USAA Limited

Annual Report and Financial Statements

31 December 2016

Registered Number 730577

USAA Limited

Strategic Report

The directors present their strategic report for the year ended 31 December 2016.

Principal activities and review of the business

The principal activity of the Company is the provision of motor and property insurance in the European Union to a defined customer base.

Results and performance

The results of the Company for the year are set out on pages 8 and 9, show a profit on ordinary activities after tax of £18,660k (2015: £10,955k). The shareholders' funds of the company total £76,312k (2015: £61,729k).

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

	2016 £'000	2015 £'000	Change %
Net written premiums	75,442	68,709	9.8%
Net earned premiums	69,875	67,698	3.2%
Net Incurred losses	40,708	41,905	(2.9%)
Net operating costs	16,017	17,440	(8.2%)
Underwriting result	14,321	8,375	71.0%
Profit after tax for the financial year (before release of equalisation provision)	17,528	10,955	60.0%
Profit after tax for the financial year (after release of equalisation provision)	18,660	10,955	70.3%
Shareholders' funds	76,312	61,729	23.6%
Net Loss ratio	58.3%	61.9%	(3.6%)
Net Combined ratio (before release of equalisation provision)	81.2%	87.7%	(6.5%)
Net Combined ratio (after release of equalisation provision)	79.5%	87.6%	(8.1%)

The Company ended the financial year with exceptional financial results. The impact of the UK referendum to leave the European Union 'Brexit' has had a positive impact on the financial results. The uncertainty following Brexit has caused Sterling to depreciate significantly against the US Dollar and the Euro. This has resulted in increased underwriting revenues, claims costs, investment income and favourable currency exchange gains.

USAA Limited's premiums are written in US Dollars and reported in Sterling. Net written premiums have increased by £6,733k, 9.8% in 2016 due to the strengthening of the US Dollar increasing Sterling premium income. The 3.2% increase in Sterling gross earned premiums has arisen from movements in US Dollar exchange rates over the rolling twelve month life cycle of policies earned during the year.

Net incurred losses have reduced by £1,197k, 2.9%. During the year, the Company benefited from favourable loss development on prior accident year motor liability claims provisions in the UK, Germany and Italy. This was offset to a large extent by by higher Euro claims costs from the strengthening of the Euro against Sterling, and the impact of the change in the Ogden discount rate from 2.5% to - 0.75% on 27 February 2017. The impact to USAA Limited is a £5,895k increase in the gross cost of UK motor bodily injury claims provisions, reduced to £895k on a net basis after reinsurance. The impact was considered material enough on a gross basis to warrant a post year end adjustment in the 2016 financial statements. Details on the Ogden rate adjustment can be found in Note 24.

Net operating costs have reduced by £1,423k, 8.2%. There two main drivers for the decrease are the significant reduction in Solvency II project costs since Solvency II was implemented on 1 January 2016, and a decrease in the current service cost of the UK defined benefit scheme due to closure of the scheme on 1 July 2016.

Results and performance(continued)

An equalisation provision has previously been recognised in accordance with the rules of the PRA handbook, and was required by Schedule 3 to the Regulations to be included within technical provisions. Solvency II has been implemented with effect from 1 January 2016 and there is no longer a requirement to hold an equalisation provision. Therefore it has been released in full in the 2016 financial year which increased profit before tax by £1,171k. Under transitional tax rules, the related tax charge has been spread over a six year period. The release of the equalisation provision after tax has increased profit by £1,132k.

In the non-technical account, investment income, unrealised and realised gains on investments combined with currency translation gains on the retranslation of US Dollar and Euro assets and liabilities amounted to £9,663k, which was a major contributor to the 70.3% increase in profit on ordinary activities after tax.

Shareholders' funds increased by 23.6% arising from increased profit earned in the year reduced by an actuarial loss of £4,077k (after tax) on the remeasurement of the UK and German defined benefit pension schemes. The actuarial loss is mainly caused by a fall in the discount rates used to value scheme liabilities. Further information on principal assumptions used to calculate the scheme liabilities can be found in Note 23.

Principal risks and uncertainties

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

The principal risks and uncertainties of the Company are broadly grouped as underwriting, military/political, competitive and technology. Additional risks commented on in this report relate to pension risk and Brexit.

Insurance risk

Insurance risk is a significant element of the Company's risk profile. This risk is driven by the long-tail bodily injury claims in the motor portfolio. Mitigations include controls around all components of the business (pricing, underwriting, coverage, claims and loss reserving) that could lead to unplanned increases in the likelihood and severity of losses. Reverse stress testing is regularly conducted to ensure that the company can absorb extreme losses from a single non catatsrophe event. Whilst the company's assureds are concentrated around military bases across Europe, there is no significant exposure to aggregation of risk to losses emanating from natural catastrophes. Nevertheless the potential exposure to these events is modelled and assessed as part of the Company's capital assessment.

The Company has a strong reinsurance programme in place to mitigate losses arising from the motor and property portfolios.

Military/political risk

Active duty members of the armed forces of the United States and their families living in the United Kingdom and Europe are the Company's core customer target segment. A material reduction in the size of military deployed in Europe as a result of political decisions around US Department of Defense budget could negatively impact the ability of the Company to achieve it's objectives. USAA Limited continually monitors the outlook regarding troop strengths in Europe and has contingency plans should troop numbers fall below a defined critical mass.

Competitve risks

The Company is subject to competition from international and domestic insurers in the United Kingdom and Europe. An increase in competition from domestic insurers in Europe could cause significant erosion in market share. Exchange rate movements can also affect the Company's competitive position given that premiums are paid in US dollars to reflect members salary payments. A strengthening of the dollar can adversely affect our competitive position compared to domestic insurers. Exchange rate fluctuations can also have significant impact to other areas on the income statement such as claims costs, expenses and investment returns.

The Company monitors strategic market share, exchange rates, and market stability on a frequent basis.

USAA Limited

Strategic Report

Principal risks and uncertainties (continued)

Technology and cyber risk

The ability to respond to technological developments which significantly change 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.

