USAA®

LIMITED

Solvency & Financial Condition Report

For the year ending 31 December 2016

CONTENTS

SUMMARY

The purpose of this report is to satisfy the public disclosure requirements under the Solvency II Directive including the Delegated Regulation of the European Parliament, and the Prudential Regulatory Authority (PRA) rules.

The disclosure requirements cover business performance, systems of governance, risk profile, solvency and capital management.

On 1 January 2016 USAA Limited ('the Company') transitioned to the Solvency II regime. Over the past few years the Company has put in place measures to strengthen its corporate governance, risk management and financial reporting frameworks in readiness for Solvency II.

2016 Solvency and Financial Condition

2016 proved to be a challenging year for the UK with low interest rates, volatility in exchange rates, the growing spectre of inflation and the uncertainty following the UK's referendum decision to leave the EU, 'Brexit'.

Considering the challenging environment in which the Company operates it has continued to perform well in 2016 due to the geographical spread of it business across Europe, its conservative investment strategy and its currency asset and liability matching strategy for mitigating exposure to currency risk.

The Company ended the financial year 31 December 2016 with a reported profit after tax of £18,066k, available capital under Solvency II of £78,850k and a Solvency Capital Requirement of £46,623k resulting in a Solvency II capital ratio of £169.1%.

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 integration of capital management and risk management in its business model aligns with Solvency II expectations.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for preparing the SFCR in accordance with the Prudential Regulatory Authority (PRA) rules and SII Regulations.

The PRA Rulebook for SII firms in Rule 6.1(2) and Rule 6.2(1) of the Reporting Part requires that the Company must have in place a written policy ensuring the ongoing appropriateness of any information disclosed and that the Company must ensure that its SFCR is subject to approval by the Directors.

Each of the Directors, whose names and functions are listed in Directors' Report of the UK GAAP financial statements, confirm that, to the best of their knowledge:

(a) Throughout the financial year in question, the Company has complied in all material respects with the requirements of the PRA rules and SII Regulations as applicable; and

(b) It is reasonable to believe that, at the date of the publication of the SFCR, the Company continues to comply, and will continue to comply in future.

On behalf of the board

Simon Keith
17 May 2017

REPORT OF EXTERNAL AUDITOR

Report of the external independent auditor to the Directors of USAA Limited ('the Company') pursuant to Rule 4.1 (2) of the External Audit Chapter of the PRA Rulebook applicable to Solvency II firms

Report on the Audit of the relevant elements of the Solvency and Financial Condition Report

Opinion

Except as stated below, we have audited the following documents prepared by the Company as at 31 December 2016:

- The 'Valuation for solvency purposes' and 'Capital Management' sections of the Solvency and Financial Condition Report of the Company as at 31 December 2016**, ('the Narrative Disclosures subject to audit'**); and
- Company templates S02.01.02, S17.01.02, S23.01.01, S25.01.21, S28.01.01 (**'the Templates subject to audit'**).

The Narrative Disclosures subject to audit and the Templates subject to audit are collectively referred to as the **'relevant elements of the Solvency and Financial Condition Report'.**

We are not required to audit, nor have we audited, and as a consequence do not express an opinion on the Other Information which comprises:

- The 'Business and performance', 'System of governance' and 'Risk profile' elements of the Solvency and Financial Condition Report;
- Company templates S05.01.02, S05.02.01, S19.01.21;and
- the written acknowledgement by management of their responsibilities, including for the preparation of the solvency and financial condition report (**'the Responsibility Statement'**).

To the extent the information subject to audit in the relevant elements of the Solvency and Financial Condition Report includes amounts that are totals, sub-totals or calculations derived from the Other Information, we have relied without verification on the Other Information.

In our opinion, the information subject to audit in the relevant elements of the Solvency and Financial Condition Report of USAA LTD as at 31 December 2016 is prepared, in all material respects, in accordance with the financial reporting provisions of the PRA Rules and Solvency II regulations on which they are based. This report is made solely to the Directors of the Company in accordance with Rule 2.1 of External Audit Chapter of the PRA Rulebook for Solvency II firms. Our work has been undertaken so that we might report to the Directors those matters that we have agreed to state to them in this 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 Directors, for our work, for this report, or for the opinions we have formed.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) (ISAs (UK & I)), including ISA (UK) 800 and ISA (UK) 805. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the relevant elements of the Solvency and Financial Condition Report* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the Solvency and Financial Condition Report 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 & I) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the Solvency and Financial Condition Report is not appropriate; or
- the directors have not disclosed in the Solvency and Financial Condition Report 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 Solvency and Financial Condition Report is authorised for issue.

Emphasis of Matter – Basis of Accounting

We draw attention to the 'Valuation for solvency purposes', 'Capital Management' and other relevant disclosures sections of the Solvency and Financial Condition Report, which describe the basis of accounting. The Solvency and Financial Condition Report is prepared in compliance with the financial reporting provisions of the PRA Rules and Solvency II regulations, and therefore in accordance with a special purpose financial reporting framework. The Solvency and Financial Condition Report is required to be published, and intended users include but are not limited to the Prudential Regulation Authority. As a result, the Solvency and Financial Condition Report may not be suitable for another purpose. Our opinion is not modified in respect of these matters.

Other Information

The Directors are responsible for the Other Information. Our opinion on the relevant elements of the Solvency and Financial Condition Report does not cover the Other Information and, we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the Solvency and Financial Condition Report, our responsibility is to read the Other Information and, in doing so, consider whether the Other Information is materially inconsistent with the relevant elements of the Solvency and Financial Condition Report, 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 relevant elements of the Solvency and Financial Condition Report 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 this Other Information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Directors for the Solvency and Financial Condition Report

The Directors are responsible for the preparation of the Solvency and Financial Condition Report in accordance with the financial reporting provisions of the PRA rules and Solvency II regulations.

The Directors are also responsible for such internal control as they determine is necessary to enable the preparation of a Solvency and Financial Condition Report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibilities for the Audit of the relevant elements of the Solvency and Financial Condition Report

It is our responsibility to form an independent opinion as to whether the relevant elements of the Solvency and Financial Condition Report are prepared, in all material respects, with financial reporting provisions of the PRA Rules and Solvency II regulations on which they are based.

Our objectives are to obtain reasonable assurance about whether the relevant elements of the Solvency and Financial Condition Report are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but it is not a guarantee that an audit conducted in accordance with ISAs (UK & I) 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 decision making or the judgement of the users taken on the basis of the Solvency and Financial Condition Report.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: **https://www.frc.org.uk/Our-Work/Audit-and-Actuarial-Regulation/Audit-and-assurance/Standards-and-guidance/Standards-and-guidance-for-auditors/Auditors-responsibilities-for-audit/Description-of-auditors-responsibilities-for-audit.aspx.** The same responsibilities apply to the audit of the Solvency and Financial Condition Report.

Relevant elements of the Solvency and Financial Condition Report that are not subject to audit

The relevant elements of the Solvency and Financial Condition Report that are not subject to audit comprise:

- Elements of the Narrative Disclosures subject to audit identified as 'unaudited'.

Report on Other Legal and Regulatory Requirements.

In accordance with Rule 4.1 (3) of the External Audit Chapter of the PRA Rulebook for Solvency II firms we are required to consider whether the Other Information is materially inconsistent with our knowledge obtained in the audit of USAA LTD's statutory financial statements. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Ernst & Young LLP

Ernst & Young LLP

London 19 May 2017

The maintenance and integrity of the USAA LTD's web site is the responsibility of the Directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the Solvency and Financial Condition Report since it was initially presented on the web site.

A. BUSINESS AND PERFORMANCE

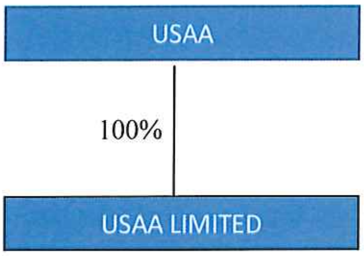
A.1 BUSINESS

Name and Legal Form of the Undertaking;

USAA Limited is incorporated in the United Kingdom and registered in England and Wales (No.00730577). The Company is a wholly owned subsidiary of United Services Automobile Association (USAA) with a 100% voting interest.

USAA is a mutual inter-insurance exchange reciprocal domiciled in the State of Texas in the United States of America, with its headquarters in San Antonio, Texas.

The following chart shows a simplified structure of the Company and its parent as at 31 December 2016.



USAA Limited's registered office address is:
Fitzwilliam House
10 St Mary Axe
London
EC3A 8AE

Name of Supervisory Authority

The company is regulated by the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA). The contact details for the PRA and FCA are shown below:

Prudential Regulation Authority (PRA)
20 Moorgate
London
EC2R 6DA
+44 (0)20 7601 4444

Financial Conduct Authority (FCA)
25 The North Colonnade
London
E14 5HS
+44 (0)20 7066 1000

External Auditor

The details of the company's external auditor for the period ending 31 December 2016 are:

Ernst & Young LLP
Statutory Auditors
25 Churchill Place
London
E14 5EY
+44 (0)20 7951 2000

Material Lines of Business and Geographical Areas

The principal activity of the Company is the provision of motor and property insurance in the European Union to a defined customer base in the UK, Germany, Italy, Spain, Netherlands, Belgium, Portugal, Greece and France.

For Solvency II purposes the Company's general insurance business falls into defined Solvency II lines of business and geographical areas as follows:

- Motor Vehicle Liability.
- Other Motor Insurance.
- Fire and Other Damage to Property.
- General liability.

Significant Events During the Period

On 23 June 2016, the United Kingdom held a referendum in which a majority of voters elected for the UK to withdraw its membership from the European Union 'Brexit'. Since the referendum the Company has monitored the currency volatility and its impact on its business operations and solvency position. Given that the majority of the Company's business is written in Europe under passporting rights, the Company has contingency plans in place to re-domicile a significant proportion of its business.

The impact of Brexit has had a positive impact on the Company's financial results. The uncertainty following Brexit caused Sterling to depreciate significantly against the US Dollar and the Euro, which are currencies that the company both trades in and holds assets and liabilities for the business underwritten in EU countries. This has resulted in increased underwriting revenues, claims costs, investment income and favourable currency exchange gains.

