gross basis in the statutory-basis financial statements.

Offsetting assets and liabilities: Thrivent Financial presents securities lending agreements and derivatives on a gross basis in the statutory-basis financial statements.

Unrealized investment gains and losses: Unrealized investment gains and losses include changes in fair value of bonds, unaffiliated stocks, affiliated common stocks, affiliated mutual funds, and other invested assets and are accounted for as a direct increase or decrease of surplus.

## Thrivent Financial for Lutherans

### Notes to Statutory-Basis Financial Statements, continued

#### 1. Nature of Operations and Significant Accounting Policies, continued

Realized capital gains and losses: Realized capital gains and losses on sales of investments are determined using the specific identification method for bonds and average cost method for stocks.

Thrivent Financial periodically reviews its security portfolios and evaluates those securities where the current fair value is less than amortized cost for indicators that the decline in value is other-than-temporary. This review includes an evaluation of each security issuer's creditworthiness, such as its ability to generate operating cash flow and remain current on all debt obligations, as well as any changes in its credit ratings from third party agencies. Other factors include the severity and duration of the impairment, Thrivent Financial's ability to collect all amounts due according to the contractual terms of the debt security, and Thrivent Financial's ability and intent to hold the security for a period of time sufficient to allow for any anticipated recovery in the market.

The potential need to sell securities in an unrealized loss position which have no other indications of other-than-temporary impairment is evaluated based on the current market environment, near-term and long-term asset liability management strategies and target allocation strategies for various asset classes. Generally, Thrivent Financial has the ability and intent to hold securities in an unrealized loss position for a period of time sufficient for the security to recover in value. Investments that are determined to be other-than-temporarily impaired are written down, primarily to fair value, and the write-down is included in realized capital gains and losses in the Statutory-Basis Statements of Operations. If, in response to changed conditions in the capital markets, Thrivent Financial decides to sell a security in an unrealized loss position, a realized loss is recognized in the period that the decision is made to sell that security.

Certain realized capital gains and losses on bonds sold prior to their maturity are transferred to the interest maintenance reserve.

Interest maintenance reserve: Thrivent Financial is required by the NAIC to maintain an interest maintenance reserve ("IMR"). The IMR is primarily used to defer certain realized capital gains and losses on fixed income investments. Net realized capital gains and losses deferred to IMR are amortized into investment income over the estimated remaining term to maturity of the investment sold.

Fair value of financial instruments: In estimating the fair values for financial instruments, the amount of observable and unobservable inputs used to determine fair value is taken into consideration. Each of the financial instruments has been classified into one of three categories based on that evaluation. A Level 1 financial instrument is valued using quoted prices for identical assets in active markets that are accessible. A Level 2 financial instrument is valued based on quoted prices for similar instruments in active markets that are accessible, quoted prices for identical or similar instruments in markets that are not active, or model-derived valuations where the significant value driver inputs are observable. A Level 3 financial instrument is valued using significant value driver inputs that are unobservable.

#### *Separate Accounts*

Separate account assets and liabilities reported in the accompanying Statutory-Basis Statements of Assets, Liabilities and Surplus represent funds that are separately administered for variable annuity and variable life contracts, and for which the contractholder, rather than Thrivent Financial, bears the investment risk. Fees charged on separate account contractholder account value, include mortality and expense charges, rider fees, and advisor fees and are recognized when due. Separate account assets, which consist of investment funds, are carried at fair value based on published market prices. Separate account liability values are not guaranteed to the contractholder; however, general account reserves include provisions for the guaranteed minimum death

## **Thrivent Financial for Lutherans**

Notes to Statutory-Basis Financial Statements, continued

### **1. Nature of Operations and Significant Accounting Policies, continued**

and living benefits contained in the contracts. Reserve assumptions for these benefits are discussed in the section Aggregate Reserves for Life, Annuity and Health Contracts.

#### ***Aggregate Reserves for Life, Annuity and Health Contracts***

Reserves for life insurance contracts are calculated using primarily the Commissioners' Reserve Valuation Method generally based upon the 1941, 1958, 1980, 2001, and 2017 Commissioners' Standard Ordinary and American Experience Mortality Tables with assumed interest rates ranging from 2.5% to 5.5%. Reserves on Contracts issued on a substandard basis are valued using the valuation mortality rates for the substandard rating.

Reserves for fixed annuities, supplementary contracts with life contingencies and other benefits are computed using recognized and accepted mortality tables and methods, which equal or exceed the minimum reserves calculated under the Commissioners' Annuity Reserve Valuation Method. Fixed indexed annuity reserves are calculated according to the Black-Scholes Projection Method described in Actuarial Guideline 35. Reserves for variable annuities are computed using the methods and assumptions specified in Actuarial Guidelines 43 and VM-21, including assumptions for guaranteed minimum death benefits and living benefits.

Accident and health contract reserves are generally calculated using the two-year preliminary term, one-year preliminary term and the net level premium methods based upon various morbidity tables. In addition, for long-term care and disability income products, a premium deficiency reserve is held to the extent future premiums and current reserves are less than the value of future expected claim payments and expenses.

The reserve assumptions inherent in these approaches are designed to be sufficient to provide for all contractual benefits. Thrivent Financial waives deduction of deferred fractional premiums upon the death of insureds and returns any portion of the final premium beyond the date of death. Surrender values are not promised in excess of the legally computed reserves.

During 2017, Thrivent Financial recorded an adjustment to its reserves for life contracts totaling \$84 million. The adjustment corrected an overstatement of the reserve connected with waivers on the Term Life products. The adjustment was recorded directly to surplus and the impact to previous years gain from operations was not significant.

#### ***Deposit Liabilities***

Deposit liabilities have been established on certain annuity and supplemental contracts that do not subject Thrivent Financial to mortality and morbidity risk. Changes in future benefits on these deposit-type contracts are classified as deposit-type transactions and thereby excluded from net additions to contract reserves.

#### ***Contract Claims Liabilities***

Claim liabilities are established in amounts estimated to cover incurred claims. These liabilities are based on individual case estimates for reported claims and estimates of unreported claims based on past experience.

## **Thrivent Financial for Lutherans**

Notes to Statutory-Basis Financial Statements, continued

### **1. Nature of Operations and Significant Accounting Policies, continued**

#### ***Asset Valuation Reserve***

Thrivent Financial is required to maintain an asset valuation reserve (“AVR”), which is a liability calculated using a formula prescribed by the NAIC. The AVR is a general provision for future potential losses in the value of investments, unrelated to changes in interest rates. Increases or decreases in the AVR are reported as direct adjustments to surplus in the Statutory-Basis Statements of Surplus.

#### ***Premiums and Considerations***

Traditional life insurance premiums are recognized as revenue when due. Variable life, universal life, annuity premiums and considerations of supplemental contracts with life contingencies are recognized when received. Health insurance premiums are earned pro rata over the terms of the policies.

#### ***Fraternal Benefits and Expenses***

Fraternal benefits and expenses include all fraternal activities as well as expenses incurred to provide or administer fraternal benefits and expenses related to Thrivent Financial’s fraternal character. This includes items such as benevolences to help meet the needs of people, educational benefits to raise community and family awareness of issues, church grants and costs necessary to maintain Thrivent Financial’s fraternal branch system. Thrivent Financial conducts its fraternal activities primarily through its lodge system where members participate in locally sponsored fraternal activities.

#### ***Dividends to Members***

Thrivent Financial’s insurance products are participating in nature. Dividends on these policies to be paid to members in the subsequent 12 months are reflected in the Statutory-Basis Statements of Operations for the current year. The majority of life insurance contracts receive dividends. Dividends are not currently being paid on most health insurance and annuity contracts. Dividend scales are approved annually by Thrivent Financial’s Board of Directors.

#### ***Income Taxes***

Thrivent Financial, as a fraternal benefit society, qualifies as a tax-exempt organization under the Internal Revenue Code. Accordingly, income earned by Thrivent Financial is generally exempt from taxation; therefore, no provision for income taxes has been recorded.

#### ***New Accounting Guidance***

In 2018, Thrivent Financial adopted changes to SSAP No. 86 (Derivatives), which clarifies that amounts received or paid to adjust variation margin on derivative contracts that are both cleared and settled on an exchange should be recognized as unrealized gains or losses. The new guidance is applied prospectively and did not have a material impact to Thrivent Financial’s financial statements.

In 2018, Thrivent Financial adopted changes to SSAP No. 103R (Transfers and Servicing of Financial Assets and Extinguishments of Liabilities), which clarifies what is to be included in the wash sale disclosure and that the disclosure shall be in the financial statements for the period in which the security is sold. The new guidance is applied prospectively and did not have a material impact to Thrivent Financial’s financial statements.

## Thrivent Financial for Lutherans

Notes to Statutory-Basis Financial Statements, continued

### 1. Nature of Operations and Significant Accounting Policies, continued

In 2018, Thrivent Financial adopted changes to SSAP No. 92 (Post Retirement Benefits Other Than Pensions) and SSAP No. 102 (Pensions), which removes the level 3 fair value reconciliation disclosure for pension and other post-retirement plan assets. The new guidance is applied prospectively and did not have a material impact to Thrivent Financial's financial statements.

#### *Subsequent Events*

Thrivent Financial evaluated events or transactions that may have occurred after the Statutory-Basis Statements of Assets, Liabilities and Surplus date for potential recognition or disclosure through February 18, 2019, the date the statutory-basis financial statements were available to be issued. There were no subsequent events or transactions which required recognition or disclosure.

### 2. Investments

#### Bonds

The admitted value and fair value of Thrivent Financial's investment in bonds are summarized below (in millions).

|   | <u>Admitted<br/>Value</u> | <u>Gross Unrealized</u> |                | <u>Fair<br/>Value</u> |
|---|---------------------------|-------------------------|----------------|-----------------------|
|   |                           | <u>Gains</u>            | <u>Losses</u>  |                       |
| <b>December 31, 2018</b>                              |                           |                         |                |                       |
| U.S. government and agency securities .....           | \$ 1,556                  | \$ 38                   | \$ 12          | \$ 1,582              |
| U.S. state and political subdivision securities ..... | 104                       | 33                      | —              | 137                   |
| Securities issued by foreign governments .....        | 102                       | 3                       | 1              | 103                   |
| Corporate debt securities .....                       | 32,063                    | 983                     | 923            | 32,125                |
| Residential mortgage-backed securities .....          | 6,912                     | 26                      | 148            | 6,790                 |
| Commercial mortgage-backed securities .....           | 2,077                     | 8                       | 40             | 2,045                 |
| Collateralized debt obligations .....                 | 3                         | 11                      | —              | 14                    |
| Other debt obligations .....                          | 441                       | 1                       | 8              | 434                   |
| Affiliated Bonds .....                                | 25                        | —                       | —              | 25                    |
| Total bonds .....                                     | <u>\$43,283</u>           | <u>\$1,103</u>          | <u>\$1,132</u> | <u>\$43,255</u>       |
| <b>December 31, 2017</b>                              |                           |                         |                |                       |
| U.S. government and agency securities .....           | \$ 2,458                  | \$ 72                   | \$ 7           | \$ 2,523              |
| U.S. state and political subdivision securities ..... | 105                       | 42                      | —              | 147                   |
| Securities issued by foreign governments .....        | 107                       | 5                       | —              | 112                   |
| Corporate debt securities .....                       | 30,976                    | 2,361                   | 167            | 33,170                |
| Residential mortgage-backed securities .....          | 7,434                     | 79                      | 54             | 7,459                 |
| Commercial mortgage-backed securities .....           | 1,786                     | 16                      | 17             | 1,785                 |
| Collateralized debt obligations .....                 | 3                         | 11                      | —              | 14                    |
| Other debt obligations .....                          | 422                       | 3                       | 3              | 422                   |
| Total bonds .....                                     | <u>\$43,291</u>           | <u>\$2,589</u>          | <u>\$ 248</u>  | <u>\$45,632</u>       |

The admitted value of corporate debt securities issued in foreign currencies was \$546 million and \$434 million as of December 31, 2018 and 2017, respectively.



**Thrivent Financial for Lutherans**

Notes to Statutory-Basis Financial Statements, continued

**2. Investments, continued**

The admitted value and fair value of bonds, short-term investments and certain cash equivalents by contractual maturity are shown below (in millions). Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

|   | <u>Admitted<br/>Value</u> | <u>Fair<br/>Value</u> |
|---|---------------------------|-----------------------|
| <b>December 31, 2018</b>                    |                           |                       |
| Due in one year or less.....                | \$ 2,376                  | \$ 2,402              |
| Due after one year through five years ..... | 9,470                     | 9,457                 |
| Due after five years through ten years..... | 13,632                    | 13,284                |
| Due after ten years .....                   | 19,175                    | 19,482                |
| Total .....                                 | <u>\$44,653</u>           | <u>\$44,625</u>       |

The following table shows the fair value and gross unrealized losses aggregated by investment category and length of time that individual bonds have been in a continuous unrealized loss position (dollars in millions). Certain amounts as of December 31, 2017 below have been revised to correct the prior period disclosure.

|  | <u>Less than 12 Months</u>      |                       |  | <u>12 Months or More</u>        |                       |  |
|--|---------------------------------|-----------------------|--|---------------------------------|-----------------------|--|
|  | <u>Number of<br/>Securities</u> | <u>Fair<br/>Value</u> | <u>Gross<br/>Unrealized<br/>Losses</u> | <u>Number of<br/>Securities</u> | <u>Fair<br/>Value</u> | <u>Gross<br/>Unrealized<br/>Losses</u> |
| <b>December 31, 2018</b>                             |                                 |                       |  |                                 |                       |  |
| U.S. government and agency securities.....           | 17                              | \$ 537                | \$ 7                                   | 4                               | \$ 187                | \$ 5                                   |
| U.S. state and political subdivision securities..... | —                               | —                     | —                                      | —                               | —                     | —                                      |
| Securities issued by foreign governments ....        | —                               | —                     | —                                      | 2                               | 24                    | 1                                      |
| Corporate debt securities .....                      | 1,945                           | 15,979                | 719                                    | 307                             | 2,576                 | 204                                    |
| Residential mortgage-backed securities.....          | 124                             | 3,078                 | 64                                     | 100                             | 2,043                 | 84                                     |
| Commercial mortgage-backed securities.....           | 87                              | 930                   | 17                                     | 57                              | 518                   | 23                                     |
| Collateralized debt obligations .....                | —                               | —                     | —                                      | 2                               | —                     | —                                      |
| Other debt obligations.....                          | 68                              | 233                   | 6                                      | 28                              | 112                   | 2                                      |
| Total bonds.....                                     | <u>2,241</u>                    | <u>\$20,757</u>       | <u>\$813</u>                           | <u>500</u>                      | <u>\$5,460</u>        | <u>\$319</u>                           |
| <b>December 31, 2017</b>                             |                                 |                       |  |                                 |                       |  |
| U.S. government and agency securities.....           | 20                              | \$ 873                | \$ 5                                   | 3                               | \$ 55                 | \$ 2                                   |
| U.S. state and political subdivision securities..... | —                               | —                     | —                                      | —                               | —                     | —                                      |
| Securities issued by foreign governments ....        | 2                               | 24                    | —                                      | —                               | —                     | —                                      |
| Corporate debt securities .....                      | 350                             | 3,278                 | 98                                     | 197                             | 1,744                 | 69                                     |
| Residential mortgage-backed securities.....          | 80                              | 2,571                 | 15                                     | 79                              | 1,767                 | 39                                     |
| Commercial mortgage-backed securities.....           | 52                              | 489                   | 4                                      | 46                              | 408                   | 13                                     |
| Collateralized debt obligations .....                | —                               | —                     | —                                      | 2                               | —                     | —                                      |
| Other debt obligations.....                          | 74                              | 287                   | 2                                      | 23                              | 85                    | 1                                      |
| Total bonds.....                                     | <u>578</u>                      | <u>\$ 7,522</u>       | <u>\$124</u>                           | <u>350</u>                      | <u>\$4,059</u>        | <u>\$124</u>                           |

## Thrivent Financial for Lutherans

Notes to Statutory-Basis Financial Statements, continued

### 2. Investments, continued

Based on Thrivent Financial's current evaluation of its securities in accordance with its impairment policy, a determination was made that the declines in the securities summarized above are temporary in nature.

As of December 31, 2018, Thrivent Financial held the following structured notes (in millions) as defined by the NAIC Securities Valuation Office. The structured notes below are included in U.S. government and agency securities. No investments held as of December 31, 2018 are considered mortgage-referenced securities.

| <u>CUSIP</u>   | <u>Actual Cost</u> | <u>Fair Value</u> | <u>Book/Adjusted Carrying Value</u> |
|----------------|--------------------|-------------------|-------------------------------------|
| 912810QF8..... | \$ 5               | \$ 7              | \$ 6                                |
| 9128283R9..... | 25                 | 24                | 25                                  |
| 912828B25..... | 25                 | 27                | 27                                  |
| 912828H45..... | 15                 | 15                | 16                                  |
| 912828N71..... | 26                 | 26                | 26                                  |
| 912828NM8..... | 27                 | 30                | 30                                  |
| 912828QV5..... | 81                 | 83                | 86                                  |
| 912828UH1..... | 27                 | 28                | 29                                  |
| 912828V49..... | 25                 | 25                | 25                                  |
|                | <u>\$256</u>       | <u>\$265</u>      | <u>\$270</u>                        |

### Stocks

The cost and fair value of Thrivent Financial's investment in stocks as of December 31 are presented below (in millions). Certain prior year amounts have been reclassified to conform to the current year presentation.

|                                 | <u>2018</u>    | <u>2017</u>    |
|---------------------------------|----------------|----------------|
| Unaffiliated preferred stocks:  |                |                |
| Cost/statement value.....       | \$ 206         | \$ 157         |
| Gross unrealized gains.....     | 120            | 130            |
| Gross unrealized losses.....    | (5)            | (1)            |
| Fair value.....                 | <u>\$ 321</u>  | <u>\$ 286</u>  |
| Unaffiliated common stocks:     |                |                |
| Cost.....                       | \$1,372        | \$1,046        |
| Gross unrealized gains.....     | 177            | 329            |
| Gross unrealized losses.....    | (105)          | (13)           |
| Fair value/statement value..... | <u>\$1,444</u> | <u>\$1,362</u> |
| Affiliated common stocks:       |                |                |
| Cost.....                       | \$ 179         | \$ 255         |
| Gross unrealized gains.....     | 161            | 64             |
| Gross unrealized losses.....    | —              | —              |
| Fair value/statement value..... | <u>\$ 340</u>  | <u>\$ 319</u>  |

**Thrivent Financial for Lutherans**

Notes to Statutory-Basis Financial Statements, continued

**2. Investments, continued**

|                                  | <u>2018</u>    | <u>2017</u>    |
|----------------------------------|----------------|----------------|
| Affiliated mutual funds:         |                |                |
| Cost .....                       | \$ 426         | \$ 277         |
| Gross unrealized gains .....     | 3              | 26             |
| Gross unrealized losses .....    | (37)           | —              |
| Fair value/statement value ..... | <u>\$ 392</u>  | <u>\$ 303</u>  |
| Total statement value .....      | <u>\$2,382</u> | <u>\$2,141</u> |

**Mortgage Loans**

The age analysis of mortgage loans as of December 31 was as follows (in millions):

|  | <u>2018</u>    | <u>2017</u>    |
|--|----------------|----------------|
| Current .....                                | \$8,995        | \$8,193        |
| 30 – 59 days past due .....                  | 2              | 2              |
| 60 – 89 days past due .....                  | 1              | 5              |
| 90 – 179 days past due .....                 | —              | 2              |
| 180+ days past due .....                     | 1              | —              |
| Total mortgage loans .....                   | <u>\$8,999</u> | <u>\$8,202</u> |
| 180+ Days Past Due and Accruing Interest:    |                |                |
| Investment .....                             | \$ 1           | \$ —           |
| Interest accrued .....                       | —              | —              |
| 90 -179 Days Past Due and Accruing Interest: |                |                |
| Investment .....                             | —              | 2              |
| Interest Accrued .....                       | —              | —              |

The distribution of Thrivent Financial’s mortgage loans among various geographic regions of the United States as of December 31 was as follows:

|                          | <u>2018</u> | <u>2017</u> |
|--------------------------|-------------|-------------|
| <b>Geographic Region</b> |             |             |
| Pacific .....            | 27%         | 25%         |
| South Atlantic .....     | 19          | 19          |
| East North Central ..... | 9           | 9           |
| West North Central ..... | 14          | 14          |
| Mountain .....           | 11          | 13          |
| Mid-Atlantic .....       | 8           | 8           |
| West South Central ..... | 7           | 7           |
| Other .....              | 5           | 5           |
| Total .....              | <u>100%</u> | <u>100%</u> |

**Thrivent Financial for Lutherans**

Notes to Statutory-Basis Financial Statements, continued

**2. Investments, continued**

The distribution of Thrivent Financial’s mortgage loans among various property types as of December 31 was as follows:

|                      | <u>2018</u> | <u>2017</u> |
|----------------------|-------------|-------------|
| <b>Property Type</b> |             |             |
| Industrial .....     | 25%         | 26%         |
| Retail .....         | 23          | 26          |
| Office.....          | 17          | 18          |
| Church.....          | 10          | 11          |
| Apartments .....     | 17          | 11          |
| Other .....          | <u>8</u>    | <u>8</u>    |
| Total.....           | <u>100%</u> | <u>100%</u> |

***Impaired Loans***

A loan is determined to be impaired when Thrivent Financial considers it probable that the principal and interest will not be collected according to the contractual terms of the loan agreement. At December 31, 2018 Thrivent Financial held impaired loans with a carrying value of \$9 million and an unpaid principal balance of \$11 million for which there was no related allowance for credit losses recorded and at December 31, 2017, Thrivent Financial held impaired loans with a carrying value of \$4 million and an unpaid principal balance of \$4 million for which there was no related allowance for credit losses recorded.