Pension Risk

The Company has recognised that the cost of maintaining final salary pension schemes for employees in London and Frankfurt was prohibitive given the increasing burden of funding these schemes. The Company has therefore mitigated this risk by moving to a defined contribution scheme in the UK in 2016 and closing the defined benefit scheme in Germany to new entrants. Additional work is being undertaken to optimise the investment strategies covering both schemes to blend capital efficiecy against projected growth.

Brexit

Given that the majority of the Company's portfolio is written in continental Europe on a freedom of services basis, the result of the UK referendum conducted in June 2016 has potentially significant negative implications for the Company. The Company has contingency plans in place if, as seems likely, the UK leaves the European Union with no passporting rights. This will require a significant restructuring of the Company and the need to redomicile a significant proportion of the business.

USAA Limited has an established risk management framework. It monitors its risks through risk appetites, risk policies, risk metrics and a variety of mitigation controls which are reviewed and updated annually.

By order of the Board

Simon Keith
Director

Date 17 May 2017

Registered Number 730577

Fitzwilliam House
10 St Mary Axe
London EC3A 8AE

USAA Limited

Directors' Report

The directors present their report and audited financial statements for the year ended 31 December 2016.

Directors and Directors' Interests

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

Alan Krapf (Resigned 14 December 2016)
Simon Keith
Michael Gaughan
Laura Bishop
Craig Scarr
Jennifer MacNaughton
Steven Wayne Peacock (Appointed 12 December 2016)

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 proposed and appreved an ordinary dividend of 19p per ordinary share amounting to £2,500,000 at the 31 March 2017 Board meeting.

Future developments

Immediate future developments are dictated by the outcome of Brexit negotiations between the UK government and the European Union. No significant changes are planned to the business model until the landscape becomes clearer.

Statement of Going Concern

The financial statements have been prepared on a going concern basis. In assessing whether the going concern basis is appropriate, the directors have considered the information contained in the financial statements, the latest business plan, profit forecasts and solvency calculations. The directors are satisfied that the company has adequate resources to continue in operational existence for the foreseeable future.

Political and charitable donations

The Company made no political or charitable donations during the year. (2015:£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.

USAA Limited

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). The financial statements are required by law to 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 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.

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 line with UK legislation, the Company is currently going through an audit tender process and expects to appoint an auditor at the 3 August 2017 Board meeting.

By order of the Board

Simon Keith
Director

Date 17 May 2017

Registered Number 730577

Fitzwilliam House
10 St Mary Axe
London EC3A 8AE

Independent Auditors' Report to the Members of USAA Limited

We have audited the financial statements of USAA Limited for the year ended 31 December 2016 which comprise the Income Statement, the Statement of Comprehensive Income, the Statement of Changes in Equity, the Statement of Financial Position, and the related notes 1 to 26. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS102 "The Financial Reporting standard applicable in the UK and Republic of Ireland" and FRS103 'Insurance Contracts'.

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.

Respective responsibilities of directors and auditors
As explained more fully in the Statement of Directors' Responsibilities set out on page 5, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements
An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report and Financial Statements to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements
In our opinion the financial statements:

* give a true and fair view of the state of the company's affairs as at 31 December 2016 and of its profit for the year then ended;

* have been properly prepared in accordance with the United Kingdom Generally Accepted Accounting Practice, including FRS 102 "The Financial Reporting standard applicable in the UK and Republic of Ireland" and FRS 103 'Insurance Contracts'; and

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

Opinion 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 Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

* the Strategic Report and Directors' Report for the financial year have been prepared in accordance with applicable legal requirements.

USAA Limited

Independent Auditors' Report to the Members of USAA Limited (continued)

Matters on which we are required to report by exception

In light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have indentified no material misstatements in the Strategic Report or Directors' Report.

We have nothing to report in respect of the following matters where 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.

Ernst & Young LLP

Ed Jervis (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
17th May 2017

USAA Limited

Income Statement

Technical Account - General Business

For the year ended 31 December 2016

	Note	2016 £'000	2015 £'000
Gross premiums written	2	83,558	76,152
Outward reinsurance premiums		(8,116)	(7,443)
Net written premiums		75,442	68,709
Change in the provision for unearned premiums			
Gross amount	17	(5,563)	(742)
Reinsurer's share	17	(4)	(269)
Earned premiums, net of reinsurance		69,875	67,698
Claims incurred, net of reinsurance			
Claims paid			
Gross amount	18	(46,286)	(44,210)
Reinsurer's share	18	1,886	-
		(44,400)	(44,210)
Change in the claims outstanding			
Gross amount		1,223	1,696
Reinsurer's share		2,469	609
Claims incurred, net of reinsurance		(40,708)	(41,905)
Net operating expenses	4	(16,017)	(17,440)
Change in the equalisation provision	16	1,171	22
Total claims and expenses		(55,554)	(59,323)
Balance on the technical account - general business		14,321	8,375

The notes on pages 14 to 41 are an integral part of the financial statements.

USAA Limited

Income Statement

Non-Technical Account

For the year ended 31 December 2016

	Note	2016 £'000	2015 £'000
Balance on the technical account - general business		14,321	8,375
Investment income	*3*	3,652	3,437
Realised gains/(losses) on investments	*3*	991	(2,643)
Unrealised gains/(losses) on investments	*3*	1,255	(1,657)
Currency translation differences		3,765	6,617
Other income	*3*	3	9
Finance cost	*23*	107	(76)
Profit on ordinary activities before tax		24,094	14,062
Tax on profit on ordinary activities	*8*	(5,434)	(3,107)
Profit for the financial year		18,660	10,955

All results are derived from continuing operations.

The notes on pages 14 to 41 are an integral part of the financial statements.

USAA Limited

Statement of Comprehensive Income

For the year ended 31 December 2016

	Note	2016 £'000	2015 £'000
Profit for the financial year		18,660	10,955
Re-measurement of net defined benefit pension surplus/(deficit)		(4,796)	4,644
Tax relating to re-measurement of net defined benefit pension surplus/(deficit)	*8*	719	
Total comprehensive income for the year		14,583	15,599

The notes on pages 14 to 41 are an integral part of the financial statements.