A.2 UNDERWRITING PERFORMANCE

The Company prepares its financial statements in accordance with FRS 102 and FRS 103, being applicable UK GAAP accounting standards. The functional and reporting currency of the Company is Sterling.

Underwriting performance by Solvency II lines of business in £'000

Lines of Business	Net Premium Written	Net Premium Earned	Net Claims Incurred	Expenses Incurred	Underwriting Performance
Motor Vehicle	30,482	26,757	(14,400)	(9,328)	3,029
Other Motor	35,891	34,567	(15,631)	(11,326)	7,610
Fire and other damage to property	6,375	5,961	(2,405)	(1,882)	1,674
General liability	2,694	2,590	(955)	(796)	839
Total	75,442	69,875	(33,391)	(23,332)	13,152

Underwriting performance for the top six countries £'000

Country	Net Premium Written	Net Premium Earned	Net Claims Incurred	Expenses Incurred	Underwriting Performance
Germany	41,238	38,951	(17,858)	(13,436)	7,657
Italy	15,592	14,101	(2,753)	(3,876)	7,472
United Kingdom	13,163	11,750	(10,818)	(4,415)	(3,483)
Belgium	2,026	1,906	(613)	(573)	720
Spain	2,122	1,933	(821)	(631)	481
Netherlands	738	680	(275)	(218)	187
Total	74,879	69,321	(33,139)	(23,149)	13,034

All four Solvency II lines of business were profitable in 2016. The Company experienced product growth across all lines of business as well as improved product penetration. Most of the growth came from the motor lines of business in Germany following a rate decrease in premiums to improve competitiveness.

Geographically, Germany, Italy and the UK make up 93% of the Company's premiums. All three locations benefited from favourable loss developments on prior year motor liability bodily injury claims provisions. This was offset to a large degree in Germany and Italy by increased Euro claims costs from the strengthening of the Euro against Sterling.

The UK experienced an underwriting loss due to a high claims incurred ratio on its motor lines of business and an adjustment made to claims provisions for the change in the Ogden discount rate.

On 27 February 2017, the Lord Chancellor announced a change in the Ogden discount rates, which reduced from 2.5% to -0.75%. The Ogden discount rate is used to take into account investment returns that a claimant could earn by investing lump-sum claims proceeds. A higher discount rate reflects the potential investment returns, the reduction in the Ogden rate therefore assumes a lower potential investment return available to claimants, which is compensated for by increasing lump-sum proceeds they receive. As a result of this change, the Company performed an analysis to assess the exposure to the Ogden rate change. Following this analysis, it was concluded that six claims were impacted increasing the gross outstanding claims provisions by £5,895k and the reinsurers' share by £5,000k with a net impact of £895k. A year end adjustment has been made to the technical provisions in 2016 to reflect these increases.

A.3 INVESTMENT PERFORMANCE

At 31 December 2016, the Company's investment portfolio comprised the following asset classes:

Investment Portfolio			Investment Return
Asset Class	Amount £'000	% of Portfolio	Amount £'000
Government Bonds	45,655	30%	1,137
Corporate Bonds	81,959	54%	4,470
Collaterised Securities	2,637	2%	248
Short Term Deposits	9,043	6%	15
Cash & Cash Equivalents	11,650	8%	28
Total Investments & Cash Equivalents	150,944		5,898
Investment Management Expenses			379

The investment portfolio exceeded expectations in 2016. The portfolio as a whole returned 12.34% compared with a benchmark of 11.29%. Over a rolling three year period, the portfolio returned an annualised return of 4.98% versus a benchmark of 3.97%. The portfolio return in 2016 was significantly boosted by the depreciation of Sterling against the US Dollar and the Euro.

The market value of the investment portfolio increased by £17,843k in 2016, from £3m of additional funding paid into the investment portfolio and favourable investment gains. Most of the increase in the value of investments occurred following the Brexit vote in June, which generated a significant increase in the market value of the Company's investments.

In addition to measuring investment performance against the benchmark in its investment strategy it also uses total investment return, which comprises of net investment income, realised and unrealised market value gains and losses and realised gains and losses from movement in foreign exchange rates. The Company has not recognised any gains and losses directly through equity.

A.4 PERFORMANCE OF OTHER ACTIVITIES

There have been no other significant activities undertaken by the Company other than its insurance related activities.

Other Material Income and Expenses

- Lease arrangements
  The Company has renewed its UK office lease in 2016 for a further ten years, which included a nine month rent-free period in 2016. The operating lease expenses for the financial year 2016 amounted to £834k. This consisted of £630k for the UK office lease and £204k for the German office lease. The company is committed to the future minimum operating lease payments on office leases as follows:

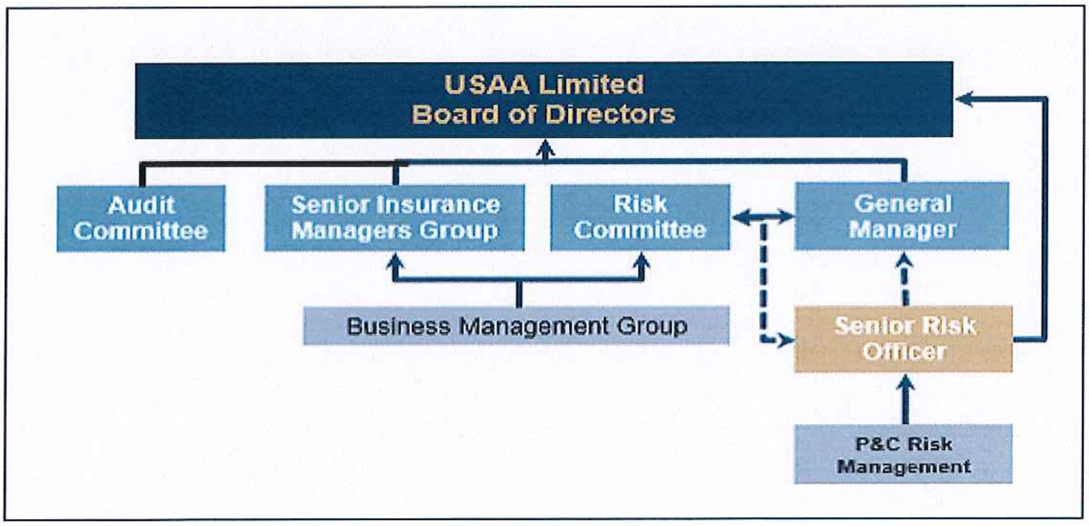
Not later than one year	£826k
Later than one year not later than five years	£3,339k
Later than five years	£2,821k

B. SYSTEM OF GOVERNANCE

B.1 GENERAL INFORMATION ON THE SYSTEM OF GOVERNANCE

The oversight of the Company's business and its operations are provided through its governance structure, which provides guidance for functional areas, management-led groups, and the Board as it pertains to its effective management, oversight, and decision making responsibilities.

The organisation chart below provides a high level overview of the Company's governance structure.



The following sections provide high-level descriptions of the role and responsibilities of each function.

Board of Directors (the Board)

The Board has overall responsibility for the oversight of the management of the Company and is responsible for ensuring the success of the Company, whilst seeing an appropriate degree of protection for policyholders. It is also responsible for understanding the nature of the risks significant to the Company, forming an independent view of the Company's risk profile, ensuring that effective controls are in place and that the Company operates and sets strategy in keeping with the Board-approved risk appetite and appetite statements.

With regard to the ORSA, the Board takes an active part in the ORSA process to include steering how the assessment is to be performed and challenging the results. To achieve this, the Board will review the ORSA Process and ensure the ORSA framework is appropriately designed and embedded within the company culture and decision-making process.

All authority in the Company flows from the Board, but it delegates to sub-committees and senior management the matters set out in respective terms of reference and senior management responsibilities, as defined by the Senior Insurance Management Regime.

Audit Committee

In November 2016 the Board approved the set up of an independent USAA Limited Audit Committee to consist of the Non-Executive Directors. The new Audit Committee commenced operation in the 1st Quarter of 2017.

As a sub-committee of the USAA Limited Board of Directors and in line with its Terms of Reference and the responsibilities prescribed within the Prudential Regulatory Authority Handbook, the USAA Limited Audit Committee will review and monitor:

- The integrity of the Company's financial statements.
- The effectiveness of the Company's internal financial controls.
- The effectiveness of the Company's internal and external audit processes.
- The relationship with the Company's external auditors.

Risk Committee

The Risk Committee is a formally chartered management committee chaired by the General Manager and is responsible for recommending the risk framework to the Board, recommending to the Board and monitoring adherence to risk appetites, approving policies related to risk management, and approving processes and escalation thresholds. Risk Committee membership consists of the Company's management and key business partners.

Senior Insurance Managers Group (SIMG)

The Senior Insurance Managers Group consists of those individuals involved in the day-to-day running of the Company who are either approved as Senior Insurance Managers by the PRA, or who have been notified to the PRA as Key Function Holders. Persons performing these roles are those who perform a critical role within the Company and who are responsible for the ongoing safety and soundness of the Company. The Senior Insurance Managers Group will escalate as appropriate, matters to the Board that may cause a material impact to the Company's reputation, brand, customer base, financial position, product and revenue plan and workforce.

Business Management Group (BMG)

The Company has one formally chartered management-led group. In 2016, two previously formally chartered management groups were absorbed into the Business Management Group and the Senior Insurance Managers Group, respectively.

The BMG meets on a bi-monthly basis, at minimum, to review, manage, and monitor the functions and day-to-day activities that reside within its specified functional areas. Matters that may result in a material deviation from the Company's Strategic Plan or may cause a material impact to the Company are escalated to the Risk Committee or the SIMG through documented escalation procedures.

The BMG monitors matters regarding the Company's insurance risk and product performance, such as pricing, underwriting, claims and product strategies. In addition, the BMG oversees the Company's operational risk, ensuring effective and efficient execution of people, processes and technology.

General Manager

The General Manager, as delegated by the Board, is responsible for the day-to-day management of the Company. This includes, but is not limited to, developing and monitoring business strategy, plan and budget, and supporting the operations of the Company. The General Manager will submit the business strategy and plan to the Board for approval, and report to the Board on the progress of the strategy each quarter.