Any payments received on impaired loans are either applied against the principal or reported as net investment income, based on an assessment as to the collectability of the principal. Interest income on impaired loans is recognized upon receipt.

After loans become 180 days delinquent on principal or interest payments, or if the loans have been determined to be impaired, any accrued but uncollectible interest on the mortgage loans is non-admitted and charged to surplus in the period in which the loans are determined to be impaired. Generally, only after the loans become less than 180 days delinquent from the contractual due date will accrued interest be returned to admitted status. The amount of impairments included in realized capital losses due to debt restructuring during the year was \$0.0 million, \$0.0 million and \$7.0 million for the years ended December 31, 2018, 2017 and 2016, respectively. The average recorded investment in impaired mortgage loans held on December 31, 2018 and 2017 was \$4 million and \$2 million, respectively. Interest income recognized on impaired mortgage loans totaled \$0.1 million during all three years ended December 31, 2018, 2017 and 2016.

In certain circumstances, Thrivent Financial may modify the terms of a loan to maximize the collection of amounts due. During the years ended December 31, 2018 and 2017, Thrivent Financial modified no loans under these circumstances.

As of both December 31, 2018 and 2017, Thrivent Financial held 2 mortgage loans totaling \$9 million and \$2 million, respectively, where loan modifications had occurred. During the years ended December 31, 2018 and 2017, there were no modified mortgage loans with a payment default.

During the years ended December 31, 2018 and 2017, there was one mortgage loan each year that was derecognized as a result of foreclosure in the amount of \$1.7 million and \$5 million, respectively.

**Thrivent Financial for Lutherans**  
Notes to Statutory-Basis Financial Statements, continued

**2. Investments, continued**

**Real Estate**

The components of real estate investments as of December 31 were as follows (in millions):

|   | <u>2018</u>  | <u>2017</u>  |
|---|--------------|--------------|
| Home office properties .....                | \$143        | \$ 181       |
| Held-for-sale .....                         | 6            | 14           |
| Total before accumulated depreciation ..... | 149          | 195          |
| Accumulated depreciation .....              | (84)         | (136)        |
| Total real estate .....                     | <u>\$ 65</u> | <u>\$ 59</u> |

In August 2018, Thrivent Financial sold its corporate home office property for a cash payment of \$55 million. Subsequent to the sale, Thrivent Financial entered into an agreement with the purchaser to lease the property for a 30-month term lease. The \$48 million gain on the sale of the property has been deferred and is reported in other surplus funds and will be recognized over the term of the lease.

**Derivative Financial Instruments**

Thrivent Financial uses derivative financial instruments in the normal course of business to manage investment risks, to reduce interest rate and duration imbalances determined in asset/liability analyses and to offset risks associated with the guaranteed living benefits features of certain variable annuity products.

The following table summarizes the carrying values, which primarily equal fair values, included in other invested assets or other liabilities on the Statutory-Basis Statements of Assets, Liabilities and Surplus, and the notional amounts of Thrivent Financial's derivative financial instruments (in millions):

|   | <u>Carrying<br/>Value</u> | <u>Notional<br/>Amount</u> | <u>Realized<br/>Gain/(Loss)</u> |
|---|---------------------------|----------------------------|---------------------------------|
| <b>As of and for the year ended December 31, 2018</b> |                           |                            |                                 |
| Assets:   |                           |                            |                                 |
| Call spread options .....                             | \$ 4                      | \$ 545                     | \$ 20                           |
| Futures .....   | —                         | 990                        | (9)                             |
| Foreign currency swaps .....                          | 25                        | 258                        | 2                               |
| Covered written call options .....                    | —                         | —                          | 2                               |
| Total assets .....                                    | <u>\$ 29</u>              | <u>\$1,793</u>             | <u>\$ 15</u>                    |
| Liabilities:  |                           |                            |                                 |
| Call spread options .....                             | (2)                       | 569                        | (16)                            |
| Foreign currency swaps .....                          | (17)                      | 305                        | 6                               |
| Total liabilities .....                               | <u>\$ (19)</u>            | <u>\$ 874</u>              | <u>\$(10)</u>                   |
| <b>As of and for the year ended December 31, 2017</b> |                           |                            |                                 |
| Assets:   |                           |                            |                                 |
| Call spread options .....                             | \$ 38                     | \$ 339                     | \$ 20                           |
| Futures .....   | —                         | 344                        | (41)                            |
| Foreign currency swaps .....                          | 9                         | 202                        | 3                               |
| Covered written call options .....                    | —                         | —                          | 4                               |
| Total assets .....                                    | <u>\$ 47</u>              | <u>\$ 885</u>              | <u>\$(14)</u>                   |

**Thrivent Financial for Lutherans**

Notes to Statutory-Basis Financial Statements, continued

**2. Investments, continued**

|                                    | <b>Carrying<br/>Value</b> | <b>Notional<br/>Amount</b> | <b>Realized<br/>Gain/(Loss)</b> |
|------------------------------------|---------------------------|----------------------------|---------------------------------|
| Liabilities:                       |                           |                            |                                 |
| Call spread options .....          |                           |                            |                                 |
| Covered written call options ..... | 26                        | 381                        | (17)                            |
| Foreign currency swaps .....       | 27                        | 227                        | 2                               |
| Total liabilities .....            | \$ 53                     | \$ 608                     | \$(15)                          |

All gains and losses are reflected in realized capital gains and losses in the statutory-basis financial statements except foreign currency swaps which are reflected in net investment income. Notional amounts do not represent amounts exchanged by the parties and are therefore not a measure of Thrivent Financial's exposure. The amounts exchanged are calculated based on the notional amounts and the other terms of the instruments, such as interest rates, exchange rates, security prices or financial and other indices.

***Call Spread Options***

Thrivent Financial uses over-the-counter S&P 500 index call spread options (i.e. buying call options and selling cap call options) to manage risks associated with its fixed indexed annuities. Purchased call spread options are reported at fair value in other invested assets and written call spread options are reported at fair value in other liabilities. The changes in the fair value of the call spread options are recorded in unrealized gains and losses.

***Covered Written Call Options***

Thrivent Financial sells covered written call option contracts to enhance the return on residential mortgage-backed "to be announced" collateral that it owns. The premium received for these call options is recorded in other liabilities at book value at each reporting period. All positions in these contracts are settled at month end. Upon disposition of the options, the gains are recorded as a component of realized capital gains and losses. During the years ended December 31, 2018, 2017 and 2016, \$3 million, \$8 million and \$10 million, respectively, was received in call premium.

***Futures***

Thrivent Financial utilizes futures contracts to manage a portion of the risks associated with the guaranteed minimum accumulation benefit feature of its variable annuity products and to manage foreign equity risk. Cash paid for the futures contracts is recorded in other invested assets. The futures contracts are valued at fair value at each reporting period. The daily change in fair value from the contracts variation margin is recognized in unrealized gains and losses until the contract is closed and/or otherwise expired. Realized gains and losses are recognized when the contract is closed and/or otherwise expired.

***Foreign Currency Swaps***

Thrivent Financial utilizes foreign currency swaps to manage the risk associated with changes in the exchange rate of foreign currency to U.S. dollar payments for foreign denominated bonds. The swaps are reported at fair value with the change in the fair value recognized in unrealized gains and losses. Realized gains and losses are recognized upon settlement of the swap. No cash is exchanged at the outset of the swaps, and interest payments received are recorded as a component of net investment income.

**Thrivent Financial for Lutherans**  
Notes to Statutory-Basis Financial Statements, continued

**2. Investments, continued**

**Securities Lending**

Elements of the securities lending program are presented below as of December 31 (in millions):

|  | <u>2018</u>  | <u>2017</u>  |
|--|--------------|--------------|
| Loaned securities:                                 |              |              |
| Carrying value.....                                | \$252        | \$346        |
| Fair value.....                                    | 237          | 357          |
| Cash collateral reinvested at book and fair value: |              |              |
| Open .....   | \$ 62        | \$ 45        |
| 30 days or less .....                              | 88           | 239          |
| 31 – 60 days.....                                  | 25           | 49           |
| 61 – 90 days.....                                  | 9            | 13           |
| 91 – 120 days .....                                | 5            | —            |
| 121 – 180 days .....                               | 11           | —            |
| 181 – 365 days .....                               | 10           | 5            |
| 1 – 2 years .....                                  | 33           | 14           |
| 2 – 3 years .....                                  | —            | —            |
| Greater than 3 years .....                         | —            | —            |
| Total.....   | <u>\$243</u> | <u>\$365</u> |
| Cash collateral liabilities.....                   | <u>\$243</u> | <u>\$365</u> |

The maturity dates of the cash collateral liabilities generally match the maturity dates of the invested assets.

**Wash Sales**

In the normal course of Thrivent Financial’s investment management activities, securities are periodically sold and repurchased within 30 days of the sale date to enhance total return on the investment portfolio. During 2018, Thrivent sold 223 non-investment grade securities with a book value totaling \$115 million where the cost to repurchase within 30 days totaled \$143 million. The net gain for securities sold and later repurchased totaled \$31 million.

**Pledged and Restricted Assets**

Thrivent Financial owns assets which are pledged to others as collateral or are otherwise restricted totaling \$307 million and \$430 million at December 31, 2018 and 2017, respectively. Total pledged and restricted assets, which primarily include collateral held under futures transactions and securities lending agreements, are less than 1% of total admitted assets. Securities on deposits with state insurance departments were \$1 million for both years ended December 31, 2018 and 2017.

**Thrivent Financial for Lutherans**

Notes to Statutory-Basis Financial Statements, continued

**2. Investments, continued**

**Collateral Received**

Elements of reinvested collateral received in the securities lending program as of December 31 are presented below (in millions):

|                         | <u>2018</u> | <u>2017</u> |
|-------------------------|-------------|-------------|
| Bonds:                  |             |             |
| Carrying value.....     | \$ 47       | \$ 19       |
| Fair value.....         | 47          | 19          |
| Short-term Investments: |             |             |
| Carrying value.....     | \$ 62       | \$ 18       |
| Fair value.....         | 62          | 18          |
| Cash Equivalents        |             |             |
| Carrying value.....     | \$134       | \$328       |
| Fair value.....         | 134         | 328         |

All collateral received is less than one-percent of total admitted assets.

**Net Investment Income**

Investment income by type of investment for the years ended December 31 is presented below (in millions):

|   | <u>2018</u> | <u>2017</u> | <u>2016</u> |
|---|-------------|-------------|-------------|
| Bonds .....   | \$1,743     | \$1,745     | \$1,671     |
| Preferred stock .....                                   | 11          | 7           | 7           |
| Unaffiliated common stocks .....                        | 28          | 21          | 21          |
| Affiliated common stocks .....                          | 24          | 11          | 3           |
| Mortgage loans .....                                    | 392         | 391         | 399         |
| Real estate .....                                       | 23          | 24          | 24          |
| Contract loans .....                                    | 84          | 80          | 84          |
| Cash, cash equivalents and short-term investments ..... | 32          | 20          | 13          |
| Limited partnerships .....                              | 410         | 450         | 585         |
| Other invested assets .....                             | 21          | 13          | 11          |
|   | 2,768       | 2,762       | 2,818       |
| Investment expenses .....                               | (49)        | (47)        | (43)        |
| Depreciation on real estate .....                       | (6)         | (6)         | (7)         |
| Net investment income .....                             | \$2,713     | \$2,709     | \$2,768     |

Net investment income includes bonds sold or redeemed with a callable feature. During 2018 there were 57 securities with callable features sold or redeemed totaling \$19 million and during 2017 there were 82 securities totaling \$41 million included in net investment income.



**Thrivent Financial for Lutherans**  
Notes to Statutory-Basis Financial Statements, continued

**2. Investments, continued**

**Realized Capital Gains and Losses**

Realized capital gains and losses for the years ended December 31 is presented below (in millions):

|   | <u>2018</u>   | <u>2017</u>  | <u>2016</u>    |
|---|---------------|--------------|----------------|
| Net gains (losses) on sales:                    |               |              |                |
| Bonds:  |               |              |                |
| Gross gains .....                               | 195           | 226          | \$ 200         |
| Gross losses .....                              | (58)          | (40)         | (91)           |
| Stocks:   |               |              |                |
| Gross gains .....                               | 201           | 143          | 116            |
| Gross losses .....                              | (47)          | (31)         | (48)           |
| Futures .....                                   | (9)           | (41)         | (153)          |
| Other .....                                     | 17            | 31           | —              |
| Net (losses) gains on sales .....               | <u>299</u>    | <u>288</u>   | <u>24</u>      |
| Provisions for losses:                          |               |              |                |
| Bonds .....                                     | (18)          | (10)         | (21)           |
| Stocks .....                                    | —             | —            | —              |
| Other .....                                     | 6             | —            | (7)            |
| Total provisions for losses .....               | <u>(12)</u>   | <u>(10)</u>  | <u>(28)</u>    |
| Realized capital (losses) gains .....           | 287           | 278          | (4)            |
| Transfers to interest maintenance reserve ..... | (141)         | (204)        | (111)          |
| Realized capital losses, net .....              | <u>\$ 146</u> | <u>\$ 74</u> | <u>\$(115)</u> |

Proceeds from the sale of investments in bonds, net of mortgage dollar roll transactions, were \$6.6 billion, \$7.0 billion, and \$5.5 billion for the years ended December 31, 2018, 2017, and 2016, respectively.

Thrivent Financial recognized other-than-temporary impairments during the year ended December 31, 2018 on the following loan-backed and structured securities where the present value of cash flows expected to be collected was less than the amortized cost basis of the security (in millions):

| <u>CUSIP</u>    | <u>Book Value<br/>Before<br/>Impairment</u> | <u>Impairment<br/>Recognized</u> | <u>Amortized<br/>Cost After<br/>Impairment</u> | <u>Fair Value<br/>as of Date<br/>Impaired</u> |
|-----------------|---|----------------------------------|--|---|
| 05948KVV8 ..... | \$ 6  | \$—                              | \$ 6   | \$ 5  |
| 16165TAE3 ..... | 7   | —                                | 7  | 8   |
| 17307G4H8 ..... | 1   | —                                | 1  | 1   |
| 45660LST7 ..... | 3   | —                                | 4  | 4   |
| 75970QAJ9 ..... | 2   | —                                | 2  | 2   |
| 863576AC8 ..... | 3   | —                                | 3  | 3   |
| 02660YAX0 ..... | 3   | 1                                | 2  | 2   |
| 22943HAG1 ..... | 4   | 1                                | 3  | 2   |
| Total .....     | <u>\$29</u>                                 | <u>\$ 2</u>                      | <u>\$28</u>                                    | <u>\$27</u>                                   |

### Thrivent Financial for Lutherans

Notes to Statutory-Basis Financial Statements, continued

#### 3. Policyholder Liabilities

Many of the contracts issued by Thrivent Financial, primarily annuities, do not subject Thrivent Financial to mortality or morbidity risk. These contracts may have certain limitations placed upon the amount of funds that can be withdrawn without penalties. The following table summarizes liabilities by their withdrawal characteristics (dollars in millions):

|  | General<br>Account | Separate<br>Account<br>With<br>Guarantees | Separate<br>Account<br>Without<br>Guarantees | Total    | % of<br>Total |
|--|--------------------|---|--|----------|---------------|
| <b>December 31, 2018</b>                                     |                    |   |  |          |               |
| Subject to discretionary withdrawal:                         |                    |   |  |          |               |
| With market value adjustment .....                           | \$ —               | \$248                                     | \$ —   | \$ 248   | 1%            |
| At book value less a surrender charge of 5% or<br>more ..... | 5,238              | —   | —  | 5,238    | 11            |
| At fair value .....  | —                  | —   | 26,640                                       | 26,640   | 57            |
| At book value without adjustment .....                       | 13,076             | —   | —  | 13,076   | 28            |
| Not subject to discretionary withdrawal.....                 | 1,400              | —   | 51   | 1,451    | 3             |
| Total .....  | \$19,714           | \$248                                     | \$26,691                                     | \$46,653 | 100%          |
| <b>December 31, 2017</b>                                     |                    |   |  |          |               |
| Subject to discretionary withdrawal:                         |                    |   |  |          |               |
| With market value adjustment .....                           | \$ —               | \$338                                     | \$ —   | \$ 338   | 1%            |
| At book value less a surrender charge of 5% or<br>more ..... | 4,963              | —   | —  | 4,963    | 10            |
| At fair value .....  | —                  | —   | 28,422                                       | 28,422   | 59            |
| At book value without adjustment .....                       | 12,911             | —   | —  | 12,911   | 27            |
| Not subject to discretionary withdrawal.....                 | 1,340              | —   | 59   | 1,399    | 3             |
| Total .....  | \$19,214           | \$338                                     | \$28,481                                     | \$48,033 | 100%          |

The above policyholder liabilities are recorded as components of the following captions of the Statutory-Basis Statements of Assets, Liabilities and Surplus as of December 31 (in millions):

|   | 2018     | 2017     |
|---|----------|----------|
| Aggregate reserves for life, annuity and health contracts ..... | \$16,172 | \$15,793 |
| Deposit liabilities .....                                       | 3,543    | 3,421    |
| Liabilities related to separate accounts .....                  | 26,939   | 28,819   |
| Total .....   | \$46,654 | \$48,033 |

Thrivent Financial holds premium deficiency reserves (PDR) on its closed block of long-term care insurance policies. The PDR was \$133 million and \$567 million as of December 31, 2018 and 2017, respectively. During 2018, Thrivent Financial updated the claim incidence, claim termination, disabled life mortality, expense, and net earned rate assumptions used in the determination of the PDR. During 2017, Thrivent Financial updated the mortality, persistency, expense and net earned rate assumptions. These updated assumptions were the primary driver of the \$434 million decrease in PDR for the year ended December 31, 2018 and for the \$286 million increase in PDR for the year ended December 31, 2017.

**Thrivent Financial for Lutherans**

Notes to Statutory-Basis Financial Statements, continued

**3. Policyholder Liabilities, continued**

Thrivent Financial has insurance in force as of December 31, 2018 and 2017, totaling \$17 billion and \$16 billion, respectively, where the gross premiums are less than the net premiums according to the standard valuation requirements set by the State of Wisconsin Office of the Commissioner of Insurance. Reserves associated with these policies as of December 31, 2018 and 2017, totaled \$64 million and \$71 million, respectively.

