USAA Limited

Annual Report and Financial Statements

31 December 2019

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 2019.

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. From 1 January 2019 the Company ceased underwriting new insurance business in Europe, but continued to earn premiums for European business written in 2018.

Results and performance

The results of the Company for the year are set out on pages 15 and 16, show a profit on ordinary activities after tax of £10,096k (2018: £11,080k). The shareholders' funds of the company total £79,406k (2018: £83,692k).

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

	2019 £'000	2018 £'000	Change %
Net written premiums	7,586	82,889	(90.8%)
Net earned premiums	48,306	80,058	(39.7%)
Net Incurred losses	30,233	47,674	(36.6%)
Net operating costs	11,922	18,598	(35.9%)
Underwriting result	6,151	13,786	(55.4%)
Profit before tax	11,929	15,950	(25.2%)
Shareholders' funds	79,406	83,692	(5.1%)
Net Loss ratio	62.6%	59.5%	(5.2%)
Net Combined ratio	87.3%	82.8%	(5.4%)

In the first year of operation after the restructure of it's European book of business, the Company has ended the year with an underwriting result of £6,151k (2018: £13,786k), 55.4% lower than the previous year. The main driver of the decrease is the £31,752k, 39.7% fall in net earned premiums as premiums renewed and earned in 2019 only represents the UK book of business. This was compensated by lower net incurred losses and net operating expenses following the restructure.

Net incurred losses, which includes reinsurance has decreased by £17,441k, 36.6% over the prior year. On a gross basis, losses incurred before reinsurance reduced by £15,330k from a £10,249k decrease in gross paid claims, and a £5,081k favourable movement in claims provisions as claims provisions for European business are run off.
The remaining £2,111k decrease in net incurred losses came of from an increase in the reinsurer's share of claims incurred.

Net operating costs have decreased by £6,676k, 35.9%. The are two main reasons for the decrease. The first is that the Company is no longer paying additional legal and consultancy costs related to the Company's strategic planning for Brexit. The second is that under the new structure the Company is operating under a service fee arrangement for the majority of it's operating costs. The operating costs are charged based on services provided to the Company and are lower as a result of not servicing new European business.

In the non-technical account, investment income, realised gains and unrealised losses on investments amounted to £7,148k (2018: £2,258k). During 2019 the Company paid a dividend in specie of £13.7m to it's parent company in investment bonds. As a result, the Company's annual investment income reduced, but it benefitted from favourable realised gains on the transfer of the investment bonds. The Company also earned significant unrealised market gains from Sterling, US Dollar and Euro corporate bonds.

Strategic Report

Results and performance (continued)

The Company recorded a loss on currency translation differences of £1,457k (2018: £21k gain) on the revaluation of it's currency assets and liabilities. This was mainly driven from the strengthening of Sterling against the Euro and US Dollar in the last quarter of the year.

Overall the Company ended the year with a profit after tax of £10,096k (2018: £11,080k). After the dividend distribution of £13.7m, shareholders' funds have decreased slightly by £4.3m from £83.7m to £79.4m.

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, Brexit and COVID -19.

Underwriting 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 catastrophe event. Whilst the company's policyholders have been concentrated around military bases in the United Kingdom, 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. Changes in the Ogden reserving rate has a significant impact on the company's claims reserves especially the larger claims. Whilst these are reinsured, additional reserves caused by Ogden rate changes affects the company through increased reinsurance premiums.

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

Brexit

As previously reported, the Company took steps to re-organise its portfolio as a result of Brexit and established an affiliate insurance company, USAA SA, domiciled in Luxembourg. All non UK business was underwritten into USAA SA with effect from 1st January 2019, meaning that with effect from 1st January 2020 the only live policies on the books of USAA Limited are in relation to UK business.

Given the predominately short tail nature of the auto and property business underwritten, it was not deemed appropriate to transfer all open EU liabilities to USAA SA given that a significant number will have closed by the end of the transition period. European regulators have been informed of our approach.

Coronavirus (COVID-19)

The World Health Organization declared the outbreak of a coronavirus (COVID-19) a pandemic. The impact of COVID-19 cannot be underestimated both from a global economic perspective and its impact on businesses (both customers and employees). The Company introduced full work from home in line with the UK government's announcement on 23 March, although the Company had been moving to this position over the preceding two weeks. Working practices are being developed to this new way of working across all European locations of USAA, but in the main we have seen that the technology exists to enable us to maintain effective business operations.

Principal risks and uncertainties (continued)

Coronavirus (COVID-19) (continued)

The Covid-19 outbreak has significantly increased the Company's supply chain risk with several of our business partners struggling to provide services to the standards delivered previously. We are fortunate to have the backing and resources of a Fortune 100 group, which is assisting us in our response to this evolving situation. Our primary concern is to maintain our services to our members whilst ensuring the welfare of our employees.

Military/political risk

Active duty members of the armed forces of the United States and their families living in the United Kingdom and Europe were the Company's core customer target segment. Following the Brexit restructure mentioned above, the Company portfolio will concentrate on UK policyholders situated in the United Kingdom. This has reduced the target premium of the Company by approximately 75%, thereby increasing its exposure to a material reduction in the size of military deployed in the United Kingdom as a result of political decisions around US Department of Defence budget. This 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 determined that troop numbers would need to reduce substantially to adversely affect the ongoing viability of the Company.

Competitive risks

The Company is subject to competition from international and domestic insurers in the United Kingdom. An increase in competition from domestic insurers 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. The Company also gathers feedback from policyholders by regular attendance at military base bazaars.

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 to new entrants. Additional work is being undertaken to optimise the investment strategies covering both schemes to blend capital efficiency against projected growth. The Germany pension scheme for active members has been transferred to USAA SA and USAA S.a.r.l following the Brexit restructure mentioned above.

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.

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 embrace the military culture of our customers with customer service and meeting customers needs at the forefront of Board meetings.

Our employees
The Board engages with employees through a variety of channels. At least annually, employees get the opportunity to interact with Directors at meet and greet sessions before Board meetings. The Chair of the Board also meets with the Pulse Team, who represent the employees views and opinions. Members of the Board also hold regular employee Town Hall meetings with Q&A sessions.