Chief Accountant

The Chief Accountant is responsible for the production and integrity of the Company's financial information and financial regulatory reporting. The Chief Accountant is also responsible for the management of the allocation and maintenance of the Company's capital and liquidity as well as the Company's financial resources and reporting to the Board.

Key Functions

The following section describes the primary roles and responsibilities of the Company's key functions:

a) Risk Management Function

While the Company (as the 1st line of defence) employs risk management and mitigation techniques from an operational perspective, the Company outsources risk management as a 2nd line of defense to P&C Risk Management within the parent company, USAA. P&C Risk Management provides an independent, clear, concise and holistic view of risks arising from the Company's business strategy and operations. In collaboration with the Company's senior management, P&C Risk Management develops and implements risk management frameworks and appetites based on the proportionality and complexity of the Company, develops and maintains policies related to risk management, and monitors processes and escalation thresholds to ensure alignment with the Company's risk appetite statements. P&C Risk Management also provides independent risk management assessments of business processes, initiatives, and decisions.

The Senior Risk Officer, who is registered as a Senior Insurance Manager with the PRA, provides fully independent risk oversight and risk expertise, including effective challenge, advice and counsel to the General Manager and the Board.

b) Internal Audit Function

The Internal Audit function of the Company is predominately outsourced to USAA Audit Services and deliverables are managed in accordance with the service agreement between USAA Limited and USAA Audit Services. The Head of Internal Audit, who is registered as a Senior Insurance Manager with the PRA reports into the USAA Limited Board of Directors.

The activity of internal auditing is primarily one of information gathering, review analysis, appraisal, and testing for the degree of compliance with policies and procedures and the adequacy of managerial systems and controls put in place to mitigate risks that exist in achieving organisational objectives. The internal audit activity is free to review and appraise policies, plans, procedures and other internal controls in any area of the organisation, and to report audit issues and recommendations for improvement to the people who have managerial responsibility. This review in no way relieves other persons in the organisation of responsibilities assigned to them.

Internal audit activities are to be performed in a manner that provides reasonable assurance that audit work complies with International Standards for the Professional Practice of Internal Auditing (the Standards), and the USAA Limited Audit Charter. Management, external auditors, regulatory agencies and USAA members rely on performance consistent with the Standards and other assurance guidelines.

The objective of Audit Services is to assist management in the effective discharge of their responsibilities by furnishing them with reports setting forth independent and objective analysis, appraisals, recommendations, and pertinent comments concerning the activities audited. Audit Services shall, therefore, be concerned with any phase of business activity in which it can be of service to the USAA Limited Board of Directors and management.

c) Actuarial Function

The Actuarial Function within USAA Limited is predominately outsourced to the P&C Actuarial Functions within the parent company. The P&C Actuarial Functions are responsible for providing expertise as it relates to loss reserving, pricing, capital modelling, reinsurance, and catastrophe exposure. Processes and deliverables of this function are handled in accordance with the service agreement between USAA Limited and USAA.

The USAA P&C Actuary who is ultimately responsible for the P&C actuarial services provided to the Company is registered as a Senior Insurance Manager with the PRA, principal responsibilities include:

- Coordinate the calculation of Technical provisions.
- Ensure the appropriateness of the methodologies and underlying models used, as well as the assumptions made in the calculation of technical provisions.
- Assess the sufficiency and quality of data used in the calculation of technical provisions.
- Inform the Board of the reliability and adequacy of the calculation of technical provisions
- Express an opinion on the overall underwriting policy.
- Express an opinion on the adequacy of reinsurance arrangements.
- Contribute to the effective implementation of the risk management system, in particular with respect to the risk modelling underlying the calculation of the SCR and MCR and to the firm's Own Risk Self-Assessment.
- Effective control management of Insurance risks.

d) Compliance Function

The Company has its own dedicated compliance resource, the Compliance Director, and also receives support from USAA Compliance. The Compliance Director, which is a key function holder role notified to the PRA, is responsible for identifying rules and regulations applicable to the Company, providing a comprehensive view of the regulatory risks arising from the business and operations of the Company, and reporting these risks to the Board and senior management at least annually. On a quarterly basis, the Compliance Director will provide updates on the Company's continued compliance with applicable regulations to the Senior Insurance Managers Group. The Compliance Director will also facilitate annual compliance monitoring programs and provide ad-hoc reports on internal audits. In collaboration with P&C Risk Management, the Compliance Director will oversee the ownership and management of the Company's risk register and ensure that a comprehensive and effective corporate governance framework is maintained for the Company.

e) Customer Service Director Function

The Customer Services Director, which is a key function holder role notified to the PRA, is responsible for ensuring that the Company provides its customers with the appropriate product solutions to meet their needs and that sales are made in compliance with legal and regulatory requirements.

f) Claims Director Function

The Claims Director, which is a key function holder role notified to the PRA, oversees and coordinates the claims activities within the Company. These responsibilities include the adjustment of motor, property and physical damage claims and the management of catastrophe operations. In addition, the Claims Director ensures the claims function complies with relevant policies and procedures.

Remuneration Policy

The Company's compensation programme is designed to help the Company attract, retain and motivate high performing employees who will adhere to the highest standards of service, loyalty, honesty, and integrity. Our compensation plans are designed to pay for performance, ensure proper risk mitigation, and encourage best practices.

Aligning the total compensation of employees to the Company's mission is an important element of ensuring the ongoing health of the Company for the benefit of policyholders. The Company uses commonly accepted practices for benchmarking total compensation with relevant peer groups, and contracts with an external consulting firm to conduct its total compensation benchmarking exercise. Peer groups will match as closely as possible the central responsibilities and characteristics of the target position, and be broad enough to withstand any bias of a particular survey participant.

The Company's current total compensation package comprises of the following:

- Fixed compensation; Basic Salary, Location Allowance, Year End Bonus and Other Benefits.
- Variable compensation; Annual Bonus, Long Term Bonus, Pension and Some Benefits.

The fixed remuneration element of the policy is primarily focused on staff below Director (People Leader) level. Once this level the total package becomes progressively more focussed on variable remuneration elements that are directly linked to the overall performance of the Company with staff at Executive Director level and above receiving long term bonus rewards.

Individual performance is rewarded via annual pay awards which are taken from a % based pot of money assigned to the people Managers to allocate to employees. This % is based on company performance (Profitability) in the previous year, achievement of Company objectives (as set on the corporate scorecard) and the remuneration policy's intent to maintain competitive salaries in line with the market. All people Managers conduct formal documented performance evaluations on a Quarterly basis to ascertain achievement of objectives and discuss performance to date. The only exclusion is the General Manager whose annual reward is set by the Board. The annual bonus payment consists of a multiplier, assigned to the individual's bonus target, which is determined at a role level.

The General Manager also has a Long-term bonus plan (LTBP), which the multiplier is applied to over a 3 year period, with a new LTBP starting annually. The bonus target is only adjusted if the staff member fails to achieve recognised/satisfactory levels of behaviour and, or performance.

There are no supplementary pension schemes in place for any staff. Early retirement options are as required under Pension Regulations, and apply to all staff. The Company offers a core 10% with a 2 to 1 match up to another 10% against salary sacrifice contributions from staff.

B.2 FIT AND PROPER REQUIREMENTS

The SFCR is produced by the Finance team under the supervision of the Chief Accountant. It is subsequently reviewed by the Risk Function with input from other key functions and management committees before being presented to the Board for approval.

The key functions within the Company require the skills, knowledge and expertise in; Insurance Markets, Finance, Actuarial, Regulatory Frameworks & Compliance, Insurance Operations (Claims, Service, Underwriting), Governance, Risk.

The Company recruits to a high standard of competency and experience. A robust recruitment process is in place to ensure that the relevant skills required to fulfil the role and responsibilities are obtained. In addition, external background checks are completed and references validated by an external company. Then, on an ongoing basis all persons in key function roles are monitored for competency through an internal learning management system, self reported learning and development objectives/goals as identified in regular meetings with their reporting Managers, and via formal quarterly performance evaluations. An annual check is then conducted utilizing an external company to accompany the internal processes.

B.3 RISK MANAGEMENT SYSTEM

A strong and clearly defined risk management framework is a key corporate function that promotes an understanding of risk and encourages risk-based decision making. Risk is inherent to operating a business. The primary objective of the USAA Limited's risk management framework is to protect the Company and its policyholders from events that hinder the sustainable achievement of the Company's mission and strategic objectives. The Board and senior management recognise the critical importance of having efficient and effective risk management systems in place.

The Company has established a risk management function with clear terms of reference from the Board and underlying committees. Central to an effective risk management programme is a robust corporate governance structure with documented delegated authorities and responsibilities from the Board to executive management, senior management 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.

Risk Governance

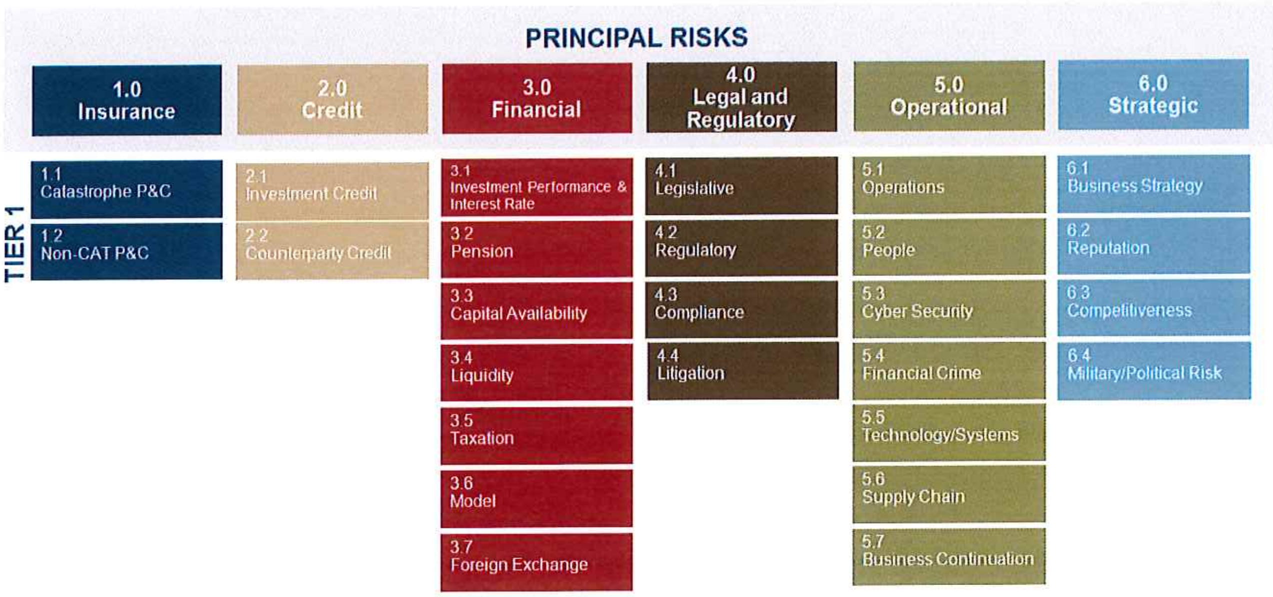
The Company's governance structure has management-led governing bodies throughout the Company, as well as the Board, to ensure that prudent risk management is practiced across the Company to protect the safety and soundness of the Company. The Company's risk governance was established with consideration of the UK, European and US regulators expectations.