Deferred and uncollected life insurance premiums and annuity considerations were as follows (in millions):

|                             | <u>Gross</u> | <u>Net of<br/>Loading</u> |
|-----------------------------|--------------|---------------------------|
| <b>December 31, 2018</b>    |              |                           |
| Ordinary new business ..... | \$12         | \$ 8                      |
| Ordinary renewal .....      | 45           | 99                        |
| Total .....                 | <u>\$57</u>  | <u>\$107</u>              |
| <b>December 31, 2017</b>    |              |                           |
| Ordinary new business ..... | \$ 7         | \$ 4                      |
| Ordinary renewal .....      | 49           | 104                       |
| Total .....                 | <u>\$56</u>  | <u>\$108</u>              |

**4. Separate Accounts**

Thrivent Financial administers and invests funds segregated into separate accounts for the exclusive benefit of variable annuity, variable immediate annuity and variable universal life contractholders. Variable life and variable annuity separate accounts of Thrivent Financial are non-guaranteed, while Thrivent Financial's multi-year guarantee separate account is a non-indexed guarantee account. Within the non-guaranteed separate account, all variable deferred annuity contracts contain guaranteed death benefits and some contain guaranteed living benefits. The following table presents the explicit risk charges paid by separate account contract holders for these guarantees and the amounts paid for guaranteed death benefits for the years ended December 31 (in millions):

|  | <u>2018</u> | <u>2017</u> | <u>2016</u> | <u>2015</u> | <u>2014</u> |
|--|-------------|-------------|-------------|-------------|-------------|
| Risk charge paid .....                 | \$108       | \$107       | \$99        | \$99        | \$86        |
| Payments for guaranteed benefits ..... | 4           | 4           | 5           | 4           | 3           |

The distribution of investments in the separate account assets as of December 31 was as follows:

|                                     | <u>2018</u> | <u>2017</u> |
|-------------------------------------|-------------|-------------|
| Equity funds .....                  | 60%         | 59%         |
| Bond funds .....                    | 20          | 20          |
| Balanced funds .....                | 18          | 19          |
| Other .....                         | 2           | 2           |
| Total separate account assets ..... | <u>100%</u> | <u>100%</u> |

**Thrivent Financial for Lutherans**

Notes to Statutory-Basis Financial Statements, continued

**4. Separate Accounts, continued**

The following tables summarize information for the separate accounts (in millions):

|  | <u>Non-Indexed<br/>Guarantee</u> | <u>Non-<br/>Guaranteed</u> | <u>Total</u>    |
|--|----------------------------------|----------------------------|-----------------|
| <b>December 31, 2018</b>                     |                                  |                            |                 |
| Reserves:                                    |                                  |                            |                 |
| For accounts with assets at fair value.....  | <u>\$248</u>                     | <u>\$27,691</u>            | <u>\$27,939</u> |
| By withdrawal characteristics:               |                                  |                            |                 |
| Subject to discretionary withdrawal:         |                                  |                            |                 |
| With market value adjustment .....           | \$248                            | \$ —                       | \$ 248          |
| At fair value.....                           | —                                | 27,640                     | 27,640          |
| Not subject to discretionary withdrawal..... | —                                | 51                         | 51              |
| Total.....                                   | <u>\$248</u>                     | <u>\$27,691</u>            | <u>\$27,939</u> |
| <b>December 31, 2017</b>                     |                                  |                            |                 |
| Reserves:                                    |                                  |                            |                 |
| For accounts with assets at fair value.....  | <u>\$338</u>                     | <u>\$29,527</u>            | <u>\$29,865</u> |
| By withdrawal characteristics:               |                                  |                            |                 |
| Subject to discretionary withdrawal:         |                                  |                            |                 |
| With market value adjustment .....           | \$338                            | \$ —                       | \$ 338          |
| At fair value.....                           | —                                | 29,468                     | 29,468          |
| Not subject to discretionary withdrawal..... | —                                | 59                         | 59              |
| Total.....                                   | <u>\$338</u>                     | <u>\$29,527</u>            | <u>\$29,865</u> |
|  | <u>2018</u>                      | <u>2017</u>                | <u>2016</u>     |
| Premiums, considerations and deposits:       |                                  |                            |                 |
| Non-indexed guarantee .....                  | \$ 1                             | \$ 1                       | \$ 5            |
| Non-guaranteed.....                          | <u>1,737</u>                     | <u>1,806</u>               | <u>1,926</u>    |
| Total.....                                   | <u>\$1,738</u>                   | <u>\$1,807</u>             | <u>\$1,931</u>  |
|  | <u>2018</u>                      | <u>2017</u>                | <u>2016</u>     |
| Transfers to separate accounts.....          | \$ 1,735                         | \$ 1,806                   | \$ 1,930        |
| Transfers from separate accounts.....        | (1,733)                          | (1,321)                    | (1,027)         |
| Other items .....                            | <u>2</u>                         | <u>(2)</u>                 | <u>(1)</u>      |
| Transfers to separate accounts, net .....    | <u>\$ 4</u>                      | <u>\$ 483</u>              | <u>\$ 902</u>   |

## Thrivent Financial for Lutherans

Notes to Statutory-Basis Financial Statements, continued

### 5. Claims Liabilities

Activity in the liabilities for accident and health, long-term care and disability benefits, included in aggregate reserves for life, annuity, and health contracts and contract claims, as presented below (in millions):

|                                  | 2018    | 2017    |
|----------------------------------|---------|---------|
| Net balance at January 1 .....   | \$1,089 | \$1,022 |
| Incurred related to:             |         |         |
| Current year .....               | 471     | 451     |
| Prior years .....                | (52)    | (35)    |
| Total incurred .....             | 419     | 416     |
| Paid related to:                 |         |         |
| Current year .....               | 104     | 84      |
| Prior years .....                | 290     | 265     |
| Total paid .....                 | 394     | 349     |
| Net balance at December 31 ..... | \$1,114 | \$1,089 |

Thrivent Financial uses estimates for determining its liability for accident and health, long-term care and disability benefits, which are based on historical claim payment patterns, and attempts to provide for potential adverse changes in claim patterns and severity. Thrivent Financial annually reviews the claim payment experience to evaluate the methodology and assumptions that are used in determining its estimate of ultimate claims experience.

### 6. Reinsurance

Thrivent Financial participates in reinsurance in order to limit its maximum losses and to diversify its exposures. Life and accident and health reinsurance is accomplished through various plans of reinsurance, primarily coinsurance and yearly renewable term. Generally, Thrivent Financial retains a maximum of \$3 million of single and \$3 million of joint life coverage for any single mortality risk. Ceded balances would represent a liability of Thrivent Financial in the event the reinsurers were unable to meet their obligations under the terms of the reinsurance agreements.

Reinsurance premiums, commissions, expense reimbursements, benefits and reserves related to reinsured long-duration contracts are accounted for over the life of the underlying reinsured contracts using assumptions consistent with those used to account for the underlying contracts. The cost of reinsurance related to short-duration contracts is accounted for over the reinsurance contract period. Amounts recoverable from reinsurers are estimated in a manner consistent with the claim liabilities and policy benefits associated with the reinsured policies.

Reinsurance amounts included in the Statutory-Basis Statements of Operations for the years ended December 31 were as follows (in millions):

|                                    | 2018    | 2017    | 2016    |
|------------------------------------|---------|---------|---------|
| Direct premiums .....              | \$5,098 | \$5,146 | \$5,570 |
| Reinsurance ceded .....            | (117)   | (125)   | (119)   |
| Net premiums .....                 | 4,981   | 5,021   | 5,451   |
| Reinsurance claims recovered ..... | \$ 60   | \$ 65   | \$ 50   |

**Thrivent Financial for Lutherans**

Notes to Statutory-Basis Financial Statements, continued

**6. Reinsurance, continued**

Aggregate reserves and contract claims liabilities in the Statutory-Basis Statements of Assets, Liabilities and Surplus for the years ended December 31 were reduced by reinsurance ceded amounts as presented below (in millions):

|                           | <u>2018</u>  | <u>2017</u>  |
|---------------------------|--------------|--------------|
| Life insurance .....      | \$801        | \$758        |
| Accident and health ..... | —            | —            |
| Total.....                | <u>\$801</u> | <u>\$758</u> |

Reinsurance contracts do not relieve an insurer from its primary obligation to policyholders.

Thrivent Financial periodically reviews the financial condition of its reinsurers and amounts recoverable in order to evaluate the financial strength of the companies supporting the recoverable balances. One reinsurer accounts for approximately 49% of the reinsurance recoverable as of December 31, 2018.

Thrivent Financial has no covered policies where certain term life and universal life insurance policies (XXX/AXXX risks) are ceded in accordance with Actuarial Guideline 48 (Actuarial Opinion and Memorandum Requirements for the Reinsurance of Policies to be Valued Under Sections 6 and 7 of the NAIC Valuation of Life Insurance Policies Model Regulation).

**7. Surplus**

Thrivent Financial is subject to certain risk-based capital (“RBC”) requirements as specified by the NAIC. Under those requirements, the amount of surplus maintained by a fraternal benefit society is to be determined based on the various risk factors related to it. Thrivent Financial exceeds the RBC requirements as of December 31, 2018 and 2017.

Unassigned funds as of December 31 includes adjustments related to the following items (in millions):

|                                   | <u>2018</u> | <u>2017</u> |
|-----------------------------------|-------------|-------------|
| Unrealized gains and losses ..... | \$ 293      | \$ 554      |
| Non-admitted assets .....         | (107)       | (115)       |
| Separate account business .....   | 42          | 45          |
| Asset valuation reserve.....      | (1,367)     | (1,217)     |

Thrivent Financial also holds special surplus funds which include the deferred gain on the sale of the corporate home office property and a special surplus balance related to the separate accounts.

**Thrivent Financial for Lutherans**  
Notes to Statutory-Basis Financial Statements, continued

**8. Fair Value of Financial Instruments**

The financial instruments of Thrivent Financial have been classified, for disclosure purposes, into categories based on the evaluation of the amount of observable and unobservable inputs used to determine fair value.

**Fair Value Descriptions**

***Level 1 Financial Instruments***

Level 1 financial instruments reported at fair value include certain bonds, certain unaffiliated common stocks and certain cash equivalents. Bonds and unaffiliated common stocks primarily are valued using quoted prices in active markets. Cash equivalents consist of money market mutual funds whose fair value is based on the quoted daily net asset values of the invested funds.

Level 1 financial instruments not reported at fair value include certain bonds, which are priced based on quoted market prices, and include primarily U.S. Treasury bonds.

***Level 2 Financial Instruments***

Level 2 financial instruments reported at fair value include certain unaffiliated common stocks and other invested assets. Unaffiliated common stocks and other invested assets, primarily derivatives, are valued based on market quotes where the financial instruments are not considered actively traded. The fair values for separate account assets are based on published daily net asset values of the funds in which the separate accounts are invested.

Level 2 financial instruments not reported at fair value include certain bonds; unaffiliated preferred stocks; cash, cash equivalents and short-term investments; other invested assets, liabilities related to separate accounts and other liabilities.

Bonds not reported at fair value are priced using a third-party pricing vendor and include certain corporate debt securities and asset-backed securities. Pricing from a third-party pricing vendor varies by asset class but generally includes inputs such as estimated cash flows, benchmark yields, reported trades, issuer spreads, bids, offers, credit quality, industry events and economic events. If Thrivent Financial is unable to obtain a price from a third-party pricing vendor, management may obtain broker quotes or utilize an internal pricing model specific to the asset. The internal pricing models apply practices that are standard among the industry and utilize observable market data.

Fair values of unaffiliated preferred stocks not reported at fair value are based on market quotes where these securities are not considered actively traded.

Cash and cash equivalents not reported at fair value consist of demand deposit and highly liquid investments purchased with an original maturity date of three months or less. Short-term investments not reported at fair value consist of investments in commercial paper and agency notes with contractual maturities of one year or less at the time of acquisition. The carrying amounts for cash, cash equivalents and short-term investments approximate their fair values.

Other invested assets not reported at fair value include investments in surplus notes in which the fair values are based on quoted market prices.

**Thrivent Financial for Lutherans**  
Notes to Statutory-Basis Financial Statements, continued

**8. Fair Value of Financial Instruments, continued**

The carrying amounts of liabilities related to separate accounts reflect the amounts in the separate account assets and approximate their fair values.

Other liabilities include certain derivatives. Derivative fair values are derived from broker quotes.

*Level 3 Financial Instruments*

Level 3 financial instruments reported at fair value include other invested assets, which consist of certain derivatives. The fair value is determined using independent broker quotes.

Level 3 financial instruments not reported at fair value include certain bonds, unaffiliated preferred stocks, mortgage loans, real estate, contract loans, limited partnerships, other invested assets, deferred annuities, other deposit contracts and other liabilities.

Level 3 bonds not reported at fair value include private placement debt securities and convertible bonds. Private placement debt securities are valued using internal pricing models specific to the assets using unobservable inputs such as issuer spreads, estimated cash flows, internal credit ratings and volatility adjustments. Market comparable discount rates ranging from 0% to 12% are used as the base rate in the discounted cash flows used to determine the fair value of certain assets. Increases or decreases in the credit spreads on the comparable assets could cause the fair value of assets to significantly decrease or increase, respectively. Additionally, Thrivent Financial may adjust the base discount rate or the modeled price by applying an illiquidity premium of 25 basis points, given the highly structured nature of certain assets. Convertible bonds are valued using third party broker quotes to determine fair value.

Unaffiliated preferred stocks are valued using third-party broker quotes to determine fair value.

The fair values for mortgage loans are estimated using discounted cash flow analyses based on interest rates currently being offered for similar loans to borrowers with similar credit ratings. Loans with similar characteristics are aggregated for purposes of the calculations.

The fair value of real estate properties held-for-sale is based on current market price assessments, current purchase agreements or market appraisals.

The carrying amounts for contract loans approximate their fair values.

Limited partnerships include private equity investments. The fair values of these investments are estimated based on assumptions in the absence of observable market data. In determining fair value, the following valuation techniques are generally used: most recent capital balance adjusted for current cash flows; internal valuation methodologies designed for specific asset classes, primarily sponsor valuations or net asset value; discounted cash flow models; or applying current market multiples to earnings before interest, taxes, depreciation and amortization (EBITDA).

Other invested assets primarily include real estate joint ventures. The fair values of real estate joint venture investments are derived using GAAP audited financial statements.



**Thrivent Financial for Lutherans**

Notes to Statutory-Basis Financial Statements, continued

**8. Fair Value of Financial Instruments, continued**

Other liabilities primarily include deferred annuities and other deposit contracts as well as certain derivatives. The fair values for deferred annuities and other deposit contracts, which include supplementary contracts without life contingencies, deferred income settlement options and refunds on deposit, are estimated to be the cash surrender value payable upon immediate withdrawal. Derivatives fair values are derived from broker quotes.

**Financial Instruments Carried at Fair Value**

The fair values of Thrivent Financial's financial instruments measured and reported at fair value are presented below (in millions):

|   | <u>Level 1</u> | <u>Level 2</u>  | <u>Level 3</u> | <u>Total</u>    |
|---|----------------|-----------------|----------------|-----------------|
| <b>December 31, 2018</b>                                |                |                 |                |                 |
| <u>Assets</u>   |                |                 |                |                 |
| Bonds .....   | \$ 265         | \$ —            | \$—            | \$ 265          |
| Unaffiliated common stocks .....                        | 1,390          | 54              | —              | 1,444           |
| Cash, Cash equivalents and short-term investments ..... | 132            | —               | —              | 132             |
| Assets held in separate account assets .....            | —              | 28,468          | —              | 28,468          |
| Other invested assets .....                             | —              | 25              | 4              | 29              |
| Total .....   | <u>\$1,787</u> | <u>\$28,547</u> | <u>\$ 4</u>    | <u>\$30,338</u> |
| <u>Liabilities</u>                                      |                |                 |                |                 |
| Other liabilities .....                                 | <u>\$ —</u>    | <u>\$ 17</u>    | <u>\$ 2</u>    | <u>\$ 19</u>    |
| <b>December 31, 2017</b>                                |                |                 |                |                 |
| <u>Assets</u>   |                |                 |                |                 |
| Bonds .....   | \$ 269         | \$ —            | \$—            | \$ 269          |
| Unaffiliated common stocks .....                        | 1,304          | 58              | —              | 1,362           |
| Cash, cash equivalents and short-term investments ..... | 106            | —               | —              | 106             |
| Assets held in separate account assets .....            | —              | \$30,492        | —              | \$30,492        |
| Other invested assets .....                             | —              | 10              | 38             | 48              |
| Total .....   | <u>\$1,679</u> | <u>\$30,560</u> | <u>\$ 38</u>   | <u>\$32,277</u> |
| <u>Liabilities</u>                                      |                |                 |                |                 |
| Other liabilities .....                                 | <u>\$ —</u>    | <u>\$ 27</u>    | <u>\$ 26</u>   | <u>\$ 53</u>    |

**Thrivent Financial for Lutherans**

Notes to Statutory-Basis Financial Statements, continued

**8. Fair Value of Financial Instruments, continued**

***Additional Information on Level 3 Financial Instruments carried at Fair Value***

There were no gains or losses recognized in net income during 2018 or 2017 attributable to the change in unrealized gains and losses related to Level 3 assets still held at December 31, 2018 or 2017.

The following table shows the changes in fair values for the investments categorized as Level 3 (in millions):

|                                   | <u>2018</u> | <u>2017</u>  |
|-----------------------------------|-------------|--------------|
| <b>Assets:</b>                    |             |              |
| Balance, January 1 .....          | \$ 38       | \$ 14        |
| Purchases.....                    | 37          | 20           |
| Sales .....                       | (20)        | (10)         |
| Unrealized gains and losses ..... | (51)        | 14           |
| Balance, December 31.....         | <u>\$ 4</u> | <u>\$ 38</u> |
| <b>Liabilities:</b>               |             |              |
| Balance, January 1 .....          | \$ 26       | \$ 10        |
| Purchases.....                    | 24          | 12           |
| Sales .....                       | (27)        | (7)          |
| Unrealized gains and losses ..... | (21)        | 11           |
| Balance, December 31.....         | <u>\$ 2</u> | <u>\$ 26</u> |

**Transfers**

During 2018, Thrivent Financial had transfers of \$30 million into Level 2 from Level 3 and transfers of \$66 million into Level 3 from Level 2 for bonds which are not held at fair value. During 2017, Thrivent Financial had transfers of \$102 million into Level 2 from Level 3 and transfers of \$54 million into Level 3 from Level 2 for bonds which are not held at fair value. There were no transfers between fair value levels for assets held at fair value. Transfers between fair value hierarchy levels are recognized at the end of the reporting period.

**Valuation Assumptions**

The results of the valuation methods presented in this footnote are significantly affected by the assumptions used, including discount rates and estimates of future cash flows. As a result, the derived fair value estimates, in many cases, could not be realized in immediate settlement of the financial instruments. These fair values are for certain financial instruments of Thrivent Financial; accordingly, the aggregate fair value amounts presented do not represent the underlying value of Thrivent Financial.

**Thrivent Financial for Lutherans**

Notes to Statutory-Basis Financial Statements, continued

**8. Fair Value of Financial Instruments, continued**

**Fair Value of All Financial Instruments**

The carrying values and fair values of all financial instruments are presented below (in millions). Certain amounts as of December 31, 2017 below have been revised to correct the prior period disclosure.

|   | Carrying Value | Fair Value |         |         | Total  |
|---|----------------|------------|---------|---------|--------|
|   |                | Level 1    | Level 2 | Level 3 |        |
| <b>December 31, 2018</b>                                |                |            |         |         |        |
| Financial assets:                                       |                |            |         |         |        |
| Bonds .....   | \$43,283       | 1,433      | 32,639  | 9,183   | 43,255 |
| Unaffiliated preferred stocks .....                     | 206            | —          | 136     | 184     | 320    |
| Unaffiliated common stocks .....                        | 1,444          | 1,390      | 54      | —       | 1,444  |
| Affiliated common stock .....                           | 340            | —          | 340     | —       | 340    |
| Affiliated mutual funds .....                           | 392            | 392        | —       | —       | 392    |
| Mortgage loans .....                                    | 8,999          | —          | —       | 9,256   | 9,256  |
| Contract loans .....                                    | 1,159          | —          | —       | 1,159   | 1,159  |
| Cash, cash equivalents and short-term investments ..... | 1,430          | 132        | 1,298   | —       | 1,430  |
| Limited partnerships .....                              | 3,844          | —          | —       | 3,844   | 3,844  |
| Real estate — held-for-sale .....                       | 6              | —          | —       | 9       | 9      |
| Assets held in separate accounts .....                  | 28,468         | —          | 28,468  | —       | 28,468 |
| Other invested assets .....                             | 194            | —          | 113     | 90      | 203    |
| Financial liabilities:                                  |                |            |         |         |        |
| Deferred annuities .....                                | 13,825         | —          | —       | 13,600  | 13,600 |
| Other deposit contracts .....                           | 1,032          | —          | —       | 1,032   | 1,032  |
| Other liabilities .....                                 | 29             | —          | 18      | 4       | 22     |
| Liabilities related to separate accounts .....          | 28,427         | —          | 28,427  | —       | 28,427 |
| <b>December 31, 2017</b>                                |                |            |         |         |        |
| Financial assets:                                       |                |            |         |         |        |
| Bonds .....   | \$43,291       | 2,311      | 34,584  | 8,737   | 45,632 |
| Unaffiliated preferred stocks .....                     | 157            | —          | 79      | 207     | 286    |
| Unaffiliated common stocks .....                        | 1,362          | 1,304      | 58      | —       | 1,362  |
| Affiliated common stocks .....                          | 319            | —          | 319     | —       | 319    |
| Affiliated mutual funds .....                           | 303            | 303        | —       | —       | 303    |
| Mortgage loans .....                                    | 8,202          | —          | —       | 8,611   | 8,611  |
| Contract loans .....                                    | 1,161          | —          | —       | 1,161   | 1,161  |
| Cash, cash equivalents and short-term investments ..... | 1,573          | 106        | 1,469   | 2       | 1,577  |
| Limited partnerships .....                              | 3,197          | —          | —       | 3,197   | 3,197  |
| Real estate — held-for-sale .....                       | 14             | —          | —       | 69      | 69     |
| Assets held in separate accounts .....                  | 30,492         | —          | 30,492  | —       | 30,492 |
| Other invested assets .....                             | 204            | —          | 114     | 116     | 230    |
| Financial liabilities:                                  |                |            |         |         |        |
| Deferred annuities .....                                | 13,449         | —          | —       | 13,238  | 13,238 |
| Other deposit contracts .....                           | 1,065          | —          | —       | 1,065   | 1,065  |
| Other liabilities .....                                 | 53             | —          | 31      | 26      | 57     |
| Liabilities related to separate accounts .....          | 30,448         | —          | 30,448  | —       | 30,448 |

**Thrivent Financial for Lutherans**

Notes to Statutory-Basis Financial Statements, continued

**9. Benefit Plans**

**Pension and Other Postretirement Benefits**

Thrivent Financial has a qualified noncontributory defined benefit retirement plan that provides benefits to substantially all home office and field employees upon retirement. Thrivent Financial also provides certain health care and life insurance benefits for substantially all retired home office and field personnel. Thrivent Financial uses a measurement date of December 31 in its benefit plan disclosures.