The employees voice is heard through an annual Ucount opinion survey, where results are analysed and action plans are implemented to improve the working environment.

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.

Section 172(1) statement (continued)

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 at Board meetings from the Compliance Manager.

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

Director

Date 21 May 2020

Registered Number 730577

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 2019.

Directors and Directors' Interests

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

Steven Wayne Peacock
Simon Patrick Kendall Keith
Craig Anthony Scarr
Dirk Christiane Beechman (Appointed 31 January 2019)
Laura Ann Bishop (Resigned 12 February 2019)
Karen Elizabeth Graves (Appointed 12 February 2019)
Jennifer MacNaughton (Resigned 28 May 2019)
Randy Lee Termeer (Appointed 13 November 2019)

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

Results and dividends

In July 2019 the Board of Directors approved and paid an interim dividend in specie of £1.05p per ordinary share amounting to £13,748k in the form of a transfer of investment bonds to USAA International S.a.r.l.

Future developments

The immediate objectives of the Company are to manage operations effectively and efficiently following the Brexit reorganisation. Following this, in conjunction with other initiatives with our ultimate parent company, efforts are underway to modernise systems, technology and data to enable the business to offer personalised sales and service experiences digitally.

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. Subsequent to year-end, the World Health organisation declared the outbreak of a coronavirus (COVID-19) a pandemic. As a result, economic uncertainties have arisen which are likely to negatively impact the Company, for example through decline in asset values, and the potential for liquidity strains.

The COVID-19 crisis has been handled at group level and each subsidiary is following the guidelines set by USAA in San Antonio. At this stage, the employees, regardless of their rank are predominantly working from home. Minimum issues are expected from an HR perspective in connection with this health crisis. At this stage it is impossible to predict what the impact on the activities will be. However, due to the very specific niche market USAA is operating in (members of the US Armed Forces deployed abroad) minimum impact is anticipated in respect of members already deployed. Where it comes to additional deployment we cannot at this stage have any estimate over the impact COVID-19 is likely to have as this is primarily linked to the situation in the US.

The Company has activated its business continuity plan and is closely monitoring its operations, liquidity, and capital resources, and is actively working to minimise the current and future impact of this unprecedented situation. As of the date of issuance of these financial statements, and considering the committed support of its ultimate parent company, the Company does not expect any doubt to arise on its ability to continue as a going concern.

Directors' Report

Statement of Directors' Responsibilities

Political and charitable donations

The Company made no political or charitable donations during the year (2018: £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.

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 accordance with S485 of the Companies Act 2006, after delegation from the Board of Directors to the Audit Committee, a resolution was proposed at the Audit Committee meeting on 8 April 2020 for the reappointment of Ernst & Young LLP as auditor of the Company, .

By order of the Board

Director

Date 21 May 2020

Registered Number 730577

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 2019 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 24 (except for 'Capital Management objectives, policies, and approach', within note 23, 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 FRS102 "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 2019 and of its profit 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) (ISA's (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 below. 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.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

* the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
* the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Emphasis of matter - Effects of COVID-19

We draw attention to Note 24 of the financial statements, which describes, respectively, management's assessment of going concern and the potential economic and social disruption the Company could face as a result of COVID-19. Our opinion is not modified in respect of these matters.

Independent Auditors' Report to the Members of USAA Limited

Overview of our audit approach

Key audit matters	* Valuation of Claims Outstanding (claims reserves and IBNR)
Materiality	* Overall materiality of £1.6m which represents 2.0% of equity.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significant 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 Claims Outstanding (claims reserves and IBNR) **2019: £65,837k (2017: £75,845k)** Refer to the Strategic Report (page 1); Accounting policies (page 23); and Note 17 of the Annual Report and Financial Statements (page 35). The valuation of Claims Outstanding (claims reserves and IBNR) incorporates a significant amount of judgement to estimate the expected ultimate cost of claims incurred. There is a risk that inappropriate assumptions or projections are used in determining the claims outstanding, which could lead to this balance not falling within a reasonable range of possible estimates, resulting in a misstatement in the financial statements. These balances, by nature, are also subject to a risk of management manipulation. Given the magnitude of the balance, a small manipulation of an assumption could have a significant on the financial statements. The risk is consistet with the prior period.	In order to obtain sufficient audit evidence to conclude on the valuation of claims outstanding (claims reserves and IBNR), we performed the following procedures: **Control design and implementation:** We gained a detailed understanding of the end to end reserving and claims process and assessed the design and implementation of key controls within the process. **Methodology review & Independent re-projections:** supported by our EY US actuarial specialists, we evaluated the reasonableness of management's reserving methodology, challenging their assumptions and and assessment of major sensitivities based on our market knowledge and industry data (where available). We independently re-projected claims outstanding on a gross basis using standard actuarial techniques. We considered whether the valuation of claims outstanding as at 31 December 2019 fell within a reasonable range of possible estimates, and investigated any significant differences with management.	We consider that management's assumptions are reasonable, based upon appropriate data and that the Company's reserves lie within what we consider to be a reasonable range of estimates. In addition we consider that the disclosures made are satisfactory, and they provide information that assists in understanding the uncertainty inherent in the valuation of Claims Outstanding (claims reserves and IBNR).

Independent Auditors' Report to the Members of USAA Limited

Risk	Our response to the risk	Key observations communicated to
	Lastly, supported by our EY UK actuarial specialists, we performed a review of the claims outstanding balance as at 31 December 2019 from the point of view of the UK exposures was performed, to ensure that specific European developments have been considered. **Data Integrity & Tests of Details:** We have performed procedures to assess the completeness and accuracy of data used to project claims, specifically the underlying data used by the EY actuarial specialists. In addition, we have performed substantive testing over the FY19 claims expense recorded, testing a sample of outstanding claims back to supporting claims adjuster reports where applicable. **Review of disclosure in the financial statements:** We have reviewed the claims outstanding disclosures in the financial statements to ensure they are consistent with the underlying records and applicable accounting standards.	

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.

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 United Services Automobile auditors, Ernst & Young LLP (San Antonio), operating under our instructions. Where the work was performed by our US 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 US team.