Risk Taxonomy and Risk Register

The core of an effective risk management framework is a risk taxonomy that names, classifies, and defines risk across the Company. The Company's risk taxonomy structure (shown below) has been established to:

- Aid management in understanding the current risks that face the Company;
- Facilitate the consistency of risk measurement and its aggregation across the Company; and
- Assign accountability and ownership for each risk area.

The risk taxonomy structure is comprised of six principal risks: Insurance, Credit, Financial, Legal and Regulatory, Operational, and Strategic. Sub-categories of risks in each risk area have been established as tier one risks.



Risks Identification

Risk identification is a continuous process that takes into account company objectives and a changing business and economic environment. The risk management process is deployed across the Company's risk taxonomy and addresses all key risks to which the Company is exposed to. The Company also conducts an annual qualitative risk assessment exercise to identify its top risks. This assessment is based on the Company's net risk exposure using a qualitative likelihood and impact approach.

Policies

Policies are an integral part of the Risk and Corporate Governance structure for the Company and facilitate strong governance and clearly defined roles and responsibilities. Policies are the strategic link between the Company's vision and its day-to-day operations, and they allow employees to understand their roles and responsibilities within predefined limits. The Company designs it policies to address its Principal Risks and align with its Risk Taxonomy.

Risk Monitoring and Reporting

The Company has implemented a quarterly risk reporting process to report the aggregate risk profile of the Company. The results are reported to and reviewed by senior management, the Risk Committee and the Board. The report consists of measures that are compared to pre-approved risk limits: the risk appetite is the maximum amount of risk that the Company is willing to take for a specific measure; the risk trigger is an indicator that the appetite is being approached. Metrics and limits are evaluated for potential changes on an annual basis. In addition, breaches of risk appetites, policy limits, and triggers are escalated through the appropriate governance structure. Root cause and action plans for accepting or mitigating the risk are detailed and discussed by senior management and the Board.

The triggers and appetites, which are based on input from subject matter experts, historical trends and strategic direction, are determined by senior management and ultimately approved by the Board.

Emerging Risks

Emerging risks are developments which could have a substantial impact on the Company. Drivers of emerging risks include economic, financial market, regulatory, technological, geopolitical and environmental developments. Growing interdependencies between risks can also lead to increasing accumulation of exposure. Emerging risk briefings describe a risk event, share relevant references and estimate the likelihood and potential financial impact of an event to the Company. They are used by management to determine if mitigation tactics should be considered. In addition, the Company' risk metrics help serve as leading indicators to other potential emerging risks.

The cornerstone of this function is active scanning of the environment both by the 1st line of defence and the 2nd line of defence. An external environment report is created each year prior to the Top Risk Exercise. In addition, as part of day-to-day business, emerging risks identified are discussed at the relevant management groups and the Risk Committee.

Stress Testing

Stress testing is a critical risk identification and quantification technique. The Company has designed a stress testing program to identify the impact of a plausible risk scenario. Stress testing allows the Company to improve its financial strength by increasing preparedness through the quantification of risks and spurring the development of well rehearsed action plans.

The stress testing program includes a variety of approaches: sensitivity analysis, scenario analysis and other analysis. It designs scenarios that incorporate a variety of Company specific and market-wide events across a time horizon. Stress scenarios are tailored to capture and quantify the Company's exposures, activities and risks influencing capital and liquidity adequacy. They enable senior management and the Board to analyse possible impacts on the Company's risk profile, capital availability, cash flows, liquidity position, profitability and solvency. Robust scenario design, accurate and informed impact estimation and detailed, well-rehearsed action plans are the Company's goals for stress testing. Details on the stress testing activities conducted in 2016 are included in Section C.6.

Results are summarised for the Board and may be considered by the Board and senior management when making decisions related to capital and liquidity adequacy. Stress test results also provide critical inputs to risk mitigation and contingency plans.

Own Risk & Self Assessment (ORSA)

The purpose of the ORSA is to provide a comprehensive tool through which the Board and management can assess risks and determine the level of capital required to meet the solvency and strategic objectives set forth by the Board.

The company is committed to maintaining its strong financial position by assessing risk and prudently managing anticipated capital needs in consideration of its business plans and risk profile. The integration of capital management and risk management into the strategic and operational planning process is fundamental to a strong business model. The Company's integration of these disciplines are captured in its ORSA Report and aligns with Solvency II regulatory expectations.

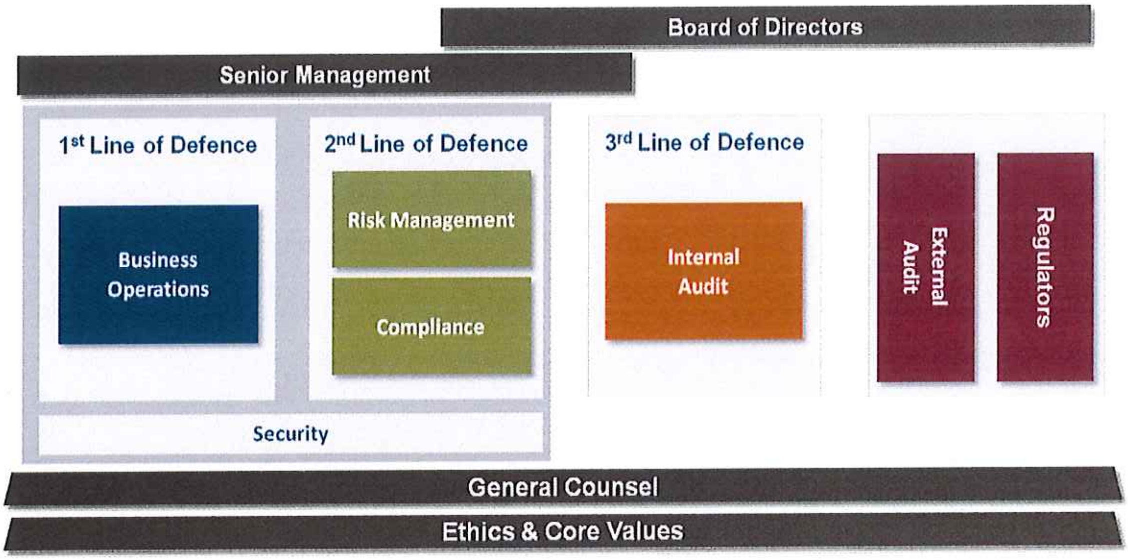
The ORSA process is reviewed and approved annually by the Board. The objective of the ORSA process ensures a full understanding of risks to which the Company is exposed and for assessing capital adequacy against those risks. The process ensures that sufficient capital can be maintained to enable the Company to achieve its strategic objectives in light of its risk profile, and to withstand the impact of any foreseeable adverse events within the next one to three years. The Company's integration of these disciplines is illustrated below.

While the ORSA reflects a current risk and solvency assessment, it should be noted that the ORSA is an ongoing and continuous process throughout the year.

The ORSA Report is produced mid-year, annually and when the Company's capital position is impacted significantly from a material event or change in its risk profile. The Report structure contains sections focused on material changes from the prior year, business strategy, risk framework and assessments, and capital and solvency results and projections.

B.4 INTERNAL CONTROL SYSTEM

The Company employs a "lines of defence" model (shown below) to coordinate various areas that have oversight and risk management responsibilities. Each of the 1st, 2nd, and 3rd lines of defence have distinct roles and responsibilities within the model, and continuous collaboration is essential between the three lines regarding risk prioritisation, trends, control quality, and effective remediation.



1st Line of Defence: the Business

Each business unit within the Company has primary responsibility for identifying, assessing, managing, and controlling risks. Business unit management, as risk owners, are expected to adhere to risk management standards, policies, procedures and guidelines that are designed to mitigate risks and to ensure the effectiveness of the risk management process. Risks taken by the 1st line should be managed by those areas within the approved risk appetite statement approved by the Board.

2nd Line of Defence: Risk Management and Compliance

P&C Risk Management together with Compliance make up the 2nd line of defence. P&C Risk Management establishes the risk management framework, to include policies, procedures, and risk appetites, and holds the Company accountable for adherence to the framework through independent oversight.

The Compliance Function designs and implements the Regulatory Compliance Program by identifying regulatory compliance requirements, educating business unit management and process/risk owners on compliance strategy and risk, providing product and project advisory services, and designing and implementing an effective regulatory compliance training program. Compliance ensures effectiveness of the program by performing independent risk-based compliance monitoring, testing and reporting, facilitating timely resolution of compliance matters by investigation and remediation of systemic compliance issues, and reporting to senior management and the Board on the effectiveness of the program. In addition to these functions, Compliance facilitates regulatory examinations, supervises regulator interaction with the business areas and develops positive regulator relationships.

3rd Line of Defence: Audit Services

Internal Audit Services serves as the 3rd line of defence by providing senior management and the Board with independent and objective assurance on the effectiveness and efficiency of governance, risk management, internal controls and compliance processes. As the 3rd line of defence, Internal Audit Services reviews, as part of its scope, the effectiveness of policies and processes in the 1st and 2nd lines of defence.