The components of net periodic pension expense for Thrivent Financial’s qualified retirement and other plans for the years ended December 31 were as follows (in millions):

|                                      | <u>Retirement Plan</u> |              |              | <u>Other Plans</u> |              |              |
|--------------------------------------|------------------------|--------------|--------------|--------------------|--------------|--------------|
|                                      | <u>2018</u>            | <u>2017</u>  | <u>2016</u>  | <u>2018</u>        | <u>2017</u>  | <u>2016</u>  |
| Service cost .....                   | \$ 25                  | \$ 23        | \$ 23        | \$ 2               | \$ 2         | \$ 2         |
| Interest cost .....                  | 43                     | 46           | 50           | 4                  | 5            | 4            |
| Expected return on plan assets ..... | (77)                   | (69)         | (68)         | —                  | —            | —            |
| Other .....                          | 19                     | 18           | 26           | 4                  | 6            | 6            |
| Net periodic cost .....              | <u>\$ 10</u>           | <u>\$ 18</u> | <u>\$ 31</u> | <u>\$ 10</u>       | <u>\$ 13</u> | <u>\$ 12</u> |

The plans’ amounts recognized in the statutory-basis financial statements as of December 31 were as follows (in millions):

|  | <u>Retirement Plan</u> |                | <u>Other Plans</u> |              |
|--|------------------------|----------------|--------------------|--------------|
|  | <u>2018</u>            | <u>2017</u>    | <u>2018</u>        | <u>2017</u>  |
| Change in projected benefit obligation:            |                        |                |                    |              |
| Benefit obligation, beginning of year .....        | \$1,187                | \$1,083        | \$120              | \$111        |
| Service cost .....                                 | 25                     | 23             | 2                  | 2            |
| Interest cost .....                                | 43                     | 46             | 5                  | 5            |
| Actuarial (gain) loss .....                        | (105)                  | 82             | (11)               | 10           |
| Transfers from Defined Contribution Plan .....     | —                      | —              | —                  | —            |
| Benefits paid .....                                | (51)                   | (47)           | (9)                | (8)          |
| Benefit obligation, end of year .....              | <u>\$1,099</u>         | <u>\$1,187</u> | <u>\$107</u>       | <u>\$120</u> |
| Change in plan assets:                             |                        |                |                    |              |
| Fair value of plan assets, beginning of year ..... | \$1,035                | \$ 935         | \$—                | \$—          |
| Actual return on plan assets .....                 | (44)                   | 127            | —                  | —            |
| Employer contribution .....                        | 20                     | 20             | 9                  | 8            |
| Transfers from Defined Contribution Plan .....     | —                      | —              | —                  | —            |
| Benefits paid .....                                | (51)                   | (47)           | (9)                | (8)          |
| Fair value of plan assets, end of year .....       | <u>\$ 960</u>          | <u>\$1,035</u> | <u>\$—</u>         | <u>\$—</u>   |

**Thrivent Financial for Lutherans**

Notes to Statutory-Basis Financial Statements, continued

**9. Benefit Plans, continued**

The plans' amounts recognized in the statutory-basis financial statements, funding statuses and accumulated benefit obligation as of December 31 were as follows (in millions):

|  | <b>Retirement Plan</b> |             | <b>Other Plans</b> |             |
|--|------------------------|-------------|--------------------|-------------|
|  | <b>2018</b>            | <b>2017</b> | <b>2018</b>        | <b>2017</b> |
| Funded status:   |                        |             |                    |             |
| Accrued benefit costs .....                                      | \$ —                   | \$ —        | \$(130)            | \$(127)     |
| Liability for pension benefits.....                              | (139)                  | (152)       | 23                 | 7           |
| Total unfunded liabilities .....                                 | (139)                  | (152)       | (107)              | (120)       |
| Deferred items:  |                        |             |                    |             |
| Net losses (gains) .....   | 303                    | 306         | (23)               | (11)        |
| Net prior service cost .....                                     | —                      | —           | —                  | 4           |
| Accumulated amounts recognized in periodic pension expenses..... | 164                    | 154         | (130)              | (127)       |
| Accumulated benefit obligation .....                             | \$1,055                | \$1,137     | \$ 107             | \$ 120      |

The unfunded liabilities for the retirement plan and other postretirement plans at December 31, 2018 and 2017, are included in other liabilities in the Statutory-Basis Statement of Assets, Liabilities and Surplus.

A summary of the deferred items in the Statutory-Basis Statement of Operations as of December 31 is as follows (in millions):

|   | <b>Retirement Plan</b>        |                                      |              | <b>Other Plans</b>            |                                      |              |
|---|-------------------------------|--------------------------------------|--------------|-------------------------------|--------------------------------------|--------------|
|   | <b>Net Prior Service Cost</b> | <b>Net Recognized (Gains) Losses</b> | <b>Total</b> | <b>Net Prior Service Cost</b> | <b>Net Recognized (Gains) Losses</b> | <b>Total</b> |
| Balance, January 1, 2017 .....                  | \$ (1)                        | \$301                                | \$300        | \$ 12                         | \$(23)                               | \$(11)       |
| Net prior service cost recognized .....         | 1                             | —                                    | 1            | (8)                           | —                                    | (8)          |
| Net (gain) loss arising during the period ..... | —                             | 24                                   | 24           | —                             | 10                                   | 10           |
| Net gain (loss) recognized .....                | —                             | (19)                                 | (19)         | —                             | 2                                    | 2            |
| Balance, December 31, 2017.....                 | \$—                           | \$306                                | \$306        | \$ 4                          | \$(11)                               | \$(7)        |
| Net prior service cost recognized .....         | —                             | —                                    | —            | (4)                           | —                                    | (4)          |
| Net (gain) loss arising during the period ..... | —                             | 16                                   | 16           | —                             | (12)                                 | (12)         |
| Net gain (loss) recognized .....                | —                             | (19)                                 | (19)         | —                             | —                                    | —            |
| Balance, December 31, 2018.....                 | \$—                           | \$303                                | \$303        | \$—                           | \$(23)                               | \$(23)       |

The amounts in unassigned funds expected as of December 31 to be recognized in the next fiscal year as components of periodic benefit cost were as follows (in millions):

|                                     | <b>Retirement Plan</b> |             | <b>Other Plans</b> |             |
|-------------------------------------|------------------------|-------------|--------------------|-------------|
|                                     | <b>2018</b>            | <b>2017</b> | <b>2018</b>        | <b>2017</b> |
| Net prior service cost .....        | \$—                    | \$—         | \$—                | \$ 4        |
| Net recognized (gains)/losses ..... | 19                     | 19          | (1)                | —           |

## Thrivent Financial for Lutherans

Notes to Statutory-Basis Financial Statements, continued

### 9. Benefit Plans, continued

#### *Pension and Other Postretirement Benefit Factors*

Thrivent Financial periodically evaluates the long-term earned rate assumptions, taking into consideration historical performance of the plans' assets as well as current asset diversification and investment strategy in determining the rate of return assumptions used in calculating the plans' benefit expenses and obligation. The retirement plan discount rate for 2017 has been revised to correct the prior period disclosure.

|                                      | Retirement Plan |      | Other Plans |      |
|--------------------------------------|-----------------|------|-------------|------|
|                                      | 2018            | 2017 | 2018        | 2017 |
| Weighted average assumptions:        |                 |      |             |      |
| Discount rate .....                  | 4.4%            | 3.7% | 4.4%        | 3.7% |
| Expected return on plan assets ..... | 7.50            | 7.5  | N/A         | N/A  |
| Rate of compensation increase .....  | 3.4             | 3.4  | N/A         | N/A  |

The assumed health care cost trend rate used in measuring the postretirement health care benefit obligation was 6.7% and 6.6% in 2018 for pre-65 participants and post-65 participants, respectively, trending down to 4.5% in 2028. The assumed health care cost trend rates can have a significant impact on the amounts reported. For example, a one-percentage point increase or decrease in the rate would change the 2018 total service and interest cost by \$1 million. A one-percentage point increase in the rate would change the postretirement health care benefit obligation by \$11 million. A one-percentage point decrease in the rate would change the postretirement health care benefit obligation by \$9 million. The Medicare Prescription Drug, Improvement and Modernization Act of 2003 includes a federal subsidy to sponsors of retirement health care plans that provide a prescription benefit that is at least actuarially equivalent to Medicare Part D. Thrivent's Medicare prescription plan is fully insured and therefore the plan's insurer receives the federal subsidy.

Estimated pension benefit payments for the next ten years are as follows: 2019 – \$56 million; 2020 – \$59 million; 2021 – \$61 million; 2022 – \$64 million; 2023 – \$66 million; and 2024 to 2028 – \$366 million.

Estimated other post-retirement benefit payments for the next ten years are as follows: 2019 – \$7 million; 2020 – \$8 million; 2021 – \$8 million; 2022 – \$8 million; 2023 – \$8 million; and 2024 to 2028 – \$41 million.

The minimum pension contribution required for 2018 under the Employee Retirement Income Security Act of 1974, as amended ("ERISA") guidelines will be determined in the first quarter of 2019.

#### *Pension Assets*

The assets of Thrivent Financial's qualified defined benefit plan are held in trust. Thrivent Financial has a benefit plan investment committee that sets investment guidelines, which are established based on market conditions, risk tolerance, funding requirements and expected benefit payments. A third party oversees the investment allocation process and monitors asset performance. As pension liabilities are long term in nature, Thrivent Financial employs a long-term total return approach to maximize the long-term rate of return on plan assets for a prudent level of risk.

The investment portfolio contains a diversified portfolio of investment categories, including equities and fixed income securities. Allocations for plan assets for the years ended December 31 were as follows:

**Thrivent Financial for Lutherans**

Notes to Statutory-Basis Financial Statements, continued

**9. Benefit Plans, continued**

|  | <u>Target<br/>Allocation</u> | <u>Actual Allocation</u> |             |
|--|------------------------------|--------------------------|-------------|
|  |                              | <u>2018</u>              | <u>2017</u> |
| Equity securities .....                | 60%                          | 64%                      | 66%         |
| Fixed income and other securities..... | 40                           | 36                       | 34          |
| Total .....                            | <u>100%</u>                  | <u>100%</u>              | <u>100%</u> |

Securities are also diversified in terms of domestic and international securities, short- and long-term securities, growth and value styles, large-cap and small-cap stocks, active and passive management and derivative-based styles. With prudent risk tolerance and asset diversification, the plan is expected to meet its pension obligations in the future.

The fair values of the defined benefit plan assets by asset category are presented below (in millions):

|  | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u>   |
|--|----------------|----------------|----------------|----------------|
| <b>December 31, 2018</b>                       |                |                |                |                |
| Fixed maturity securities:                     |                |                |                |                |
| U.S. government and agency securities .....    | \$ 71          | \$ 8           | \$—            | \$ 79          |
| Securities issued by foreign governments ..... | —              | —              | —              | —              |
| Corporate debt securities.....                 | —              | 183            | 1              | 184            |
| Residential mortgage-backed securities .....   | —              | 100            | —              | 100            |
| Commercial mortgage-backed securities .....    | —              | 14             | —              | 14             |
| Other debt obligations .....                   | —              | 4              | —              | 4              |
| Common stocks.....                             | 347            | 6              | —              | 353            |
| Preferred stock.....                           | —              | —              | —              | —              |
| Affiliated mutual funds — equity funds .....   | —              | 106            | —              | 106            |
| Short-term investments .....                   | —              | 143            | —              | 143            |
| Limited partnerships .....                     | —              | —              | 82             | 82             |
| Derivatives .....                              | —              | —              | —              | —              |
| Total .....                                    | <u>\$418</u>   | <u>\$564</u>   | <u>\$ 83</u>   | <u>\$1,065</u> |
| <b>December 31, 2017</b>                       |                |                |                |                |
| Fixed maturity securities:                     |                |                |                |                |
| U.S. government and agency securities .....    | \$ 62          | \$ 3           | \$—            | \$ 65          |
| Securities issued by foreign governments ..... | —              | 1              | —              | 1              |
| Corporate debt securities.....                 | —              | 199            | 1              | 200            |
| Residential mortgage-backed securities .....   | —              | 108            | —              | 108            |
| Commercial mortgage-backed securities .....    | —              | 7              | —              | 7              |
| Other debt obligations .....                   | —              | 7              | —              | 7              |
| Common stocks.....                             | 443            | 8              | —              | 451            |
| Preferred stock.....                           | —              | —              | —              | —              |
| Affiliated mutual funds — equity funds .....   | —              | 106            | —              | 106            |
| Short-term investments .....                   | —              | 120            | —              | 120            |
| Limited partnerships .....                     | —              | —              | 61             | 61             |
| Derivatives .....                              | —              | —              | 1              | 1              |
| Total .....                                    | <u>\$505</u>   | <u>\$559</u>   | <u>\$ 63</u>   | <u>\$1,127</u> |

## **Thrivent Financial for Lutherans**

### Notes to Statutory-Basis Financial Statements, continued

#### **9. Benefit Plans, continued**

The fair value of defined benefit plan assets as presented in the table above does not include net accrued liabilities of \$105 million and \$92 million as of December 31, 2018 and 2017.

There were no transfers of defined benefit plan Level 1 and Level 2 fair value measurements during 2018 or 2017. Transfers between fair value hierarchy levels are recognized at the end of the reporting period.

#### **Defined Contribution Plans**

Thrivent Financial also provides contributory and noncontributory defined contribution retirement benefits that cover substantially all home office and field employees. Eligible participants in the 401(k) plan may elect to contribute a percentage of their eligible earnings, and Thrivent Financial will match participant contributions up to 6% of eligible earnings. In addition, Thrivent Financial will contribute a percentage of eligible earnings for participants in a noncontributory plan for field employees. For the years ended December 31, 2018, 2017 and 2016, Thrivent Financial contributed \$37 million, \$35 million and \$34 million, respectively, to these plans.

As of December 31, 2018 and 2017, \$81 million and \$86 million, respectively, of the assets of the defined contribution plans were invested in a deposit administration contract issued by Thrivent Financial.

#### **10. Commitments and Contingent Liabilities**

##### **Litigation and Other Proceedings**

Thrivent Financial is involved in various lawsuits, contractual matters and other contingencies that have arisen in the normal course of business. Thrivent Financial assesses its exposure to these matters periodically and adjusts its provision accordingly. As of December 31, 2018, Thrivent Financial believes adequate provision has been made for any losses that may result from these matters.

##### **Financial Instruments**

Thrivent Financial is a party to financial instruments with on and off balance sheet risk in the normal course of business. These instruments involve, to varying degrees, elements of credit, interest rate, equity price or liquidity risk in excess of the amount recognized in the Statutory-Basis Statements of Assets, Liabilities and Surplus. Thrivent Financial's exposure to credit loss in the event of non-performance by the other party to the financial instrument for commitments to extend credit and financial guarantees is limited to the contractual amount of these instruments.

##### ***Commitments to Extend Credit***

Thrivent Financial has commitments to extend credit for mortgage loans and other lines of credit of \$298 million and \$233 million as of December 31, 2018 and 2017, respectively. Commitments to purchase limited partnerships, private placement bonds and other invested assets were \$3.4 billion and \$3.5 billion as of December 31, 2018 and 2017, respectively.

##### ***Financial Guarantees***

Thrivent Financial has entered into an agreement to purchase certain debt obligations of a third party civic organization, totaling \$37 million, in the event certain conditions occur, as defined in the agreement. This agreement is secured by the assets of the third party.



**Thrivent Financial for Lutherans**  
Notes to Statutory-Basis Financial Statements, continued

**10. Commitments and Contingent Liabilities, continued**

Thrivent Financial has guaranteed that it will maintain the capital and surplus of its insurance and trust affiliates above certain levels required by the primary regulator of each company.

***Leases***

Thrivent Financial has operating leases for certain office equipment and real estate. Rental expense for these items totaled \$21 million and \$17 million for each of the years ended December 31, 2018 and 2017 respectively. Future minimum rental commitments, in aggregate, as of December 31, 2018 were \$23 million for operating leases. The future minimum rental payments for the five succeeding years were as follows: 2019 – \$9 million; 2020 – \$8 million; 2021 – \$3 million; 2022 – \$2 million and thereafter – \$1 million.

Leasing is not a significant part of Thrivent Financial's business activities as lessor.

**11. Related Party Transactions**

**Investments in Subsidiaries and Affiliated Entities**

Thrivent Financial's directly-owned subsidiary, Thrivent Financial Holdings, Inc. (Holdings), is valued in accordance with SSAP No. 97, *Investments in Subsidiary, Controlled and Affiliated Entities (SCAs)*. Annually, Thrivent Financial files a "Form Sub-2" with the NAIC in support of the valuation of Holdings. The filing in support of the December 31, 2017 values was completed on June 29, 2018 and Thrivent Financial received a response from the NAIC that did not disallow the valuation method.

As of December 31, 2018 and 2017, the gross and admitted values were \$340 million and \$319 million, respectively. Of those amounts, \$159 million and \$157 million, as of December 31, 2018 and 2017, respectively, related to Holdings' ownership of an insurance entity, Thrivent Life Insurance Company (Thrivent Life). The remaining \$181 million and \$162 million as of December 31, 2018 and 2017, respectively, reflect Holdings' ownership interest in non-insurance entities.

Thrivent Financial has the opportunity for all Thrivent Life contractholders to become full members. To achieve this goal, Thrivent Financial and Thrivent Life are in the process of seeking regulatory approval to dissolve Thrivent Life into Thrivent Financial. This transaction, if completed, would occur during 2019. The assumption of Thrivent Life's assets, liabilities and operations would not have a material effect on the financial position or operations of Thrivent Financial.

**Other Related Party Transactions**

Thrivent Financial also has invested \$392 million and \$304 million in mutual funds that are part of the Thrivent Financial mutual fund family as of December 31, 2018 and 2017, respectively.

Thrivent Financial provides administrative services on behalf of its subsidiaries in accordance with intercompany service agreements. The total value of services provided under these agreements totaled \$82 million, \$79 million and \$104 million for the years ended December 31, 2018, 2017 and 2016, respectively. The net receivables due from affiliates for the years ended December 31, 2018 and 2017 were \$13 million and \$12 million, respectively, which is included in other assets in the Statutory-Basis Financial Statements of Assets, Liabilities and Surplus.

## **Thrivent Financial for Lutherans**

### Notes to Statutory-Basis Financial Statements, continued

#### **11. Related Party Transactions, continued**

Thrivent Financial has an agreement with an affiliate who distributes its variable products. Under the terms of the agreement, Thrivent Financial paid commissions, bonuses and other benefits to the affiliate totaling \$119 million, \$81 million and \$99 million for the years ended December 31, 2018, 2017 and 2016, respectively.

Thrivent Financial is the investment advisor for the Thrivent Series Portfolios in which the separate accounts assets are primarily invested. Advisor fees in the amount of \$180 million, \$170 million and \$151 million for the years ended December 31, 2018, 2017 and 2016, respectively, were included in separate account fees in the Statutory-Basis Statement of Operations.

In December 2018, Thrivent Financial purchased a variable funding note (VFN) issued by TEF. The VFN, which is reported as a bond in the accompanying Statutory-Basis Statement of Assets, had an outstanding balance of \$25 million as December 31, 2018.

#### **12. Basis of Presentation**

The preceding statutory-basis financial statements of Thrivent Financial have been prepared in accordance with accounting practices prescribed or permitted by the State of Wisconsin Office of the Commissioner of Insurance, which practices differ from GAAP.

The following describes the more significant statutory accounting policies that are different from GAAP accounting policies:

##### **Bonds and Preferred Stocks**

For GAAP purposes, investments in bonds and preferred stocks are reported at fair value with the change in fair value reported as a separate component of comprehensive income for available-for-sale securities and reported as realized gains or losses for trading securities.

##### **Common Stocks**

For GAAP purposes, investments in common stocks are reported at fair value with unrealized gains and losses reported as a component of net income.

##### **Acquisition Costs**

For GAAP purposes, costs incurred that are directly related to the successful acquisition and issuance of new or renewal insurance contracts are deferred to the extent such costs are deemed recoverable from future profits and amortized in proportion to estimated margins from interest, mortality and other factors under the contracts.

##### **Contract Liabilities**

For GAAP purposes, liabilities for future contract benefits and expenses are estimated based on expected experience or actual account balances.

## **Thrivent Financial for Lutherans**

Notes to Statutory-Basis Financial Statements, continued

### **12. Basis of Presentation, continued**

#### **Non-Admitted Assets**

For GAAP purposes, certain assets, primarily furniture, equipment and agents' debit balances, are not charged directly to members' equity and are not excluded from the balance sheet.

#### **Interest Maintenance Reserve**

For GAAP purposes, certain realized investment gains and losses for fixed maturity securities sold prior to their maturity are not deferred and amortized into operating results over the remaining maturity of the sold security.

#### **Asset Valuation Reserve**

For GAAP purposes, an asset valuation reserve is not maintained.