USAA Limited

Statement of Changes in Equity
as at 31 December 2016

	Note	2016 Called up share capital £'000	Share premium account £'000	Retained earnings £'000	Total £'000
At 1 January		13,100	348	48,281	61,729
Total profit for the year		-	-	18,660	18,660
Re-measurement of net defined benefit pension surplus/(deficit) after tax	23	-	-	(4,077)	(4,077)
At 31 December		13,100	348	62,864	76,312

	Note	2015 Called up share capital £'000	Share premium account £'000	Retained earnings £'000	Total £'000
At 1 January		10,000	348	33,773	44,121
Total profit for the year		-	-	10,955	10,955
Shares issued for cash		3,100	-	-	3,100
Reserve movement in respect of German transfer		-	-	(1,091)	(1,091)
Re-measurement of net defined benefit pension surplus/(deficit)	23	-	-	4,644	4,644
At 31 December		13,100	348	48,281	61,729

The notes on pages 14 to 41 are an integral part of the financial statements.

USAA Limited

Statement of Financial Position
as at 31 December 2016

	Note	2016 £'000	2015 £'000
Assets			
Intangible assets	12	-	476
Investments			
Financial investments	11	129,122	113,772
Reinsurer's share of technical provisions			
Provision for unearned premiums	17	-	4
Claims outstanding	18	9,042	6,592
		9,042	6,596
Debtors			
Debtors arising out of direct insurance operations	13	49,178	41,017
Other debtors		550	271
Deferred tax asset	8	265	347
		49,993	41,635
Other assets			
Tangible assets	14	612	244
Cash and cash equivalents	15	20,693	15,128
		21,305	15,372
Prepayments and accrued income			
Accrued interest and rent		1,129	1,201
Other prepayments and accrued income		231	260
		1,360	1,461
Net pension assets	23	1,163	1,734
Total Assets		211,985	181,046

The notes on pages 14 to 41 are an integral part of the financial statements.

USAA Limited

Statement of Financial Position (continued)

as at 31 December 2016

	Note	2016 £'000	2015 £'000
Equity and Liabilities			
Shareholders' equity			
Called up share capital	*9*	13,100	13,100
Share premium account		348	348
Profit and loss account		62,864	48,281
Total capital and reserves		76,312	61,729
Liabilities			
Technical provisions			
Provision for unearned premiums	*17*	48,389	40,545
Claims outstanding	*18*	81,074	73,091
Equalisation provision	*16*	-	1,171
		129,463	114,807
Provisions for other risks			
Provisions for deferred taxation	*8*	364	347
Creditors			
Creditors arising out of direct insurance operations	*19*	402	388
Other creditors including taxation and social security	*20*	3,610	2,298
		4,012	2,686
Accruals and deferred income		1,689	1,477
Net pension liability	*23*	145	-
Total equity and liabilities		211,985	181,046

The notes on pages 14 to 41 are an integral part of the financial statements.

These financial statements on pages 8 to13 were approved by the Board of Directors on 17 May 2017 and were signed on its behalf by:

Simon Keith
Director

USAA Limited

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 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 and the defined benefit pension which is measured under the projected unit credit method. All activities derive from continuing activities.

1.2 Basis of Preparation

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 Services Automobile Association whose statutory accounts are publicly available as stated in Note 25;

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

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

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 balance sheet date and the amounts reported for revenues and expenses during the year. The use of estimation and judgments 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, disclosed in Note 1.4.

1.4 Significant accounting policies

The prinicipal 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 remeasurement of initial premium. Gross written premiums are stated gross of commissions, with adjustments for policyholder discounts on motor premiums.

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 premiums. 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 claim 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 balance sheet date whether reported or not, together with related claims handling expenses. All loss data is presented net of 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.

Notes to the Financial Statements

1.4 Significant accounting policies

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.

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 balance sheet 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 ocurrs 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.

Insurance receivables

Insurance receivables are recognised when due and are measured on initital 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, with the impairment loss recognised in the technical account - general business.

Insurance payables

Insurance payables are recognised when due and are measured on initital recognition at the fair value of the 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.

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.

USAA Limited

Notes to the Financial Statements

1.4 Significant accounting policies

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 balance sheet 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 provide 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 2017, paying fixed contributions into a seperate 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.

1.4 Significant accounting policies

Foreign currency

The Company's functional and presentational currency is sterling.

Transactions denominated in currencies othan 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 balance sheet 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.

Intangible Assets

The intangible asset for the purchase of renewal rights of the parent company's existing motor insurance business in Germany has been stated at cost. Amortisation is calculated on a straight line method, to allocate the depreciable amount of the asset over its estimated useful life. The estimated useful life of the asset is deemed to be 3 years.

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 income statement.

Cash and cash equivalents

Cash and cash equivalents in the balance sheet 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.

Financial liabilities

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

Notes to the Financial Statements

1.4 Significant accounting policies

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 balance sheet date and their fair value at the last balance sheet date, together with the reversal of unrealised gains and losses recognised in earlier accounting periods in respect of investment disposals in the current period.

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 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 balance sheet 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.