Risk and Control Self Assessments (RCSAs)

In collaboration with P&C Risk Management, the Company has developed comprehensive Risk and Control Self Assessments (RCSAs) across its core processes. The six areas for which an RCSA is in place are: Insurance Services, Claims, Underwriting/Pricing, Accounting/Finance, Human Resources/Information Technology, and Supplier Management. As new core processes are identified, or as regulatory expectations change, additional RCSAs may be developed. To ensure the documented risks and mitigating controls remain relevant to the main risks faced by the Company, each RCSA will be reviewed annually. This review, or refresh process, is led by the business units with oversight support from P&C Risk Management.

For operational RCSAs, control testing is in place for controls that are deemed key to the mitigation of critical risks. Tests are performed by the 1st line of defence, and results are reported as appropriate. Control test effectiveness and timeliness is monitored and reported to the BMG on a bi-monthly basis and escalated to the Risk Committee as needed.

B.5 INTERNAL AUDIT FUNCTION

Details on the Internal Audit Function are disclosed in Section B.1 General Information on the System of Governance above.

B.6 ACTUARIAL FUNCTION

Details on the Actuarial Function are disclosed in Section B.1 General Information on the System of Governance above.

B.7 OUTSOURCING ARRANGEMENTS

Due to its size, outsourcing is a key part of the Company's strategy to serve its policyholders. The Company primarily outsources a number of functions and activities to its parent company, USAA. In these cases, the oversight role will be delegated to the General Manager. The Company does not assume that an outsourcing arrangement with the parent company will necessarily imply a reduction in operational risk or regulatory exposure.

The Company's Outsourcing Policy governs the identification, process, and management of the Company's outsourcing arrangements. This Policy was approved by the Board and is reviewed on an annual basis.
All Supplier Contracts are actively managed and reported to the BMG. The Supplier Management Process has been developed to ensure that all contracts are appropriately monitored to ensure that they are renewed as appropriate and that the appropriate service level delivery standards are met.

In addition to services outsourced to its parent company the Company outsources various services to external parties as listed in the table below:

Outsourced Operation	Service Provider	Jurisdictions	Description
Claims Handling	External Vendor	Azores, Belgium, France, Greece, Italy, Netherlands, Portugal & Spain	Claims handling and settlement
Investment Managing	External Investment Management Company	Azores, Belgium, France, Germany, Greece, Italy, Netherlands, Portugal, Spain & UK	Investment portfolio management
Insurance Support Services	USAA – Parent Company	Azores, Belgium, France, Germany, Greece, Italy, Netherlands, Portugal, Spain & UK	Administration, IT services, Non-advised sales telephone support, Premium collection, Underwriting
Professional Support Services	USAA – Parent Company	Azores, Belgium, France, Germany, Greece, Italy, Netherlands, Portugal, Spain & UK	Actuary, Attorney, Audit, Compliance, Internal Loss Reserving, Hr Compensation & Benefits, Risk Management
Specialist Technical Services	External Vendor	Azores, Belgium, France, Germany, Greece, Italy, Netherlands, Portugal, Spain & UK	Appraisers, Loss-adjusters, Fiscal Agents

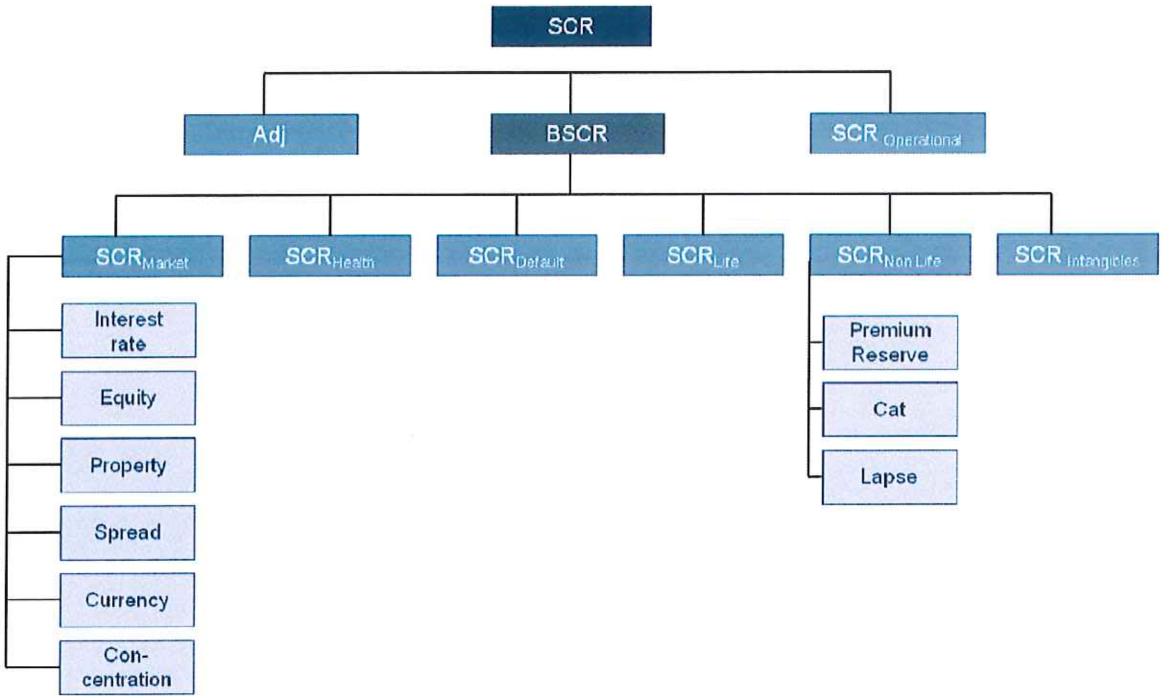
C. RISK PROFILE

The Company believes that a robust, effective and embedded risk management framework is crucial to maintaining successful business operations and delivering its strategic objectives. 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 integration of capital management and risk management into the strategic and operational planning process is critical for long-term financial solvency.

The Company calculates it Solvency Capital Requirement (SCR) using the standard formula. The risk profile is a point in time measurement of the risks that the Company is exposed to. The Company runs its SCR on a current and forward looking perspective over a three year time horizon.

The SCR using the standard formula is based on a modular approach consisting of market, counterparty default and non- life risk modules with associated sub-modules. These are aggregated in the standard formula using correlation matrices, both at the sub-module and main module level. This provides a Basic Solvency Capital Requirement (BSCR) to which an operating risk capital component is added to give the overall SCR. Diversification benefits are calculated between the sub-risk modules and main modules.

The diagram below sets outs the standard formula risk modules and sub-modules:



The risk modules applicable to the Company's business operations are market risk, counterparty risk, non-life underwriting risk and operational risk modules and sub-modules. Full details of the standard formula SCR calculations can be found in Section E.2.

C.1 UNDERWRITING RISK

Underwriting Risk covers the risks the Company is exposed to arising from its insurance underwriting operation and is split between the following sub-risk categories:

- Premium Risk
- Reserve Risk
- Non Catastrophe Risk
- Man Made Catastrophe Risk
- Lapse 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. This is influenced by the frequency and severity of claims, actual benefits paid and subsequent development of long-term claims.

The risk exposure is mitigated by diversification of its portfolio of insurance contracts over geographical areas across Europe. The variability of risks is also improved by careful selection and implementation of underwriting strategy guidelines, as well as the use of reinsurance arrangements.

The Company has two reinsurance contacts in place as part of its underwriting risk mitigation programme:

a) External Motor Liability Excess of Loss Treaty

This treaty provides reinsurance protection for unlimited liability limits for motor liability business written in the UK and Belgium and motor liability limits set in other European locations. The company has retention limits of £1.75m for the UK and €2.5m for other European location.

b) USAA Non-proportional Stop Loss Treaty

The majority of the Company's residual risk is covered by a non-proportional stop loss treaty with its parent company. Under this treaty an overall annual loss in its non-technical underwriting account is limited to £1m up to a maximum limit of £25m.

There are no material changes to the measures used to assess premium risk, reserve risk, natural catastrophe risk and man made catastrophe risk during the reporting period.

C.2 MARKET RISK

Market Risk reflects the risk that the Company is affected by adverse movements in the fair value of its financial assets and liabilities. The Company is exposed to market risk on both the asset and liability side of its balance sheet arising from assets in the Company's investment portfolio, investment assets held in the Company's defined benefit pension schemes, the Company's technical provisions and transactions requiring settlement in a different currency.

The market risk sub-categories applicable to the Company are as follows:

- **Spread Risk**

  The spread risk the Company is exposed to stems from the sensitivity of the value of assets in the level or volatility of credit spreads over the risk-free interest rate return structure, which can cause a decrease in the asset's market value.

- **Interest Rate Risk**

  The interest rate risk the Company is exposed to arise from the risk of financial loss or adverse change in the value of assets and liabilities due to unanticipated changes in interest rates and their volatility.

- **Concentration Risk**

  The concentration risk is the additional risk to the Company from either a lack of diversification in the investment portfolio, or from large exposures to default risk by a single issuer or group of related issuers to securities.

Spread risk, interest rate risk and concentration risk are considered by the Company to be low risks due to the Company's prudent approach to managing its assets. The Company has a conservative investment strategy with strict investment guidelines in place, which requires the Company to maintain a well diversified high quality bond portfolio.

The concentration risk charge is zero under the standard formula as there are no holdings in excess of the specified thresholds prescribed by the EU Delegated Acts.

- **Currency Risk Rate**

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

  The Company is exposed to currency risk as it underwrites its premiums in US Dollars and pays it claims and expenses in Sterling and Euros. It also holds assets and liabilities in both US Dollars and Euros. The Company seeks to mitigate its foreign exchange risk by matching the estimated foreign currency denominated liabilities with assets denominated in the same currency. This is achieved by setting the currency allocation of its investment portfolio to match the currency allocation of its liabilities.

The Company monitors the impact of interest rates and foreign exchange rates very closely through the use of risk appetites and triggers, foreign currency management and capital management assessments.

In 2016, the Company changed the approach it followed on the treatment of pension schemes within the standard formula. The SCR relating to the UK and Germany pension schemes has been calculated by Aon Hewitt, based on the guidelines set out in the standard formula. In these calculations the pension SCR is now being incorporated into the overall market and counterparty risk modules and the associated sub-modules, allowing for diversifications within the wider business.

