USAA Limited

Annual Report and Financial Statements

31 December 2022

Registered Number 730577

USAA Limited

Annual Report and Financial Statements

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USAA Limited

Strategic Report

The directors present their strategic report for the year ended 31 December 2022

Principal activities and review of the business

The principal activity of the Company is the provision of motor and property insurance in the United Kingdom (UK) to a defined customer base up to the 31 March 2022. Following a review and reorganisation of the USAA operating model in Europe, USAA S.A. UK, a third country branch of USAA S.A. started writing new business and transitioning existing business in the United Kingdom from the Company.
As a result, all of the insurance related assets and liabilities derived from business previously written by the Company has been legally transferred to USAA S.A. via a Part VII transfer as determined by the Financial Services and Markets Act 2000 following approval from the High Court of England and Wales with effect from 23:59 Central European Time on 31 December 2022.
The financial statements have been prepared on a basis other than a going concern. This is due to the director's intention to liquidate the Company and de-register with the PRA/FCA, as a result of the restructure. The Company is either transferring or settling liabilities prior to starting the liquidation process so an orderly wind-up is expected.

Results and performance

The results of the Company for the year are set out on pages 14 and 15 show a loss on ordinary activities after tax of £15,216k (2021: Loss £11k). The shareholders' funds of the company total £26,027k (2021: £73,509k).

The Company's key financial and other performance indicators during the year were as follows:

	2022 £'000	**2021 £'000**	**Change %**
Gross written premiums	3,195	16,451	-(80.6%)
Gross earned premiums	11,917	16,416	-(27.4%)
Reinsurance premiums	(812)	(1,624)	(50.0%)
Claims Incurred gross of reinsurance	(6,602)	(15,190)	(56.5%)
Claims Incurred net of reinsurance	(3,943)	(6,255)	(37.0%)
Net operating costs	(7,688)	(8,038)	-(4.4%)
Underwriting result	(526)	499	-(205.4%)
(Loss)/profit before tax	(15,431)	44	(35170%)
Shareholders' funds	26,027	73,509	-(64.6%)
Net Loss ratio	35.5%	42.3%	(16.0%)
Net Combined ratio	104.7%	96.6%	(8.4%)

The Company ended the financial year with an underwriting result of (£526k) (2021: £499k), lower than the previous year.

Gross earned premiums of £11,917k (2021: £16,416k) decreased by £4,499k, 27.4% in 2022 as premiums transitioned to the USAA S.A. UK branch following the reorganisation and Part VII transfer.

Reinsurance premiums of (£812k) (2021: (£1,624k) decreased in 2022 in line with the premiums as stated above.

On a gross basis, losses incurred before reinsurance of £6.6m (2021: £15.2m) decreased by £8.6m from the previous year. After reinsurance total net incurred losses of £3,943k (2021: £6,255k) decreased by £2.3m. This significant decrease is mainly due to the transition of policies to the USAA S.A. UK Branch.

Net operating costs of £7,688k (2021: £8,038k) have decreased by 307k, 3.8%. The operating costs consist mainly of service fees for insurance and administrative services provided by related parties with some operating costs incurred directly by the Company.

The £11.8m loss in the non-technical account relates to a buy-in transaction on the UK Defined Benefit Scheme which completed in May 2022 with a buy-out completed post year end in March 2023. Further details can be found in Note 21.

Strategic Report

Results and performance (continued)

In the non-technical account, investment income and realised and unrealised losses on investments amounted to an overall investment loss of £4,208k (2021: £1,110k loss). The investment income earned of £1,574k during the year has been eroded by realised and unrealised market value losses of £5,948k from poor investment market performance.

The Company recorded a currency translation gain of £1,131k (2021: £630k gain) on the revaluation of its US dollar and Euro currency assets and liabilities. Overall the Company ended the year with a loss after tax of (£15,216k) (2021: loss £11k). After remeasurement of the defined benefit pension schemes resulting in after tax losses of £1,609k, and a defined benefit surplus of £450k on the German pension scheme that is not recoverable in OCI, the total comprehensive loss for the year amounted to £17,275k. After dividend distributions during the year of £30,207 the Company's shareholders' funds have decreased to £26,027k (2021: £73,509k).

Principal risks and uncertainties

The Board of Directors and its senior executives evaluate the Company's principal risks on a frequent basis.

Prior to the Part VII, the principal risks and uncertainties of the Company were broadly grouped as underwriting, military/political, competitive and technology. Additional risks commented on in this report relate to pension risk, Brexit, COVID-19 and climate change.
Following the transition of business and the Part VII transfer, Underwriting, Military/political and Competitive risk have been removed.

Climate change

As the full impact of climate change is currently unknown, it is not possible to consider all possible future outcomes when determining the value of assets, liabilities and the timing of future cash flows. The Company’s view is that any reasonable impact of climate change would not have a material impact on the valuation of assets and liabilities at the year-end date. Climate Change continues to be reviewed through the Company's Risk Committee.

Technology and cyber risk

The ability to respond to technological developments which significantly changes insurance products or the way that they are delivered to customers, allied to the ever increasing threat to customer data could prove challenging for the Company. USAA Limited is able to leverage from the research conducted by its parent company to ensure that it is able to mitigate against any material impact in both, the short term and over the longer term as new technology becomes more mature and accepted widely across the Company's customer base. The outcomes of the parent company's results are reported into the business management meetings for review and consideration.

The situation in the Ukraine has caused an increase in the likelihood of potential cyber attacks against USAA. The Group's control environment and active defence mechanisms, coupled with comprehensive cyber and ransomware insurance cover causes us to believe that the residual risk remains unaffected at this time.

Pension risk

The Company continues to have exposure to its historical defined benefit pension scheme that was closed to new entrants in 2016. Whilst work was undertaken to de-risk the investment strategy, external events have caused significant volatility in the pension fund portfolio. With the company's simplified legal structure, the UK Pension liabilities are to be settled either by transfer to a third-party insurer or by employees electing to take a lump sum value of their benefit. Before transfer to a third-party insurer, pension benefits must be frozen. During 2021, employees consented to freezing the pay used in their pension benefit calculations. To simplify the transaction and reduce overall costs, the Company offered employees an enhanced lump sum prior to transferring the liability to a third-party insurer. Employees were able to transfer the value of their pension benefit into an individual retirement account which provides them additional flexibility in retirement planning. A buy-in transaction on the UK Defined Benefit Scheme completed in May 2022 with a buy out completed post year end in March in 2023 to achieve full settlement. A buy-out on the German Defined Benefit Scheme is expected to commence in 2023.

Principal risks and uncertainties (continued)

Foreign currency risk

The Company does not have any significant foreign currency exposure

Credit risk

The Company is exposed to credit risk through its investment portfolio and funds held with financial institutions. The investment portfolio has set criteria to avoid concentration of risks to sectors, issuers, credit ratings and countries.

Liquidity risk

Liquidity risk arises from inability of the Company to generate sufficient cash resources to meet its financial obligations as they fall due. Liquidity risk is considered to be low due to the mitigation measures in place, including a liquidity policy which establishes appropriate governance and accountability for managing liquidity risk, adherence to liquidity risk triggers and appetites and a liquidity funding contingency plan.

Despite the significant reduction in the cash and short-term deposits of the Company following the Part VII transfer, as detailed in note 23, the Company holds sufficient funds in cash and short-term deposits to meet its immediate and foreseeable cash flow requirements. In addition, the investment portfolio holds high grade corporate bonds that have subsequently been sold to provide liquid funds to settle liabilities prior to the liquidation and orderly wind-up of the Company.

Section 172(1) statement

The Directors of the Company have acted in a way that they considered, in good faith, to be most likely to promote the success of the Company for the benefit of its members as a whole, and in doing so had regards, amongst other matters to:

- the likely consequences of decisions in the long term;

- the interests of the Company's employees;

- the need to foster the Company's business relationships with suppliers, customers and other related party service providers.

- the impact of the Company's operations on the community and the environment;

- the desirability of the Company to maintaining a reputation for high standards of business conduct; and

- the need to act fairly between members of the Company.

Stakeholder engagement

Our customers
Our customers are policyholders and comprise US military and their families living in the UK, who purchase motor and property insurance products. Serving our policyholders is at the heart of everything USAA Limited does, which includes following the ultimate parent company's mission to facilitate the financial security of US military and their families, and their brand promise of going above for those who have gone beyond.

The Board fully embraces the military culture of its customers with customer service and meeting customers needs at the forefront of Board meetings. In addition to this, it is expected that Board Members complete a required amount of Military Acumen training.

Our employees
Employees have not been affected by the transition of business from the Company as the Company operates under an outsourcing model for UK and European business and does not employ any staff. All costs for the provision of staff are charged under a service fee arrangement and all UK business that was previously performed by the Company has transferred to the USAA S.A. UK branch.

Section 172(1) statement (continued)

Our employees
With the implementation of the hybrid working model, members of the Board have held regular virtual employee Town Hall meetings with Q&A sessions.

Employees are encouraged to speak up and raise any concerns through a variety of channels. The employees voice is heard through monthly pulse surveys and employee net promoter scores, where results are analysed and action plans are implemented to improve the working environment. The organisation also conducts regular Pulse surveys to get employee feedback through anonymous online surveys.

USAA Limited adopts the initiatives of its ultimate parent company, USAA in making the Company a great place to work. This includes creating a diverse and inclusive culture for all employees and contractors, investing in employees through sponsorship of professional qualifications and talent management programmes.

Our suppliers
The Board recognises the key role our suppliers, third party and related party service providers play in ensuring the Company delivers an exceptional service to our policyholders and claimants. Enhanced third party risk management and oversight procedures are being introduced to further raise our effectiveness in preventing the failure of services provided by external third parties.

Community and environment
USAA Limited has a Charity Committee, which is very active in raising money from staff to support a number of small and national charitable organisations.