Notes to the Financial Statements

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
2016					
Gross premiums written					
UK	4,699	7,892	1,471	582	14,644
Belgium	1,451	478	214	83	2,226
Germany	22,892	17,430	3,694	1,617	45,633
Italy	8,079	7,697	1,062	449	17,287
Netherlands	491	188	93	38	810
France	48	-	64	23	135
Portugal	75	47	23	10	155
Spain	1,162	838	239	103	2,342
Greece	102	177	33	14	326
	38,999	34,747	6,893	2,919	83,558
Gross premiums earned	37,678	31,023	6,479	2,815	77,995
Gross claims incurred	(18,742)	(22,365)	(2,843)	(1,113)	(45,063)
Gross operating expenses	(7,736)	(6,374)	(1,329)	(577)	(16,016)
Reinsurance balance	(3,108)	90	(518)	(225)	(3,761)

	£'000	£'000	£'000	£'000	£'000
2015					
Gross premiums written					
UK	4,016	6,460	1,367	559	12,402
Belgium	1,381	440	206	82	2,109
Germany	24,825	13,800	3,381	1,544	43,550
Italy	6,645	6,677	929	425	14,676
Netherlands	449	166	86	34	735
France	36	-	60	22	118
Portugal	90	64	31	15	200
Spain	1,027	730	211	96	2,064
Greece	93	163	29	13	298
	38,562	28,500	6,300	2,790	76,152
Gross premiums earned	38,754	27,819	6,090	2,746	75,409
Gross claims incurred	(15,836)	(23,979)	(2,427)	(272)	(42,514)
Gross operating expenses	(8,825)	(6,523)	(1,447)	(645)	(17,440)
Reinsurance balance	(4,317)	(3,191)	(708)	(315)	(8,531)

Notes to the Financial Statements

3. Investment return

	Non Technical account General business	
	2016	2015
	£'000	£'000
Investment Income		
Income from financial investments at fair value through profit and loss	3,637	3,408
Income from other financial investments	18	29
Net gains on realisation of investments	991	-
Net unrealised gains on investments	1,255	-
Net income from defined benefit pension scheme	107	-
Total Investment income	6,008	3,437
Investment expenses and charges		
Net losses on realisation of investments	-	(2,643)
Net unrealised losses on investments	-	(1,657)
Net cost of defined benefit pension scheme	-	(76)
Total Investment expenses and charges	-	(4,376)
Total Investment return	6,008	(939)

Gains arising on translation of monetary assets and liabilities at the reporting date of £3,765k (2015: £6,617k) are included in other income in the non-technical account.

4. Expenses

Net operating expenses

	Technical account General business	
	2016	2015
	£'000	£'000
Administrative expenses	16,017	17,440
Included in administrative expenses are :		
Staff costs	8,499	8,563
Depreciation of tangible fixed assets	228	165
Operating lease rentals	834	617
Amortisation of intangible assets	476	477

5. Staff costs and directors' remuneration

(a) Staff costs	2016 £'000	2015 £'000
Wages and salaries	6,259	5,921
Social security costs	854	757
Other pension costs	1,386	1,885
	8,499	8,563

All pension costs are in respect of defined benefit schemes.

The average number of employees of the company during the year were as follows:

	2016	2015
Administration and finance	20	20
Sales and underwriting	49	51
Claims	43	43
Other	2	2
	114	116

(b) Directors' remuneration

	2016 £'000	2015 £'000
Aggregate remuneration in respect of qualifying services	355	299
Aggregate amounts receivable under long-term incentive scheme	40	19

	2016 No.	2015 No.
Number of directors accruing benefits under the defined benefit pension scheme.	1	1

	2016 £'000	2015 £'000
In respect of the highest paid director:		
Aggregate renumeration	320	259
Accrued pension at the end of the year	7	5

6. Auditors' remuneration

	2016 £'000	2015 £'000
Audit of the financial statements	88	78
Fees payable to the company's auditor for other services:		
Audit of pension scheme	12	8
Other services pursuant to legislation	60	26
	160	112

USAA Limited

Notes to the Financial Statements

7. Related Party Transactions

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

8. Taxation

(a) Tax on profit on ordinary activities

The tax charge is made up as follows:	**2016** **£'000**	**2015** **£'000**
Current taxation		
UK corporation tax at 20% (2015: 20.25%)	4,432	2,320
Adjustments in respect of prior years	429	3
Foreign taxation	311	257
Total current taxation	5,172	2,580
Deferred taxation		
Origination and reversal of timing differences	262	527
Effect of change in tax rates	-	-
Total deferred tax charged	262	527
Tax on profit on ordinary activities	5,434	3,107
Tax included in the statement of comprehensive income		
The tax credit is made up as follows:		
Actuarial loss on pension schemes	(556)	-
Origination and reversal of timing differences	(163)	-
Total tax credit	(719)	-

(b) Factors affecting the total tax charge	**2016** **£'000**	**2015** **£'000**
Profit on ordinary activities before tax	24,094	14,062
Tax at 20% (2015: 20.25%)	4,819	2,848
Expenses not deducted for tax purposes	100	105
Unrelieved foreign tax expense	121	94
Movement in unprovided deferred tax	-	57
Prior year adjustment - current tax	429	3
Effect of rate change	(33)	-
Other unexplained difference	(2)	-
	5,434	3,107

8. Taxation (continued)

(c) Deferred tax

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

Deferred tax asset

	2016 £'000	2015 £'000
Deferred tax asset at the start of the year	347	527
Deferred tax charge to the income statement	(82)	(180)
Deferred tax asset at the end of the year	265	347

Deferred tax asset at the end of the year is made up of:

	2016 £'000	2015 £'000
Excess depreciation over capital allowances	(68)	2
Provision for future claims management costs	308	402
Deferred tax on pension movements	25	-
Other timing differences	-	-
Deferred tax asset at the end of the year	265	404
Of which deferred tax asset recognised	265	347
Of which deferred tax asset unrecognised	-	57

Deferred tax liability

	2016 £'000	2015 £'000
Deferred tax liability at the start of the year	347	-
Deferred tax charge to the income statement	180	347
Deferred tax credit to other comprehensive income	(163)	-
Deferred tax liability at the end of the year	364	347

Deferred tax liability at the end of the year is made up of:

	2016 £'000	2015 £'000
Deferred tax on pension movements	198	347
Deferred tax on release of equalisation provision	166	-
Deferred tax liability at the end of the year	364	347
Of which deferred tax liability recognised	364	347

On 15 September 2016, the UK Finance (No 2) Act 2016 received Royal Assent, passing into law a number of tax measures announced in the UK Budget. In accordance with these measures, the UK rate of corporation tax will reduce to 19% with effect from 1 April 2017 and to 17% with effect from 1 April 2020. The future tax rate of 17% (2015: 18%) has been used to calculate the recognised and unrecognised deferred tax asset and deferred tax liability at the balance sheet date.