Risk Mitigation and the Prudent Person Principle

The Company's Investment Management Guidelines ensure the Company complies with the requirements of the Prudent Person Principal set out in Article 132 of the Directive 2009/138/EC. The Investment Guidelines sets out the Company's strategic asset categories, limits and allocations that are suitable for its risk profile and strategic investment objectives. The Investment Guidelines are approved by the Board and reviewed annually.

The Company does not invest in any asset category that is not included in the Investment Guidelines.

The Company, as first line of defence and the Risk Committee monitor adherence to Investment Guidelines, policies, risk metrics and RCSA's with results reported to the Board at quarterly Board Meetings.

C.3 CREDIT RISK

Counterparty Default Risk

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

The Company has strict guidelines on its reinsurance arrangements, which vets the risk profile and credit ratings of the participating reinsurers on its external reinsurance excess of loss programme. Credit ratings of counterparties are monitored closely to reduce the risk of default.

The SCR counterparty risk for the reporting period represents 3% of the total SCR. Exposure to counterparty risk is well diversified across counterparties and therefore, not deemed to be a material risk to the Company. There have not been any material movements in counterparties during the reporting period.

C.4 LIQUIDITY RISK

Liquidity risk arises from inability of the Company to generate sufficient cash resources to meet its financial obligations as they fall due.

The Company considers liquidity risk to be low due to the mitigation measures it has in place to manage liquidity. This includes a liquidity policy which establishes appropriate governance and accountability for managing liquidity risk, adherence to liquidity risk triggers and appetites and a liquidity funding contingency plan.

The Company also holds sufficient funds in cash and short-term deposits to meet its immediate and foreseeable cash flow requirements. In addition the investment portfolio holds high grade corporate bonds that can be sold if required to provide liquid funds.

The expected profit included in future premiums for the reporting period is £6,566k.

The Company does not consider its liquidity concentration exposures to be material. There have not been any material movements or changes in liquidity concentration exposures during the reporting period.

C.5 OPERATIONAL RISK

Operational risk is defined as the risk of loss arising from inadequate or failed internal processes, systems, people or external events.

The Company considers operational risk to be a key risk as it is inherent across the Company and can prevent it from fulfilling its mission and strategic objectives. Particularly, as the majority of top risks that the Company has identified are categorised as operational risks. The Company is committed to managing all operational risks related to people, processes, systems and external events to ensure a stable, safe and secure operating environment. In all situations the management of the Company will act promptly to mitigate these risks when they occur.

Examples of operational risks that are actively managed include:

- Systems availability and performance.
- Employee training and turnover
- Business continuity.
- Information security.
- Fraud.
- Financial crime.
- Cyber security.
- Outsourcing.

The Company maintains a comprehensive risk register detailing risks and internal controls, which is a critical risk management tool in managing operational risk. In the additional the Company has implemented a Risk Control Self-Assessment (RCSA) programme for key operational risks with identified risk owners. RCSA testing is carried out regularly throughout the year to test the effectiveness of internal controls with tests results being reported to the Board and governance committees.

The Company's exposure to operational risk is also mitigated by its Stop loss reinsurance programme in place with its parent company. The Stop loss reinsurance protects the company if it makes an underwriting loss in excess of £1M up a maximum limit of £25M in a financial year. This would cover any loss caused by operational events that impacted the Company's underwriting profitability.

Material operational risks are covered in section C.6 below.

C.6 OTHER MATERIAL RISK

In addition to the risks mentioned in the above section the Company has identified the following top risks, which link directly to its Strategic Plan:

- **Regulatory/Business Strategy** – Brexit has the potential to significantly impact the regulatory risk and business strategy risk if its passporting rights are not maintained.
- **Military/Political Risk** - Material reduction in the size of US military deployed in Europe as a result of political decisions around the US Department of Defence budget.
- **Competitiveness Risk** - Increased competition from insurers resulting in significant erosion of market share.
- **Technology/Systems Risk** - Technological developments significantly changing the insurance product or the way in which it is delivered to customers.

Technology/Systems fall within operating risk. The other risks, though not explicitly modelled in the standard formula, would be included in the modelled results as the risks would materialise into the financial risks of deteriorating growth and profitability. The SCR is considered sufficient to cover these risks for this reason.

There have not been any material movements that impacted the Company during the reporting period.

Stress Testing and Sensitivities

The 2016 USAA Limited Stress Testing Plan, which was approved by the Board, focused on separate exercises, including stress and reverse stress testing analyses. The Company conducted two stress tests in 2016.

a) Reverse Stress Test – Military/Political and Cyber Risk

Scenarios for the reverse stress testing exercise focused on circumstances that would render the Company's business model unviable under stressed conditions. More specifically, a simplified cost analysis was conducted to determine the lowest number of insurance policies needed to cover expenses and losses in three unique scenarios (listed below). It should be noted that the reverse stress test was executed prior to the UK's decision to leave the EU in June 2016, when a vote to leave the EU was viewed as unlikely to occur.

Scenario 1 demonstrated how proactive risk management practices, such as reverse stress testing, can provide an additional layer of risk management coverage, thus preparing the business for potential emerging risks.

- Scenario 1: Loss of Passporting Rights
- Scenario 2: Cyber Security Breach
- Scenario 3: US Military Troop Reduction

Overall, the reverse stress test results show that the Company is currently positioned well above the breakeven point and is unlikely to see a material impact to the breakeven point under assumed scenario parameters. Recommendations from the exercise include development of contingency plans in the event of a loss of passporting rights and revaluation of business strategy for short and long-term implications. The Board and senior management are continuously monitoring developments following Brexit and are assessing potential impacts to the company. Due to the sensitive nature of the scenarios stress tested results have not been included.

b) Stress Test – Business Strategy and Non-Catastrophe Risks

The USAA Limited Stress Test Working Group underwent a stress test exercise in the fourth quarter of 2016. The scenario considered a £40 million loss occurring on 1 July 2017 due to a policyholder's insured automobile colliding with a mass-transit passenger vehicle in a location where motor policies carry unlimited liability limits, and during a time when the Company was unable to secure unlimited liability reinsurance contracts due to contractions in the market.

A stop loss recovery under the USAA stop loss reinsurance treaty was a significant mitigation factor in realising a pre-tax profit under the stressed scenario, considering the extent of incurred claims and claims management expenses, coupled with a lower reinsurance recovery under the external motor liability excess of loss treaty

This is further evidenced in the combined ratios below.

	Before Stop Loss Reinsurance		After Stop Loss & Reinsurance	
Ratios	2017 Plan	Stressed Scenario	2017 Plan	Stressed Scenario
Claims Incurred	62.4%	109.7%	69.4%	77.1%
Underwriting Expenses	19.8%	19.8%	19.8%	19.8%
Combined Ratio	82.2%	129.5%	89.2%	96.9%

Although the stop loss reinsurance would provide protection against an event such as the scenario outlined above, the benefit of the reinsurance recovered would not be taken into account when calculating the non-life component of the SCR. This is due to a limitation in the standard formula which is not able to model non-proportional stop loss reinsurance.

The projected ratio of eligible own funds to the overall SCR for 2017 was 163%, following the stressed scenario this reduced to 128%. The Company breached its risk trigger of 130% but still remained above its risk appetite of 120%.

Upon completion of the stress test it was concluded that the Company appears to be positioned well to sustain a significant non-catastrophe event such as this, and that the reinsurance treaties that the Company has in place are vital to the long-term financial health of the Company.

C.7 ANY OTHER INFORMATION

Risk-taking is limited by setting appropriate risk triggers and appetites with clear guidelines for limiting and controlling risk exposures to ensure the Company operates within the risk appetites statements. The Company's risk appetites statements are approved by the Board annually. Modifications, if necessary are made to reflect changes in business strategy, objectives or the external environment.

D. VALUATION FOR SOLVENCY PURPOSES

The Solvency II Regulation (EU) 2015/35 ('the Solvency II Regulation') requires companies falling under the scope of Solvency II to report their Solvency II financial statements under International Financial Reporting Standards ('IFRS'), which requires assets and liabilities, other than technical provisions to be measured at fair value.

Article 9 of the Solvency II Regulation contains a derogation for companies reporting under UK GAAP, which allows companies the option of recognising and valuing assets and liabilities under UK GAAP for Solvency II purposes if UK GAAP is consistent with Article 75 of the Solvency II Directive.

The PRA has issued a Supervisory Statement 'SS38/15 Solvency II: consistency of UK generally accepted accounting principles with the Solvency II Directive to address the requirements for companies using UK GAAP. The PRA expects that that where UK GAAP and IFRS are consistent in recognition and valuation criteria the derogation will not apply, since the requirements of IFRS would be met when reporting UK GAAP.

The Company prepares its statutory financial statements in compliance with FRS 102 and FRS 103, being the applicable UK GAAP accounting standards, and in accordance with the provisions of Schedule 3 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations relating to insurance companies, which it considers to appropriate for reporting under Solvency II.

The Solvency II Balance Sheet

Solvency II Balance Sheet as at 31 December 2016	Notes	UK GAAP	Reclassification Adjustments	Solvency II Valuation Adjustments	Solvency II
Assets					
Deferred tax assets	7	265	**(265)**		0
Pension benefit surplus	8	1,163			1,163
Property, plant & equipment held for own use	6	612			612
Investments	1	**129,122**	**10,172**		**139,294**
Government Bonds		45,344	311		45,655
Corporate Bonds		81,192	767		81,959
Collateralised securities		2,586	51		2,637
Deposits other than cash equivalents	2		9,043		9,043
Reinsurance recoverable from:		**9,042**			**3,947**
Non-life excluding health	D.2	9,042		(5,095)	3,947
Insurance intermediaries receivables	3	49,178	622	(43,840)	5,960
Receivables (trade, not insurance)	4	550			550
Cash and cash equivalents	5	20,693	(9,043)		11,650
Any other assets, not elsewhere shown	9	1,360	(1,129)		231
Total assets		**211,985**	**357**	**(48,935)**	**163,407**
Liabilities					
Technical Provisions					
Non-Life excluding health	D.2	(129,463)		51,592	(77,871)
Liabilities other than Technical Provisions					
Pension benefit obligations	11	(145)			(145)
Deferred tax liabilities	10	(364)	265	(520)	(619)
Insurance & intermediaries payables	12	(402)		402	0
Payables (trade, not insurance)	13	(3,610)	(622)		(4,232)
Any other liabilities, not shown elsewhere	14	(1,690)			(1,690)
Total Liabilities		**(135,674)**	**(357)**	**51,474**	**(84,557)**
Excess of Assets over Liabilities		**76,311**	**0**	**2,539**	**78,850**

The statutory accounting balance sheet forms the basis for the Solvency II balance sheet, with reclassifications and valuation adjustments made to assets and liabilities requiring a different recognition or valuation basis under Solvency II. Details of the valuation and recognition of UK GAAP assets and liabilities can be found in the Company's Annual Report and Accounts, Note 1 on Accounting Policies on page14-19. Additional notes have been included in sections D.1 D.2 and D.3 below for reclassification and Solvency II adjustments made to the Solvency II balance sheet.