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

Independent Auditors' Report to the Members of USAA Limited

Changes from prior year

In the prior year USAA group, in preparation for Brexit, created a new Luxembourg insurer. Renewal rights, employees, assets and the German pension scheme were transferred from USAA Limited to the newly formed Luxembourg insurer. In 2018 we had the valuation of assets on transfer as an area of audit emphasis. This was not recurring in the current financial year.

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 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 £1.6 million (2018: £1.6 million), which is 2.0% of equity. We believe that equity is a reasonable basis for calculating materiality as we believe it 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.

Basis on our risk assessments, together with our assessment of the Company's overall control environment, our judgement was that performance materiality was 75.0% (2018: 75.0%) of our planning materiality, namely £1.2m (2018: £2.1m). 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 misstatement as a result of our audit work, and whilst we have adopted a substantive approach to certain material balances in the financial statements, we have control-reliance over the technical balances within the financial statements (premiums, claims paid and claims outstanding).

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 £0.08m (2018: £0.08m), which is set at 5.0% 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.

Independent Auditors' Report to the Members of USAA Limited

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.

In connection with our audit of the financial statements, 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 audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the information, we are required to report that fact.

We have nothing to report in this regard.

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 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 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 of 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;
* the financial statements to be audited 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 7, 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 the financial statements that are free from material misstatement, whether due to fraud or error.

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 misstatements, 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.

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

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

The objectives of our audit, in respect to fraud, are; to identify and assess the risks of material misstatements of the financial statements due to fraud; to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and to respond appropriately to fraud or suspected fraud identified during the audit. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

Our approach was as follows:

* We obtained a general understanding of the legal and regulatory frameworks that are applicable to the Company and determined that 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 obtained a general understanding of how the Company complies with these legal and regulatory 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

* For direct laws and regulations, we considered the extent of compliance with those laws and regulations as part of our procedures on the related financial statements items.

* 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 and 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, inspecting significant correspondence with the FCA and PRA.

* The Company operates in the insurance industry which is a highly regulated environment. As such the Senior Statutory Auditor considered in 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.

* 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 delete 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.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at http://wwwfrc.org.uk/auditorsresponsibilites. This description forms part of our auditor’s report.

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

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 16 years, covering the years ending 31 December 2004 to 31 December 2019.

* 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 other additional reporting 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.

Ernst & Young LLP

Angus Millar(Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
21 May 2020

USAA Limited

Income Statement

Technical Account - General Business

For the year ended 31 December 2019

	Note	**2019** **£'000**	**2018** **£'000**
Gross premiums written	*2*	13,699	92,927
Outward reinsurance premiums		(6,113)	(10,038)
Net written premiums		7,586	82,889
Change in the provision for unearned premiums			
Gross amount	*16*	40,720	(2,831)
Reinsurer's share	*16*	-	-
Earned premiums, net of reinsurance		48,306	80,058
Claims incurred, net of reinsurance			
Claims paid			
Gross amount	*17*	(38,656)	(48,905)
Reinsurer's share	*17*	49	2,231
		(38,607)	(46,674)
Change in the claims outstanding			
Gross amount		6,908	1,827
Reinsurer's share		1,466	(2,827)
Claims incurred, net of reinsurance		(30,233)	(47,674)
Net operating expenses	*4*	(11,922)	(18,598)
Total claims and expenses		(42,155)	(66,272)
Balance on the technical account - general business		6,151	13,786

The notes on pages 21 to 50 are an integral part of the financial statements.

USAA Limited

Income Statement

Non-Technical Account
For the year ended 31 December 2019

	Note	2019 £'000	2018 £'000
Balance on the technical account - general business		6,151	13,786
Investment income	*3*	3,637	4,020
Realised gains on investments	*3*	1,014	461
Unrealised gains/(losses) on investments	*3*	2,497	(2,223)
Currency translation differences		(1,457)	21
Other income		-	11
Other expenses, including losses on disposal of fixed assets		-	(208)
Finance income	*21*	90	82
Investment expenses and charges	*21*	(3)	-
Profit on ordinary activities before tax		11,929	15,950
Tax on profit on ordinary activities	*8*	(1,833)	(4,870)
Profit for the financial year		10,096	11,080

All results are derived from continuing operations.

The notes on pages 21 to 50 are an integral part of the financial statements.

USAA Limited

Statement of Comprehensive Income
For the year ended 31 December 2019

	Note	2019 £'000	2018 £'000
Profit for the financial year		10,096	11,080
Re-measurement of net defined benefit pension surplus/(deficit)	*21*	(778)	(702)
Tax relating to re-measurement of net defined benefit pension surplus/(deficit)	*8*	144	130
Total comprehensive income for the year		9,462	10,508

The notes on pages 21 to 50 are an integral part of the financial statements.

USAA Limited

Statement of Changes in Equity
as at 31 December 2019

	Note	2019 Called up share capital £'000	Share premium account £'000	Retained earnings £'000	Total £'000
At 1 January		13,100	348	70,244	83,692
Total comprehensive income for the year		-	-	9,462	9,462
Dividend in specie	*10*	-	-	(13,748)	(13,748)
At 31 December		13,100	348	65,958	79,406

	Note	2018 Called up share capital £'000	Share premium account £'000	Retained earnings £'000	Total £'000
At 1 January		13,100	348	80,141	93,589
Total comprehensive income for the year		-	-	10,508	10,508
Dividend paid	*10*	-	-	(8,419)	(8,419)
Dividend in specie	*10*	-	-	(11,986)	(11,986)
At 31 December		13,100	348	70,244	83,692

The notes on pages 21 to 50 are an integral part of the financial statements.

USAA Limited

Statement of Financial Position
as at 31 December 2019

	Note	2019 £'000	2018 £'000
Assets			
Investments			
Financial investments	*11*	119,251	130,400
Reinsurer's share of technical provisions			
Provision for unearned premiums	*16*	-	-
Claims outstanding	*17*	12,163	10,774
		12,163	10,774
Debtors			
Debtors arising out of direct insurance operations	*13*	9,252	53,394
Other debtors	*14*	4,664	1,994
Deferred tax asset	*8*	177	302
		14,093	55,690
Other assets			
Tangible assets	*12*	98	169
Cash and cash equivalents	*15*	10,935	17,956
		11,033	18,125
Prepayments and accrued income			
Accrued interest and rent		1,197	1,304
Other prepayments and accrued income		468	360
		1,665	1,664
Net pension assets	*21*	2,753	2,747
Total Assets		160,958	219,400

The notes on pages 21 to 50 are an integral part of the financial statements.