9. Authorised and allotted share capital

	2016 £'000	2015 £'000
Authorised		
13,100,000 Ordinary shares of £1 each (2015: 13,100,000)	13,100	13,100
Allotted,called up and fully paid		
13,100,000 Ordinary shares of £1 each (2015: 13,100,000)	13,100	13,100

10. Dividends and other appropriations

	2016 £'000	2015 £'000
Proposed for approval by the Board of Directors		
Ordinary dividend for 2016: 0.19p (2015: 0)	2,500	-

Subject to approval by the Board of Directors at the Board meeting on 31 March 2017 the proposed dividend will be paid to the parent company on 1 April 2017, and will be accounted as an appropriation of retained earnings in the year ended 31 December 2017.

11. Financial Investments

	2016		2015	
	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	129,122	119,907	113,772	114,688

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

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
31-Dec-16				
Debt Securities and other fixed income securities	-	129,122	-	129,122
	£'000	£'000	£'000	£'000
31-Dec-15				
Debt Securities and other fixed income securities	-	113,772	-	113,772

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. Intangible Assets

	Renewal Rights £'000
Cost	
At the beginning of year	1,430
Acquisition of renewal rights	-
At the end of year	1,430
Amortisation	
At the beginning of year	954
Provided during the year	476
At the end of year	1,430
Net book value	
At 31 December 2016	-
At 31 December 2015	476

13. Debtors arising out of direct insurance operations

	2016 £'000	2015 £'000
Amounts owed by policyholders	43,839	36,525
Amounts owed by group undertakings	5,339	4,492
	49,178	41,017

14. Tangible Assets

	Leasehold Improve -ments £'000	Fixtures fittings and motor equipment £'000	Total £'000
Cost			
At the beginning of year	779	1,127	1,906
Additions	344	253	597
Disposals	-	(20)	(20)
At the end of year	1,123	1,360	2,483
Depreciation			
At the beginning of year	779	883	1,662
Charge in year	40	189	229
Disposals	-	(20)	(20)
At the end of year	819	1,052	1,871
Net book value			
At 31 December 2016	304	308	612
At 31 December 2015	-	244	244

Notes to the Financial Statements

15. Cash and cash equivalents

	2016 £'000	2015 £'000
Cash and cash equivalents comprise the following:		
Cash at bank and in hand	6,132	2,309
Short-term deposits with credit institutions	14,561	12,819
	20,693	15,128

16. Equalisation Provision

An equalisation provision has previously been recognised in accordance with the rules of the PRA handbook, and was required by Schedule 3 to the Regulations to be included within technical provisions. Solvency II has been implemented with effect from 1 January 2016 and there is no longer a requirement to hold an equalisation provision. It has therefore been released in full in the 2016 financial year.

The release of the equalisation provision during the year was £1,171k which has been taken to the Income statement technical account and thereby increases profit before tax.

17. Provisions for unearned premiums

	Gross £'000	Reinsurers' share £'000	Net £'000
At 1 January 2016	40,545	(4)	40,541
Premiums written in the year	83,558	-	83,558
Premiums earned in the year	(77,995)	4	(77,991)
Foreign exchange	2,281	-	2,281
At 31 December 2016	48,389	-	48,389

	Gross £'000	Reinsurers' share £'000	Net £'000
At 1 January 2015	40,852	(282)	40,570
Premiums written in the year	76,152	(7,443)	68,709
Premiums earned in the year	(75,410)	7,712	(67,698)
Foreign exchange	(1,049)	9	(1,040)
At 31 December 2015	40,545	(4)	40,541

Notes to the Financial Statements

18. Claims outstanding

	Gross £'000	Reinsurers' share £'000	Net £'000
At 1 January 2016	73,091	(6,592)	66,499
Claims incurred in current accident year	56,802	(1,776)	55,026
Claims incurred in current prior years	(11,740)	(2,579)	(14,319)
Claims paid during the year	(46,286)	1,886	(44,400)
Foreign exchange	9,207	19	9,226
At 31 December 2016	81,074	(9,042)	72,032

Salvage and subrogation recoverable of £1,596,022 (2015: £1,428,151) has been deducted from the provision for outstanding claims.

	Gross £'000	Reinsurers' share £'000	Net £'000
At 1 January 2015	64,827	(5,420)	59,407
Germany portfolio transfer	13,014	(677)	12,337
Claims incurred in current accident year	48,159	(593)	47,566
Claims incurred in current prior years	(5,645)	(16)	(5,661)
Claims paid during the year	(44,210)	-	(44,210)
Foreign exchange	(3,054)	114	(2,940)
At 31 December 2015	73,091	(6,592)	66,499

19. Creditors arising out of direct insurance operations

	2016 £'000	2015 £'000
Amounts owed to policyholders	402	388

20. Other Creditors including Taxation and Social Security

	2016 £'000	2015 £'000
Corporation tax payable	2,189	1,527
Other creditors	1,421	771
	3,610	2,298

Notes to the Financial Statements

21. Operating Lease Commitments

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

	2016 £'000	2015 £'000
Not later than one year	826	89
Later than one year and not later than five years	3,339	-
Later than five years	2,821	128
	6,986	217

The Company renewed the UK office lease for a further 10 years on 8 March 2016 which includes a 9 month rent-free period in 2016.

22. Cash Flow Statement

As the Company is a wholly owned subsidiary of United Services Automobile Association, whose statutory accounts are publicly available as stated in Note 25, the Company has taken advantage of the exemption contained in FRS 102.

23. Pension Schemes

Defined benefit scheme

The Company operates 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 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 members who remain in employment with the Company retain the link to their pensionable salary.

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').

The last funding valuation of the UK Scheme was carried out by a qualified actuary as at 1 April 2016 and contributions of £600k are expected to be paid by the Company to the UK Scheme during the year ended 31 December 2017, which has been agreed following the 2016 funding valuation.