Shareholders
USAA Limited is fully owned subsidiary of USAA S.a.r.l, a Company incorporated in Luxembourg and registered under the number B224166 of the Luxembourg Company Register. USAA S.a.r.l is a fully owned subsidiary of USAA in the United States. USAA Limited has representatives of USAA S.a.r.l on the Board of Directors, these executive directors are either working for USAA Limited/S.a.r.l or for USAA in the United States. The Board of Directors of USAA Limited regularly informs USAA S.a.r.l of any development affecting the Company so as to ensure that USAA Limited remains within the objectives set forth by the USAA Group of Companies. Regular meetings are taking place throughout the year to ensure efficient ways of communication are maintained. USAA Limited is neither a publicly traded nor a listed company.

Regulators
The Board recognises the importance of open and honest dialogue with regulators. The Board receive regular regulatory updates from the PRA and FCA at Board meetings from the Compliance Director. De-registration will commence on signing of the Financial Statements and completion of the Regulatory Solvency II filing.

Key decisions
The Board has approved the intention to liquidate the Company following the restructure of the operating model in Europe. The business written by the Company has been legally transferred to USAA S.A so there is no impact on suppliers, customers or employees.

Considering stakeholders in decisions
USAA Limited recognises the importance of engaging with stakeholders to help form its strategy and Board decision making. Relevant stakeholder interests are taken into account by the Board when it takes decisions. The Board also considers the need to maintain a reputation for high standards of business conduct, the need to act fairly between the wider members of the USAA group, and the long-term consequences of its decisions.

By order of the Board

Craig Scarr
Director
9 August 2023

Fitzwilliam House
10 St Mary Axe
London EC3A 8AE

Directors' Report

The directors present their report and audited financial statements for the year ended 31 December 2022.

Directors and Directors' Interests

The current directors and those who held office during the year were as follows:

Simon Patrick Kendall Keith
Craig Anthony Scarr
Dirk Christiane Beeckman
Karen Elizabeth Graves
Randy Lee Termeer

None of the directors who held office during the year had any disclosable interests in the ordinary shares of the Company.

Results and dividends

The directors approved and paid a dividend in specie amounting to £30,207k being a transfer of Investment bonds and cash to its immediate parent company USAA International S.a.r.l as part of the restructure operations.

Future developments

The immediate objectives of the Company are to manage operations effectively and efficiently following the restructure and Part VII transfer in 2022 until the Company is liquidated during 2024.

Statement of Going Concern

The Board has approved and intends for the Company to be liquidated following the restructure, the Part VII transfer and once the Company has satisfied all of its liabilities.

In assessing the going concern status the directors have therefore concluded that it is not appropriate to adopt the principles of going concern and the financial statements have been prepared on a basis other than going concern. The effect of this to the current year is to release all prepayments and deferred tax, there is nil effect to the prior year comparatives.

Political and charitable donations

The Company made no political or charitable donations during the year (2021: £0).

Disclosure of information to the auditors

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information, being information needed by an auditor in connection with preparing their report, of which the auditor is unaware. Having made enquiries of fellow directors and the Company's auditor, each director has taken all the steps that he/she is obliged to take as a director in order to make him/herself aware of any relevant audit information and to establish that the auditor is aware of that information.

Directors' Report

Statement of Directors' Responsibilities

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland (FRS 102) and Financial Reporting Standard 103 Insurance Contracts (FRS 103). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit and loss of the Company for that period.

In preparing those financial statements, the directors are required to:

a. select suitable accounting policies and then apply them consistently;

b. make judgments and estimates that are reasonable and prudent;

c. state whether applicable UK Accounting Standards, including FRS 102 and FRS 103 have been followed, subject to any material departures disclosed and explained in the financial statements;

d. prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business. For the reasons stated in the Director's/Strategic Report and Note 1.2.1, the financial statements have not been prepared on a going concern basis.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Re-appointment of auditors
In accordance with S485 of the Companies Act 2006, B1268 a resolution was proposed at the Audit Committee meeting on 19 June 2023 for the reappointment of Ernst & Young LLP as auditor of the Company.

By order of the Board

Craig Scarr
Director
9 August 2023

Fitzwilliam House
10 St Mary Axe
London EC3A 8AE

Independent Auditors' Report to the Members of USAA Limited

Opinion

We have audited the financial statements of USAA Limited for the year ended 31 December 2022 which comprise the Income Statement, the Statement of Comprehensive Income, the Statement of Changes in Equity, the Statement of Financial Position, and the related notes1 to 25 (except for Solvency II capital position within note 24, which is marked unaudited) including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" and FRS103 "Insurance Contracts" (United Kingdom Generally Accepted Accounting Practice).

In our opinion the financial statements:

* give a true and fair view of the state of the company's affairs as at 31 December 2022 and of its loss for the year then ended;

* have been properly prepared in accordance with the United Kingdom Generally Accepted Accounting Practice; and

* have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Emphasis of matter - financial statements prepared on a basis other than going concern

We draw attention to note 1.2.1 to the financial statements which explains that the directors intend to liquidate the company and therefore do not consider it to be appropriate to adopt the going concern basis of accounting in preparing the financial statements. Accordingly the financial statements have been prepared on a basis other than going concern as described in note 1.2.1. Our opinion is not modified in respect of this matter.

Overview of our audit approach

Key audit matters	* Valuation of Defined Benefit Pension Assets and Liabilities.
Materiality	* Overall materiality of £0.5m which represents 2.0% of equity.

An overview of the scope of our audit

Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for the company. This enables us to form an opinion on the financial statements. We take into account size, risk profile, the organisation of the company and effectiveness of controls, including controls and changes in the business environment when assessing the level of work to be performed.

Independent Auditors' Report to the Members of USAA Limited

Tailoring the scope continued

USAA Limited is a subsidiary of United Services Automobile Association ('USAA'), which is based in San Antonio, Texas, USA. USAA operates a number of centralised processes on behalf of other group companies. These relate principally to claims reserving, premiums and IT functions.

In establishing the overall approach to the USAA Limited audit, we determined the type of work that needed to be performed at the centralised function by us, as the USAA Limited engagement team, or the USAA auditors, Ernst & Young LLP (San Antonio), operating under our instructions. Where the work was performed by our San Antonio team, we determined the level of involvement we needed to have in the audit work to be able to conclude whether sufficient appropriate audit evidence had been obtained. The USAA Limited engagement team had regular interaction with the EY US team.

The Audit Engagement Partner and senior members of the USAA Limited engagement team reviewed all key working papers with regards to the audit approach and findings of the EY US team in detail. This together with additional procedures performed by the engagement team at a company level gave us the evidence we needed for our opinion on the USAA Limited financial statements.

Climate change

There has been increasing interest from stakeholders as to how climate change will impact companies. The company has determined that climate change would not have a material impact on the valuation of assets and liabilities at the year end date. This is explained on page 2 in the Strategic Report. Our audit effort in considering climate change was focused on challenging management's risk assessment of the impact of physical and transition risks and the resulting conclusion that there was no material impact from climate change and the adequacy of the Company's disclosures in the financial statements which explain the rationale. The impact of climate change on the financial statements is not considered to be a key audit matter

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Valuation of Defined Benefit Pension Assets and Liabilities **UK pension scheme:** Assets of £11,644k (2021: £28,939k) and liabilities of £11,644k (2021: £24,419k) **German pension scheme:** Assets of £2,008k (2021: £2,251k) and liabilities of £2,008k (2021: £2,163k) *Refer to the Strategic Report (page 2); Accounting policies (page 20 and 23); and Note 21 of the Annual Report and Financial Statements (page 33)*	In order to obtain sufficient audit evidence to conclude on the valuation of Defined Benefit Pension Assets and Liabilities we performed the following procedures: **Methodology review and independent assessment of key inputs used in the valuation:** Supported by our actuarial specialists, we evaluated the reasonableness of management's valuation methodology and assumptions on the liabilities, and compared key inputs used in the valuation to independently obtained indices based on our market knowledge.	We consider that management's assumptions used to value the assets and liabilities of the pension schemes are reasonable based upon the available information.

Independent Auditors' Report to the Members of USAA Limited

Key audit matters (continued)

Risk	Our response to the risk	Key observations communicated to the Audit Committee
The valuation of the defined benefit pension assets and liabilities is dependent on assumptions which are subjective. There is a risk that inappropriate assumptions are used which might affect the valuation. This is a new risk for 31 December 2022	**Data integrity and tests of details:** We performed procedures to assess the completeness and accuracy of payroll data used to calculate the liabilities. In addition, we have agreed the value of the assets to confirmations from third parties. **Review of disclosure in the financial statements:** We have reviewed the Pension Scheme disclosures in the financial statements to ensure they are consistent with underlying records and applicable accounting standards.	

In the prior year, our auditor's report included a key audit matter in relation to Valuation of Claims Outstanding (Gross claims reserves and IBNR). This is no longer applicable since as at 31 December 2022 all insurance assets and liabilities have been transferred to a fellow group company as part of a Part VII transfer.

Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

Materiality
The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the company to be £0.5 million (2021: £1.5 million), which is 2% (2021: 2%) of equity. We believe that equity is a reasonable basis for calculating materiality as we believe is more relevant to the users of the financial statements. The primary stakeholders of the Company are its shareholders (primarily concerned with capital surplus), the Prudential Regulation Authority ('PRA') as regulator (primarily interested in balance sheet strength and solvency), and policyholders (main interest is solvency as it reflects the ability to pay claims).

Having considered these factors we believe that equity provides us with a more appropriate basis on which to determine materiality than an earnings-based measure such as pre-tax income.

During the course of our audit, we reassessed initial materiality and concluded that the basis for materiality assessed at the planning stages of our audit remained appropriate.

Performance materiality
The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the company's overall control environment, our judgement was that performance materiality was 75% (2021: 75%) of our planning materiality, namely £0.4 million (2021: £1.1 million). We have set performance materiality at this percentage due to our experience of the audit. In the prior year we did not identify any material misstatements as a result of our audit work.

Independent Auditors' Report to the Members of USAA Limited

Reporting threshold
An amount below which identified misstatements are considered as being clearly trivial.