USAA Limited

Statement of Financial Position (continued)

as at 31 December 2019

	Note	2019 £'000	2018 £'000
Equity and Liabilities			
Shareholders' equity			
Called up share capital	*9*	13,100	13,100
Share premium account		348	348
Profit and loss account		65,958	70,244
Total capital and reserves		79,406	83,692
Liabilities			
Technical provisions			
Provision for unearned premiums	*16*	8,800	51,304
Claims outstanding	*17*	65,837	75,845
		74,637	127,149
Provisions for other risks			
Provisions for deferred taxation	*8*	534	566
Creditors			
Creditors arising out of direct insurance operations	*18*	584	266
Other creditors including taxation and social security	*19*	5,246	5,764
		5,830	6,030
Accruals and deferred income		306	1,753
Net pension liability	*21*	245	210
Total equity and liabilities		160,958	219,400

The notes on pages 21 to 50 are an integral part of the financial statements.

These financial statements on pages 15 to 20 were approved by the Board of Directors on 8 April 2020 and were signed on its behalf by:

Director
21 May 2020

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) 2008 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, insurance liabilities that are based on estimates 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 have been prepared in accordance with the requirements of the Companies Act 2016 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 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.

1.3 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.

Notes to the Financial Statements

1.3 Judgments and Key Sources of Estimation Uncertainty (continued)

Insurance contract technical provisions (continued)

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 and Note 23 Risk management Insurance risk.

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.

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.

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 policyholder discounts on motor premiums.

1.4 Significant accounting policies

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.

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.

1.4 Significant accounting policies

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.

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.

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.

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 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.

1.4 Significant accounting policies

Foreign currency

The Company's functional and presentational currency is sterling.

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.

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 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.

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.

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
2019					
Gross premiums written					
UK	5,052	10,330	1,492	551	17,425
Belgium	(91)	(28)	(9)	(3)	(131)
Germany	(1,232)	(1,065)	(148)	(62)	(2,507)
Italy	(351)	(457)	(43)	(17)	(868)
Netherlands	(28)	(10)	(4)	(1)	(43)
France	(5)	-	(3)	(1)	(9)
Portugal	(8)	(4)	(2)	(1)	(15)
Spain	(71)	(53)	(10)	(4)	(138)
Greece	(7)	(6)	(1)	(1)	(15)
	3,259	8,707	1,272	461	13,699
Gross premiums earned	24,852	23,720	4,193	1,653	54,418
Gross claims incurred	(10,766)	(18,405)	(1,695)	(882)	(31,748)
Gross operating expenses	(5,448)	(5,198)	(918)	(358)	(11,922)
Reinsurance balance	(2,080)	(2,051)	(335)	(132)	(4,598)
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
2018					
Gross premiums written					
UK	4,690	9,557	1,458	543	16,248
Belgium	1,530	439	200	77	2,246
Germany	28,450	18,554	3,700	1,551	52,255
Italy	8,354	8,210	1,093	423	18,080
Netherlands	578	202	99	43	922
France	54	-	73	25	152
Portugal	95	49	25	9	178
Spain	1,303	843	248	99	2,493
Greece	114	194	32	13	353
	45,168	38,048	6,928	2,783	92,927
Gross premiums earned	43,443	36,702	7,091	2,860	90,096
Gross claims incurred	(22,613)	(21,236)	(3,042)	(187)	(47,078)
Gross operating expenses	(8,968)	(7,576)	(1,464)	(590)	(18,598)
Reinsurance balance	(3,563)	(6,275)	(567)	(229)	(10,634)

Included in the reinsurance balance are reinsurance premiums of £6,113k, (2018: £7,370k) for coverage under a reinsurance stop loss treaty with the parent company.

3. Investment return

	Non Technical account General business	
	2019	2018
	£'000	£'000
Investment Income		
Income from financial investments at fair value through profit and loss	3,618	3,998
Income from other financial investments	19	22
Net gains on realisation of investments	1,014	461
Net unrealised gains on investments	2,497	-
Net income from defined benefit pension scheme	90	82
Total Investment income	7,238	4,563
Investment expenses and charges		
Net losses on realisation of investments	-	-
Net unrealised losses on investments	-	(2,223)
Net cost of defined benefit pension scheme	(3)	-
Total Investment expenses and charges	(3)	(2,223)
Total Investment return	7,235	2,340

4. Expenses

Net operating expenses

	Technical account General business	
	2019	2018
	£'000	£'000
Administrative expenses	2,238	8,469
Outsourced service costs	9,469	9,859
Specific bad debt write off	180	79
Realised exchange differences	35	191
	11,922	18,598
Included in administrative expenses are:		
Staff costs	79	3,613
Depreciation of tangible fixed assets	62	96
Operating lease costs	16	763
Legal & professional fees	397	1,747
Regulatory fees & levies	1,287	1,041
Investment management fees	371	409
IT & telephone costs	1	586
Other expenses	25	214

5. Staff costs and directors' remuneration

(a) Staff costs	2019 £'000	2018 £'000
Wages and salaries	-	5,409
Social security costs	-	762
Other pension costs	-	1,214
	-	7,385

All pension costs in the prior year are in respect of defined benefit schemes and defined contribution schemes.

Following the restructure the Company has moved to an outsourcing model. From 1 November 2018 all of USAA Limited's staff were transferred to USAA International S.a.r.l and USAA SA. Staff costs are charged to USAA Limited under a service fee arrangement.