The balance sheet date figures have been calculated using a full valuation at 31 December 2016. The present value of the defined benefit obligation was measured using the Projected Unit Credit Method.

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

A valuation of the German Scheme was carried out by a qualified actuary on 31 December 2016 on an FRS102 valuation basis. The German Scheme went into deficit during the year due to a fall in discount rates. As a result a one off contribution payment of £1,705k was paid into the Scheme. Discount rates picked up at the end of the year pushing the German Scheme back into a surplus position.

USAA Limited

Notes to the Financial Statements

23. Pension Schemes (continued)

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

a) Main financial assumptions

UK Scheme:

	2016	2015
	%	%
Rate of increase in salaries	3.15	3.10
Rate of increase in pensions in payment and deferred pensions	4.20	4.25
Discount rate applied to scheme liabilities	2.70	3.75
RPI Inflation	3.25	3.20
CPI Inflation	2.15	2.10

German Scheme:

	2016	2015
	%	%
Rate of increase in salaries	2.75	2.75
Rate of increase in pensions in payment and deferred pensions	1.75	1.75
Discount rate applied to scheme liabilities	1.72	2.50
Inflation assumption	2.00	2.00

b) Main demographic assumptions

UK Scheme:

	2016	2015
Mortality	100% of the S2PxA Light tables with improvements in line with the CMI Mortality Projections Model released with Working Paper 91 and a long-term rate of improvement of 1.25% pa	100% of the S2PxA Light tables with improvements in line with the CMI 2015 core projections and a long-term rate of improvement of 1.25% pa
Life expectancy for male currently age 65	23.4 years	23.3 years
Life expectancy for female currently age 65	24.4 years	24.4 years
Life expectancy at 65 for male currently age 45	24.6 years	24.9 years
Life expectancy at 65 for female currently age 45	25.9 years	26.2 years
Cash commutation	On average, members take 22.5% of pension as cash at retirement based on the cash commutation factors currently in force.	On average, members take 18% of pension as cash at retirement based on the cash commutation factors currently in force.

German Scheme:

	2016
Mortality	'Richttafeln 2005 G' of Dr. Klaus Heubeck

Notes to the Financial Statements

23. Pension Schemes (continued)

(c) Scheme asset allocation

UK Scheme:	2016 £'000	%	2015 £'000	%
Equities	13,787	62.0%	11,423	72.6%
Gilts	6,863	30.8%	701	4.5%
Corporate bonds	520	2.3%	1,244	7.9%
Property	-	0.0%	212	1.3%
Annuities	1,080	4.9%	917	5.8%
Cash	1	0.0%	1,245	7.9%
Total	22,251	100.0%	15,742	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:	2016 £'000	%	2015 £'000	%
Allianz Mutual investment funds	15,148	100.0%	10,822	100.0%

(d) Reconciliation of funded status to balance sheet

UK Scheme:	2016 £'000	2015 £'000
Fair value of assets	22,251	15,742
Present value of funded defined benefit obligations	(22,396)	(15,434)
Asset/(liability) recognised on the balance sheet	(145)	308

German Scheme:	2016 £'000	2015 £'000
Fair value of assets	15,148	10,822
Present value of funded defined benefit obligations	(13,985)	(9,396)
Asset/(liability) recognised on the balance sheet	1,163	1,426

(e) Amounts recognised in income statement

UK Scheme:	2016 £'000	2015 £'000
Operating cost:		
Current service cost	482	1,256
Financing cost:		
Interest on net defined benefit liability/(asset)	(64)	90
	418	1,346

USAA Limited

Notes to the Financial Statements

23. Pension Schemes (continued)

German Scheme:

	2016 £'000	2015 £'000
Operating cost:		
Current service cost	653	629
Financing cost:		
Interest on net defined benefit liability/(asset)	(43)	(14)
	610	615

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

UK Scheme:

	2016 £'000	2015 £'000
Asset gains/(losses) arising during the year	2,793	(171)
Liability gains/(losses) arising during the year	(5,973)	3,484
Actuarial (loss)/gain recognised in statement of total recognised gains and losses	(3,180)	3,313

German Scheme:

	2016 £'000	2015 £'000
Asset gains/(losses) arising during the year	628	(289)
Liability gains/(losses) arising during the year	(2,244)	1,620
Actuarial (loss)/gain recognised in statement of total recognised gains and losses	(1,616)	1,331

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

UK Scheme:

	2016 £'000	2015 £'000
Opening defined benefit obligation (DBO)	15,434	17,102
Current service cost	482	1,256
Interest expense on DBO	577	615
Actuarial (gains)/losses on liabilities	5,973	(3,484)
Net benefits paid out	(70)	(55)
Closing defined benefit obligation	22,396	15,434

German Scheme:

	2016 £'000	2015 £'000
Defined benefit obligation (DBO)	9,396	10,779
Current service cost	653	629
Interest expense on DBO	279	211
Actuarial (gains/losses on liabilities	2,244	(1,620)
Net benefits paid out	(18)	(12)
Foreign exchange movements	1,431	(591)
Closing defined benefit obligation	13,985	9,396

Notes to the Financial Statements

23. Pension Schemes (continued)

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

UK Scheme:

	2016 £'000	2015 £'000
Opening fair value of Scheme assets	15,742	13,777
Interest income on Scheme assets	641	525
Gain/(loss) on Scheme Assets	2,793	(171)
Contributions by the company	3,145	1,666
Net benefits paid out	(70)	(55)
Closing fair value of Scheme assets	22,251	15,742

German Scheme:

	2016 £'000	2015 £'000
Opening fair value of Scheme assets	10,822	11,485
Interest income on Scheme assets	322	225
Gain/(loss) on Scheme Assets	628	(289)
Contributions by the company	1,722	12
Net benefits paid out	(18)	(12)
Foreign exchange movements	1,672	(599)
Closing fair value of Scheme assets	15,148	10,822

(i) Actual return on Scheme assets

UK Scheme:

	2016 £'000	2015 £'000
Interest income on Scheme assets	641	525
Gain/(loss) on Scheme Assets	2,793	(171)
Actual return on Scheme assets	3,434	354

German Scheme:

	2016 £'000	2015 £'000
Interest income on Scheme assets	322	225
Gain/(loss) on Scheme Assets	628	(289)
Actual return on Scheme assets	950	(64)

Notes to the Financial Statements

23. Pension Schemes (continued)

Defined contribution plan

The Company opened a defined contribution plan for UK employees on 1July 2017. The total expenses relating to this plan in the current year was £251k.