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of £0.03 million (2021: £0.1 million), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise toa material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements;

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:
- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 6, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Independent Auditors' Report to the Members of USAA Limited

Responsibilities of directors (continued)

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the company and management.

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the group and determined that the most significant are the direct laws and regulations related to elements of company law and tax legislation, and the financial reporting framework. Our considerations of other laws and regulations that may have a material effect on the financial statements included permissions and supervisory requirements of the Prudential Regulation Authority ('PRA') and the Financial Conduct Authority ('FCA').

- We understood how USAA Limited is complying with those frameworks by making enquiries of management, internal audit, and those responsible for legal and compliance matters. We also reviewed correspondence between the Company and UK regulatory bodies, reviewed minutes of the Board, and gained an understanding of the Company's approach to governance.

- We assessed the susceptibility of the company's financial statements to material misstatement, including how fraud might occur by considering the controls that the Company has established to address risks identified by the entity, or that otherwise seek to prevent, deter or detect fraud. We also considered areas of significant judgement, and the impact these have on the control environment. Where this risk was considered to be higher, we performed audit procedures to address each identified fraud risk. These procedures included testing manual journals and were designed to provide reasonable assurance that the financial statements were free from fraud or error.

- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures involved enquiries with management and inspection of correspondence between the company and UK regulatory bodies.

- The Company operates in the insurance industry which is a highly regulated environment. As such the Senior Statutory Auditor considered the experience and expertise of the engagement team to ensure that the team had the appropriate competence and capabilities, which included the use of specialists where appropriate.

- For both direct and other laws and regulations, our procedures involved: making enquiry of those charged with governance and senior management for their awareness of any non-compliance of laws or regulations, inquiring about the policies that have been established to prevent non-compliance with laws and regulations by officers and employees, inquiring about the Company's methods of enforcing and monitoring compliance with such policies, and inspecting significant correspondence with the FCA and PRA.

Independent Auditors' Report to the Members of USAA Limited

Auditor's responsibilities for the audit of the financial statements (continued)

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Other matters we are required to address

- We were first appointed as auditors of USAA Limited for the 31 December 2004 year end and subsequent periods. On 18 August 2017, following the completion of an audit tender process, we were re-appointed as auditors for the year ended 31 December 2017 and subsequent periods and signed an engagement letter on 7 March 2018. The period of total uninterrupted engagement including previous renewals and reappointments is 19 years, covering the years ending 31 December 2004 to 31 December 2022.

- The non-audit services prohibited by the FRC's Ethical Standard were not provided to the company and we remain independent of the company in conducting the audit.

- The audit opinion is consistent with the additional report to the audit committee.

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

DocuSigned by:
Ernst & Young LLP
B5A84ED2BD2D4CF...

Angus Millar (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
11 August 2023

USAA Limited

Income Statement

Technical Account - General Business

For the year ended 31 December 2022

	Note	2022 £'000	2021 £'000
Gross premiums written	2	3,195	16,451
Outward reinsurance premiums		(812)	(1,624)
Net written premiums		2,383	14,827
Change in the provision for unearned premiums			
Gross amount	16	8,722	(35)
Reinsurer's share	16	-	-
Earned premiums, net of reinsurance		11,105	14,792
Claims incurred, net of reinsurance			
Claims paid			
Gross amount	17	(9,954)	(17,271)
Reinsurer's share	17	2,412	4,997
		(7,542)	(12,274)
Change in the claims outstanding			
Gross amount		3,352	2,081
Reinsurer's share		247	3,938
Claims incurred, net of reinsurance		(3,943)	(6,255)
Net operating expenses	4	(7,688)	(8,038)
Total claims and expenses		(11,631)	(14,293)
Balance on the technical account - general business		(526)	499

The notes on pages 19 to 43 are an integral part of the financial statements.

USAA Limited

Income Statement

Non-Technical Account
For the year ended 31 December 2022

	Note	2022 £'000	2021 £'000
Balance on the technical account - general business		(526)	499
Investment income	*3*	1,574	2,171
Realised (losses)/gains on investments	*3*	(3,288)	(1,991)
Unrealised (losses)/gains on investments	*3*	(2,660)	(1,290)
Currency translation gain		1,131	630
Settlement cost of the UK defined benefit scheme	*21*	(11,828)	-
Finance income	*21*	166	27
Investment expenses and charges	*21*	-	(2)
(Loss)/Profit on ordinary activities before tax		(15,431)	44
Tax on profit on ordinary activities	*8*	215	(55)
Loss for the financial year		(15,216)	(11)

All results are derived from continuing operations.

The notes on pages 19 to 43 are an integral part of the financial statements.

USAA Limited

Statement of Comprehensive Income
For the year ended 31 December 2022

	Note	**2022** **£'000**	**2021** **£'000**
Loss for the financial year		(15,216)	(11)
Re-measurement of net defined benefit pension (deficit)/surplus	*21*	(2,057)	2,090
Defined benefit surplus that is not recoverable in OCI	*21*	(450)	-
Tax relating to re-measurement of net defined benefit pension (deficit)/surplus	*8*	448	(397)
Total comprehensive loss/income for the year		(17,275)	1,682

Statement of Changes in Equity
as at 31 December 2022

		2022			
	Note	Called up share capital £'000	Share premium account £'000	Retained earnings £'000	Total £'000
At 1 January		13,100	348	60,061	73,509
Total comprehensive loss for the year		-	-	(17,275)	(17,275)
Dividend in specie	*10*	-	-	(30,207)	(30,207)
At 31 December		13,100	348	12,579	26,027

		2021			
		Called up share capital £'000	Share premium account £'000	Retained earnings £'000	Total £'000
At 1 January		13,100	348	58,379	71,827
Total comprehensive income for the year		-	-	1,682	1,682
Dividend paid	*10*	-	-	-	-
At 31 December		13,100	348	60,061	73,509

The notes on pages 19 to 43 are an integral part of the financial statements.

USAA Limited

Statement of Financial Position

For the year ended 31 December 2022

	Note	2022 £'000	2021 £'000
Assets			
Investments			
Financial investments	*11*	8,544	79,866
Reinsurer's share of technical provisions			
Provision for unearned premiums	*16*	-	-
Claims outstanding	*17*	-	13,174
		-	13,174
Debtors			
Debtors arising out of direct insurance operations	*13*	2,607	9,372
Other debtors including taxation	*14*	7,424	7,860
Deferred tax asset	*8*	-	115
		10,031	17,347
Other assets			
Tangible assets	*12*	-	2
Cash and cash equivalents	*15*	7,902	11,694
		7,902	11,696
Prepayments and accrued income			
Accrued interest		494	789
Other prepayments and accrued income		-	194
		494	983
Net pension assets	*21*	-	4,608
Total Assets		26,971	127,674

The notes on pages 19 to 43 are an integral part of the financial statements.

Company registered number 730577

USAA Limited

Statement of Financial Position (continued)
For the year ended 31 December 2022

	Note	2022 £'000	2021 £'000
Equity and Liabilities			
Shareholders' equity			
Called up share capital	*9*	13,100	13,100
Share premium account		348	348
Profit and loss account		12,579	60,061
Total capital and reserves		26,027	73,509
Liabilities			
Technical provisions			
Provision for unearned premiums	*16*	-	9,284
Claims outstanding	*17*	-	39,912
		-	49,196
Provisions for other risks			
Provisions for deferred taxation	*8*	-	875
Creditors			
Creditors arising out of direct insurance operations	*18*	-	1,901
Other creditors including taxation and social security	*19*	319	1,462
		319	3,363
Accruals and deferred income		625	731
Total equity and liabilities		26,971	127,674

The notes on pages 19 to 43 are an integral part of the financial statements.

These financial statements on pages 13 to 18 were approved by the Board of Directors on 27 July 2023 and were signed on its behalf by:

Craig Scarr
Director
9 August 2023

Company registered number 730577

Notes to the Financial Statements

1. Accounting Policies

1.1 Statement of Compliance

USAA Limited is a limited liability company incorporated in England. The Registered Office is 4th Floor, Fitzwilliam House, 10 St Mary Axe, London, EC3A 8AE.

The financial statements have been prepared in compliance with FRS 102 and FRS 103, being applicable UK GAAP accounting standards, and in accordance with the provisions of Schedule 3 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 relating to insurance companies.

The financial statements have been prepared under the historical cost accounting rules, except for financial instruments which are measured at fair value, insurance liabilities that are based on estimates and the defined benefit pension which is measured under the projected unit credit method.

Following a review and reorganisation of the USAA operating model in Europe, USAA S.A. UK a third country branch of sister company USAA S.A. started writing new business and transitioning existing business in the United Kingdom from the Company. From 1 April 2022 all of USAA Limited's UK business was written through the new UK branch. As a result, all of the insurance related assets and liabilities derived from business previously written by the Company has been legally transferred to USAA S.A. via a Part VII transfer as determined by the Financial Services and Markets Act 2000 following approval from the High Court of England and Wales with effect from 23:59 Central European Time on 31 December 2022.

1.2 Basis of Preparation

The directors do not consider the going concern basis of preparation to be appropriate, see note 1.2.1. The financial statements have been prepared on a basis other than a going concern in accordance with UK GAAP accounting standards and the Companies Act 2006. The basis includes, where applicable, assets to be recorded at their recoverable value and liabilities recorded at their expected settlement value. The effect of this to the current year is to release all prepayments and deferred tax, there is nil effect to the prior year comparatives.

The Company will settle all liabilities and transfer the remainder as a dividend to the parent company USAA International S.a.r.l, hence the directors have determined that the accounting policies applied to individual items should be consistent with those applied in the prior period.

The financial statements are prepared in sterling, which is the presentation and functional currency of the Company and rounded to the nearest £'000.

Under FRS 103, the company continues to apply the existing accounting policies that were applied prior to this standard, for its insurance contracts.

As permitted by FRS 102, the company as a qualifying entity has taken advantage of the following exemptions:

a) from preparing a statement of cash flows, on the basis that it is wholly owned subsidiary of USAA International S.a.r.l, which is a wholly owned subsidiary of USAA Services Automobile Association whose statutory accounts are publicly available as stated in Note 22;

b) from disclosing the company's key management personnel compensation, as required by FRS102;

e) from disclosing transactions with related parties, as required by FRS102.