The average number of employees of the company during the period 1 January to 31 October 2018 were as follows:

	2019	2018
Administration and finance	-	20
Sales and underwriting	-	51
Claims	-	41
Other	-	3
	-	115

(b) Directors' remuneration	2019 £'000	2018 £'000
Aggregate remuneration in respect of qualifying services	218	413
Aggregate amounts receivable under long-term incentive scheme	31	69

	2019 No.	2018 No.
Number of directors accruing benefits under the defined benefit pension scheme.	1	1

	2019 £'000	2018 £'000
In respect of the highest paid director:		
Aggregate remuneration	-	388
Accrued pension at the end of the year	3	-

6. Auditors' remuneration

	2019 £'000	2018 £'000
Audit of the financial statements	116	116
Fees payable to the company's auditor for other services:		
Audit of pension scheme	8	8
Other services pursuant to legislation	-	-
	124	124

Notes to the Financial Statements

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:	**2019 £'000**	**2018 £'000**
Current taxation		
UK corporation tax at 19% (2018: 19%)	2,118	3,372
UK exit tax on company restructure	-	800
Adjustments in respect of prior years	69	300
Foreign taxation	(477)	350
Total current taxation	1,710	4,822
Deferred taxation		
Origination and reversal of timing differences	123	48
Effect of change in tax rates	-	-
Total deferred tax charged	123	48
Tax on profit on ordinary activities	1,833	4,870

Tax included in the statement of comprehensive income		
The tax credit is made up as follows:		
Current tax on defined benefit pension contributions	(114)	(100)
Actuarial loss on pension schemes	-	-
Origination and reversal of timing differences	(30)	(30)
Total tax credit	(144)	(130)

(b) Factors affecting the total tax charge	**2019 £'000**	**2018 £'000**
Profit on ordinary activities before tax	11,929	15,950
Tax at 19% (2018:19%)	2,267	3,030
Expenses not deducted for tax purposes	(26)	342
Unrelieved foreign tax expense	(477)	350
Movement in unprovided deferred tax	-	-
Movement in provided deferred tax	-	48
Prior year adjustment - current tax	69	300
Effect of rate change	-	-
UK exit tax on company restructure	-	800
	1,833	4,870

8. Taxation (continued)

(c) Deferred tax

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

Deferred tax asset

	2019 £'000	2018 £'000
Deferred tax asset at the start of the year	302	452
Deferred tax credit to the income statement	(125)	(150)
Deferred tax asset at the end of the year	177	302

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

	2019 £'000	2018 £'000
Excess depreciation over capital allowances	-	-
Excess capital allowances over depreciation	(17)	(29)
Provision for future claims management costs	152	295
Deferred tax on pension movements	42	36
Deferred tax asset at the end of the year	177	302
Of which deferred tax asset recognised	177	302

Deferred tax liability

	2019 £'000	2018 £'000
Deferred tax liability at the start of the year	566	698
Deferred tax credit to the income statement	(2)	(102)
Deferred tax credit/charge to other comprehensive income	(30)	(30)
Deferred tax liability at the end of the year	534	566

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

	2019 £'000	2018 £'000
Deferred tax on pension movements	468	467
Deferred tax on release of equalisation provision	66	99
Deferred tax liability at the end of the year	534	566
Of which deferred tax liability recognised	534	566

Following the Budget on 11 March 2020 a resolution under the Provisional Collection of Taxes Act 1968 revoked the reduction to 17% leaving the tax rate at 19% from 1 April 2020. The new tax rate is expected to be confirmed in Finance Act 2020. The recognised deferred tax liability is based on the tax rate in force at 31 December 2019 of 17%. Using a tax rate of 19% would increase the net deferred tax liability by £42k.

9. Authorised and allotted share capital

	2019 £'000	2018 £'000
Authorised		
13,100,000 Ordinary shares of £1 each (2018: 13,100,000)	13,100	13,100
Allotted, called up and fully paid		
13,100,000 Ordinary shares of £1 each (2018: 13,100,000)	13,100	13,100

10. Dividends and other appropriations

In July 2019 the Board of Directors approved and paid an interim dividend in specie of 1.05p per ordinary share amounting to £13,748k in the form of a transfer of investment bonds USAA S.a.r.l.

In September 2018 the Board of Directors approved and paid an interim dividend of 44p per ordinary share amounting to £5,795k to United Services Automobile Association. Following the transfer of ownership on 25 October 2018, the Board of Directors approved and paid a dividend in specie of 91p per share amounting to £11,986k in the form of a transfer of investment bonds, and an interim cash dividend of 20p per share amounting to £2,622k to USAA S.a.r.l.

11. Financial Investments

	2019		2018	
	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	119,251	118,803	130,400	127,836

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

31 December 2019	**Level 1 £'000**	**Level 2 £'000**	**Level 3 £'000**	**Total £'000**
Debt Securities and other fixed income securities	-	118,464	787	119,251
31 December 2018	**£'000**	**£'000**	**£'000**	**£'000**
Debt Securities and other fixed income securities	-	129,603	797	130,400

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	940
Charge in year	71
Disposals	-
At the end of year	1,011
Net book value	
At 31 December 2019	98
At 31 December 2018	169

13. Debtors arising out of direct insurance operations

	2019 £'000	2018 £'000
Amounts owed by policyholders	9,252	48,830
Amounts owed by ultimate parent company	-	4,564
	9,252	53,394

14. Other Debtors

	2019 £'000	2018 £'000
Amounts owed by related parties	1,667	200
Amounts owed by overseas tax authorities	2,823	1,127
Other debtors	174	667
	4,664	1,994

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

Cash and cash equivalents comprise the following:

	2019 £'000	2018 £'000
Cash at bank and in hand	4,763	11,668
Short-term deposits with credit institutions	6,172	6,288
	10,935	17,956

16. Provisions for unearned premiums

	Gross £'000	Reinsurers' share £'000	Net £'000
At 1 January 2019	6,122	-	6,122
Premiums written in the year	13,699	-	13,699
Premiums earned in the year	(54,419)	-	(54,419)
Foreign exchange	43,398	-	43,398
At 31 December 2019	8,800	-	8,800

	Gross £'000	Reinsurers' share £'000	Net £'000
At 1 January 2018		-	0
Premiums written in the year	92,927	-	92,927
Premiums earned in the year	(90,096)	-	(90,096)
Foreign exchange	3,291	-	3,291
At 31 December 2018	6,122	-	6,122