#### **Premiums**

For GAAP purposes, funds deposited and withdrawn on universal life and investment-type contracts are not recorded in the income statement.

#### **Consolidation**

For GAAP purposes, subsidiaries are consolidated into the results of their parent.

Differences between consolidated GAAP financial statements and statutory-basis financial statements as of December 31, 2018 and 2017 and for the three years ended December 31, 2018, have not been quantified but are presumed to be material.

## **Report of Independent Registered Public Accounting Firm**

To the Board of Directors of Thrivent Financial for Lutherans and  
Contract Owners of Thrivent Variable Annuity Account II

### **Opinions on the Financial Statements**

We have audited the accompanying statements of assets and liabilities of each of the subaccounts of Thrivent Variable Annuity Account II, as indicated in Note 1, as of December 31, 2018, and the related statements of operations and of changes in net assets for each of the periods indicated in Note 1, including the related notes (collectively referred to as the “financial statements”). In our opinion, the financial statements present fairly, in all material respects, the financial position of each of the subaccounts in the Thrivent Variable Annuity Account II as of December 31, 2018, the results of each of their operations and the changes in each of their net assets for each of the periods indicated in Note 1, in conformity with accounting principles generally accepted in the United States of America.

### **Basis for Opinions**

These financial statements are the responsibility of the Thrivent Financial for Lutherans management. Our responsibility is to express an opinion on the financial statements of each of the subaccounts in the Thrivent Variable Annuity Account II based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to each of the subaccounts in the Thrivent Variable Annuity Account II in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits of these financial statements in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. Our procedures included confirmation of investments owned as of December 31, 2018 by correspondence with the investee mutual funds. We believe that our audits provide a reasonable basis for our opinions.

/s/ PricewaterhouseCoopers LLP

Minneapolis, Minnesota  
April 29, 2019

We have served as the auditor of one or more of the subaccounts in Thrivent Variable Annuity Account II since 2014.

**THRIVENT VARIABLE ANNUITY ACCOUNT II**  
**STATEMENTS OF ASSETS AND LIABILITIES**  
**DECEMBER 31, 2018**

| Subaccount                              | Investments at fair value | Receivable from Thrivent Financial for annuity reserve adjustment | Total Assets | Payable to Thrivent Financial for annuity reserve adjustment | Net Assets   | Reserves for contracts in annuity payment period | Accumulation units outstanding | Unit value (accumulation) | Series funds, at cost | Series funds shares owned |
|---|---------------------------|---|--------------|--|--------------|--|--------------------------------|---------------------------|-----------------------|---------------------------|
| Aggressive Allocation.....              | \$ 804,502                | \$ 32,405   | \$ 836,907   | \$ —   | \$ 836,907   | \$ 836,907                                       | 38,450                         | \$20.92                   | \$ 681,219            | 53,008                    |
| Balanced Income Plus.....               | \$ 1,940,108              | \$488,101   | \$ 2,428,209 | \$ —   | \$ 2,428,209 | \$ 2,428,209                                     | 55,939                         | \$34.68                   | \$2,060,474           | 137,872                   |
| Diversified Income Plus.....            | \$ 1,254,511              | \$116,095   | \$ 1,370,606 | \$ —   | \$ 1,370,606 | \$ 1,370,606                                     | 60,370                         | \$20.78                   | \$1,169,968           | 161,624                   |
| Government Bond.....                    | \$ 349,860                | \$ 84,540   | \$ 434,400   | \$ —   | \$ 434,400   | \$ 434,400                                       | 15,635                         | \$22.38                   | \$ 341,835            | 32,680                    |
| High Yield.....                         | \$ 1,243,118              | \$116,988   | \$ 1,360,106 | \$ —   | \$ 1,360,106 | \$ 1,360,106                                     | 52,282                         | \$23.78                   | \$1,365,016           | 280,689                   |
| Income.....                             | \$ 731,966                | \$ 71,693   | \$ 803,659   | \$ —   | \$ 803,659   | \$ 803,659                                       | 41,114                         | \$17.80                   | \$ 761,879            | 75,851                    |
| Large Cap Growth.....                   | \$ 1,907,184              | \$161,793   | \$ 2,068,977 | \$ —   | \$ 2,068,977 | \$ 2,068,977                                     | 70,970                         | \$26.87                   | \$ 981,169            | 54,889                    |
| Large Cap Index.....                    | \$ 2,118,762              | \$588,989   | \$ 2,707,751 | \$ —   | \$ 2,707,751 | \$ 2,707,751                                     | 41,800                         | \$50.69                   | \$1,425,547           | 61,377                    |
| Large Cap Stock.....                    | \$ 1,434,898              | \$156,704   | \$ 1,591,602 | \$ —   | \$ 1,591,602 | \$ 1,591,602                                     | 95,265                         | \$15.06                   | \$1,163,987           | 117,065                   |
| Large Cap Value.....                    | \$ 494,055                | \$ 99,780   | \$ 593,835   | \$ —   | \$ 593,835   | \$ 593,835                                       | 17,596                         | \$28.08                   | \$ 367,871            | 30,086                    |
| Limited Maturity Bond.....              | \$ 305,511                | \$ 44,820   | \$ 350,331   | \$ —   | \$ 350,331   | \$ 350,331                                       | 23,612                         | \$12.94                   | \$ 310,087            | 31,422                    |
| Low Volatility Equity.....              | \$ —                      | \$ —  | \$ —         | \$ —   | \$ —         | \$ —   | —                              | \$10.47                   | \$ —                  | —                         |
| Mid Cap Index.....                      | \$ 551,300                | \$ 77,445   | \$ 628,745   | \$ —   | \$ 628,745   | \$ 628,745                                       | 17,274                         | \$31.91                   | \$ 479,637            | 34,639                    |
| Mid Cap Stock.....                      | \$ 1,643,875              | \$161,028   | \$ 1,804,903 | \$ —   | \$ 1,804,903 | \$ 1,804,903                                     | 54,274                         | \$30.29                   | \$1,576,435           | 96,037                    |
| Moderate Allocation.....                | \$10,980,907              | \$936,253   | \$11,917,160 | \$ —   | \$11,917,160 | \$11,917,160                                     | 605,984                        | \$18.12                   | \$9,913,783           | 803,808                   |
| Moderately Aggressive Allocation.....   | \$ 6,698,892              | \$384,180   | \$ 7,083,072 | \$ —   | \$ 7,083,072 | \$ 7,083,072                                     | 343,665                        | \$19.49                   | \$5,929,595           | 461,862                   |
| Moderately Conservative Allocation..... | \$ 4,265,847              | \$312,207   | \$ 4,578,054 | \$ —   | \$ 4,578,054 | \$ 4,578,054                                     | 263,803                        | \$16.17                   | \$3,999,374           | 338,082                   |
| Money Market.....                       | \$ 110,418                | \$ 21,866   | \$ 132,284   | \$ —   | \$ 132,284   | \$ 132,284                                       | 110,681                        | \$ 1.00                   | \$ 110,418            | 110,418                   |
| Multidimensional Income.....            | \$ 16,285                 | \$ —  | \$ 16,285    | \$104  | \$ 16,181    | \$ 16,181  | 1,698                          | \$ 9.59                   | \$ 17,996             | 1,803                     |
| Opportunity Income Plus.....            | \$ 167,418                | \$ 19,847   | \$ 187,265   | \$ —   | \$ 187,265   | \$ 187,265                                       | 11,425                         | \$14.65                   | \$ 174,153            | 17,277                    |
| Partner All Cap.....                    | \$ 373,809                | \$ 18,287   | \$ 392,096   | \$ —   | \$ 392,096   | \$ 392,096                                       | 18,581                         | \$20.12                   | \$ 333,685            | 28,230                    |
| Partner Emerging Markets Equity.....    | \$ 68,518                 | \$ 2,815  | \$ 71,333    | \$ —   | \$ 71,333    | \$ 71,333  | 5,856                          | \$11.70                   | \$ 61,128             | 5,648                     |
| Partner Growth Stock.....               | \$ 100,237                | \$ 14,996   | \$ 115,233   | \$ —   | \$ 115,233   | \$ 115,233                                       | 3,123                          | \$32.09                   | \$ 67,219             | 4,527                     |
| Partner Healthcare.....                 | \$ 186,026                | \$ 21,769   | \$ 207,795   | \$ —   | \$ 207,795   | \$ 207,795                                       | 8,031                          | \$23.17                   | \$ 144,613            | 9,694                     |
| Partner Worldwide Allocation.....       | \$ 496,002                | \$ 97,579   | \$ 593,581   | \$ —   | \$ 593,581   | \$ 593,581                                       | 50,522                         | \$ 9.82                   | \$ 461,849            | 56,416                    |
| Real Estate Securities.....             | \$ 414,359                | \$ 39,473   | \$ 453,832   | \$ —   | \$ 453,832   | \$ 453,832                                       | 11,582                         | \$35.78                   | \$ 314,849            | 18,505                    |
| Small Cap Growth.....                   | \$ —                      | \$ —  | \$ —         | \$ —   | \$ —         | \$ —   | —                              | \$ 9.04                   | \$ —                  | —                         |
| Small Cap Index.....                    | \$ 1,302,051              | \$324,860   | \$ 1,626,911 | \$ —   | \$ 1,626,911 | \$ 1,626,911                                     | 19,083                         | \$68.23                   | \$1,179,977           | 78,735                    |
| Small Cap Stock.....                    | \$ 798,541                | \$ 66,721   | \$ 865,262   | \$ —   | \$ 865,262   | \$ 865,262                                       | 28,150                         | \$28.37                   | \$ 701,977            | 46,036                    |

The accompanying notes are an integral part of these financial statements.

**THRIVENT VARIABLE ANNUITY ACCOUNT II**  
**STATEMENTS OF OPERATIONS**  
**FOR THE YEAR ENDED DECEMBER 31, 2018**

| Subaccount                              | Investment Income |              | Expenses                         |                              | Realized and unrealized gain (loss) on investments |                            |   | Net gain (loss) on investments | Net increase (decrease) in net assets resulting from operations |
|---|-------------------|--------------|----------------------------------|------------------------------|--|----------------------------|---|--------------------------------|---|
|   | Dividends         |              | Mortality & expense risk charges | Net investment income (loss) | Net realized gain (loss) on sale of investments    | Capital gain distributions | Change in unrealized appreciation (depreciation) of investments |                                |   |
| Aggressive Allocation.....              | \$ 6,453          | \$ (12,025)  | \$ (5,572)                       | \$ 39,466                    | \$ 63,830  | \$ (160,982)               | \$ (57,686)   | \$ (63,258)                    |   |
| Balanced Income Plus.....               | \$ 55,189         | \$ (28,446)  | \$ 26,743                        | \$ 10,210                    | \$ 29,269  | \$ (190,280)               | \$ (150,801)  | \$ (124,058)                   |   |
| Diversified Income Plus.....            | \$ 46,249         | \$ (18,187)  | \$ 28,062                        | \$ 39,258                    | \$ —   | \$ (117,575)               | \$ (78,317)   | \$ (50,255)                    |   |
| Government Bond.....                    | \$ 9,030          | \$ (4,698)   | \$ 4,332                         | \$ 1,684                     | \$ —   | \$ (11,058)                | \$ (9,374)  | \$ (5,042)                     |   |
| High Yield.....                         | \$ 80,716         | \$ (17,470)  | \$ 63,246                        | \$ (7,144)                   | \$ —   | \$ (116,232)               | \$ (123,376)  | \$ (60,130)                    |   |
| Income.....                             | \$ 29,510         | \$ (10,108)  | \$ 19,402                        | \$ (2,334)                   | \$ 6,216   | \$ (53,819)                | \$ (49,937)   | \$ (30,535)                    |   |
| Large Cap Growth.....                   | \$ 8,282          | \$ (27,914)  | \$ (19,632)                      | \$ 170,263                   | \$ 92,855  | \$ (192,471)               | \$ 70,647   | \$ 51,015                      |   |
| Large Cap Index.....                    | \$ 37,408         | \$ (32,482)  | \$ 4,926                         | \$ 224,919                   | \$ 15,976  | \$ (360,435)               | \$ (119,540)  | \$ (14,614)                    |   |
| Large Cap Stock.....                    | \$ 21,167         | \$ (21,768)  | \$ (601)                         | \$ 91,637                    | \$ 98,954  | \$ (335,360)               | \$ (144,769)  | \$ (145,370)                   |   |
| Large Cap Value.....                    | \$ 8,190          | \$ (7,678)   | \$ 512                           | \$ 46,045                    | \$ 23,245  | \$ (121,928)               | \$ (52,638)   | \$ (52,126)                    |   |
| Limited Maturity Bond.....              | \$ 7,709          | \$ (3,885)   | \$ 3,824                         | \$ (581)                     | \$ —   | \$ (3,888)                 | \$ (4,469)  | \$ (645)                       |   |
| Low Volatility Equity.....              | \$ —              | \$ —         | \$ —                             | \$ —                         | \$ —   | \$ —                       | \$ —  | \$ —                           |   |
| Mid Cap Index.....                      | \$ 7,107          | \$ (8,929)   | \$ (1,822)                       | \$ 43,270                    | \$ 32,444  | \$ (148,352)               | \$ (72,638)   | \$ (74,460)                    |   |
| Mid Cap Stock.....                      | \$ 6,827          | \$ (24,242)  | \$ (17,415)                      | \$ 62,277                    | \$ 150,402   | \$ (413,840)               | \$ (201,161)  | \$ (218,576)                   |   |
| Moderate Allocation.....                | \$ 219,094        | \$ (159,741) | \$ 59,353                        | \$ 436,574                   | \$ 429,637   | \$ (1,582,575)             | \$ (716,364)  | \$ (657,011)                   |   |
| Moderately Aggressive Allocation.....   | \$ 99,044         | \$ (98,233)  | \$ 811                           | \$ 304,466                   | \$ 364,377   | \$ (1,163,732)             | \$ (494,889)  | \$ (494,078)                   |   |
| Moderately Conservative Allocation..... | \$ 99,736         | \$ (61,707)  | \$ 38,029                        | \$ 136,594                   | \$ 103,106   | \$ (485,857)               | \$ (246,157)  | \$ (208,128)                   |   |
| Money Market.....                       | \$ 1,782          | \$ (1,544)   | \$ 238                           | \$ —                         | \$ —   | \$ —                       | \$ —  | \$ 238                         |   |
| Multidimensional Income.....            | \$ 833            | \$ (100)     | \$ 733                           | \$ (1)                       | \$ 31  | \$ (1,711)                 | \$ (1,681)  | \$ (948)                       |   |
| Opportunity Income Plus.....            | \$ 7,543          | \$ (2,319)   | \$ 5,224                         | \$ (632)                     | \$ —   | \$ (8,848)                 | \$ (9,480)  | \$ (4,256)                     |   |
| Partner All Cap.....                    | \$ 2,364          | \$ (5,667)   | \$ (3,303)                       | \$ 14,417                    | \$ 22,678  | \$ (78,825)                | \$ (41,730)   | \$ (45,033)                    |   |
| Partner Emerging Markets Equity.....    | \$ 1,002          | \$ (1,006)   | \$ (4)                           | \$ 1,791                     | \$ —   | \$ (15,571)                | \$ (13,780)   | \$ (13,784)                    |   |
| Partner Growth Stock.....               | \$ 210            | \$ (1,928)   | \$ (1,718)                       | \$ 35,310                    | \$ 9,543   | \$ (39,249)                | \$ 5,604  | \$ 3,886                       |   |
| Partner Healthcare.....                 | \$ 1,872          | \$ (2,638)   | \$ (766)                         | \$ 10,839                    | \$ —   | \$ 5,090                   | \$ 15,929   | \$ 15,163                      |   |
| Partner Worldwide Allocation.....       | \$ 17,506         | \$ (7,918)   | \$ 9,588                         | \$ 27,839                    | \$ 18,525  | \$ (158,139)               | \$ (111,775)  | \$ (102,187)                   |   |
| Real Estate Securities.....             | \$ 9,390          | \$ (5,813)   | \$ 3,577                         | \$ 21,544                    | \$ 1,634   | \$ (57,741)                | \$ (34,563)   | \$ (30,986)                    |   |
| Small Cap Growth*.....                  | \$ —              | \$ —         | \$ —                             | \$ —                         | \$ —   | \$ —                       | \$ —  | \$ —                           |   |
| Small Cap Index.....                    | \$ 16,225         | \$ (21,568)  | \$ (5,343)                       | \$ 98,315                    | \$ 85,989  | \$ (301,517)               | \$ (117,213)  | \$ (122,556)                   |   |
| Small Cap Stock.....                    | \$ 4,210          | \$ (12,560)  | \$ (8,350)                       | \$ 46,185                    | \$ 79,338  | \$ (213,824)               | \$ (88,301)   | \$ (96,651)                    |   |

\* For the period April 27, 2018 (commencement of operations) to December 31, 2018.

The accompanying notes are an integral part of these financial statements.

**THRIVENT VARIABLE ANNUITY ACCOUNT II**  
**STATEMENTS OF CHANGES IN NET ASSETS**  
**FOR THE YEAR ENDED DECEMBER 31, 2018**