24. Events after the reporting period

On 27 February 2017, the Lord Chancellor announced the change in Ogden discount rates, which reduced from 2.5% to -0.75%. The Ogden discount rate is used to take into account investment returns that a claimant could earn by investing lump-sum claims proceeds. A higher discount rate reflects potential investment return, the reduction in Ogden rate therefore assumes a lower potential investment return available to claimants, which is compensated for by increasing the lump-sum claims proceeds they receive. As a result of this change, USAA Limited performed an analysis to assess the exposure to the Ogden rate change. Following this analysis, it was concluded that six claims were impacted increasing the gross claims outstanding reserves by £5,895k and the reinsurers' share by £5,000k with a net impact of £895k. An adjustment has been made to technical provision and the reinsurers' share of technical provisions to reflect these increases.

25. Ultimate Control

The ultimate parent company is deemed to be United Services Automobile Association, which is registered in Texas, United States of America. The 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 consolidated group accounts may be obtained from USAA Building, Fredericksburg Road, San Antonio,Texas 78288.

26. Risk Management

(a) Governance framework

The primary objective of the 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 Ltd 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, and policies are assessed for their design and effectiveness.

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 ensure the appropriate quality and diversification of assets, align underwriting and reinsurance strategy to the processes to corporate goals, and specify reporting requirements. Significant emphasis is placed on assessment and documentation of risks and controls, including effectively challenging 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 appetities 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).

The table below shows the Company's unaudited Solvency II capital position as at 31 December 2016

	2016
	£'000
Available capital	79,371
Solvency capital requirement (SCR)	(46,623)
Excess available capital	32,748

26. Risk Management (continued)

(c) Insurance risk

The principal risk that the Company faces under insurance contracts is that insured events occur and the uncertainty of the amounts and timing of resulting claims. The Company is 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 is to ensure that sufficient reserves are available to cover these liabilities.

The risk exposure is mitigated by diversification of its portfolio of insurance contracts over geographical areas across Europe. The variability of risks is also improved by careful selection and implementation of underwriting strategy 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.

The Company has two reinsurance contracts as part of its risks mitigation programme. The external reinsurance is a motor liability excess of loss treaty with a retention of €2.5m which covers motor unlimited liability business in the UK and Belgium and liabilty limits in other European locations. For UK losses occurring after 1 January 2016 the retention on UK liability limits changed to £1,748k. The majority of the Company's residual risk is covered by a non-proportional stop loss reinsurance treaty with its parent company. Under this treaty an annual underwriting loss is limited to £1m up to a maximum limit of £25m.

Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision and are in accordance with the reinsurance contracts. Although the Company has reinsurance arrangements, it is not relieved of its direct obligations to its policyholders and thus a credit exposure exists with respect to reinsurance, to the extent that any reinsurer is unable to meet its obligations assumed under such reinsurance agreements.

The Company principally issues the following types of general insurance contracts: motor vehicle liability, other motor, fire & other property, and general liability. Risks usually cover twelve months duration.

The table below sets out the concentration of outstanding claims liabilities by type of contract:

	31 December 2016			31 December 2015		
	Gross liabilities	**Re-insurance of liabilities**	**Net liabilities**	**Gross liabilities**	**Re-insurance of liabilities**	**Net liabilities**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Other motor	3,236	-	3,236	2,842	-	2,842
Motor vehicle liability	75,576	(9,042)	66,534	68,055	(6,592)	61,463
Property	989	-	989	988	-	988
General Liability	1,273	-	1,273	1,206	-	1,206
Total	81,074	(9,042)	72,032	73,091	(6,592)	66,499

Notes to the Financial Statements

(c) Insurance risk (continued)

The geographical concentration of the outstanding claim liabilities is noted below. The disclosure is based on the countries where business is written.

	31 December 2016			31 December 2015		
	Gross liabilities	**Re-insurance of liabilities**	**Net liabilities**	**Gross liabilities**	**Re-insurance of liabilities**	**Net liabilities**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
UK	25,529	(6,118)	19,411	24,390	(5,322)	19,068
EEA	55,545	(2,924)	52,621	48,701	(1,270)	47,431
Total	81,074	(9,042)	72,032	73,091	(6,592)	66,499

Key assumptions

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 claim costs, claim handling costs, claim inflation factors and claim numbers for each accident year. Additional qualitative judgements are used to assess the extent to which past trends may not apply in the future, for example, one off occurrences and changes in market factors such as economic conditions. Judgement is also used to assess the extent to which external factors such as judicial decisions and government legislation affect the estimates.

Other key circumstances affecting the reliability of assumptions include variation in interest rates, delays in settlement and changes in foreign currency rates.

Sensitivities

The claim liabilities are sensitive to the key assumptions that follow. It has not been possible to quantify the sensitivity of certain assumptions such as legislative changes or uncertainty in the estimation process.

The following analysis is performed for reasonably possible movements in key assumptions with all other assumptions held constant, showing the impact on gross and net liabilities, profit before tax and equity.