17. Claims outstanding

	Gross £'000	Reinsurers' Share £'000	Net £'000
At 1 January 2019	75,845	(10,774)	65,071
Claims incurred in current accident year	32,797	(418)	32,379
Claims incurred in current prior years	(1,049)	(1,097)	(2,146)
Claims paid during the year	(38,656)	49	(38,607)
Foreign exchange	(3,100)	77	(3,023)
At 31 December 2019	65,837	(12,163)	53,674

	Gross £'000	Reinsurers' share £'000	Net £'000
At 1 January 2018	77,754	(13,601)	64,153
Claims incurred in current accident year	55,812	-	55,812
Claims incurred in current prior years	(8,734)	596	(8,138)
Claims paid during the year	(48,905)	2,231	(46,674)
Foreign exchange	(82)	-	(82)
At 31 December 2018	75,845	(10,774)	65,071

The provisions for gross claims outstanding includes IBNR's of £12,948k (2018: £18,235k), and salvage and subrogation recoverable of £1,340,250 (2018: £2,023,600). The reinsurers' share of claims outstanding does not include any recoverable amounts from related parties.

18. Creditors arising out of direct insurance operations

	2019 £'000	2018 £'000
Amounts owed to policyholders	483	266
Amounts owed to ultimate parent company	101	-
	584	266

19. Other Creditors including Taxation and Social Security

	2019 £'000	2018 £'000
Corporation tax payable	777	3,436
Amounts owed to related parties	3,338	1,158
Other creditors	1,131	1,170
	5,246	5,764

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:

	2019 £'000	2018 £'000
Not later than one year	829	842
Later than one year and not later than five years	2,296	3,177
Later than five years	747	2,007
	3,872	6,026

Following the restructure, the Company has retained the leasehold obligations for the London office as stipulated in the Leasehold Agreement. They have entered into a sub-lease arrangement with USAA international S.a.r.l from 1 November 2018 for the physical use of the property. All leasehold costs from this date until the lease expiry date 1 March 2026 will be recharged to USAA International S.a.r.l.

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

	2019 £'000	2018 £'000
Not later than one year	37	38
Later than one year and not later than five years	29	67
Later than five years		
	66	105

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 benefits for current employees continue to be linked to their pensionable salary. 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 was carried out by a qualified actuary as at 1 April 2016 and showed a deficit of £5.3m. From 1 January 2018 the company is paying deficit contributions of £600k p.a. which, along with prior contributions and investment returns from return-seeking assets, is expected to make good this shortfall by 30 September 2024. The next triennial actuarial valuation date was 1 April 2019. The deadline for completing this valuation is 1 July 2020.This valuation will determine the future contributions to be paid by the Company to fund the Scheme.

The reporting date valuation was carried out using the same membership data as the Trustees' valuation. Full membership data as at 1 April 2019 has been used to carry out the accounting valuation at 31 December 2019. 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').

The last funding valuation of the German Scheme was carried out by a qualified actuary on 31 December 2016 on an FRS102 valuation basis. The next triennial actuarial valuation date was 1 April 2019, and is also due to be completed by 1 July 2020.

The reporting date figures have been calculated using membership date as at 1 April 2019. The present value of the defined benefit obligation was measured using the Projected Unit Credit Method.

a) Main financial assumptions

UK Scheme:

	2019	2018
	%	%
Rate of increase in salaries	2.90	3.05
Rate of increase in pensions in payment and deferred pensions	4.15	4.20
Discount rate applied to scheme liabilities	2.00	2.95
RPI Inflation	2.90	3.15
CPI Inflation	1.90	2.05

21. Pension Schemes (continued)

German Scheme:

	2019 %	2018 %
Rate of increase in salaries	2.75	2.75
Rate of increase in pensions in payment and deferred pensions	1.75	1.75
CPI Discount rate applied to scheme liabilities	0.96	1.92
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:

	2019	2018
Mortality	105% of the S3PxA Light tables with improvements in line with the CMI 2018 projections with a smoothing factor of Sk 7.0 and A of 0.0, and a long term-rate of improvement of 1.25% p.a.	100% of the S2PxA Light tables with improvements in line with the CMI 2017 projections with a smoothing factor of 7.0 and a long term-rate of improvement of 1.25% p.a.
Life expectancy for male currently age 65	22.7 years	22.8 years
Life expectancy for female currently age 65	24.2 years	23.8 years
Life expectancy at 65 for male currently age 45	23.9 years	24.1 years
Life expectancy at 65 for female currently age 45	25.5 years	25.3 years
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	20.77 years	20.50 years
Life expectancy for female currently age 65	24.27 years	24.10 years
Life expectancy at 65 for male currently age 45	23.26 years	23.30 years
Life expectancy at 65 for female currently age 45	26.38 years	26.30 years
Cash commutation	n/a	n/a

21. Pension Schemes (continued)

(c) Scheme asset allocation

UK Scheme:	**2019 £'000**	**%**	**2018 £'000**	**%**
Annuities	391	1.4%	332	1.5%
Equity linked bonds	7,176	25.9%	5,354	23.9%
Diversified growth fund	9,505	34.2%	7,383	33.0%
Absolute return fund	3,089	11.1%	2,404	10.7%
Liability driven investment	7,600	27.4%	6,914	30.9%
Cash	8	0.0%	10	0.0%
Total	27,769	100.0%	22,397	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:	**2019 £'000**	**%**	**2018 £'000**	**%**
Equities	702	35.0%	572	31.0%
Bonds	1,263	63.0%	1,199	65.0%
Cash and cash equivalence	40	2.0%	74	4.0%
Total	2,005	100.0%	1,845	100.0%

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:	**2019 £'000**	**2018 £'000**
Fair value of assets	27,769	22,397
Present value of funded defined benefit obligations	(25,016)	(19,650)
Asset/(liability) recognised on the statement of financial position	2,753	2,747

German Scheme:	**2019 £'000**	**2018 £'000**
Fair value of assets	2,005	1,845
Present value of funded defined benefit obligations	(2,250)	(2,055)
Asset/(liability) recognised on the statement of financial position	(245)	(210)

(e) Amounts recognised in income statement

UK Scheme:	**2019 £'000**	**2018 £'000**
Operating cost:		
Current service cost	-	-
Financing cost:		
Interest on net defined benefit liability/(asset)	(90)	(57)
	(90)	(57)