D.1 ASSETS

Note 1: Investments

The investments are measured on a fair value hierarchy (Levels 1 to 3), consistent with the UK GAAP financial statements. The investments are included in the Level 2 category, are financial assets and are valued by the Company's asset managers, Western Asset Managers, based on the average of third-party bid and offer prices.

Accrued interest has been reclassified from any other assets under UK GAAP to the value of underlying investments under Solvency II.

Note 2: Deposits other than Cash Equivalents

Deposits other than cash equivalents under Solvency II include UK Treasury deposits placed with financial institutions, which have a maturity date of less than three months but cannot be used to make payments before their specified maturity date. These deposits have been recognised at their value on maturity. As these deposits have been presented as cash & cash equivalents in the statutory UK GAAP balance sheet a reclassification adjustment of £9,043k has been made for Solvency II purposes.

Note 3: Insurance & Intermediaries Receivables

Under UK GAAP Insurance and intermediaries receivables include both amounts owed by policyholders that are past due and amounts owed by the parent company. Under Solvency II the amounts owed by policyholders that are not past due are future cash flows and have been taken into account in the calculation of premium provisions within technical provisions. Details on the methodology for calculating technical provisions are covered in section to D.2.

The amount remaining in insurance and intermediaries receivables under Solvency II relates to the inter-company balance due from the parent company for premiums collected from policyholders on behalf of USAA Limited. A reclassification adjustment has been made to payables (trade, not insurance) under liabilities for amounts in the inter-company account which are due to the parent company for non-insurance services.

Note 4: Receivables (Trade, not Insurance)

The receivables (trade, not insurance balances) relates to advance payments for estimated 2017 insurance premiums taxes paid to tax authorities in Germany and Belgium and other receivables, which are due within 1 year. The carrying values are considered to be equivalent to fair values under Solvency II.

Note 5: Cash and Cash Equivalents

Cash and cash equivalents comprise cash on hand and cash deposits with financial institutions that are highly liquid assets and can be withdrawn without penalty.

Cash and cash equivalents are considered to be held at their fair value under Solvency II.

Note 6: Plant & Equipment

Plant and equipment are depreciated at their residual values over their useful lives. Depreciation is calculated on a straight line basis to reduce the carrying value to the residual amount over the following years:

- Fixtures and fittings 5 Years
- Motor Vehicles 3 Years
- Computer Equipment 2 Years
- Furniture and Office Equipment 2 Years

Annual reviews are conducted on an annual basis to ensure residual values, length of useful lives and depreciation methods are still applicable. Where the carrying value of an asset is greater than its estimated recoverable amount it would be written down immediately to its recoverable value.

Note 7: Deferred Tax Asset

The Solvency II recognition principles for deferred taxes are consistent with the UK GAAP FRS 102 principles in the financial statements. The deferred tax asset or liability is calculated based on the temporary difference between Solvency II values and the tax values.

Deferred tax represents the amounts of corporation taxes recoverable in future periods in respect of deductible temporary differences. Deferred taxes in respect of deductible temporary differences are valued on the basis of the difference between:

The values of assets and liabilities recognised and valued in accordance with Solvency II.

The values of assets and liabilities recognised and valued for tax purposes.

Deferred tax has been calculated using the future UK corporation tax rate of 17% in line with the deferred tax calculations in the financial statements.

Note 8: Pension Benefit Surplus

The Company operates two defined benefit Schemes for its employees in the UK and Germany. The UK Scheme was closed to future accrual on 30 June 2016. The German Scheme was closed to new entrants on 31 December 2015.

The assets of the Schemes are held separately from those of the Company and are invested with external investment managers, to meet long term pension liabilities of past and present members.

The valuations for both schemes at 31 December 2016 have been calculated under UK GAAP FRS 102, based on the latest funding valuations carried out by independent qualified actuaries. At 31 December 2016 the FRS 102 valuations reported a pension benefit surplus of £1,163k on the German Scheme and a £145k pension benefit liability on the UK Scheme. Full details on the principal assumptions used to calculate the defined benefit surplus and liability can be found in the Company's Annual 2016 Financial Statements, disclosure note 23.

The prescribed accounting valuation method is consistent with the permitted Solvency II valuation method.

Note 9: Other Assets

The amount shown in other assets, not elsewhere under UK GAAP include accrued interest and prepayments. Accrued interest has been reclassification to investments for Solvency II valuation purposes. The £231k remaining in other assets under Solvency II relates to prepayments, which are valued based on the amounts paid in advance for expenses related to the subsequent reporting period.

There have not been any changes to the recognition and valuation basis for any of the assets disclosed in section D.1.

D.2 TECHNICAL PROVISIONS

Valuation Basis, Methods and Main Assumptions

The technical provisions are defined as the probability-weighted average of future cash flows, discounted to take into account the time value of money considering all possible future scenarios. The cash flow projections used in the calculation of the best estimate takes account of all the cash in-flows and out-flows required to settle the insurance and reinsurance obligations over their lifetime.

Technical provisions are grouped into the following key components:

- Claims provision: Best estimates of the provision that relates to the earned exposure.
- Premium provision: Best estimate of the provision that relates to the unearned exposure (i.e. driven by unearned premium and policies which are bound but not yet incepted (BBNI) at the valuation date).
- Risk margin: Additional provision to bring the best estimates to the level required to transfer the obligations to a third party undertaking.

The following material changes were made to the assumptions underlying the technical provisions since the previous reporting period:

- Inclusion of Events Not in Data (ENID) loading.
- Inclusion of ceded premium associated with the USAA Stop-Loss reinsurance contract.

Claims Provision

Statutory loss and expense reserves (including a prudence margin) are used as the starting point to estimate the claims provision before the following adjustments are applied:

- Removal of prudence margin.
- Events Not in Data (ENID).
- Discounting credit.

Gross statutory reserves are calculated using a deterministic analysis based on a combination of the Chain-Ladder and Cape Cod methods. Expert judgment is used to select ultimate losses and development factors for each accident year. The reserve analysis is based on fifteen years of data. Due to the extremely low volume of reinsurance recoveries, outstanding reinsurance recoverables are valued on a case by case basis by the appropriate claims management team.

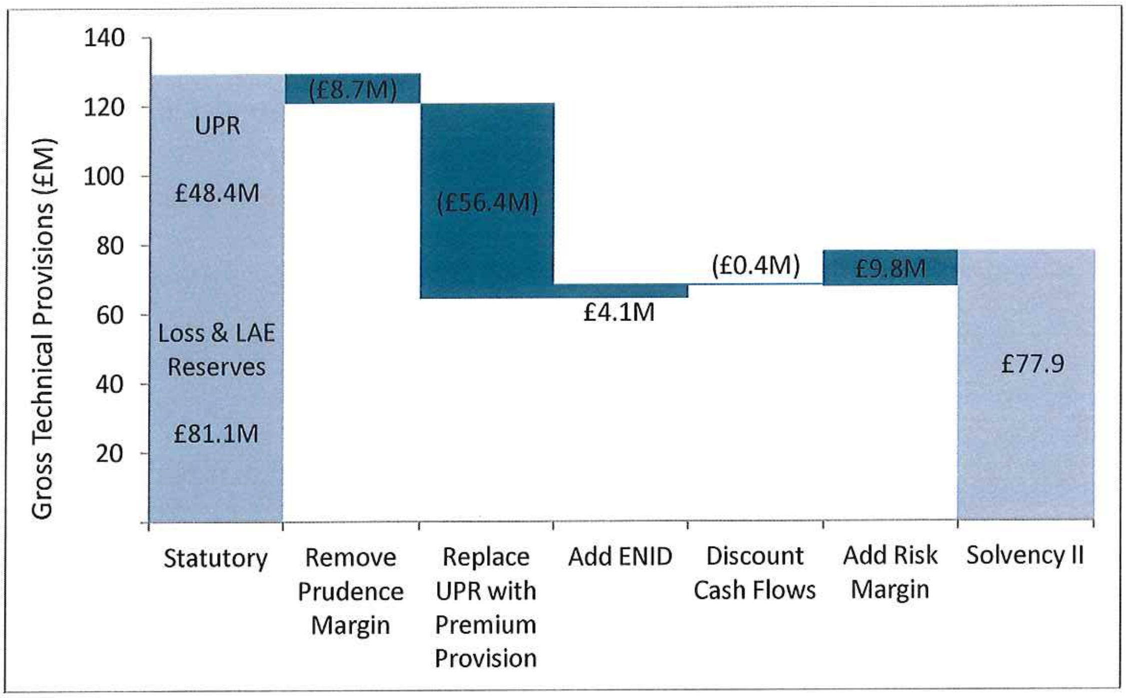
Premium Provision

The unearned premium reserve is used as the starting point to estimate the premium provision before the following adjustments are applied:

- Application of loss ratios to reduce the unearned premium reserve for claims liability.
- BBNI business.
- Expenses.
- ENID.
- Discounting credit.
- Future premium.

Solvency II Adjustments

The chart below shows the difference between the valuation used for Solvency II purposes and that used for statutory financial statements.