| Subaccount                              | Increase (decrease) in net assets from operations |  |   | Increase (decrease) in net assets from contract related transactions |                            |  |                                 |                               | Net Assets Beginning of Year | Net Assets End of Year |   |
|---|---|--|---|--|----------------------------|--|---------------------------------|-------------------------------|------------------------------|------------------------|---|
|   | Net investment income (loss)                      | Net realized gain (loss) on investments and capital gain distributions | Change in net unrealized appreciation (depreciation) on investments | Net Change in Net Operations   | Proceeds from units issued | Transfers for contract benefits and terminations | Adjustments to annuity reserves | Transfers between subaccounts |                              |                        | Net Change in Net Assets from Unit Transactions |
| Aggressive Allocation.....              | \$ (5,572)  | \$ 103,296   | \$ (160,982)  | \$ (63,258)  | \$ —                       | \$ (102,640)                                     | \$ 3,110                        | \$ (32,742)                   | \$ (132,272)                 | \$ (195,530)           | \$ 836,907                                      |
| Balanced Income Plus .....              | \$ 26,743   | \$ 39,479  | \$ (190,280)  | \$ (124,058)   | \$ —                       | \$ (374,805)                                     | \$ (62,688)                     | \$ (43,751)                   | \$ (481,244)                 | \$ (605,302)           | \$ 2,428,209                                    |
| Diversified Income Plus .....           | \$ 28,062   | \$ 39,258  | \$ (117,575)  | \$ (50,255)  | \$ —                       | \$ (138,754)                                     | \$ (2,898)                      | \$ (136,033)                  | \$ (307,685)                 | \$ (357,940)           | \$ 1,728,546                                    |
| Government Bond .....                   | \$ 4,332  | \$ 1,684   | \$ (11,058)   | \$ (5,042)   | \$ —                       | \$ (65,544)                                      | \$ (18,756)                     | \$ 5,477                      | \$ (78,823)                  | \$ (83,865)            | \$ 518,265                                      |
| High Yield .....                        | \$ 63,246   | \$ (7,144)   | \$ (116,232)  | \$ (60,130)  | \$ —                       | \$ (171,164)                                     | \$ 4,666                        | \$ (22,686)                   | \$ (189,184)                 | \$ (249,314)           | \$ 1,360,106                                    |
| Income.....                             | \$ 19,402   | \$ 3,882   | \$ (53,819)   | \$ (30,535)  | \$ —                       | \$ (123,238)                                     | \$ (15,278)                     | \$ (9,969)                    | \$ (148,485)                 | \$ (179,020)           | \$ 982,679                                      |
| Large Cap Growth.....                   | \$ (19,632)                                       | \$ 263,118   | \$ (192,471)  | \$ 51,015  | \$ —                       | \$ (262,731)                                     | \$ (243)                        | \$ (17,938)                   | \$ (280,912)                 | \$ (229,897)           | \$ 2,298,874                                    |
| Large Cap Index.....                    | \$ 4,926  | \$ 240,895   | \$ (360,435)  | \$ (114,614)   | \$ —                       | \$ (465,821)                                     | \$ (19,149)                     | \$ (77,032)                   | \$ (562,002)                 | \$ (676,616)           | \$ 3,384,367                                    |
| Large Cap Stock .....                   | \$ (601)  | \$ 190,591   | \$ (335,360)  | \$ (145,370)   | \$ —                       | \$ (245,279)                                     | \$ (43,807)                     | \$ (5,098)                    | \$ (294,184)                 | \$ (439,554)           | \$ 2,031,156                                    |
| Large Cap Value.....                    | \$ 512  | \$ 69,290  | \$ (121,928)  | \$ (52,126)  | \$ —                       | \$ (105,189)                                     | \$ 4,000                        | \$ (15,474)                   | \$ (116,663)                 | \$ (168,789)           | \$ 762,624                                      |
| Limited Maturity Bond.....              | \$ 3,824  | \$ (581)   | \$ (3,888)  | \$ (645)   | \$ —                       | \$ (53,761)                                      | \$ 6,961                        | \$ 49,970                     | \$ 3,170                     | \$ 2,525               | \$ 347,806                                      |
| Low Volatility Equity .....             | \$ —  | \$ —   | \$ —  | \$ —   | \$ —                       | \$ —   | \$ —                            | \$ —                          | \$ —                         | \$ —                   | \$ —  |
| Mid Cap Index.....                      | \$ (1,822)  | \$ 75,714  | \$ (148,352)  | \$ (74,460)  | \$ —                       | \$ (121,473)                                     | \$ 4,155                        | \$ (23,555)                   | \$ (140,873)                 | \$ (215,333)           | \$ 844,078                                      |
| Mid Cap Stock .....                     | \$ (7,415)  | \$ 212,679   | \$ (413,840)  | \$ (218,576)   | \$ —                       | \$ (251,252)                                     | \$ 19,211                       | \$ 359,708                    | \$ 127,667                   | \$ (90,909)            | \$ 1,895,812                                    |
| Moderate Allocation .....               | \$ 59,353   | \$ 866,211   | \$ (1,582,575)  | \$ (657,011)   | \$ —                       | \$ (1,589,196)                                   | \$ 41,307                       | \$ (811,047)                  | \$ (2,358,936)               | \$ (3,015,947)         | \$ 14,933,107                                   |
| Moderately Aggressive Allocation.....   | \$ 811  | \$ 668,843   | \$ (1,163,732)  | \$ (494,078)   | \$ —                       | \$ (1,040,658)                                   | \$ (61,517)                     | \$ (142,394)                  | \$ (1,244,569)               | \$ (1,738,647)         | \$ 8,821,719                                    |
| Moderately Conservative Allocation..... | \$ 38,029   | \$ 239,700   | \$ (485,857)  | \$ (208,128)   | \$ —                       | \$ (892,689)                                     | \$ (93,154)                     | \$ (93,708)                   | \$ (1,079,551)               | \$ (1,287,679)         | \$ 5,865,733                                    |
| Money Market .....                      | \$ 238  | \$ —   | \$ —  | \$ 238   | \$ —                       | \$ (20,841)                                      | \$ 1,133                        | \$ (3,773)                    | \$ (23,481)                  | \$ (23,243)            | \$ 155,527                                      |
| Multidimensional Income.....            | \$ 733  | \$ 30  | \$ (1,711)  | \$ (948)   | \$ —                       | \$ —   | \$ (104)                        | \$ 17,233                     | \$ 17,129                    | \$ 16,181              | \$ —  |
| Opportunity Income Plus.....            | \$ 5,224  | \$ (632)   | \$ (8,848)  | \$ (4,256)   | \$ —                       | \$ (17,435)                                      | \$ 428                          | \$ (20,112)                   | \$ (37,119)                  | \$ (41,375)            | \$ 228,640                                      |
| Partner All Cap.....                    | \$ (3,303)  | \$ 37,095  | \$ (78,825)   | \$ (45,033)  | \$ —                       | \$ (27,284)                                      | \$ (4,930)                      | \$ (27,578)                   | \$ (59,792)                  | \$ (104,825)           | \$ 496,921                                      |
| Partner Emerging Markets Equity .....   | \$ (4)  | \$ 1,791   | \$ (15,571)   | \$ (13,784)  | \$ —                       | \$ (4,999)                                       | \$ 251                          | \$ (3,742)                    | \$ (8,490)                   | \$ (22,274)            | \$ 93,607                                       |
| Partner Growth Stock .....              | \$ (1,718)  | \$ 44,853  | \$ (39,249)   | \$ 3,886   | \$ —                       | \$ (75,124)                                      | \$ (206,905)                    | \$ (207)                      | \$ (102,256)                 | \$ (98,350)            | \$ 213,583                                      |
| Partner Healthcare.....                 | \$ (766)  | \$ 10,839  | \$ 5,090  | \$ 15,163  | \$ —                       | \$ (40,813)                                      | \$ 4,955                        | \$ (4,619)                    | \$ (40,477)                  | \$ (25,314)            | \$ 233,109                                      |
| Partner Worldwide Allocation.....       | \$ 9,588  | \$ 46,364  | \$ (158,139)  | \$ (102,187)   | \$ —                       | \$ (108,921)                                     | \$ (1,558)                      | \$ (12,584)                   | \$ (123,063)                 | \$ (225,250)           | \$ 818,831                                      |
| Real Estate Securities.....             | \$ 3,577  | \$ 23,178  | \$ (57,741)   | \$ (30,986)  | \$ —                       | \$ (62,267)                                      | \$ 4,435                        | \$ (10,582)                   | \$ (68,414)                  | \$ (99,400)            | \$ 553,232                                      |
| Small Cap Growth* .....                 | \$ —  | \$ —   | \$ —  | \$ —   | \$ —                       | \$ —   | \$ —                            | \$ —                          | \$ —                         | \$ —                   | \$ —  |
| Small Cap Index.....                    | \$ (5,343)  | \$ 184,304   | \$ (301,517)  | \$ (122,556)   | \$ —                       | \$ (314,798)                                     | \$ (8,009)                      | \$ (32,986)                   | \$ (375,793)                 | \$ (498,349)           | \$ 2,125,260                                    |
| Small Cap Stock.....                    | \$ (8,350)  | \$ 125,523   | \$ (213,824)  | \$ (96,651)  | \$ —                       | \$ (129,572)                                     | \$ 465                          | \$ (23,562)                   | \$ (152,670)                 | \$ (249,321)           | \$ 1,114,583                                    |

\* For the period April 27, 2018 (commencement of operations) to December 31, 2018.

The accompanying notes are an integral part of these financial statements.

**THRIVENT VARIABLE ANNUITY ACCOUNT II**  
**STATEMENTS OF CHANGES IN NET ASSETS**  
**FOR THE YEAR ENDED DECEMBER 31, 2017**

| Subaccount                              | Increase (decrease) in net assets from operations |  |   | Increase (decrease) in net assets from contract related transactions |                            |  |                                 |                               |   | Net Assets Beginning of Year | Net Assets End of Year |                          |
|---|---|--|---|--|----------------------------|--|---------------------------------|-------------------------------|---|------------------------------|------------------------|--------------------------|
|   | Net investment income (loss)                      | Net realized gain (loss) on investments and capital gain distributions | Change in net unrealized appreciation (depreciation) on investments | Net Change in Net Assets from Operations                             | Proceeds from units issued | Transfers for contract benefits and terminations | Adjustments to annuity reserves | Transfers between subaccounts | Net Change in Net Assets from Unit Transactions |                              |                        | Net Change in Net Assets |
| Aggressive Allocation.....              | \$ (5,148)  | \$ 46,742  | \$ 142,876  | \$ 184,470   | \$ —                       | \$ (136,219)                                     | \$ 7,040                        | \$ (35,926)                   | \$ (165,105)                                    | \$ 19,365                    | \$ 1,013,072           | \$ 1,032,437             |
| Balanced Income Plus.....               | \$ 27,636   | \$ (5,228)   | \$ 230,896  | \$ 253,304   | \$ —                       | \$ (331,124)                                     | \$ 57,490                       | \$ (93,964)                   | \$ (367,598)                                    | \$ (114,294)                 | \$ 3,147,805           | \$ 3,033,511             |
| Diversified Income Plus.....            | \$ 29,510   | \$ 25,897  | \$ 70,618   | \$ 126,025   | \$ —                       | \$ (145,959)                                     | \$ 11,922                       | \$ (45,548)                   | \$ (179,585)                                    | \$ (53,560)                  | \$ 1,782,106           | \$ 1,728,546             |
| Government Bond.....                    | \$ 3,488  | \$ 4,468   | \$ 48   | \$ 8,004   | \$ —                       | \$ (77,531)                                      | \$ (12,972)                     | \$ (13,370)                   | \$ (103,873)                                    | \$ (95,869)                  | \$ 614,134             | \$ 518,265               |
| High Yield.....                         | \$ 66,035   | \$ (1,103)   | \$ 29,291   | \$ 94,223  | \$ —                       | \$ (184,893)                                     | \$ (12,285)                     | \$ (18,605)                   | \$ (215,783)                                    | \$ (121,560)                 | \$ 1,730,980           | \$ 1,609,420             |
| Income.....                             | \$ 19,700   | \$ 4,994   | \$ 21,629   | \$ 46,323  | \$ —                       | \$ (126,570)                                     | \$ 6,749                        | \$ (14,886)                   | \$ (134,707)                                    | \$ (88,384)                  | \$ 1,071,063           | \$ 982,679               |
| Large Cap Growth.....                   | \$ (18,315)                                       | \$ 148,604   | \$ 367,326  | \$ 497,615   | \$ —                       | \$ (261,447)                                     | \$ 23,193                       | \$ (23,382)                   | \$ (314,980)                                    | \$ 235,979                   | \$ 2,062,895           | \$ 2,298,874             |
| Large Cap Index.....                    | \$ 2,606  | \$ 180,766   | \$ 321,798  | \$ 505,170   | \$ —                       | \$ (387,494)                                     | \$ 145,631                      | \$ (73,117)                   | \$ (314,980)                                    | \$ 190,190                   | \$ 3,194,177           | \$ 3,384,367             |
| Large Cap Stock.....                    | \$ 674  | \$ 4,994   | \$ 21,629   | \$ 46,323  | \$ —                       | \$ (126,570)                                     | \$ 6,749                        | \$ (14,886)                   | \$ (134,707)                                    | \$ 235,979                   | \$ 2,062,895           | \$ 2,298,874             |
| Large Cap Value.....                    | \$ 875  | \$ 58,063  | \$ 40,342   | \$ 99,280  | \$ —                       | \$ (97,774)                                      | \$ 21,485                       | \$ (14,578)                   | \$ (90,867)                                     | \$ 8,413                     | \$ 754,211             | \$ 2,031,156             |
| Limited Maturity Bond.....              | \$ 2,429  | \$ (181)   | \$ 2,340  | \$ 4,588   | \$ —                       | \$ (48,699)                                      | \$ 7,646                        | \$ (7,873)                    | \$ (48,926)                                     | \$ (44,338)                  | \$ 392,144             | \$ 347,806               |
| Low Volatility Equity.....              | \$ —  | \$ —   | \$ —  | \$ —   | \$ —                       | \$ —   | \$ —                            | \$ —                          | \$ —  | \$ —                         | \$ —                   | \$ —                     |
| Mid Cap Index.....                      | \$ (2,648)  | \$ 64,076  | \$ 44,413   | \$ 105,841   | \$ (1)                     | \$ (130,315)                                     | \$ 14,992                       | \$ (22,452)                   | \$ (137,776)                                    | \$ (31,935)                  | \$ 876,013             | \$ 844,078               |
| Mid Cap Stock.....                      | \$ (15,474)                                       | \$ 207,094   | \$ 88,671   | \$ 280,291   | \$ —                       | \$ (221,929)                                     | \$ 15,816                       | \$ (30,029)                   | \$ (256,142)                                    | \$ 24,149                    | \$ 1,871,663           | \$ 1,895,812             |
| Moderate Allocation.....                | \$ 54,419   | \$ 397,179   | \$ 1,103,386  | \$ 1,554,984   | \$ 1                       | \$ (1,521,300)                                   | \$ 210,473                      | \$ (311,678)                  | \$ (1,622,504)                                  | \$ (67,520)                  | \$ 15,000,627          | \$ 14,933,107            |
| Moderately Aggressive Allocation.....   | \$ (2,123)  | \$ 354,528   | \$ 860,928  | \$ 1,213,333   | \$ —                       | \$ (1,325,372)                                   | \$ 11,315                       | \$ (165,874)                  | \$ (1,479,931)                                  | \$ (266,598)                 | \$ 9,088,317           | \$ 8,821,719             |
| Moderately Conservative Allocation..... | \$ 28,851   | \$ 178,296   | \$ 238,090  | \$ 445,237   | \$ —                       | \$ (769,522)                                     | \$ 65,697                       | \$ (211,440)                  | \$ (915,265)                                    | \$ (470,028)                 | \$ 6,335,761           | \$ 5,865,733             |
| Money Market.....                       | \$ (1,107)  | \$ —   | \$ —  | \$ (1,107)   | \$ —                       | \$ (19,256)                                      | \$ 3,722                        | \$ (3,896)                    | \$ (19,430)                                     | \$ (20,537)                  | \$ 176,064             | \$ 155,527               |
| Multidimensional Income.....            | \$ —  | \$ —   | \$ —  | \$ —   | \$ —                       | \$ —   | \$ —                            | \$ —                          | \$ —  | \$ —                         | \$ —                   | \$ —                     |
| Opportunity Income Plus.....            | \$ 4,649  | \$ 234   | \$ 2,315  | \$ 7,198   | \$ (2)                     | \$ (20,482)                                      | \$ 3,506                        | \$ (6,763)                    | \$ (23,741)                                     | \$ (16,543)                  | \$ 245,183             | \$ 228,640               |
| Partner All Cap.....                    | \$ (3,592)  | \$ 14,201  | \$ 70,533   | \$ 81,142  | \$ (1)                     | \$ (40,665)                                      | \$ 1,282                        | \$ (28,389)                   | \$ (67,773)                                     | \$ 13,369                    | \$ 483,552             | \$ 496,921               |
| Partner Emerging Markets Equity.....    | \$ (498)  | \$ 2,127   | \$ 108,637  | \$ 20,266  | \$ 1                       | \$ (5,237)                                       | \$ 1,088                        | \$ (4,937)                    | \$ (9,085)                                      | \$ 11,181                    | \$ 82,426              | \$ 93,607                |
| Partner Growth Stock.....               | \$ (1,993)  | \$ 15,849  | \$ 33,525   | \$ 47,381  | \$ 1                       | \$ (30,321)                                      | \$ 16,610                       | \$ (6,646)                    | \$ (20,356)                                     | \$ 27,025                    | \$ 186,558             | \$ 213,583               |
| Partner Healthcare.....                 | \$ (2,205)  | \$ 5,017   | \$ 34,348   | \$ 37,160  | \$ 1                       | \$ (25,576)                                      | \$ 5,369                        | \$ (5,449)                    | \$ (25,655)                                     | \$ 11,505                    | \$ 221,604             | \$ 233,109               |
| Partner Worldwide Allocation.....       | \$ 6,441  | \$ 34,417  | \$ 108,850  | \$ 149,708   | \$ —                       | \$ (105,256)                                     | \$ 23,163                       | \$ (41,773)                   | \$ (123,866)                                    | \$ 25,842                    | \$ 792,989             | \$ 818,831               |
| Real Estate Securities.....             | \$ 2,318  | \$ 44,688  | \$ (19,706)   | \$ 27,300  | \$ (2)                     | \$ (90,317)                                      | \$ (8,074)                      | \$ (51,388)                   | \$ (149,781)                                    | \$ (122,481)                 | \$ 675,713             | \$ 553,232               |
| Small Cap Growth.....                   | \$ —  | \$ —   | \$ —  | \$ —   | \$ —                       | \$ —   | \$ —                            | \$ —                          | \$ —  | \$ —                         | \$ —                   | \$ —                     |
| Small Cap Index.....                    | \$ (7,042)  | \$ 165,774   | \$ 39,117   | \$ 197,849   | \$ 1                       | \$ (233,373)                                     | \$ 57,366                       | \$ (55,367)                   | \$ (231,373)                                    | \$ (33,524)                  | \$ 2,158,784           | \$ 2,125,260             |
| Small Cap Stock.....                    | \$ (9,143)  | \$ 98,338  | \$ 94,803   | \$ 183,998   | \$ —                       | \$ (110,759)                                     | \$ 18,786                       | \$ (31,290)                   | \$ (123,263)                                    | \$ 60,735                    | \$ 1,053,848           | \$ 1,114,583             |

The accompanying notes are an integral part of these financial statements.



**THRIVENT VARIABLE ANNUITY ACCOUNT II**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2018**

**(1) ORGANIZATION**

The Thrivent Variable Annuity Account II ( the Variable Account), is a unit investment trust registered under the Investment Company Act of 1940 and is a separate account of Thrivent Financial for Lutherans (Thrivent Financial). The Variable Account has 29 subaccounts, each of which invests in a corresponding portfolio of the Thrivent Series Fund, Inc. (each a Fund and collectively the Funds), as provided below. For each subaccount, the financial statements are comprised of a statement of assets and liabilities as of December 31, 2018, a related statement of operations for the year then ended and statements of changes in net assets for each of the two years in the period then ended, all presented to reflect a full twelve month period except as noted below.

| <u>Subaccount</u>                            | <u>Series</u>   |
|--|---|
| Aggressive Allocation .....                  | Thrivent Series Fund, Inc. — Aggressive Allocation Portfolio              |
| Balanced Income Plus .....                   | Thrivent Series Fund, Inc. — Balanced Income Plus Portfolio               |
| Diversified Income Plus .....                | Thrivent Series Fund, Inc. — Diversified Income Plus Portfolio            |
| Government Bond (c).....                     | Thrivent Series Fund, Inc. — Government Bond Portfolio                    |
| High Yield.....                              | Thrivent Series Fund, Inc. — High Yield Portfolio                         |
| Income .....                                 | Thrivent Series Fund, Inc. — Income Portfolio                             |
| Large Cap Growth (j).....                    | Thrivent Series Fund, Inc. — Large Cap Growth Portfolio                   |
| Large Cap Index.....                         | Thrivent Series Fund, Inc. — Large Cap Index Portfolio                    |
| Large Cap Stock (i).....                     | Thrivent Series Fund, Inc. — Large Cap Stock Portfolio                    |
| Large Cap Value.....                         | Thrivent Series Fund, Inc. — Large Cap Value Portfolio                    |
| Limited Maturity Bond .....                  | Thrivent Series Fund, Inc. — Limited Maturity Bond Portfolio              |
| Low Volatility Equity (d).....               | Thrivent Series Fund, Inc. — Low Volatility Equity Portfolio              |
| Mid Cap Index .....                          | Thrivent Series Fund, Inc. — Mid Cap Index Portfolio                      |
| Mid Cap Stock (g, h).....                    | Thrivent Series Fund, Inc. — Mid Cap Stock Portfolio                      |
| Moderate Allocation .....                    | Thrivent Series Fund, Inc. — Moderate Allocation Portfolio                |
| Moderately Aggressive<br>Allocation (a)..... | Thrivent Series Fund, Inc. — Moderately Aggressive Allocation Portfolio   |
| Moderately Conservative<br>Allocation .....  | Thrivent Series Fund, Inc. — Moderately Conservative Allocation Portfolio |
| Money Market.....                            | Thrivent Series Fund, Inc. — Money Market Portfolio                       |
| Multidimensional Income (d) ...              | Thrivent Series Fund, Inc. — Multidimensional Income Portfolio            |
| Opportunity Income Plus .....                | Thrivent Series Fund, Inc. — Opportunity Income Plus Portfolio            |
| Partner All Cap.....                         | Thrivent Series Fund, Inc. — Partner All Cap Portfolio                    |
| Partner Emerging Markets<br>Equity .....     | Thrivent Series Fund, Inc. — Partner Emerging Markets Equity Portfolio    |
| Partner Growth Stock.....                    | Thrivent Series Fund, Inc. — Partner Growth Stock Portfolio               |
| Partner Healthcare.....                      | Thrivent Series Fund, Inc. — Partner Healthcare Portfolio                 |
| Partner Worldwide Allocation...              | Thrivent Series Fund, Inc. — Partner Worldwide Allocation Portfolio       |
| Real Estate Securities.....                  | Thrivent Series Fund, Inc. — Real Estate Securities Portfolio             |
| Small Cap Growth (b).....                    | Thrivent Series Fund, Inc. — Small Cap Growth Portfolio                   |
| Small Cap Index.....                         | Thrivent Series Fund, Inc. — Small Cap Index Portfolio                    |
| Small Cap Stock (e,f).....                   | Thrivent Series Fund, Inc. — Small Cap Stock Portfolio                    |

- (a) Growth and Income Plus merged into the Moderately Aggressive Allocation Portfolio as of June 28, 2018.  
(b) Statement of operations and of changes in net assets for the period April 27, 2018 (commencement of operations) to December 31, 2018.

**THRIVENT VARIABLE ANNUITY ACCOUNT II**  
NOTES TO FINANCIAL STATEMENTS (continued)

**(1) ORGANIZATION - continued**

- (c) Formerly known as Bond Index, name change effective August 28, 2017.
- (d) Statement of changes in net assets for the period April 28, 2017 (commencement of operations) to December 31, 2017.
- (e) Partner Small Cap Growth merged into the Small Cap Stock Portfolio as of August 21, 2015.
- (f) Partner Small Cap Value merged into the Small Cap Stock Portfolio as of August 21, 2015.
- (g) Mid Cap Growth merged into the Mid Cap Stock Portfolio as of August 21, 2015.
- (h) Partner Mid Cap Value merged into the Mid Cap Stock Portfolio as of August 21, 2015.
- (i) Natural Resources merged into the Large Cap Stock Portfolio as of August 21, 2015.
- (j) Partner Technology merged into the Large Cap Growth Portfolio as of August 21, 2015.

The Funds are registered under the Investment Company Act of 1940 as open-end, diversified management investment companies. The Funds are managed by Thrivent Investment Management, Inc. which is an affiliate of Thrivent Financial.