1.2.1 Other than going concern basis

In assessing the going concern status the directors have concluded that it is not appropriate to adopt the principles of going concern and the financial statements have been prepared on a basis other than going concern. This is due to the directors intention to liquidate the Company, as a result of the restructure of the USAA operating model in Europe.

1.3 Judgments and Key Sources of Estimation Uncertainty

The preparation of financial statements in conformity with FRS 102 and FRS 103 requires management to make judgments, estimates and assumptions that affect the amounts reported for assets and liabilities at the reporting date and the amounts reported for revenues and expenses during the year. The use of estimation and judgements can result in actual outcomes that differ from estimates. The areas where assumptions and estimates are significant to the financial statements are insurance contracts technical provisions and defined benefit pension plans.

Estimates

Insurance contract technical provisions

For insurance contracts, estimates have to be made for both the expected ultimate cost of claims reported at the reported date and for the expected ultimate cost of claims incurred, but not yet reported, at the reporting date (IBNR). It can take a significant period of time before the ultimate claims can be established with certainty and for motor insurance policies, IBNR claims form a significant part of the liability in the statement of financial position.
The ultimate cost of outstanding claims is estimated using a deterministic analysis based on a combination of the Chain-Ladder and Cape Cod methods. Expert judgement is used to select ultimate losses and development factors for each accident year.

The principal assumption underlying the liability estimates is that the future claims development will follow a similar pattern to past claims development experience. This includes assumptions in respect of average claims costs, claims handling costs, claims inflation factors and claims numbers for each accident year. Additional qualitative judgements are used to assess the extent to which past trends may not apply in the future. Judgement is also used to assess the extent to which external factors such as judicial decisions and government legislation will affect the estimates.

The ultimate cost of outstanding claims is disclosed in Note 17 Claims outstanding. Due to the Part VII transfer, this only impacts the comparative period.

Defined benefit pension plans

The cost of the defined benefit pension plans are determined using actuarial valuations. The actuarial valuations involve making assumptions about discount rates, future salary increases, mortality rates and further pension increases. Due to the complexity of the valuations, the underlying assumptions and long term nature of the pension plans, such assumptions are subject to uncertainty and may not borne out as expected.

The defined benefit obligations are linked to yields on AA-rated corporate bonds, while assets of the plans are measured at bid value. Changing markets in conjunction with discount rate volatility will lead to volatility in the funded status of the pension plans.

Further details on the assumptions used in the actuarial valuations can be found in Note 21. The estimation uncertainty is less applicable to the UK scheme due to the pension buy-in and subsequent buy-out (as this relieves the employer of the obligation).

1.4 Significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below.
These policies have been consistently applied to all years presented, unless otherwise stated.

Insurance contracts

Product classification

Insurance contracts are those contracts where the insurer has accepted significant insurance risk from the policyholder by agreeing to compensate the policyholder if a specified uncertain future event adversely affects the policyholder.

1.4 Significant accounting policies

Product classification (continued)

Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during the period, unless all rights and obligations are extinguished or expire.

Premiums written

Gross written premiums comprise the total premium receivable for the whole period of cover provided by the contract entered into during the reporting period, together with any adjustments arising in the reporting period to such premiums receivable in respect of business written in prior reporting periods. They are recognised on the date that the policy commences and earned over the period of the policy. Additional or return premiums are treated as a premeasurement of initial premium. Gross written premiums are stated gross of commissions, with adjustments for premium refunds and policyholder discounts on motor premiums. Premium refunds to policyholders are approved by the Board of Directors.

Reinsurance premiums

Contracts entered into by the Company with reinsurers under which the company is compensated for losses that meet the classification requirements for insurance contracts are classified as reinsurance contracts. Gross reinsurance premiums comprise the total premiums payable for the whole cover provided by the contracts entered into the period. The reinsurance premiums are recognised on the date that the reinsurance policy incepts and are earned over the period of the policy on a straight line basis.

Acquisition costs

Acquisition costs, comprising all direct and indirect costs related to the acquisition of new insurance contracts are borne by the parent company.

Claims incurred

Claims incurred include all claims and claims settlement expense payments made in respect of the period, and the movement in provision for outstanding claims and settlement expenses, and include claims incurred but not reported, net of salvage and subrogation recoveries.

Technical provisions

Claims provisions

Outstanding claims comprise provisions for the estimated cost of settling all claims incurred up to but not paid at the reporting date whether reported or not, together with related claims handling expenses. All loss data is presented net salvage and subrogation recoverable.

Provisions for reported unpaid claims are estimated by the parent company's in-house actuaries based primarily on historical development patterns of paid losses and case reserves, and for comparison projected claims counts and average frequencies, severities and pure premiums.

The amounts included in respect of incurred but not reported claims ('IBNR') are calculated by selecting an estimate of the ultimate loss from a range of different projections and subtracting payments to produce the final estimate. In selecting an estimate the consistency of the projection methods is reviewed along with the implied severity, pure premium and IBNR costs. The indicated estimate of the ultimate loss is also compared to the known case incurred for reasonableness. Accordingly, the most critical assumption as regards claims provisions is that the past is a reasonable predictor of the likely level of claims development.

1.4 Significant accounting policies

Technical provisions (continued)

Claims provisions (continued)

The directors consider that the gross provisions for claims are fairly stated on the basis of the information currently available to them. However, the ultimate liability will vary as a result of subsequent information and events, and this may result in significant adjustments to the amounts provided. Adjustments to the amounts of claims provisions established in prior years are reflected in the financial statements for the period in which the adjustments are made. The methods and the estimates made are reviewed regularly.

The risk only impacts the comparative year following the Part VII transfer of insurance assets and liabilities, resulting in nil claims provisions at the period end.

Reinsurance recoveries are recognised when the related gross insurance claim is recognised according to the terms of the relevant reinsurance contracts.

Provisions for unearned premiums

Unearned premiums represent the proportion of premiums written in the year that relate to the unexpired terms of policies in force at the reporting date. The provision for unearned premiums is calculated on a daily pro-rata basis. The proportion attributable to subsequent periods is deferred as a provision for unearned premiums.

Reinsurance assets

Reinsurance assets represent balances due from reinsurance companies. Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provisions or settled claims associated with the reinsurance policies, and are in accordance with the related reinsurance contract.

Reinsurance assets are reviewed for impairment at each reporting date, or more frequently should an indication of impairment arise during the reporting year. An impairment occurs when there is objective evidence that the Company may not receive all outstanding amounts due under the terms of the contract and the amount has a reliably measurable impact on the amounts that the Company will receive from the reinsurer.

The reinsurance assets have been settled at year end so the impairment risk and assessment is no longer relevant.

Insurance receivables

Insurance receivables comprise outstanding insurance premiums where the policyholders have elected to pay in instalments, or amounts due from USAA Limited's parent company where they have collected payments from the policyholder on behalf of USAA Limited.

Insurance receivables are measured on initial recognition at the fair value of the consideration receivable. The carrying value of the insurance receivables is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable. The Company's bad debt policy is to write-off uncollected premium receivable ninety days after the due date. All bad debt write-offs are recognised in net operating expenses in the technical account - general business.

Insurance payables

Insurance payables represent premium refunds due to policyholders at the reporting date and are recognised at the fair value of consideration payable.

Tangible fixed assets

Expenditure on computer equipment, motor vehicles, furniture, fixtures and fittings, and office equipment is capitalised at cost and depreciated over the estimated useful lives of the assets on a straight-line basis.

1.4 Significant accounting policies

Tangible fixed assets (continued)

Fixtures and fittings	5 years
Motor vehicles	3 years
Computer equipment, furniture and office equipment	2 years

Depreciation is included as part of net operating expenses.

Operating Leases

Payments under operating leases are recognised as an expense on a straight-line basis over the period of the lease. In a similar manner, lease incentives are recognised by reducing the lease expense on a straight-line basis over the period of the lease.

Provisions

Provisions are recognised when the Company has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of resources will be required to settle the obligation and that the amount of the obligation can be reliably estimated.

Pension benefits

Defined benefit schemes

The Company operates two separate defined benefit schemes in the UK and Germany, which require contributions to be made separately to administered funds. The cost of providing benefits under the defined benefit plan is determined using the projected unit credit method, which attributes entitlement to benefits to the current period (to determine current service cost) and to the current and prior periods (to determine the present value of defined benefit obligations), based on actuarial advice. When a settlement or curtailment occurs the change in the present value of the scheme liabilities and the fair value of scheme assets reflects the gain or loss which is recognised in the non-technical account during the period it occurs.

The net interest element is determined by multiplying the net defined benefit liability by the discount rate, both determined at the start of the period taking into account any changes in the net defined benefit liability during the period as a result of contribution and benefit payments. The net interest is recognised in the non-technical account as other finance revenue or cost.

Re-measurements, comprising actuarial gains and losses and the return on the net defined benefit liabilities (excluding amounts included in net interest) are recognised immediately in other comprehensive income in the period which they occur. Re-measurements are not reclassified to the income statement in subsequent periods.

The net defined benefit pension assets or liabilities in the statement of financial position comprises the total of the present value of the defined benefit obligation (using a discount rate based on high quality corporate bonds), less fair value of scheme assets out of which the obligations are to be settled directly. Fair value of scheme assets are based on the published bid price provided to the pension actuary. The value of the net pension benefit asset is limited to the amount that may be recovered either through reduced contributions or agreed refunds from the Scheme.

Defined contribution scheme

The Company opened a defined contribution scheme for UK employees on 1July 2016, paying fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Payments made for defined contributions are recognised in the income statement in the period they become payable.

Foreign currency

The Company's functional and presentational currency is sterling.

1.4 Significant accounting policies

Foreign currency (continued)

Transactions denominated in currencies other than the functional currency are initially recorded in the functional currency at the exchange rate ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated into the functional currency at the exchange rate ruling at the reporting date. Non-monetary items denominated in foreign currencies measured at historical cost are translated using the exchange rate at the date of the transaction. Non-monetary items at fair value are translated using the exchange rate when the fair value was determined.