21. Pension Schemes (continued)

(e) Amounts recognised in income statement (continued)

German Scheme:

	2019 £'000	2018 £'000
Operating cost:		
Current service cost	-	765
Financing cost:		
Interest on net defined benefit liability/(asset)	3	(25)
	3	740

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

UK Scheme:

	2019 £'000	2018 £'000
Asset gains/(losses) arising during the year	4,246	(2,098)
Liability gains/(losses) arising during the year	(4,930)	2,263
Actuarial (loss)/gain recognised in statement of total recognised gains and losses	(684)	165

German Scheme:

	2019 £'000	2018 £'000
Asset gains/(losses) arising during the year	233	(1,077)
Liability gains/(losses) arising during the year	(327)	210
Actuarial (loss)/gain recognised in statement of total recognised gains and losses	(94)	(867)

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

UK Scheme:

	2019 £'000	2018 £'000
Opening defined benefit obligation (DBO)	19,650	23,560
Current service cost	-	-
Interest expense on DBO	578	564
Actuarial (gains)/losses on liabilities	4,930	(2,263)
Net benefits paid out	(142)	(1,517)
Transfers	-	(694)
Closing defined benefit obligation	25,016	19,650

German Scheme:

	2019 £'000	2018 £'000
Defined benefit obligation (DBO)	2,055	15,199
Current service cost	-	765
Interest expense on DBO	37	275
Actuarial (gains)/losses on liabilities	327	(210)
Net benefits paid out	(51)	(52)
Transfers	-	(14,114)
Foreign exchange movements	(117)	192
Closing defined benefit obligation	2,251	2,055

Transfers represent the transfer of pension liabilities for the active scheme members transferred to USAA International S.a.r.l and USAA SA.

21. Pension Schemes (continued)

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

UK Scheme:	**2019**	**2018**
	£'000	**£'000**
Opening fair value of Scheme assets	22,397	25,560
Interest income on Scheme assets	668	621
(Loss)/Gain on Scheme Assets	4,246	(2,098)
Contributions by the company	600	525
Net benefits paid out	(142)	(1,517)
Transfers	-	(694)
Closing fair value of Scheme assets	27,769	22,397

German Scheme:	**2019**	**2018**
	£'000	**£'000**
Opening fair value of Scheme assets	1,845	16,526
Interest income on Scheme assets	33	299
(Loss)/Gain on Scheme Assets	234	(1,185)
Contributions by the company	51	52
Net benefits paid out	(51)	(52)
Transfers	-	(14,005)
Foreign exchange movements	(107)	210
Closing fair value of Scheme assets	2,005	1,845

Transfers represent the transfer of pension assets to cover the pension liabilities for the active scheme members transferred to USAA International S.a.r.l and USAA SA.

(i) Actual return on Scheme assets

UK Scheme:	**2019**	**2018**
	£'000	**£'000**
Interest income on Scheme assets	668	621
(Loss)/Gain on Scheme Assets	4,246	(2,098)
Actual return on Scheme assets	4,914	(1,477)

German Scheme:	**2019**	**2018**
	£'000	**£'000**
Interest income on Scheme assets	33	300
(Loss)/Gain on Scheme Assets	234	(1,077)
Actual return on Scheme assets	267	(777)

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. Risk Management

(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.

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).

(b) Capital management objectives, policies and approach (continued)

The table below shows the Company's estimated Solvency II capital position as at 31 December 2019

	2019	**2018**
Own funds	**£'000**	**£'000**
SCR	78,802	88,503
Surplus	42,806	43,421
Own funds/SCR	35,996	45,082
	184%	204%

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

The Company's estimated Solvency II capital position as at 31 December 2019 is unaudited.

(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 has been 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 liability limits in other European locations. For UK losses occurring after 1 January 2016 the retention on UK liability limits changed to £1,748k. From 1 January 2019 the renewal of the external reinsurance only covers motor unlimited liability business in the UK. The majority of the Company's residual risk is covered by a non-proportional stop loss reinsurance treaty with its ultimate parent company, USAA. 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 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 2019			31 December 2018		
	Gross liabilities	Re-insurance of liabilities	Net liabilities	Gross liabilities	Re-insurance of liabilities	Net liabilities
	£'000	£'000	£'000	£'000	£'000	£'000
Other motor	1,218	-	1,218	4,098	-	4,098
Motor vehicle liability	63,746	(12,163)	51,583	70,364	(10,774)	59,590
Property	419	-	419	850	-	850
General Liability	454	-	454	533	-	533
Total	65,837	(12,163)	53,674	75,845	(10,774)	65,071

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

	31 December 2019			31 December 2018		
	Gross liabilities	Re-insurance of liabilities	Net liabilities	Gross liabilities	Re-insurance of liabilities	Net liabilities
	£'000	£'000	£'000	£'000	£'000	£'000
UK	20,033	(7,441)	12,592	20,652	(6,165)	14,487
EEA	45,804	(4,722)	41,082	55,193	(4,609)	50,584
Total	65,837	(12,163)	53,674	75,845	(10,774)	65,071

Notes to the Financial Statements

(c) Insurance risk (continued)

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 2019	**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%	6,499	5,282	(5,282)	(4,278)
Average number of claims	10%	6,499	5,282	(5,282)	(4,278)

31 December 2018	**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%	7,327	6,333	(6,333)	(5,130)
Average number of claims	10%	7,327	6,333	(6,333)	(5,130)