**Thrivent Variable Annuity Account II**

**NOTES TO FINANCIAL STATEMENTS**

The Variable Account is used to fund single premium immediate variable annuity contracts issued by Thrivent Financial. Under applicable insurance law, the assets and liabilities of the Variable Account are clearly identified and distinguished from the other assets and liabilities of Thrivent Financial. The assets of the Variable Account will not be charged with any liabilities arising out of any other business conducted by the life insurance operations of Thrivent Financial.

A fixed account investment option is available for contract owners of the single premium immediate variable annuity contracts. Assets of the fixed account are combined with the general assets of Thrivent Financial and invested by Thrivent Financial as allowed by applicable law. Accordingly, the fixed account assets are not included in the Variable Account financial statements.

Thrivent Financial has the opportunity for all Thrivent Life contractholders to become full members. To achieve this goal, Thrivent Financial and Thrivent Life are in the process of seeking regulatory approval to dissolve Thrivent Life into Thrivent Financial. This transaction, if completed, would occur during 2019. The assumption of Thrivent Life's assets, liabilities and operations would not have a material effect on the financial position or operations of Thrivent Financial and would not impact the Thrivent Financial separate accounts.

**Valuation of Investments**

The investments in shares of the Funds are stated at fair value, which is the closing net asset value per share as determined by the Fund. The cost of shares sold and redeemed is determined on the average cost method. Dividend distributions received from the Fund are reinvested in additional shares of the Fund and recorded as income by the subaccount on the ex-dividend date. Series Fund shares owned represent the number of shares of the Fund owned by the subaccount.

**Federal Income Taxes**

Thrivent Financial qualifies as a tax-exempt organization under the Internal Revenue Code. Accordingly, no provision for income taxes has been charged against the Variable Account. Thrivent Financial reserves the right to charge for taxes in the future should Thrivent Financial's tax status change.

**THRIVENT VARIABLE ANNUITY ACCOUNT II**  
**NOTES TO FINANCIAL STATEMENTS (continued)**

**(1) ORGANIZATION - continued**

**Annuity Reserves**

Annuity reserves, represented as reserves for contracts in annuity payout period in the statement of assets and liabilities, are computed for currently payable contracts according to the 2000 IAM mortality table and the 2012 IAR mortality table. The reserve rate is the maximum Single Premium Immediate Annuity (SPIA) valuation interest rate. Changes to annuity reserves are based on actual mortality and risk experience. If the reserves required are less than the original estimated reserve amount held in the Variable Account, the excess is reflected as a payable to Thrivent Financial on the statement of assets and liabilities. If additional reserves are required, a receivable from Thrivent Financial is reflected on the statement of assets and liabilities.

**Thrivent Variable Annuity Account II**

**NOTES TO FINANCIAL STATEMENTS**

**Estimates**

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reporting period. Actual results could differ from those estimates.

**Fair Value of Financial Instruments**

In estimating the fair values for financial instruments carried at fair value, the amount of observable and unobservable inputs used to determine fair value are taken into consideration. Each of the financial instruments must be classified into one of three categories based on that evaluation:

- Level 1: Fair value based on quoted prices for identical assets in active markets that are accessible.
- Level 2: Fair value based on quoted prices for similar instruments in active markets that are accessible; quoted prices for identical or similar instruments in markets that are not active; or model-derived valuations where the significant value driver inputs are observable.
- Level 3: Fair value based on significant value driver inputs that are not observable.

The fair values for the subaccount's investments are based on the quoted daily net asset values of the Funds in which the subaccounts are invested. These investments have been categorized as Level 2 assets.

**Subsequent Events**

Management has evaluated Variable Account related events and transactions that occurred during the period from the date of the Statement of Assets and Liabilities through the date of issuance of the Variable Account's financial statements. There were no events or transactions that occurred during the period that materially impacted the amounts or disclosures in the Variable Account's financial statements.

**(3) EXPENSE CHARGES**

Proceeds received by the Variable Account from units issued represent gross contract premiums received by Thrivent Financial. No charge for sales distribution expense is deducted from premiums received.

**THRIVENT VARIABLE ANNUITY ACCOUNT II**  
**NOTES TO FINANCIAL STATEMENTS (continued)**

**(3) EXPENSE CHARGES - continued**

**Thrivent Variable Annuity Account II**

**NOTES TO FINANCIAL STATEMENTS**

The maximum commuted value charge (if surrendered) is 2%. The net amount received upon surrender is the commuted value. For the variable subaccounts, the commuted value is calculated using an interest rate of 0.5% greater than the assumed interest return selected. The withdrawal and surrender charges are deducted by redeeming units of the subaccounts of the Variable Account.

The contract owner may make twelve transfers between investment options per contract year, but thereafter, each transfer is subject to a \$25 transfer charge. Transfers from the fixed account are not allowed.

A daily charge is deducted from the value of the net assets of the Variable Account to compensate Thrivent Financial for mortality and expense risks assumed in connection with the contract and is equivalent to an annual rate of 1.25% of the average daily net assets of the Variable Account.

Additionally, during the year ended December 31, 2018, management fees were paid indirectly to Thrivent Financial in its capacity as advisor to the Fund. Additional details of these net asset based charges paid by the Funds can be found in the Fund's annual report.

**(4) UNIT ACTIVITY**

Transactions in units (including transfers among subaccounts) were as follows:

|   | Units<br>Outstanding<br>at<br>January 1,<br>2017 | Units<br>Issued | Units<br>Redeemed | Units<br>Outstanding<br>at<br>December 31,<br>2017 | Units<br>Issued | Units<br>Issued<br>as a<br>result of<br>merger | Units<br>Redeemed | Units<br>Outstanding<br>at<br>December 31,<br>2018 |
|---|--|-----------------|-------------------|--|-----------------|--|-------------------|--|
| Aggressive Allocation . . . . .                 | 52,495   | —               | (8,208)           | 44,287   | —               |  | (5,837)           | 38,450   |
| Balanced Income Plus . . . . .                  | 79,298   | 82              | (12,133)          | 67,247   | 1,359           |  | (12,667)          | 55,939   |
| Diversified Income Plus . . . . .               | 83,145   | 1,365           | (10,543)          | 73,967   | 1,591           |  | (15,188)          | 60,370   |
| Government Bond . . . . .                       | 22,384   | 3               | (4,039)           | 18,348   | 775             |  | (3,488)           | 15,635   |
| High Yield . . . . .                            | 68,467   | 4               | (8,351)           | 60,120   | 2               |  | (7,840)           | 52,282   |
| Income . . . . .                                | 56,353   | 5               | (7,826)           | 48,532   | —               |  | (7,418)           | 41,114   |
| Large Cap Growth . . . . .                      | 92,287   | 6               | (11,804)          | 80,489   | 2               |  | (9,521)           | 70,970   |
| Large Cap Index . . . . .                       | 60,898   | 20              | (9,325)           | 51,593   | 5               |  | (9,798)           | 41,800   |
| Large Cap Stock . . . . .                       | 128,535  | 13              | (18,525)          | 110,023  | 1,440           |  | (16,198)          | 95,265   |
| Large Cap Value . . . . .                       | 25,368   | 5               | (3,959)           | 21,414   | —               |  | (3,818)           | 17,596   |
| Limited Maturity Bond . . . . .                 | 28,283   | —               | (4,383)           | 23,900   | 4,398           |  | (4,686)           | 23,612   |
| Low Volatility Equity . . . . .                 | —  | —               | —                 | —  | —               |  | —                 | —  |
| Mid Cap Index . . . . .                         | 25,710   | 55              | (4,607)           | 21,158   | —               |  | (3,884)           | 17,274   |
| Mid Cap Stock . . . . .                         | 59,554   | 4               | (8,641)           | 50,917   | 11,350          |  | (7,993)           | 54,274   |
| Moderate Allocation . . . . .                   | 831,711  | 5,598           | (106,225)         | 731,084  | 1,667           |  | (126,767)         | 605,984  |
| Moderately Aggressive<br>Allocation . . . . .   | 475,857  | 2,673           | (79,227)          | 399,303  | —               | 5,671  | (61,309)          | 343,665  |
| Moderately Conservative<br>Allocation . . . . . | 382,989  | 3,929           | (64,454)          | 322,464  | 6,691           |  | (65,352)          | 263,803  |
| Money Market . . . . .                          | 158,581  | —               | (23,182)          | 135,399  | 1               |  | (24,719)          | 110,681  |
| Multidimensional Income . . . . .               | —  | —               | —                 | —  | 1,698           |  | —                 | 1,698  |
| Opportunity Income Plus . . . . .               | 15,803   | —               | (1,846)           | 13,957   | 1,160           |  | (3,692)           | 11,425   |
| Partner All Cap . . . . .                       | 24,247   | 3               | (3,298)           | 20,952   | —               |  | (2,371)           | 18,581   |
| Partner Emerging Markets<br>Equity . . . . .    | 7,331  | —               | (791)             | 6,540  | —               |  | (684)             | 5,856  |

**THRIVENT VARIABLE ANNUITY ACCOUNT II**  
**NOTES TO FINANCIAL STATEMENTS (continued)**

**(4) UNIT ACTIVITY - continued**

|   | Units<br>Outstanding<br>at<br>January 1,<br>2017 | Units<br>Issued | Units<br>Redeemed | Units<br>Outstanding<br>at<br>December 31,<br>2017 | Units<br>Issued | Units<br>Issued<br>as a<br>result of<br>merger | Units<br>Redeemed | Units<br>Outstanding<br>at<br>December 31,<br>2018 |
|---|--|-----------------|-------------------|--|-----------------|--|-------------------|--|
| Partner Growth Stock . . . . .            | 6,466  | —               | (1,249)           | 5,217  | 207             |  | (2,301)           | 3,123  |
| Partner Healthcare . . . . .              | 11,444   | —               | (1,457)           | 9,987  | 1               |  | (1,957)           | 8,031  |
| Partner Worldwide<br>Allocation . . . . . | 74,633   | —               | (13,387)          | 61,246   | 3               |  | (10,727)          | 50,522   |
| Real Estate Securities . . . . .          | 17,303   | —               | (3,758)           | 13,545   | 1               |  | (1,964)           | 11,582   |
| Small Cap Growth . . . . .                | —  | —               | —                 | —  | —               |  | —                 | —  |
| Small Cap Index . . . . .                 | 27,818   | 16              | (4,139)           | 23,695   | 82              |  | (4,694)           | 19,083   |
| Small Cap Stock . . . . .                 | 37,696   | —               | (4,900)           | 32,796   | —               |  | (4,646)           | 28,150   |

**(5) PURCHASES AND SALES OF INVESTMENTS**

The aggregate costs of purchases and proceeds from sales of investments in the Funds for the year ended December 31, 2018 were as follows:

| <u>Subaccount</u>                            | <u>Purchases</u> | <u>Sales</u> |
|--|------------------|--------------|
| Aggressive Allocation . . . . .              | \$ 70,283        | \$ 147,406   |
| Balanced Income Plus . . . . .               | 125,112          | 487,657      |
| Diversified Income Plus . . . . .            | 80,298           | 347,024      |
| Government Bond . . . . .                    | 26,183           | 81,919       |
| High Yield . . . . .                         | 80,716           | 211,322      |
| Income . . . . .                             | 35,726           | 143,314      |
| Large Cap Growth . . . . .                   | 101,137          | 308,584      |
| Large Cap Index . . . . .                    | 53,384           | 575,335      |
| Large Cap Stock . . . . .                    | 140,622          | 292,645      |
| Large Cap Value . . . . .                    | 31,435           | 128,340      |
| Limited Maturity Bond . . . . .              | 63,758           | 63,726       |
| Low Volatility Equity . . . . .              | —                | —            |
| Mid Cap Index . . . . .                      | 39,551           | 153,956      |
| Mid Cap Stock . . . . .                      | 543,610          | 302,166      |
| Moderate Allocation . . . . .                | 648,730          | 2,559,983    |
| Moderately Aggressive Allocation . . . . .   | 582,228          | 1,400,091    |
| Moderately Conservative Allocation . . . . . | 311,513          | 1,156,776    |
| Money Market . . . . .                       | 1,782            | 26,158       |
| Multidimensional Income . . . . .            | 18,097           | 100          |
| Opportunity Income Plus . . . . .            | 24,770           | 57,094       |
| Partner All Cap . . . . .                    | 25,042           | 60,530       |
| Partner Emerging Markets Equity . . . . .    | 1,002            | 9,746        |
| Partner Growth Stock . . . . .               | 17,254           | 84,761       |
| Partner Healthcare . . . . .                 | 1,872            | 48,070       |
| Partner Worldwide Allocation . . . . .       | 36,031           | 129,424      |
| Real Estate Securities . . . . .             | 11,024           | 78,662       |
| Small Cap Growth . . . . .                   | —                | —            |
| Small Cap Index . . . . .                    | 108,886          | 396,024      |
| Small Cap Stock . . . . .                    | 83,548           | 165,695      |

**THRIVENT VARIABLE ANNUITY ACCOUNT II**  
**NOTES TO FINANCIAL STATEMENTS (continued)**

**(6) FINANCIAL HIGHLIGHTS**

A summary of units outstanding, unit values, net assets, expense ratios, investment income ratios and total return ratios for each of the five years in the period ended December 31, 2018, except as indicated in Note 1, follows:

| <u>Subaccount</u>                         | <u>2018</u> | <u>2017</u> | <u>2016</u> | <u>2015</u> | <u>2014</u> |
|---|-------------|-------------|-------------|-------------|-------------|
| <b>Aggressive Allocation</b>              |             |             |             |             |             |
| Units.....                                | 38,450      | 44,287      | 52,495      | 75,612      | 87,656      |
| Unit value .....                          | \$ 20.92    | \$ 22.65    | \$ 18.87    | \$ 17.36    | \$ 17.65    |
| Net assets.....                           | \$ 836,907  | \$1,032,437 | \$1,013,072 | \$1,327,889 | \$1,559,305 |
| Ratio of expenses to net assets (a) ..... | 1.25%       | 1.25%       | 1.25%       | 1.25%       | 1.25%       |
| Investment income ratio (b) ..            | 0.68%       | 0.74%       | 0.98%       | 1.05%       | 0.44%       |
| Total return (c).....                     | (7.63)%     | 20.01%      | 8.75%       | (1.68)%     | 4.71%       |
| <b>Balanced Income Plus</b>               |             |             |             |             |             |
| Units.....                                | 55,939      | 67,247      | 79,298      | 93,710      | 108,719     |
| Unit value .....                          | \$ 34.68    | \$ 36.92    | \$ 33.48    | \$ 31.66    | \$ 32.10    |
| Net assets.....                           | \$2,428,209 | \$3,033,511 | \$3,147,805 | \$3,396,921 | \$3,844,618 |
| Ratio of expenses to net assets (a) ..... | 1.25%       | 1.25%       | 1.25%       | 1.25%       | 1.25%       |
| Investment income ratio (b) ..            | 2.44%       | 2.32%       | 2.57%       | 2.14%       | 1.58%       |
| Total return (c).....                     | (6.06)%     | 10.29%      | 5.73%       | (1.38)%     | 4.76%       |
| <b>Diversified Income Plus</b>            |             |             |             |             |             |
| Units.....                                | 60,370      | 73,967      | 83,145      | 94,585      | 91,525      |
| Unit value .....                          | \$ 20.78    | \$ 21.63    | \$ 20.03    | \$ 18.94    | \$ 19.16    |
| Net assets.....                           | \$1,370,606 | \$1,728,546 | \$1,782,106 | \$1,889,169 | \$1,836,337 |
| Ratio of expenses to net assets (a) ..... | 1.25%       | 1.25%       | 1.25%       | 1.25%       | 1.25%       |
| Investment income ratio (b) ..            | 3.20%       | 3.05%       | 3.45%       | 3.12%       | 2.97%       |
| Total return (c).....                     | (3.91)%     | 7.99%       | 5.75%       | (1.17)%     | 2.98%       |
| <b>Government Bond</b>                    |             |             |             |             |             |
| Units.....                                | 15,635      | 18,348      | 22,384      | 28,065      | 33,921      |
| Unit value .....                          | \$ 22.38    | \$ 22.62    | \$ 22.24    | \$ 22.19    | \$ 22.29    |
| Net assets.....                           | \$ 434,400  | \$ 518,265  | \$ 614,134  | \$ 737,438  | \$ 864,556  |
| Ratio of expenses to net assets (a) ..... | 1.25%       | 1.25%       | 1.25%       | 1.25%       | 1.25%       |
| Investment income ratio (b) ..            | 2.42%       | 2.02%       | 1.69%       | 1.78%       | 2.22%       |
| Total return (c).....                     | (1.06)%     | 1.68%       | 0.23%       | (0.46)%     | 5.20%       |
| <b>High Yield</b>                         |             |             |             |             |             |
| Units.....                                | 52,282      | 60,120      | 68,467      | 78,237      | 84,082      |
| Unit value .....                          | \$ 23.78    | \$ 24.90    | \$ 23.46    | \$ 21.07    | \$ 21.92    |
| Net assets.....                           | \$1,360,106 | \$1,609,420 | \$1,730,980 | \$1,736,969 | \$1,913,717 |
| Ratio of expenses to net assets (a) ..... | 1.25%       | 1.25%       | 1.25%       | 1.25%       | 1.25%       |
| Investment income ratio (b) ..            | 5.81%       | 5.46%       | 5.69%       | 5.74%       | 5.88%       |
| Total return (c).....                     | (4.51)%     | 6.14%       | 11.36%      | (3.90)%     | 0.70%       |
| <b>Income</b>                             |             |             |             |             |             |
| Units.....                                | 41,114      | 48,532      | 56,353      | 66,297      | 77,276      |
| Unit value .....                          | \$ 17.80    | \$ 18.46    | \$ 17.58    | \$ 16.78    | \$ 17.11    |
| Net assets.....                           | \$ 803,659  | \$ 982,679  | \$1,071,063 | \$1,172,893 | \$1,372,358 |
| Ratio of expenses to net assets (a) ..... | 1.25%       | 1.25%       | 1.25%       | 1.25%       | 1.25%       |
| Investment income ratio (b) ..            | 3.67%       | 3.33%       | 3.44%       | 3.67%       | 3.76%       |
| Total return (c).....                     | (3.54)%     | 4.97%       | 4.77%       | (1.91)%     | 5.36%       |

**THRIVENT VARIABLE ANNUITY ACCOUNT II**  
**NOTES TO FINANCIAL STATEMENTS (continued)**

**(6) FINANCIAL HIGHLIGHTS - continued**

| Subaccount                                   | 2018        | 2017        | 2016        | 2015        | 2014        |
|--|-------------|-------------|-------------|-------------|-------------|
| <b>Large Cap Growth</b>                      |             |             |             |             |             |
| Units.....                                   | 70,970      | 80,489      | 92,287      | 106,688     | 115,464     |
| Unit value .....                             | \$ 26.87    | \$ 26.55    | \$ 20.85    | \$ 21.43    | \$ 19.64    |
| Net assets.....                              | \$2,068,977 | \$2,298,874 | \$2,062,895 | \$2,403,977 | \$2,355,730 |
| Ratio of expenses to net<br>assets (a) ..... | 1.25%       | 1.25%       | 1.25%       | 1.25%       | 1.25%       |
| Investment income ratio (b) .                | 0.37%       | 0.36%       | 0.52%       | 0.41%       | 0.60%       |
| Total return (c).....                        | 1.22%       | 27.34%      | (2.70)%     | 9.11%       | 9.61%       |
| <b>Large Cap Index</b>                       |             |             |             |             |             |
| Units.....                                   | 41,800      | 51,593      | 60,898      | 71,755      | 80,472      |
| Unit value .....                             | \$ 50.69    | \$ 53.81    | \$ 44.86    | \$ 40.67    | \$ 40.73    |
| Net assets.....                              | \$2,707,751 | \$3,384,367 | \$3,194,177 | \$3,305,644 | \$3,611,857 |
| Ratio of expenses to net<br>assets (a) ..... | 1.25%       | 1.25%       | 1.25%       | 1.25%       | 1.25%       |
| Investment income ratio (b) .                | 1.45%       | 1.34%       | 1.92%       | 1.34%       | 1.42%       |
| Total return (c).....                        | (5.80)%     | 19.96%      | 10.29%      | (0.14)%     | 11.84%      |
| <b>Large Cap Stock</b>                       |             |             |             |             |             |
| Units.....                                   | 95,265      | 110,023     | 128,535     | 153,496     | 164,783     |
| Unit value .....                             | \$ 15.06    | \$ 16.64    | \$ 13.91    | \$ 13.36    | \$ 13.12    |
| Net assets.....                              | \$1,591,602 | \$2,031,156 | \$1,959,531 | \$2,192,593 | \$2,278,615 |
| Ratio of expenses to net<br>assets (a) ..... | 1.25%       | 1.25%       | 1.25%       | 1.25%       | 1.25%       |
| Investment income ratio (b) .                | 1.22%       | 1.28%       | 1.25%       | 1.15%       | 0.88%       |
| Total return (c).....                        | (9.47)%     | 19.66%      | 4.11%       | 1.83%       | 3.98%       |
| <b>Large Cap Value</b>                       |             |             |             |             |             |
| Units.....                                   | 17,596      | 21,414      | 25,368      | 30,730      | 35,643      |
| Unit value .....                             | \$ 28.08    | \$ 31.14    | \$ 26.80    | \$ 23.11    | \$ 24.25    |
| Net assets.....                              | \$ 593,835  | \$ 762,624  | \$ 754,211  | \$ 766,882  | \$ 922,890  |
| Ratio of expenses to net<br>assets (a) ..... | 1.25%       | 1.25%       | 1.25%       | 1.25%       | 1.25%       |
| Investment income ratio (b) .                | 1.34%       | 1.38%       | 1.37%       | 1.27%       | 1.22%       |
| Total return (c).....                        | (9.84)%     | 16.19%      | 15.98%      | (4.73)%     | 7.68%       |
| <b>Limited Maturity Bond</b>                 |             |             |             |             |             |
| Units.....                                   | 23,612      | 23,900      | 28,283      | 34,119      | 42,395      |
| Unit value .....                             | \$ 12.94    | \$ 12.97    | \$ 12.80    | \$ 12.60    | \$ 12.67    |
| Net assets.....                              | \$ 350,331  | \$ 347,806  | \$ 392,144  | \$ 455,198  | \$ 562,367  |
| Ratio of expenses to net<br>assets (a) ..... | 1.25%       | 1.25%       | 1.25%       | 1.25%       | 1.25%       |
| Investment income ratio (b) .                | 2.49%       | 1.97%       | 1.94%       | 1.67%       | 1.71%       |
| Total return (c).....                        | (0.23)%     | 1.34%       | 1.56%       | (0.52)%     | 0.42%       |
| <b>Low Volatility Equity</b>                 |             |             |             |             |             |
| Units.....                                   | —           | —           | —           | —           | —           |
| Unit value .....                             | \$ 10.47    | \$ 10.92    | —           | —           | —           |
| Net assets.....                              | \$ 0        | \$ 0        | —           | —           | —           |
| Ratio of expenses to net<br>assets (a) ..... | 1.25%       | 1.25%       | —%          | —%          | —%          |
| Investment income ratio (b) .                | 0.00%       | 0.00%       | —%          | —%          | —%          |
| Total return (c).....                        | (4.11)%     | 9.19%       | —%          | —%          | —%          |