Exchange differences are recorded in the non-technical account.

Financial investments

As permitted by FRS 102, the Company has elected to apply the recognition and measurement provisions of Sections 11 and 12 to account for its financial instruments.

The Company classifies its financial investments at fair value through profit and loss on the basis that it meets the conditions in FRS 102 Section 11.8b, and recognition designated at fair value through profit and loss results in more relevant information, because the financial investment portfolio is managed and its performance evaluated on a fair value basis in accordance with a documented risk management and investment strategy.

These investments are initially measured at fair value. Subsequent to initial recognition, these investments are re-measured at fair value at each reporting date. Fair value adjustments and realised gains and losses are recognised in the non-technical account.

Cash and cash equivalents

Cash and cash equivalents in the statement of financial position includes cash in hand, cash at banks and other short-term highly liquid investments with an original maturity date of three months or less.

Fair value of financial assets

The valuation of financial instruments is carried out by independent investment managers using the valuation criteria set out in Note 11.

Derecognition of financial assets

A financial asset or a part of a financial asset is derecognised when the rights to the cashflows have expired or the Company has transferred substantially all the risks and rewards of the asset.

Financial liabilities

The Company's financial liabilities include insurance payable and other payables. These liabilities are recognised when due and are measured on initial recognition at the fair value of the consideration payable.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or expires.

Investment return

Realised gains and losses on investments carried at fair value through profit and loss are calculated as the difference between net sales proceeds and purchase price. Movements in unrealised gains and losses on investments represent the difference between fair value at the reporting date and their fair value at the last reporting date, together with the reversal of unrealised gains and losses recognised in earlier accounting periods in respect of investment disposals in the current period.

1.4 Significant accounting policies

Taxation

Taxation expense for the period comprises current and deferred tax (if recognised) in the reporting period. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly to reserves. In this case tax is also recognised in other comprehensive income or directly in reserves respectively.

Current tax

Current tax is the amount of income tax payable in respect of the taxable profit for the year or prior years. Tax is calculated on the basis of tax rates and laws that have been enacted or substantially enacted by the period end. Current tax liabilities are measured at the amount expected to be paid to, or recovered from tax authorities.

Deferred Tax

Deferred tax arises from timing differences that are differences between taxable profits and total comprehensive income as stated in the financial statements. These timing differences arise from the inclusion of income and expenses in tax assessments in periods different from those in which they were recognised in the financial statements.

Deferred tax is recognised on all taxable timing differences at the reporting date. Unrelieved tax losses and deferred tax assets are only recognised when it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantially enacted at the reporting date.

Dividends

Dividends on ordinary shares are recognised as a liability and deducted from equity when they are approved by the Board of Directors. Interim dividends are deducted from equity when they are paid.

2. Analysis by Class of Business

The underwriting result is analysed as follows:

	Motor Other £'000	Motor third party Liability £'000	Fire & property damage £'000	General Liability £'000	Total £'000
2022					
Gross premiums written - UK	1,049	1,804	257	85	3,195
Gross premiums earned	3,705	6,960	932	320	11,917
Gross claims incurred	(2,010)	(4,171)	(242)	(179)	(6,602)
Gross operating expenses	(2,390)	(4,490)	(601)	(206)	(7,688)
Reinsurance balance	586	1,172	36	52	1,847

Notes to the Financial Statements

2. Analysis by Class of Business (continued)

2021	Motor Other £'000	Motor third party Liability £'000	Fire & property damage £'000	General Liability £'000	Total £'000
Gross premiums written - UK	5,055	9,623	1,323	450	16,451
Gross premiums earned	4,939	9,618	1,384	475	16,416
Gross claims incurred	(2,860)	(12,040)	(430)	140	(15,190)
Gross operating expenses	(2,418)	(4,709)	(678)	(233)	(8,038)
Reinsurance balance	(203)	7,588	(55)	(19)	7,311

Included in the reinsurance balance are reinsurance premiums of £494k, (2021: £671k) for coverage under a reinsurance stop loss treaty with the ultimate parent company.

3. Investment return

	Non Technical account General business 2022 £'000	2021 £'000
Investment Income		
Income from financial investments at fair value through profit and loss	1,574	2,171
Net income from defined benefit pension scheme	166	27
Total Investment income	1,740	2,198
Investment expenses and charges		
Net losses on realisation of investments	(3,288)	(1,991)
Net unrealised losses on investments	(2,660)	(1,290)
Net cost of defined benefit pension scheme	-	(2)
Total Investment expenses and charges	(5,948)	(3,283)
Total Investment return	(4,208)	(1,085)

4. Expenses

Net operating expenses	Technical account General business 2022 £'000	2021 £'000
Administrative expenses	3,572	3,630
Outsourced service costs	3,563	4,428
Specific bad debt write off	600	(12)
Realised exchange differences	(47)	(8)
	7,688	8,038
Included in administrative expenses are:		
Staff pension costs relating to DB pension scheme changes	58	865
Depreciation of tangible fixed assets	-	21
Operating lease costs	46	1
Legal & professional fees	2,612	1,741
Regulatory fees & levies	601	742
Investment management fees	212	241
Other expenses	43	20

5. Auditors' remuneration

	2022 £'000	2021 £'000
Audit of the financial statements	241	201
Fees payable to the company's auditor for other services:		
Audit of pension scheme	-	9
	241	210

6. Staff costs and directors' remuneration

(a) Staff costs

The Company operates under an outsourcing model and does not employ any staff. All costs for the provision of staff are charged to USAA Limited under a service fee arrangement.

(b) Directors' remuneration	2022 £'000	2021 £'000
Aggregate remuneration in respect of qualifying services	396	390
Aggregate amounts receivable under long-term incentive scheme	86	71

7. Related Party Transactions

The Company is a 100% owned subsidiary of USAA International S.a.r.l in Luxembourg, which is a 100% owned subsidiary of United Services Automobile Association in Texas, USA. The Company has taken advantage of the exemption under Financial Reporting Standard FRS 102 not to disclose transactions that occurred during the year in relation to its parent company and ultimate parent company.

8. Taxation

(a) Tax on profit on ordinary activities

The tax charge is made up as follows:	2022 £'000	2021 £'000
Current taxation		
UK corporation tax at 19% (2021: 19%)	-	(172)
Adjustments in respect of prior years	97	-
Total current taxation	97	(172)
Deferred taxation		
Origination and reversal of timing differences	(312)	227
Total deferred tax credit/charged	(312)	227
Tax (credit)/charge on profit on ordinary activities	(215)	55
Tax included in the statement of comprehensive income		
The tax credit is made up as follows:		
Current tax on defined benefit pension schemes	-	(125)
Origination and reversal of timing differences	(448)	522
Total tax (credit)/charge	(448)	397

The loss relief in respect of the prior year taxable loss has been carried back to offset against the prior year taxable profit.

8. Taxation (continued)

(b) Factors affecting the total tax charge	**2022 £'000**	**2021 £'000**
(Loss)/Profit on ordinary activities before tax	(15,431)	44
Tax at 19% (2021:19%)	(2,932)	8
Expenses not deducted for tax purposes	386	47
Prior year adjustment - current tax	97	-
Effect of rate change	-	-
Tax losses on which no deferred tax is recognised	2,194	
Write off of deferred tax previously recognised	40	-
	(215)	55

(c) Deferred tax

The deferred tax included in the statement of financial position is as follows:

Deferred tax asset	**2022 £'000**	**2021 £'000**
Deferred tax asset at the start of the year	115	316
Deferred tax charge/credit to the income statement	(115)	(201)
Deferred tax asset at the end of the year	-	115
Deferred tax asset at the end of the year is made up of:		
Provision for future claims management costs	-	115
Deferred tax on pension movements	-	-
Deferred tax asset at the end of the year	-	115
Of which deferred tax asset recognised	-	115

Deferred tax liability		
Deferred tax liability at the start of the year	875	327
Deferred tax charge to the income statement	(427)	26
Deferred tax charge/credit to other comprehensive income	(448)	522
Deferred tax liability at the end of the year	-	875
Deferred tax liability at the end of the year is made up of:		
Deferred tax on pension movements	-	875
Deferred tax liability at the end of the year	-	875
Of which deferred tax liability recognised	-	875

The UK corporation tax rate for the period was 19%. Following the enactment of Finance Act 2021 in June 2021, the UK corporate tax rate will increase to 25% from 1 April 2023.

No deferred tax asset has been recognised in relation to gross tax losses (£11.5m) and gross general provisions of (£0.4m) as there is expected to be insufficient taxable profits in the future against which the assets could be utilised.

There are no gross timing differences associated with the pension movements so no deferred tax liability has been recognised.

9. Authorised and allotted share capital

	2022 £'000	2021 £'000
Authorised		
13,100,000 Ordinary shares of £1 each (2022: 13,100,000)	13,100	13,100
Allotted, called up and fully paid		
13,100,000 Ordinary shares of £1 each (2021: 13,100,000)	13,100	13,100

10. Dividends and other appropriations

The Board of directors approved and paid a dividend in specie amounting to £30,207k (2021: £nil) being a transfer of Investment bonds and cash to its immediate parent company USAA International S.a.r.l as part of the restructure operations.

11. Financial Investments

	2022		2021	
	Carrying value £'000	Purchase price £'000	Carrying value £'000	Purchase price £'000
Debt securities and other fixed income securities				
- Designated at fair value through profit and loss	8,544	9,861	79,866	81,516

The company's financial investments comprise the following totals for each level of valuation criteria:

	Level 1	Level 2	Level 3	Total
31 December 2022	**£'000**	**£'000**	**£'000**	**£'000**
Debt Securities and other fixed income securities	-	8,544	-	8,544
31 December 2021	**£'000**	**£'000**	**£'000**	**£'000**
Debt Securities and other fixed income securities	-	79,866	-	79,866

The Debt securities and other fixed income securities either matured in January 2023 or have been liquidated in March 2023 and are held as cash equivalents in the Investment portfolio. An overall gain was realised on liquidation.