(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 2019

Accident year	**2012 £'000**	**2013 £'000**	**2014 £'000**	**2015 £'000**	**2016 £'000**	**2017 £'000**	**2018 £'000**	**2019 £'000**
Estimate of cumulative claims incurred								
At end of accident year	33,471	35,482	40,185	56,525	52,700	49,784	51,197	30,123
One year later	40,655	32,646	36,763	53,756	53,012	47,729	49,716	
Two years later	38,634	31,385	34,003	52,249	50,151	44,782		
Three years later	36,508	28,133	34,783	49,201	48,669			
Four years later	31,180	27,051	34,028	48,417				
Five years later	30,767	26,252	33,971					
Six years later	30,242	26,094						
Seven years later	30,741							
Current estimate of cumulative claims incurred	30,741	26,094	33,971	48,417	48,669	44,782	49,716	30,123
Cumulative claims paid								
At end of accident year	(16,011)	(16,307)	(18,153)	(25,654)	(25,529)	(26,964)	(28,026)	(18,171)
One year later	(23,067)	(23,268)	(26,538)	(34,007)	(33,974)	(35,071)	(36,768)	
Two years later	(25,487)	(25,136)	(26,371)	(37,164)	(36,758)	(38,080)		
Three years later	(26,893)	(24,612)	(31,123)	(39,195)	(38,576)			
Four years later	(27,460)	(25,268)	(31,794)	(40,441)				
Five years later	(29,679)	(25,468)	(31,912)					
Six years later	(29,710)	(25,657)						
Seven years later	(30,411)							
Cumulative payments to date	(30,411)	(25,657)	(31,912)	(40,441)	(38,576)	(38,080)	(36,768)	(18,171)
	330	437	2,059	7,976	10,093	6,702	12,948	11,952

Total gross outstanding claims provisions 2012-2019	52,497
Total gross outstanding claims provisions pre-2012	13,340
Total gross outstanding claims provision per the statement of financial position	65,837

(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 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 2019	**Neither past due nor impaired**	**Past due**	**Impaired**	**Total**
	£'000	**£'000**	**£'000**	**£'000**
Financial investments - debt securities	119,251	-	-	119,251
Deposits with credit institutions	6,172	-	-	6,172
Reinsurers' share of claims outstanding	12,163	-	-	12,163
Debtors arising out of direct insurance operations	9,252	-	-	9,252
Other debtors	4,664	-	-	4,664
Accrued interest and prepaid rent	1,197			1,197
Cash at bank and in hand	4,763	-	-	4,763
	157,462	-	-	157,462

(d) Financial risk (continued)

Credit risk and market risk (continued)

31 December 2018	**Neither past due nor impaired £'000**	**Past due £'000**	**Impaired £'000**	**Total £'000**
Financial investments -	130,400	-	-	130,400
Deposits with credit institutions	6,288	-	-	6,288
Reinsurers' share of claims outstanding	10,774	-	-	10,774
Debtors arising out of direct insurance operations	53,394	-	-	53,394
Other debtors	1,994	-	-	1,994
Accrued interest and prepaid rent	1,304			1,304
Cash at bank and in hand	11,668	-	-	11,668
	215,822	-	-	215,822

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 2019	**AAA £'000**	**AA £'000**	**A £'000**	**BBB £'000**	**BB £'000**	**Not rated £'000**	**Total £'000**
Financial investments - debt securities	4,225	44,739	29,237	33,438	0	7,612	119,251
Deposits with credit institutions	-	-	6,172	-	-	-	6,172
Reinsurers' share of claims outstanding	-	5,035	7,128	-	-	-	12,163
Cash at bank and in hand	-		4,763	-	-	-	4,763
	4,225	49,774	47,300	33,438	0	7,612	142,349

31 December 2018	**AAA £'000**	**AA £'000**	**A £'000**	**BBB £'000**	**BB £'000**	**Not rated £'000**	**Total £'000**
Financial investments - debt securities	5,483	41,264	32,877	44,321	-	6,455	130,400
Deposits with credit institutions	-	-	6,288	-	-	-	6,288
Reinsurers' share of claims outstanding	-	2,423	8,351	-	-	-	10,744
Cash at bank and in hand	-		11,668	-	-	-	11,668
	5,483	43,687	59,184	44,321	0	6,455	159,130

(d) Financial risk (continued)

Credit risk and market risk (continued)

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 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 2019		**31 December 2018**	
	Euro exposure £'000	**US dollar exposure £'000**	**Euro exposure £'000**	**US dollar exposure £'000**
Assets				
Financial investments	28,853	15,842	56,411	13,802
Premium receivable debtors	-	9,252	-	53,394
Reinsurer's share of technical provisions	4,722	-	4,609	-
Germany net pension scheme asset	-	-	-	-
Cash at bank	3,517	977	1,719	565
	37,092	26,071	62,739	67,761
Liabilities				
Germany net pension scheme liability	245	-	210	-
Provision for claims outstanding	45,804	-	55,193	-
Provision for unearned premiums	-	8,800	-	51,304
	46,049	8,800	55,403	51,304
Total foreign exchange exposure	(8,957)	17,271	7,336	16,457

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.

Insurance liabilities are not discounted and therefore not exposed to interest rate risk.

Interest rate risk (continued)

The analysis below shows the impact on profit before tax and equity of the effects of changes in interest rates on fixed rate financial instruments.

Changes in variables	**Impact on profit before tax £'000**	**Impact on equity £'000**
31 December 2019		
+100 basis points	(5,613)	(4,547)
-100 basis points	6,156	4,987
+50 basis points	(2,869)	(2,324)
+50 basis points	3,005	2,434
31 December 2018		
+100 basis points	(5,819)	(4,714)
-100 basis points	6,270	5,079
+50 basis points	(2,963)	(2,400)
+50 basis points	3,075	2,491

(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 a 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 2019							
Outstanding claims liabilities	65,837	30,984	10,876	15,542	6,910	1,525	65,837
Reinsurer's share of claims	(12,163)		(7,963)	(4,200)			(12,163)
	53,674	30,984	2,913	11,342	6,910	1,525	53,674
31 December 2018							
Outstanding claims liabilities	75,845	33,095	17,762	17,070	6,659	1,259	75,845
Reinsurer's share of claims	(10,774)		(6,165)	(4,609)			(10,774)
	65,071	33,095	11,597	12,461	6,659	1,259	65,071

24 Events after the reporting period

Subsequent to year-end, the World Health Organization declared the outbreak of a coronavirus (COVID-19) a pandemic. As a result, economic uncertainties have arisen which are likely to negatively impact the Company, for example through declines in asset values, and the potential for liquidity strains.The Company has activated its business continuity plan and is closely monitoring its operations, liquidity, and capital resources, and is actively working to minimize the current and future impact of this unprecedented situation. As of the date of issuance of of these financial statements, and considering the committed support of its ultimate parent, the Company does not expect any doubt to arise on its ability to continue as a going concern.