**THRIVENT VARIABLE ANNUITY ACCOUNT II**  
**NOTES TO FINANCIAL STATEMENTS (continued)**

**(6) FINANCIAL HIGHLIGHTS - continued**

| Subaccount                                   | 2018         | 2017         | 2016         | 2015         | 2014         |
|--|--------------|--------------|--------------|--------------|--------------|
| <b>Mid Cap Index</b>                         |              |              |              |              |              |
| Units.....                                   | 17,274       | 21,158       | 25,710       | 28,777       | 26,901       |
| Unit value .....                             | \$ 31.91     | \$ 36.43     | \$ 31.80     | \$ 26.74     | \$ 27.78     |
| Net assets.....                              | \$ 628,745   | \$ 844,078   | \$ 876,013   | \$ 811,995   | \$ 793,946   |
| Ratio of expenses to net<br>assets (a) ..... | 1.25%        | 1.25%        | 1.25%        | 1.25%        | 1.25%        |
| Investment income ratio (b) .                | 1.00%        | 0.91%        | 0.90%        | 0.70%        | 0.74%        |
| Total return (c).....                        | (12.39)%     | 14.54%       | 18.94%       | (3.73)%      | 7.92%        |
| <b>Mid Cap Stock</b>                         |              |              |              |              |              |
| Units.....                                   | 54,274       | 50,917       | 59,554       | 70,985       | 29,811       |
| Unit value .....                             | \$ 30.29     | \$ 34.45     | \$ 29.31     | \$ 23.06     | \$ 23.33     |
| Net assets.....                              | \$ 1,804,903 | \$ 1,895,812 | \$ 1,871,663 | \$ 1,725,135 | \$ 723,828   |
| Ratio of expenses to net<br>assets (a) ..... | 1.25%        | 1.25%        | 1.25%        | 1.25%        | 1.25%        |
| Investment income ratio (b) .                | 0.35%        | 0.35%        | 0.38%        | 0.38%        | 0.32%        |
| Total return (c).....                        | (12.08)%     | 17.52%       | 27.12%       | (1.16)%      | 10.54%       |
| <b>Moderate Allocation</b>                   |              |              |              |              |              |
| Units.....                                   | 605,984      | 731,084      | 831,711      | 963,649      | 1,054,871    |
| Unit value .....                             | \$ 18.12     | \$ 19.20     | \$ 17.21     | \$ 16.01     | \$ 16.30     |
| Net assets.....                              | \$11,917,160 | \$14,933,107 | \$15,000,627 | \$15,907,127 | \$17,561,857 |
| Ratio of expenses to net<br>assets (a) ..... | 1.25%        | 1.25%        | 1.25%        | 1.25%        | 1.25%        |
| Investment income ratio (b) .                | 1.73%        | 1.63%        | 1.70%        | 1.50%        | 1.11%        |
| Total return (c).....                        | (5.63)%      | 11.56%       | 7.54%        | (1.80)%      | 4.56%        |
| <b>Moderately Aggressive Allocation</b>      |              |              |              |              |              |
| Units.....                                   | 343,665      | 399,303      | 475,857      | 537,169      | 577,091      |
| Unit value .....                             | \$ 19.49     | \$ 20.98     | \$ 18.19     | \$ 16.71     | \$ 17.04     |
| Net assets.....                              | \$ 7,083,072 | \$ 8,821,719 | \$ 9,088,317 | \$ 9,281,358 | \$10,075,129 |
| Ratio of expenses to net<br>assets (a) ..... | 1.25%        | 1.25%        | 1.25%        | 1.25%        | 1.25%        |
| Investment income ratio (b) .                | 1.27%        | 1.22%        | 1.44%        | 1.28%        | 0.83%        |
| Total return (c).....                        | (7.07)%      | 15.34%       | 8.86%        | (1.98)%      | 4.73%        |
| <b>Moderately Conservative Allocation</b>    |              |              |              |              |              |
| Units.....                                   | 263,803      | 322,464      | 382,989      | 457,684      | 519,148      |
| Unit value .....                             | \$ 16.17     | \$ 16.93     | \$ 15.66     | \$ 14.78     | \$ 15.04     |
| Net assets.....                              | \$ 4,578,054 | \$ 5,865,733 | \$ 6,335,761 | \$ 7,070,585 | \$ 8,048,387 |
| Ratio of expenses to net<br>assets (a) ..... | 1.25%        | 1.25%        | 1.25%        | 1.25%        | 1.25%        |
| Investment income ratio (b) .                | 2.03%        | 1.76%        | 1.72%        | 1.73%        | 1.56%        |
| Total return (c).....                        | (4.50)%      | 8.16%        | 5.91%        | (1.69)%      | 4.01%        |
| <b>Money Market</b>                          |              |              |              |              |              |
| Units.....                                   | 110,681      | 135,399      | 158,581      | 180,924      | 202,656      |
| Unit value .....                             | \$ 1.00      | \$ 1.00      | \$ 1.00      | \$ 1.02      | \$ 1.03      |
| Net assets.....                              | \$ 132,284   | \$ 155,527   | \$ 176,064   | \$ 196,688   | \$ 224,384   |
| Ratio of expenses to net<br>assets (a) ..... | 1.25%        | 1.25%        | 1.25%        | 1.25%        | 1.25%        |
| Investment income ratio (b) .                | 1.45%        | 0.49%        | 0.00%        | 0.00%        | 0.00%        |
| Total return (c).....                        | 0.21%        | (0.74)%      | (1.24)%      | (1.24)%      | (1.24)%      |



**THRIVENT VARIABLE ANNUITY ACCOUNT II**  
**NOTES TO FINANCIAL STATEMENTS (continued)**

**(6) FINANCIAL HIGHLIGHTS - continued**

| Subaccount                                | 2018      | 2017      | 2016      | 2015      | 2014      |
|---|-----------|-----------|-----------|-----------|-----------|
| <b>Multidimensional Income</b>            |           |           |           |           |           |
| Units.....                                | 1,698     | —         | —         | —         | —         |
| Unit value .....                          | \$ 9.59   | \$ 10.26  | —         | —         | —         |
| Net assets.....                           | \$ 16,181 | \$ 0      | —         | —         | —         |
| Ratio of expenses to net assets (a) ..... | 1.25%     | 1.25%     | —%        | —%        | —%        |
| Investment income ratio (b) .             | 10.33%    | 0.00%     | —%        | —%        | —%        |
| Total return (c).....                     | (6.55)%   | 2.64%     | —%        | —%        | —%        |
| <b>Opportunity Income Plus</b>            |           |           |           |           |           |
| Units.....                                | 11,425    | 13,957    | 15,803    | 15,391    | 13,778    |
| Unit value .....                          | \$ 14.65  | \$ 14.99  | \$ 14.51  | \$ 13.81  | \$ 13.99  |
| Net assets.....                           | \$187,265 | \$228,640 | \$245,183 | \$224,650 | \$202,255 |
| Ratio of expenses to net assets (a) ..... | 1.25%     | 1.25%     | 1.25%     | 1.25%     | 1.25%     |
| Investment income ratio (b) .             | 4.09%     | 3.39%     | 3.39%     | 3.39%     | 3.42%     |
| Total return (c).....                     | (2.25)%   | 3.33%     | 5.05%     | (1.27)%   | 2.20%     |
| <b>Partner All Cap</b>                    |           |           |           |           |           |
| Units.....                                | 18,581    | 20,952    | 24,247    | 27,100    | 14,893    |
| Unit value .....                          | \$ 20.12  | \$ 22.61  | \$ 19.04  | \$ 18.22  | \$ 18.05  |
| Net assets.....                           | \$392,096 | \$496,921 | \$483,552 | \$510,176 | \$281,782 |
| Ratio of expenses to net assets (a) ..... | 1.25%     | 1.25%     | 1.25%     | 1.25%     | 1.25%     |
| Investment income ratio (b) .             | 0.52%     | 0.49%     | 0.27%     | 0.24%     | 0.60%     |
| Total return (c).....                     | (11.02)%  | 18.76%    | 4.46%     | 0.99%     | 10.86%    |
| <b>Partner Emerging Markets Equity</b>    |           |           |           |           |           |
| Units.....                                | 5,856     | 6,540     | 7,331     | 9,390     | 8,127     |
| Unit value .....                          | \$ 11.70  | \$ 13.92  | \$ 11.04  | \$ 10.02  | \$ 11.74  |
| Net assets.....                           | \$ 71,333 | \$ 93,607 | \$ 82,426 | \$ 97,019 | \$ 98,642 |
| Ratio of expenses to net assets (a) ..... | 1.25%     | 1.25%     | 1.25%     | 1.25%     | 1.25%     |
| Investment income ratio (b) .             | 1.25%     | 0.69%     | 1.01%     | 1.09%     | 0.97%     |
| Total return (c).....                     | (15.95)%  | 26.07%    | 10.20%    | (14.67)%  | (3.50)%   |
| <b>Partner Growth Stock</b>               |           |           |           |           |           |
| Units.....                                | 3,123     | 5,217     | 6,466     | 7,747     | 7,980     |
| Unit value .....                          | \$ 32.09  | \$ 32.91  | \$ 24.94  | \$ 24.92  | \$ 22.80  |
| Net assets.....                           | \$115,233 | \$213,583 | \$186,558 | \$212,570 | \$193,306 |
| Ratio of expenses to net assets (a) ..... | 1.25%     | 1.25%     | 1.25%     | 1.25%     | 1.25%     |
| Investment income ratio (b) .             | 0.14%     | 0.09%     | 0.00%     | 0.00%     | 0.00%     |
| Total return (c).....                     | (2.49)%   | 31.96%    | 0.09%     | 9.28%     | 7.17%     |
| <b>Partner Healthcare</b>                 |           |           |           |           |           |
| Units.....                                | 8,031     | 9,987     | 11,444    | 13,729    | 11,576    |
| Unit value .....                          | \$ 23.17  | \$ 21.66  | \$ 18.36  | \$ 22.14  | \$ 21.43  |
| Net assets.....                           | \$207,795 | \$233,109 | \$221,604 | \$316,129 | \$256,637 |
| Ratio of expenses to net assets (a) ..... | 1.25%     | 1.25%     | 1.25%     | 1.25%     | 1.25%     |
| Investment income ratio (b) .             | 0.89%     | 0.27%     | 4.17%     | 0.01%     | 0.00%     |
| Total return (c).....                     | 6.96%     | 17.94%    | (17.05)%  | 3.31%     | 22.69%    |

**THRIVENT VARIABLE ANNUITY ACCOUNT II**  
**NOTES TO FINANCIAL STATEMENTS (continued)**

**(6) FINANCIAL HIGHLIGHTS - continued**

| Subaccount                                | 2018        | 2017        | 2016        | 2015        | 2014        |
|---|-------------|-------------|-------------|-------------|-------------|
| <b>Partner Worldwide Allocation</b>       |             |             |             |             |             |
| Units.....                                | 50,522      | 61,246      | 74,633      | 88,687      | 105,228     |
| Unit value .....                          | \$ 9.82     | \$ 11.75    | \$ 9.61     | \$ 9.41     | \$ 9.61     |
| Net assets.....                           | \$ 593,581  | \$ 818,831  | \$ 792,989  | \$ 904,174  | \$1,077,817 |
| Ratio of expenses to net assets (a) ..... | 1.25%       | 1.25%       | 1.25%       | 1.25%       | 1.25%       |
| Investment income ratio (b) ..            | 2.78%       | 2.11%       | 2.21%       | 2.50%       | 2.04%       |
| Total return (c).....                     | (16.45)%    | 22.31%      | 2.06%       | (2.02)%     | (6.53)%     |
| <b>Real Estate Securities</b>             |             |             |             |             |             |
| Units.....                                | 11,582      | 13,545      | 17,303      | 19,499      | 22,899      |
| Unit value .....                          | \$ 35.78    | \$ 38.26    | \$ 36.56    | \$ 34.44    | \$ 33.94    |
| Net assets.....                           | \$ 453,832  | \$ 553,232  | \$ 675,713  | \$ 704,213  | \$ 803,206  |
| Ratio of expenses to net assets (a) ..... | 1.25%       | 1.25%       | 1.25%       | 1.25%       | 1.25%       |
| Investment income ratio (b) ..            | 2.03%       | 1.64%       | 1.49%       | 1.45%       | 1.45%       |
| Total return (c).....                     | (6.49)%     | 4.64%       | 6.17%       | 1.47%       | 29.20%      |
| <b>Small Cap Growth</b>                   |             |             |             |             |             |
| Units.....                                | —           | —           | —           | —           | —           |
| Unit value .....                          | \$ 9.04     | —           | —           | —           | —           |
| Net assets.....                           | \$ 0        | —           | —           | —           | —           |
| Ratio of expenses to net assets (a) ..... | 1.25%       | —%          | —%          | —%          | —%          |
| Investment income ratio (b) ..            | 0.00%       | —%          | —%          | —%          | —%          |
| Total return (c).....                     | (9.65)%     | —%          | —%          | —%          | —%          |
| <b>Small Cap Index</b>                    |             |             |             |             |             |
| Units.....                                | 19,083      | 23,695      | 27,818      | 33,560      | 38,056      |
| Unit value .....                          | \$ 68.23    | \$ 75.64    | \$ 67.70    | \$ 54.35    | \$ 56.26    |
| Net assets.....                           | \$1,626,911 | \$2,125,260 | \$2,158,784 | \$2,049,122 | \$2,365,766 |
| Ratio of expenses to net assets (a) ..... | 1.25%       | 1.25%       | 1.25%       | 1.25%       | 1.25%       |
| Investment income ratio (b) ..            | 0.95%       | 0.86%       | 1.00%       | 0.78%       | 0.75%       |
| Total return (c).....                     | (9.80)%     | 11.73%      | 24.56%      | (3.39)%     | 4.05%       |
| <b>Small Cap Stock</b>                    |             |             |             |             |             |
| Units.....                                | 28,150      | 32,796      | 37,696      | 45,806      | 28,742      |
| Unit value .....                          | \$ 28.37    | \$ 31.96    | \$ 26.70    | \$ 21.46    | \$ 22.44    |
| Net assets.....                           | \$ 865,262  | \$1,114,583 | \$1,053,848 | \$1,017,963 | \$ 667,716  |
| Ratio of expenses to net assets (a) ..... | 1.25%       | 1.25%       | 1.25%       | 1.25%       | 1.25%       |
| Investment income ratio (b) ..            | 0.42%       | 0.35%       | 0.33%       | 0.34%       | 0.22%       |
| Total return (c).....                     | (11.26)%    | 19.73%      | 24.38%      | (4.33)%     | 3.45%       |

(a) These amounts represent the annualized contract expenses of the separate account, consisting primarily of mortality and expense charges, for each period indicated. The ratios include only those expenses that result in a direct reduction to unit values. Charges made directly to contract owner accounts through the redemption of units and expenses of the underlying fund have been excluded.

(b) These amounts represent the dividends, excluding distributions of capital gains, received by the subaccount from the underlying mutual fund net of management fees assessed by the fund manager, divided by the average net assets. These ratios exclude those expenses, such as mortality and expense charges, that are assessed against the contract owner accounts either through reductions in the unit values or the redemption of units. The recognition of investment income is affected by the timing of the

**THRIVENT VARIABLE ANNUITY ACCOUNT II**  
**NOTES TO FINANCIAL STATEMENTS (continued)**

**(6) FINANCIAL HIGHLIGHTS - continued**

declaration of dividends by the underlying fund in which the subaccount invests.

- (c) These amounts represent the total return for periods indicated, including changes in the value of the underlying fund, and expenses assessed through the reduction of unit values. These ratios do not include any expenses assessed through the redemption of units. Investment options with a date notation in Note 1 indicate the effective date of the investment option in the Variable Account.

**(7) SUBACCOUNT MERGERS**

A Special Meeting of shareholders of the Thrivent Growth and Income Plus (the “Target Portfolio”) which is a separate series of Thrivent Series Fund, Inc. (“the Fund”), was held on June 21, 2018. The Contractholders voted in favor of merging the Target Portfolio into the Portfolio shown below (“the Acquiring Portfolio”) effective June 28, 2018.

|             | The Target Portfolio            | The Acquiring Portfolio                   |
|-------------|---------------------------------|---|
| Merger..... | Thrivent Growth and Income Plus | Thrivent Moderately Aggressive Allocation |

The merger was accomplished by tax free exchanges as detailed below:

|                           | Net Assets as of<br>June 28, 2018 | Shares as of<br>June 28, 2018 |
|---------------------------|-----------------------------------|-------------------------------|
| Acquiring Portfolio ..... | \$7,648,000                       | 492,425                       |
| Target Portfolio .....    | \$ 119,183                        | 10,980                        |
| After Acquisition.....    | \$7,767,184                       | 503,405                       |

The target portfolio had the following unrealized appreciation/depreciation, accumulated net realized gains/losses and net investment income as of June 27, 2018.

| <u>Portfolio</u>                     | <u>Unrealized<br/>Appreciation<br/>(Depreciation)</u> | <u>Net Investment<br/>Income (loss)</u> | <u>Accumulated Net<br/>Realized Gain<br/>(Loss)</u> |
|--------------------------------------|---|---|---|
| Thrivent Growth and Income Plus..... | \$(19,420)  | \$2,862                                 | \$17,580  |

Assuming the acquisition had been completed on January 1, 2018 the beginning of the annual reporting period of the Portfolios, the Acquiring Portfolio’s unaudited pro forma results of operations for the year ended December 31, 2018, would have been as follows:

| <u>Portfolio</u>                               | <u>Unrealized<br/>Appreciation<br/>(Depreciation)</u> | <u>Net Investment<br/>Income (loss)</u> | <u>Accumulated Net<br/>Realized Gain<br/>(Loss)</u> |
|--|---|---|---|
| Thrivent Moderately Aggressive Allocation..... | \$(1,183,153)   | \$3,674                                 | \$686,422   |

Because the combined investment portfolios have been managed as a single integrated portfolio since the acquisition was completed, it is not practical to separate the amounts of revenue and earnings of the Target Portfolio that have been included in the Acquiring Portfolio’s statement of operations since June 28, 2018.

Assuming the acquisition had been completed on January 1, 2017 the beginning of the annual reporting period of the Portfolios, the Acquiring Portfolio’s unaudited pro forma results of operations for the year ended December 31, 2017, would have been as follows:

**THRIVENT VARIABLE ANNUITY ACCOUNT II**  
 NOTES TO FINANCIAL STATEMENTS (continued)

**(7) SUBACCOUNT MERGERS - continued**

| <u>Portfolio</u>                               | <u>Unrealized<br/>Appreciation<br/>(Depreciation)</u> | <u>Net Investment<br/>Income (loss)</u> | <u>Accumulated Net<br/>Realized Gain<br/>(Loss)</u> |
|--|---|---|---|
| Thrivent Moderately Aggressive Allocation..... | \$875,233   | \$(1,123)                               | \$356,341   |