Level 1 represents quoted securities either on an exchange or over the counter using prices published by a recognised pricing source, or, if such prices are not available, using other reputable sources acceptable to the the company.

Level 2 represents unquoted securities valued by the Company's asset managers, Western Asset Management, based on the average of third-party bid and offer prices.

Level 3 represents securities where observable inputs are not available, unobservable inputs are used to measure fair value by use of valuation techniques. The objective of using the valuation technique is to estimate what the fair value would have been on the measurement date.

12. Tangible Assets

	Leasehold Improvements £'000
Cost	
At the beginning of year	1,109
Additions	-
Disposals	-
At the end of year	1,109
Depreciation	
At the beginning of year	1,107
Charge in year	2
Disposals	-
At the end of year	1,109
Net book value	
At 31 December 2022	-
At 31 December 2021	2

13. Debtors arising out of direct insurance operations

	2022 £'000	2021 £'000
Amounts owed by policyholders	-	9,372
Amounts owed by ultimate parent company	2,607	-
	2,607	9,372

14. Other Debtors including Taxation

	2022 £'000	2021 £'000
Amounts owed by related parties	6,918	5,294
Corporation tax recoverable	393	491
Amounts owed by overseas tax authorities	42	2,004
Other debtors	71	71
	7,424	7,860

Amounts owed by related parties are made up of intercompany balances due from USAA International S.a.r.l, for expenses paid on behalf of USAA International S.a.r.l during the set up phase.

15. Cash and cash equivalents

	2022 £'000	2021 £'000
Cash and cash equivalents comprise the following:		
Cash at bank and in hand	6,528	7,880
Short-term deposits with credit institutions	1,374	3,814
	7,902	11,694

16. Provisions for unearned premiums

	Gross £'000	Reinsurers' share £'000	Net £'000
At 1 January 2022	9,284	-	9,284
Premiums written in the year	3,195	-	3,195
Premiums earned in the year	(11,917)	-	(11,917)
Part VII Transfer	(489)	-	(489)
Foreign exchange	(73)	-	(73)
At 31 December 2022	-	-	-

	Gross £'000	Reinsurers' share £'000	Net £'000
At 1 January 2021	8,667	-	8,667
Premiums written in the year	16,451	-	16,451
Premiums earned in the year	(16,416)	-	(16,416)
Foreign exchange	582	-	582
At 31 December 2021	9,284	-	9,284

17. Claims outstanding

	Gross £'000	Reinsurers' Share £'000	Net £'000
At 1 January 2022	39,912	(13,174)	26,738
Claims incurred in current accident year	4,696	(1,773)	2,923
Claims incurred in current prior years	1,906	(886)	1,020
Claims paid during the year	(9,954)	2,412	(7,542)
Part VII Transfer	(38,068)	13,768	(24,300)
Foreign exchange	1,508	(347)	1,161
At 31 December 2022	-	-	-

	Gross £'000	Reinsurers' share £'000	Net £'000
At 1 January 2021	43,820	(9,303)	34,517
Claims incurred in current accident year	19,586	(9,599)	9,987
Claims incurred in current prior years	(4,396)	664	(3,732)
Claims paid during the year	(17,271)	4,997	(12,274)
Foreign exchange	(1,827)	67	(1,760)
At 31 December 2021	39,912	(13,174)	26,738

The provisions for gross claims outstanding includes IBNR's of £nilk (2021: £6,014k), and salvage and subrogation recoverable of £nilk (2021: £521k), following the Part VII transfer in 2022. The reinsurers' share of claims outstanding does not include any recoverable amounts from related parties.

18. Creditors arising out of direct insurance operations

	2022 £'000	2021 £'000
Amounts owed to policyholders	-	110
Amounts owed to ultimate parent company	-	1,791
	-	1,901

19. Other Creditors including Taxation and Social Security

	2022 £'000	2021 £'000
Amounts owed to related parties	-	429
Other creditors	319	1,033
	319	1,462

Amounts owed to related parties represents intercompany charges for employee services provided by USAA International S.a.r.l under service fee arrangements.

20. Operating Lease Commitments

Future minimum rentals payable under non-cancellable operating leases for office accommodation in the UK and Germany are as follows:

	2022 £'000	2021 £'000
Not later than one year	2,007	700
Later than one year and not later than five years	-	1,890
Later than five years	-	-
	2,007	2,590

The Company retained the leasehold obligations for the London office as stipulated in the Leasehold Agreement. The Company entered into a sub-lease arrangement with USAA international S.a.r.l from 1 November 2018 for the physical use of the property with all leasehold costs from this date until the lease expiry date on 1 March 2026 to be recharged to USAA International S.a.r.l.
The leasehold obligations are in the process of being transferred to USAA S.A.

Future minimum rentals payable under non-cancellable operating leases for computer equipment are as follows:

	2022 £'000	2021 £'000
Not later than one year	-	29
Later than one year and not later than five years	-	-
Later than five years	-	-
	-	29

21. Pension Schemes

Defined benefit scheme

The Company sponsors defined benefit schemes in the UK, the USAA Ltd Pension and Life Assurance Scheme ('the UK Scheme') and in Germany, the USAA Retirement Plan for Employees in the Federal Republic of Germany ('the German Scheme). The assets are held in separately administered funds.

The level of benefit provided by the Schemes depends on a member's length of service and their salary at the date of leaving the Scheme. The UK Scheme was closed to future accrual on 30 June 2016, although active members retained a link to their pensionable salary until 31 October 2021. The German Scheme closed to new entrants on 30 June 2016 but remained open for future accrual for active members employed at that date.

On 1 November 2018 USAA Limited transferred its UK and German employees to USAA International S.a.r.l and USAA SA. USAA Limited is continuing to sponsor the UK Scheme and the German Scheme for deferred members. Active members in the German Scheme have been transferred to new pension schemes in USAA International S.a.r.l and USAA SA. Pension liabilities and pension assets to cover these liabilities have been transferred with active members to the new pension schemes.

The disclosures below are in respect of the both the UK and German Schemes:

The USAA Ltd Pension and Life Assurance Scheme ('the UK Scheme').

UK legislation requires that pension schemes are funded prudently. The last funding valuation of the Scheme as was carried out by a qualified actuary as at 1 April 2019 and the Company has been paying deficit contributions of £660k p.a which commenced on 1 July 2020, until a full scheme buy-in with a bulk annuity provider, which transacted in May 2022, has been secured. The Company paid a one-off lump sum contribution of £9,326k to secure the full scheme buy-in in May 2022, plus an additional £10k to cover any other potential costs.

The Company paid contributions of £9,501k during the period ended 31 December 2022

The balance sheet figures have been calculated using a full valuation approach at 31 December 2022. The present value of the defined benefit obligation was measured using the projected unit credit method.

Special Events

In 2021, non-pensioner members in the UK were offered an enhanced transfer value (ETV). The offer window ran from 16 August to 30 November 2021.

Any members transferring out as part of the ETV exercise represent a settlement. This resulted in an income statement cost under UK GAAP equal to the difference between the transfer values paid and the accounting liability in respect of the transferring members. In total, nine Scheme members have opted to take a ETV. Payments for three of these members were settled in 2021, and these settlements were accounted for in the disclosures for the year ending 31 December 2021. The remaining six ETV payments were settled in January 2022. A total of £1,960k (including the value of the enhancements) was paid out during the year ended 31 December 2022. The calculated equivalent liability discharged on the year end 31 December 2022 accounting basis is calculated at £1,153k. This has resulted in a deterioration of £870k in the balance sheet.

The scheme has carried out a full scheme buy-in with a bulk annuity provider, which transacted in May 2022. There is a clear intention to convert this buy-in into a buyout in 2023. For the results contained in these financial statements, the approach of immediate treatment as settlement at the point of buy-in has been adopted, which results in a settlement loss of £11,021k - equal to the buy-in premium of £26,363k less than the UK GAAP liabilities at the same effective date (12 May 2022) of £15,342k. The settlement loss has been recognised in the Non-Technical Account of the Income Statement.

21. Pension Schemes (continued)

The USAA Ltd German Pension Scheme ('the German Scheme').

The balance sheet figures have been calculated as at 31 December 2022 on an FRS 102 valuation basis as at 31 December 2022. The present value of the defined benefit obligation was measured using the projected unit credit method with a surplus of £450k. The scheme will be revalued on a buy-out basis and the buy-out is expected to commence during 2023.

Subsequent to the year end, management have engaged in discussions on the buy-out and based on those discussions it is unlikely that the surplus of £450k at 2022 will be recoverable so has been impaired to nil.

a) Main financial assumptions

UK Scheme:

	2022	2021
	%	%
Rate of increase in salaries	n/a	n/a
Rate of increase in pensions in payment and deferred pensions	4.25	4.20
Discount rate applied to scheme liabilities	4.65	1.95
RPI Inflation	2.95	2.85
CPI Inflation	2.55	2.70

German Scheme:

	2022	2021
	%	%
Rate of increase in salaries	2.75	2.75
Rate of increase in pensions in payment and deferred pensions	2.00	1.75
CPI Discount rate applied to scheme liabilities	3.65	1.03
Inflation assumption	2.00	2.00

The principal assumptions used to calculate the liabilities under FRS 102 are set out below:

b) Main demographic assumptions

UK Scheme:

	2022	2021
Mortality	105% of the S3PMA All Lives tables for males and 105% of the S3PFA Light tables for females with improvement in line with the CMI_2021 projections with a smoothing parameter of Sk of 7.0, A of 0.0, w2020=w2021=0% and with a long-term rate of improvement of 1.25% p.a.	100% of the S3PMA All Lives tables for males and 100% of the S3PFA Light tables for females with improvements in line with the CMI_2020 project -ions with a smoothing parameter of Sk of 7.0, A of 0.0 and w2020 of 0% with a long term rate of improvement of 1.25% p.a.
Life expectancy for male currently age 65	21.6 years	21.9 years
Life expectancy for female currently age 65	24.4 years	24.7 years
Life expectancy at 65 for male currently age 45	22.8 years	23.2 years
Life expectancy at 65 for female currently age 45	25.8 years	26.1 years

21. Pension Schemes (continued)

Cash commutation	On average members commute 22.5% of their pension at retirement based on the cash commutation factors currently in force.	On average members commute 22.5% of their pension at retirement based on the cash commutation factors currently in force.