31 December 2016	**Change in assump-tions**	**Impact on gross liabilities**	**Impact on net liabilities**	**Impact on profit before tax**	**Impact on equity**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
Average claim cost	10%	8,051	7,147	(7,147)	(5,718)
Average number of claims	10%	8,051	7,147	(7,147)	(5,718)

31 December 2015	**Change in assump-tions**	**Impact on gross liabilities**	**Impact on net liabilities**	**Impact on profit before tax**	**Impact on equity**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
Average claim cost	10%	6,884	6,224	(6,224)	(4,964)
Average number of claims	10%	6,884	6,224	(6,224)	(4,964)

Notes to the Financial Statements

(c) Insurance risk (continued)

Claims development table

The following table shows the estimates of cumulative incurred claims, including both claims notified and IBNR for each successive accident year at each reporting date on a gross basis, together with cumulative payments to date. The cumulative claims estimates and cumulative payments are translated to sterling at the rate of exchange that applied at the end of the accident year. The impact of exchange differences is shown at the bottom of the table.

The Company has taken advantage of the transitional rules of FRS103 that permit only five years of information to be disclosed upon adoption.

Gross insurance contract outstanding claims provision as at 31 December 2016:

Accident year	**2011** **£'000**	**2012** **£'000**	**2013** **£'000**	**2014** **£'000**	**2015** **£'000**	**2016** **£'000**	**Total**
Estimate of cumulative claims incurred							
At end of accident year	35,061	33,471	35,482	40,185	56,525	52,700	
One year later	32,819	40,655	32,646	36,763	53,756		
Two years later	32,207	38,634	31,385	34,003			
Three years later	31,960	36,508	28,133				
Four years later	30,885	31,180					
Five years later	28,793						
Current estimate of cumulative claims incurred	28,793	31,180	28,133	34,003	53,756	52,700	
Cumulative claims paid							
At end of accident year	(16,199)	(16,011)	(16,307)	(18,153)	(25,654)	(25,529)	
One year later	(22,712)	(23,067)	(23,268)	(26,538)	(34,007)		
Two years later	(24,359)	(25,487)	(25,136)	(26,371)			
Three years later	(26,398)	(26,893)	(24,612)				
Four years later	(27,615)	(27,460)					
Five years later	(26,118)						
Cumulative payments to date	(26,118)	(27,460)	(24,612)	(26,371)	(34,007)	(25,529)	
	2,675	3,720	3,521	7,632	19,749	27,171	64,468
Total gross outstanding claims provision pre-2011							16,606
Total gross outstanding claims provision per the statement of financial position	2,675	3,720	3,521	7,632	19,749	27,171	81,074

Notes to the Financial Statements

(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 fulfill 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 are 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 is 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 manages its interest rate risk through the choice of a benchmark used in its investment guidelines. This benchmark is reviewed annually to ensure it is effective and appropriate. The investment guidelines address both market and credit risk in the investment portfolio and contain restrictions which enable the company to control its exposure to credit and market risk.

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 2016	**Neither past due nor impaired**	**Past due**	**Impaired**	**Total**
	£'000	**£'000**	**£'000**	**£'000**
Financial investments - debt	129,122	-	-	129,122
Deposits with credit institutions	14,561	-	-	14,561
Reinsurers' share of claims outstanding	9,042	-	-	9,042
Debtors arising out of direct insurance operations	49,178	-	-	49,178
Other debtors	550	-	-	550
Cash at bank and in hand	6,132	-	-	6,132
	208,585	-	-	208,585

(d) Financial risk (continued)

Credit risk and market risk (continued)

31 December 2015	Neither past due nor impaired £'000	Past due £'000	Impaired £'000	Total £'000
Financial investments - debt	113,772	-	-	113,772
Deposits with credit institutions	12,819	-	-	12,819
Reinsurers' share of claims outstanding	6,592	-	-	6,592
Debtors arising out of direct insurance operations	41,017	-	-	41,017
Other debtors	271	-	-	271
Cash at bank and in hand	2,309	-	-	2,309
	176,780	-	-	176,780

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 2016	AAA £'000	AA £'000	A £'000	BBB £'000	BB £'000	Not rated £'000	Total £'000
Financial investments - debt	5,156	37,768	37,279	40,764	377	7,778	129,122
Deposits with credit institutions	-	-	14,561	-	-	-	14,561
Reinsurers' share of claims outstanding	-	-	4,042	-	-	-	4,042
Cash at bank and in hand	1	0	6,131	-	-	-	6,132
	5,157	37,768	62,013	40,764	377	7,778	153,857

31 December 2015	AAA £'000	AA £'000	A £'000	BBB £'000	BB £'000	Not rated £'000	Total £'000
Financial investments - debt securities	27,458	11,396	31,486	36,233	-	7,199	113,772
Deposits with credit institutions	-	-	-	-	-	-	0
Reinsurers' share of claims outstanding	-	-	6,592	-	-	-	6,592
Cash at bank and in hand	-	3,069	12,059	-	-	-	15,128
	27,458	14,465	50,137	36,233	0	7,199	135,492

USAA Limited

Notes to the Financial Statements

(d) Financial risk (continued)

Credit risk and market risk

A significant part of market risk that the Company is 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 is exposed to currency risk as it underwrites its premiums in US dollars and pays it claims and expenses in Sterling and Euros. It also holds assets and liabilities in both US dollars and Euros. The Company seeks to mitigate its foreign exchange risk by matching the estimated foreign currency denominated liabilities with assets denominated in the same currency.

The table below summarises the exposure of the financial assets and liabilities to foreign currency exchange risk at the reporting date, as follows:

	31 December 2016		31 December 2015	
	Euro exposure £'000	US dollar exposure £'000	Euro exposure £'000	US dollar exposure £'000
Financial investments	6,113	2,799	377	965
Premium receivable debtors	-	6,553	-	1,272
Reinsurer's share of technical provisions	(19)	-	(114)	(9)
Germany pension scheme asset	242	-	-	-
Cash at bank	(445)	10	27	(4)
	5,891	9,362	290	2,224
Provision for claims outstanding	(9,207)	-	3,064	-
Provision for unearned premiums	-	(2,281)	0	1,049
	(9,207)	(2,281)	3,064	1,049
Total foreign exchange movements	(3,316)	7,081	3,354	3,273

(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.

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.

A sound contingency funding plan is in place in the event of a liquidity crisis.