German Scheme:

Mortality	'Richttafeln 2018 G' of Dr. Klaus Heubeck	'Richttafeln 2018 G' of Dr. Klaus Heubeck
Life expectancy for male currently age 65	20.6 years	20.5 years
Life expectancy for female currently age 65	24.0 years	23.9 years
Life expectancy at 65 for male currently age 45	23.4 years	23.2 years
Life expectancy at 65 for female currently age 45	26.3 years	26.1 years
Cash commutation	n/a	n/a

(c) Scheme asset allocation

UK Scheme:	**2022 £'000**	**%**	**2021 £'000**	**%**
Annuities	11,644	100.0%	989	3.4%
Liability driven investment	-	-	23,900	82.6%
Cash	-	-	4,050	14.0%
Total	11,644	100.0%	28,939	100.0%

None of the UK Scheme assets are invested in the Company's financial instruments or in property occupied by, or other assets used by, the Company.

German Scheme:	**2022 £'000**	**%**	**2021 £'000**	**%**
Equities	843	42%	945	35%
Bonds	1,124	56%	1,261	65%
Cash and cash equivalence	40	2%	45	-
Total	2,007	100%	2,251	100%

None of the German Scheme assets are invested in the Company's financial instruments or in property occupied by, or other assets used by, the Company.

(d) Reconciliation of funded status to statement of financial position

UK Scheme:	**2022 £'000**	**2021 £'000**
Fair value of assets	11,644	28,939
Present value of funded defined benefit obligations	(11,644)	(24,419)
Liability recognised on the statement of financial position	-	4,520

German Scheme:	**2022 £'000**	**2021 £'000**
Fair value of assets	2,008	2,251
Present value of funded defined benefit obligations	(1,558)	(2,163)
Impairment value of funded defined benefit obligations	(450)	-
Asset recognised on the statement of financial position	-	88

21. Pension Schemes (continued)

(e) Amounts recognised in income statement

UK Scheme:

	2022 £'000	2021 £'000
Operating cost:		
Past service cost (including curtailment)	-	(1,830)
Settlement cost	11,828	1,155
Financing cost:		
Interest on net defined benefit liability/(asset)	(165)	(27)
	11,663	(702)

German Scheme:

	2022 £'000	2021 £'000
Financing cost:		
Interest on net defined benefit liability/(asset)	(1)	2
	(1)	2

(f) Analysis of amount recognised in Other Comprehensive Income (OCI)

UK Scheme:

	2022 £'000	2021 £'000
Asset (losses)/gains arising during the year	(14,283)	400
Liability gains/(losses) arising during the year	11,925	1,231
Actuarial (loss)/gain recognised in statement of total recognised gains and losses	(2,358)	1,631

German Scheme:

	2022 £'000	2021 £'000
Asset (losses)/gains arising during the year	(389)	231
Liability gains arising during the year	690	228
Actuarial gain recognised in statement of total recognised gains and losses	301	459

(g) Changes in the present value of the defined benefit obligation

UK Scheme:

	2022 £'000	2021 £'000
Opening defined benefit obligation (DBO)	24,419	30,844
Interest expense on DBO	452	441
Actuarial (gains)/losses on liabilities	(11,925)	(1,231)
Net benefits paid out	(149)	(799)
Past service cost (including curtailments)	0	(1,830)
Settlements	(1,153)	(3,006)
Closing defined benefit obligation	11,644	24,419

German Scheme:

	2022 £'000	2021 £'000
Opening Defined benefit obligation (DBO)	2,163	2,580
Interest expense on DBO	23	12
Actuarial (gains)/losses on liabilities	(690)	(228)
Net benefits paid out	(54)	(50)
Foreign exchange movements	116	(151)
Closing defined benefit obligation	1,558	2,163

21. Pension Schemes (continued)

(h) Changes in the Fair value of Scheme assets during the year

UK Scheme:	**2022**	**2021**
	£'000	**£'000**
Opening fair value of Scheme assets	28,939	32,371
Interest income on Scheme assets	617	468
(Loss)/Gain on Scheme Assets	(14,283)	400
Contributions by the company	9,501	660
Net benefits paid out	(149)	(799)
Settlements	(12,981)	(4,161)
Closing fair value of Scheme assets	11,644	28,939

German Scheme:	**2022**	**2021**
	£'000	**£'000**
Opening fair value of Scheme assets	2,251	2,135
Interest income on Scheme assets	24	10
Gain/(Loss) on Scheme Assets	(389)	231
Contributions by the company	54	51
Net benefits paid out	(54)	(51)
Foreign exchange movements	122	(125)
Closing fair value of Scheme assets	2,008	2,251

(i) Actual return on Scheme assets

UK Scheme:	**2022**	**2021**
	£'000	**£'000**
Interest income on Scheme assets	617	468
Gain/(Loss) on Scheme Assets	(14,283)	400
Actual (loss)/return on Scheme assets	(13,666)	868

German Scheme:	**2022**	**2021**
	£'000	**£'000**
Interest income on Scheme assets	24	10
Gain/(Loss) on Scheme Assets	(389)	231
Actual (loss)/return on Scheme assets	(365)	241

22. Ultimate Control

The ultimate parent company is deemed to be United Services Automobile Association, which is registered in Texas, United States of America. The ultimate parent company is owned by its members due to its mutual status therefore there is not deemed to be an ultimate controlling party. Copies of the ultimate parent company's consolidated group accounts may be obtained from USAA Building, Fredericksburg Road, San Antonio, Texas 78288.

The direct holding company of USAA Limited is USAA International S.a.r.l, which is registered in Luxembourg.

23. Part VII transfer

The Group reviewed the international structure during 2021 and implemented a new structure to reduce costs, ease volatility of results and improve efficiency. This was achieved by transferring the UK portfolio of USAA Limited into the USAA S.A. UK Branch, which started underwriting UK policies from 01 April 2022 and the relevant renewal rights were transferred via the business transfer agreement for a consideration of £1.

The insurance related assets and liabilities from USAA Limited were appropriately transferred to either USAA S.A. or the USAA S.A. UK Branch via a Part VII transfer with an effective date of 31 December 2022. Investments and debt securities were transferred as set out below:

	Transfer £'000
Assets	
Reinsurers' share of technical provisions - Claims outstanding	(13,768)
Debtors arising out of direct insurance operations	(828)
Other debtors including taxation	189
Other prepayments and accrued income	(947)
Total assets	**(15,354)**
Liabilities	
Technical provisions :	
Provision for unearned premium	(489)
Claims outstanding	(38,068)
Creditors arising out of direct insurance operations	102
Other creditors including taxation and social security	57
Total liabilities	**(38,398)**
Settlement	**(23,044)**

The remaining non-insurance assets and liabilities will be transferred via a business transfer agreement for a consideration of the balance sheet value of the business transfer as at the effective date and to the extent not transferred under the Part VII scheme. The settlement for the transfer at carrying value will be recognized during 2023.

24 Risk Management

The following disclosures are in respect of business in place up to 31 December 2022:

(a) Governance framework

The primary objective of USAA Limited's risk management framework is to protect the Company and its policyholders from events that hinder the sustainable achievement of USAA Limited's mission and strategic objectives. Senior management recognises the critical importance of having efficient and effective risk management systems in place.

USAA Limited has established a risk management function with clear terms of reference from the Board of Directors and underlying committees. Central to an effective risk management program is a robust corporate governance structure with documented delegated authorities and responsibilities from the Board of Directors to executive management, senior managers and committees. Furthermore, a company policy framework which sets out the risk profiles for the Company, including risk management, controls and business conduct standards, has been put in place. Each policy has a member of senior management charged with overseeing compliance with the policy throughout the Company. The policies are assessed annually for their design and effectiveness.

24 Risk Management (continued)

(a) Governance framework (continued)

The Board of Directors approves risk management policies, including USAA Limited's Own Risk and Solvency Assessment (ORSA). These policies define the identification of risks, assessment and monitoring to ensure the appropriate quality and diversification of assets, align underwriting and reinsurance strategy to the corporate goals, and specify reporting requirements. Significant emphasis is placed on assessment and documentation of risks and controls, including effectively challenge of assumptions and actions.

(b) Capital management objectives, policies and approach

The Company is committed to maintaining its strong financial position by assessing risk and prudently managing anticipated capital needs in light of its business plans and risk profile. The Company's approach to managing capital involves managing assets, liabilities and available capital to cover its regulatory capital requirements. An important aspect of the Company's overall capital management process is the setting of risk appetites and triggers around surplus capital and solvency.

The Company's preferred measure of capital sufficiency is the economic capital required under Solvency II to cover the 'Solvency Capital Requirement' (SCR), which became mandatory on 1 January 2016. The SCR is a prescribed regulatory capital calculation that is designed to enable insurers to absorb significant losses at a 99.5% probability level over a one year time horizon. The available capital is the capital and surplus assets over and above the insurance liabilities, excluding intangible assets that is available to cover the SCR.

The Company is subject to capital requirements imposed by the Prudential Regulation Authority (PRA) until it is de-registered.

The table below shows the Company's estimated Solvency II capital position as at 31 December 2022.

	2022 £'000	2021 £'000
Own funds	26,027	75,133
SCR	4,484	19,568
Surplus	21,544	55,565
Own funds/SCR	581%	384%

The significant decreases in Own funds and SCR are due to the Part VII transfer re Note 23 above.

The Company has complied with the SCR coverage ratio throughout the year.

The Company's estimated Solvency II capital position as at 31 December 2022 and 31 December 2021 is unaudited.

(c) Insurance risk

The principal risk that the Company faced under insurance contracts is that insured events occur and the uncertainty of the amounts and timing of resulting claims. The Company was also exposed to the risk that the actual timing and claims payments for losses reserved differ from expectations. This is influenced by the frequency of claims, severity of claims, actual benefits paid and subsequent development of long–term claims. Therefore, the objective of the Company was to ensure that sufficient reserves are available to cover these liabilities.

The risk exposure was previously mitigated by diversification of its portfolio of insurance contracts over geographical areas across Europe. The variability of risks was also improved by careful selection and implementation of underwriting guidelines, as well as the use of reinsurance arrangements. Underwriting systems are in place to accept, refer, or decline risks, in accordance with USAA Limited's appetite for risk exposure. Mitigations also include controls around all components of the business (pricing, underwriting and loss reserving) that could lead to unplanned increases in the likelihood and severity of claims.

24 Risk Management (continued)

(c) Insurance risk (continued)

Following the Part VII transfer to legally transfer all assets and liabilities derived from business previously performed by the Company with effect from 23:59 on 31 December 2022, the Company no longer holds any insurance contracts. As a result, the claims liabilities and amounts recoverable from reinsurers as at 31 December 2022 are nil.

(d) Financial risk

Credit risk and market risk

The Company has established a credit and market risk policy to provide appropriate governance and accountability for managing its exposure to credit and market risk. The objectives of the credit and market risk policy are to put in place mitigation strategies to:

i) Prudently manage credit risk which is defined as an economic loss from (a) fluctuations in the probability of default of the counterparty (to financial transaction) to fulfil its contractual obligations and/or (b) failure to correctly identify credit counterparties.

ii) Prudently manage market risk, which is defined as the fluctuation in the market value of invested assets due to change in economic variables such as interest rates, exchange rates, or commodity prices.

These objectives were met by prudently investing in assets and funds consistent with sound investment risk management practices such as diversification and credit quality monitoring. The credit and market risk management processes follow established strategies which include limiting risk-taking by setting appropriate risk triggers and risk appetites, and appropriate monitoring of the investment portfolio and currency exposures.

The Company's exposure to Credit and market risk was primarily in the areas of investments and reinsurance. Foreign exchange risk is mitigated by broadly matching the currency of its assets with the currency of its expected future liabilities. In addition, the Company managed its interest rate risk through the choice of a benchmark used in its investment guidelines. Following the Part VII transfer to legally transfer all assets and liabilities derived from business previously performed by the Company with effect from 23:59 on 31 December 2022, the Company holds a small portfolio of bonds, which has been liquidated into cash equivalents in 2023.

Reinsurance is placed with counterparties that meet the credit rating requirements set out in the parent company's standards on reinsurance. Concentration of risk is avoided by following policy guidelines in respect of counterparties' limits that are set each year by the board of directors and are subject to regular reviews.

The tables below show the maximum exposure to credit risk (including an analysis of financial assets risk) exposed to credit for the components of the statement of financial position.

31 December 2022	Neither past due nor impaired	Past due	Impaired	Total
	£'000	£'000	£'000	£'000
Financial investments - debt securities	8,544	-	-	8,544
Deposits with credit institutions	1,374	-	-	1,374
Reinsurers' share of claims outstanding	-	-	-	-
Debtors arising out of direct insurance operations	2,607	-	-	2,607
Other debtors	7,424	-	-	7,424
Accrued interest	494	-	-	494
Cash at bank and in hand	6,528	-	-	6,528
	26,971	-	-	26,971

Debtors arising out of direct insurance operations consists of amounts due from the parent company for premiums collected on behalf of the Company and the recovery under the stop loss reinsurance treaty settled in 2023.

24 Risk Management (continued)

(d) Financial risk (continued)

Credit risk and market risk (continued)

31 December 2021	Neither past due nor impaired £'000	Past due £'000	Impaired £'000	Total £'000
Financial	79,866	-	-	79,866
Deposits with credit institutions	3,814	-	-	3,814
Reinsurers' share of claims outstanding	13,174	-	-	13,174
Debtors arising out of direct insurance operations	9,372	-	-	9,372
Other debtors	7,860	-	-	7,860
Accrued interest	789	-	-	789
Cash at bank and in hand	7,880	-	-	7,880
	122,755	-	-	122,755

The significant decrease in financial assets is due to the Part VII transfer re Note 23.

The table below provides information regarding the credit risk exposure of the company by classifying assets according to Standard & Poor's credit ratings of counterparties. Assets that fall outside the range of AAA to BBB are classified as speculative grade and have not been rated. Debtors have been excluded from the table as these are not rated.

31 December 2022	AAA £'000	AA £'000	A £'000	BBB £'000	BB £'000	Not rated £'000	Total £'000
Financial investments - debt securities	-	327	4,850	3,048	-	319	8,544
Deposits with credit institutions	-	-	1,374	-	-	-	1,374
Reinsurers' share of claims	-	-	-	-	-	-	-
Cash at bank and in hand	-	-	6,528	-	-	-	6,528
	-	327	12,752	3,048	-	319	16,446

31 December 2021	AAA £'000	AA £'000	A £'000	BBB £'000	BB £'000	Not rated £'000	Total £'000
Financial investments - debt	-	28,668	18,038	23,295	1,942	7,923	79,866
Deposits with credit institutions	-	-	3,814	-	-	-	3,814
Reinsurers' share of claims	-	7,261	5,913	-	-	-	13,174
Cash at bank and in hand	-		7,880	-	-	-	7,880
	-	35,929	35,645	23,295	1,942	7,923	104,734

A significant part of market risk that the Company was exposed to is currency risk, where the fair value of future cash flows and the values of assets and liabilities denominated in foreign currency will fluctuate because of changes in foreign exchange rates.

The Company was exposed to currency risk as it underwrites its premiums in US dollars and pays its claims and expenses in Sterling and Euros. It also holds assets and liabilities in both US dollars and Euros. Prior to the Part VII transfer, the Company mitigated its foreign exchange risk by matching the estimated foreign currency denominated liabilities with assets denominated in the same currency.

24 Risk Management (continued)

(d) Financial risk (continued)

Credit risk and market risk (continued)

The table below summarises the exposure of the financial assets and liabilities to foreign currency exchange risk at the reporting date which has significantly decreased during the year following the Part VII transfer and transition of business, as follows:

	31 December 2022		31 December 2021	
	Euro exposure £'000	US dollar exposure £'000	Euro exposure £'000	US dollar exposure £'000
Assets				
Financial	-	-	7,359	8,310
Germany net pension scheme asset	-	-	88	-
Premium receivable debtors	-	2,607	-	9,372
Reinsurer's share of technical provisions	-	-	3,575	-
Cash at bank	582	-	1,143	221
	582	2,607	12,165	17,903
Liabilities				
Germany net pension scheme liability	-	-	-	-
Provision for claims outstanding	-	-	21,634	-
Provision for unearned premiums	-	-	-	9,284
	-	-	21,634	9,284
Total foreign exchange exposure	582	2,607	(9,469)	8,619

Interest rate risk

Interest rate risk is the risk that that the value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Company only holds fixed rate interest instruments which expose the company to fair value interest rate risk. Interest on fixed interest rate instruments is priced at inception of the financial instrument and is fixed until maturity. Changes in fair value of fixed rate instruments is effectively managed by the Company's investment managers, following Board approved investment guidelines to outperform set Merrill Lynch benchmarks.

31 December 2022		
+100 basis points	(1,667)	(1,350)
-100 basis points	1,798	1,456
+50 basis points	(1,490)	(1,207)
+50 basis points	1,541	1,248
31 December 2021		
+100 basis points	(3,453)	(2,797)
-100 basis points	3,707	3,003
+50 basis points	(1,757)	(1,423)
+50 basis points	1,820	1,474

24 Risk Management (continued)

(e) Liquidity risk

The Company defines liquidity risk as the risk of loss associated with cash flow deviations due to illiquid assets being held to meet cash flow requirements. In the event of significant adverse loss occurrences there is also a liquidity risk associated with the timing differences between gross cash out-flows and expected recoveries.

The Company has established a liquidity risk policy to provide appropriate governance and accountability for managing its exposure to liquidity risk. The objectives of the liquidity risk policy are to ensure sufficient liquid resources exist to cover cash flow imbalances and fluctuations in funding, to maintain full public confidence in the solvency of the Company, and to enable it to meet its financial obligations. These objectives will be met in a manner that maximises the income on liquidity and recognises potential credit and liquidity risks. Funds will be invested consistent with sound liquidity risk management practices.

Risk-taking is limited by setting appropriate liquidity risk triggers and risk appetites with clear guidelines for limiting and controlling risk exposures to ensure the Company operates within the liquidity risk appetite statement. Guidelines on asset allocation, investment portfolio limit structures and maturity profiles of assets are set, in order to ensure that sufficient funding is available to meet financial obligations as they fall due.

Maturity profiles

The table below summarises the maturity profile of the Company's outstanding claims liabilities based on the estimated timing of claims payments resulting from recognised insurance liabilities.

	Carrying amount £'000	Up to 1 year £'000	1-2 years £'000	2-5 years £'000	5-10 years £'000	Over 10 years £'000	Total £'000
31 December 2022							
Outstanding claims liabilities	-	-	-	-	-	-	-
Reinsurer's share of claims	-	-	-	-	-	-	-
	-	-	-	-	-	-	-
31 December 2021							
Outstanding claims liabilities	39,912	20,225	6,964	9,110	3,491	122	39,912
Reinsurer's share of claims	(13,174)			(13,174)			(13,174)
	26,738	20,225	6,964	(4,064)	3,491	122	26,738

The insurance liabilities as at 31 December 2022 are nil due to the Part VII transfer re Note 23.

25 Subsequent events after the reporting period

Subsequent to the period end, the Company sold the portfolio of bonds which were liquidated into cash equivalents in March 2023 recognising a realised gain on investments.

Subsequent to the period end, the UK pension scheme buy-out completed on 23 March 2023.

No other subsequent events occurred after year end that could materially impact the financial statements as of and for the year ended 31 December 2022.