The details of Solvency II adjustments that are applied to statutory reserves to obtain best estimates of technical provisions are as follows:

a) Removal of Prudence Margin

Due to the Company's moderately conservative reserving philosophy, a prudence margin is embedded in the statutory loss and expense reserves. To obtain best estimates, the prudence margins must be removed. To determine the prudence margins, a mean reserve is first calculated based on paid and reported reserving methodologies (the latest six accident years) or the currently booked reserves (prior to the latest six accident years). We treat accident years prior to the latest six accident years differently due to the fact that we book at the best estimate for those years. Once the mean reserves are calculated, the booked reserves are divided by the mean reserves to determine the prudence margins. These margins are then applied to the statutory reserves to obtain best estimates.

b) Claims Cash Flows of Unearned Business

Selected loss ratios are used to calculate the expected losses from unearned business in the premium provision. They are selected based on the latest three to five years of historical data and then compared to next year's calendar year plan loss ratio. Since next year's plan includes future rate changes and loss ratio trend assumptions, it provides a reference to which we can compare the selected ratios.

c) Bound But Not Incepted Business (BBNI)

BBNI premium income relates to policies which the Company is legally required to write but which have not yet been incepted as of the valuation date. For USAA Limited, BBNI stems from either renewal packets being sent prior to the renewal effective date or new business being bound early. The BBNI is estimated using the renewal business in the in-force snapshot as of the valuation date. This assumes that no business will cancel between when the renewal packet is sent out and the effective date, but does not capture any new business during that time. Due to the stable nature of the business and the relatively minor impact this has on the final number, we felt that this was reasonable. The BBNI calculations differ by country depending on the renewal cycle in place.

d) Expenses

For USAA Limited, expenses are grouped into the following five categories: administrative expenses, investment management expenses, overhead expenses, claims management expenses, and policyholder dividends. Since we book loss adjustment expense reserves, claims management expenses are included in the statutory reserves that serve as the starting point for the calculation of the claims provision. All five expense categories are included in the calculation of the premium provision by applying expense ratios to unearned premium. For the premium provision, the expense ratios are selected based on next year's financial plan.

e) Events Not in Data (ENID)

ENID adjustments are designed to capture potential future claims that do not exist in the historical data used for the statutory reserves calculation. These claims are typically caused by low-frequency, high-severity man-made hazards. Historical events which are contained within the Company's historical loss experience are also considered to ascertain whether further scenarios or loadings need to be applied.

f) Discounting Credit

Claims and premium provisions are converted to future cash flows by applying payment patterns to determine how much of the provisions will be paid out in each of the future calendar years. Due to the extremely low volume of reinsurance recoveries, gross payment patterns cannot be applied to outstanding reinsurance recoverables. Instead, expertise is provided by the appropriate claims management team when determining the expected settlement of each individual recoverable.

The risk-free yield curves (with no volatility adjustment) provided by EIOPA are used to discount future cash flows of premium and claims provisions to the valuation date to take account of the time value of money. The cash flows are discounted mid-year, which assumes that the average claim is paid mid-year.

g) Future Premium

The Solvency II regime allows liability cash flows to be offset by premium receivables cash flows. Similarly, reinsurance payables (such as future reinsurance payments) also need to be taken into account. Premium receivables are higher than reinsurance payables and thus, result in a reduction of the premium provision.

h) Reinsurance Recoveries (Less Bad Debt)

The reinsurance recoveries are calculated separately for the claims provision and premium provision.

As mentioned above, the Company has an extremely low volume of outstanding reinsurance recoveries. Thus, each outstanding claim subject to reinsurance is considered on a case by case basis. The appropriate claims management team is consulted when determining the expected settlement of each reinsurance claim. The recoverable are then discounted based on the expected settlement date. Due to the superior ratings of the reinsurers subject to the Company's reinsurance treaties, no adjustment for bad debt is included due to immateriality.

For the premium provision, ceded reinsurance ratios (as a percentage of gross losses) are developed based on the last five to ten years of historical data.

Risk Margin

Methodology 2, prescribed by EIOPA (i.e. to approximate the SCR for each future year by using the ratio of the best estimate at that future year to the best estimate at the valuation date), is used to project the future Solvency Capital Requirement (SCR) relating to current obligations. The initial adjusted SCR is determined by running the standard formula excluding the market risk module. Subsequent adjusted SCRs are assumed to increase or decrease in proportion to the change in future net best estimates. We believe that a proportional methodology is appropriate for the Company due to the limited risk profile of our business as a personal lines insurer. The discounted SCRs are determined by multiplying the individual SCRs by the corresponding GBP present value factor.

The final risk margin is determined by multiplying the promulgated 6% cost of capital by the sum of the discounted SCRs.

Level of Uncertainty

Future claims experience is dependent on the external environment, which is subject to uncertainty, including that related to legislative, social and economic change (in particular, exchange rate impact). The impact of uncertain external factors is considered during each reserve analysis.

Uncertainty in the claims provision primarily arises from model error. Model error occurs when the methodology used does not accurately reflect the development process for the line of business. The reserving process considers model error by using multiple reserving methods (ex. Chain-Ladder, Cape Cod, and Large Loss methods) on both paid and incurred claims. The modelled results under each method type are compared and documented as part of the modelling process. In addition, the year-ending reserves are audited by an independent firm for reasonableness.

Uncertainty in the premium provision primarily arises from assumed loss and expense ratios. As contingent events, insurance payments are subject to volatility and may differ from what is expected. To compensate for this, selected loss and expense ratios are based on multiple years of historical data and compared to next year's financial plan. The loss ratio assumptions are also sensitivity tested to ensure that the impact to overall technical provisions is not too large.

Valuation of Technical Provisions

The Company's technical provision's is comprised of Motor Vehicle Liability, Other Motor, Fire and Other Property, and General Liability business. The main methods and assumptions applied in the calculation of the technical provisions for these segments are described in Section D.2 above.

All assumptions are applied in a consistent manner for each line of business although the underlying values may differ by line.

Non-Life Technical Provisions	Gross Best Estimate (£000)	Risk Margin (£000)	SII Value (£000)	Reinsurance Recoverable (£000)	Net Technical Provisions (£000)
Motor Vehicle Liability	72,135	8,997	81,132	(6,715)	74,417
Other Motor	(4,419)	471	(3,948)	2,229	(1,719)
Fire & Other Property	(89)	142	53	374	427
General Liability	457	176	834	165	798
Total	**68,085**	**9,786**	**77,871**	**(3,947)**	**73,924**

D.3 OTHER LIABILITIES

Note 10: Deferred Tax Liabilities

Deferred tax liabilities are disclosed together with deferred tax assets in the asset section D.1 Note 7.

Note 11: Pension Benefit Obligations

Pension benefit obligations are disclosed together with the pension benefit surplus in the asset section D.1 Note 8.

Note 12: Insurance & Intermediaries Payables

Under UK GAAP insurance & intermediaries payables include amounts due to policyholders, which are not yet due. Under Solvency II these have been included as in the calculation of technical provisions.

Note 13: Payables (Trade, not Insurance)

Payables (trade, not insurance) include amounts owed to the parent company, employees, suppliers and tax authorities that are not insurance related. Payables solely comprise of amounts which fall due within 12 months and are considered to be held at fair value under UK GAAP.

Note 14: Other Liabilities, Not Shown Elsewhere

Other Liabilities, not shown elsewhere relates to accruals for expenses recognised in the reporting period that have not been paid at the end of the reporting period. Accruals have been based on amounts expected to paid in the subsequent period and are considered to be a fair value under UK GAAP.

There have not been any changes to the recognition and valuation basis for any of the liabilities disclosed in section D.3.

D.4 ALTERNATIVE METHODS FOR VALUATION

The Company has not used any alternative valuation methods.

E. CAPITAL MANAGEMENT

E.1 OWN FUNDS

The objective of own funds management is to continuously maintain sufficient eligible own funds to cover the Solvency Capital Requirement (SCR) and Minimum Capital Requirement (MCR) with an appropriate buffer. The Company has established Board approved risk appetite and triggers around its SCR coverage and minimum amount of excess available capital.

Approach to Capital Management

The Company includes capital management in its planning and forecasting process. Solvency II balance sheets and own funds are projected over a three year time horizon to anticipate future capital requirements.

The Finance function monitors the Company's solvency position and capital availability through capital assessments and the use of Board approved risk metrics. Information on the Company's capital position is provided to the Board, SIMG and Risk Committee on a regular basis. In addition, the Finance Team works alongside P&C Risk Management to conduct stress and scenario testing and assess its impact on the capital position of the Company.

Tier 1 Basic Own Funds

Under Solvency II regulation, capital is referred to as own funds, which is required to be split between Basic Own funds and Ancillary Own Funds. The Company does not hold any Ancillary Own Funds, therefore the capital is all classified as Basic Own Funds Tier 1 as shown in the table below:

Own Funds - £000	Tier 1
Ordinary Share Capital	13,100
Share Premium	348
Reconciliation Reserve	65,402
Total Own Funds	78,850

All of the company's Tier 1 Own Funds up to a certain percentage are eligible to cover the SCR and MCR. The ordinary share capital and related share premium are classified as Tier 1 unrestricted capital since the Company's Articles of Association permit the cancellation of dividends after they have been declared.

There has not been any change to the Company's ordinary share capital and share premium during the reporting period.

The reconciliation reserve is calculated as follows:

Reconciliation Reserve £'000	
Excess of assets over liabilities from SII Balance Sheet	78,850
Less:	
Ordinary Share Capital	(13,100)
Share Premium	(348)
Reconciliation Reserve	65,402

Difference between Equity as Shown in the Financial Statements and the Solvency II Excess of Assets over Liabilities

	£'000
Ordinary Share Capital	(13,100)
Share Premium	(348)
Retained Earnings	(62,863)
Total Equity as per Financial Statements	(76,311)
Adjustments for Solvency II:	
Difference in Technical Provisions Net of Reinsurance	(3,059)
Difference in valuation of Deferred Tax Liability	520
Excess of Assets Over Liabilities	(78,850)

The valuation difference between the valuation of assets and liabilities are shown in section D.2

E.2 SOLVENCY CAPITAL REQUIREMENT AND MINIMUM CAPITAL REQUIREMENT

SOLVENCY CAPITAL REQUIREMENT (SCR)

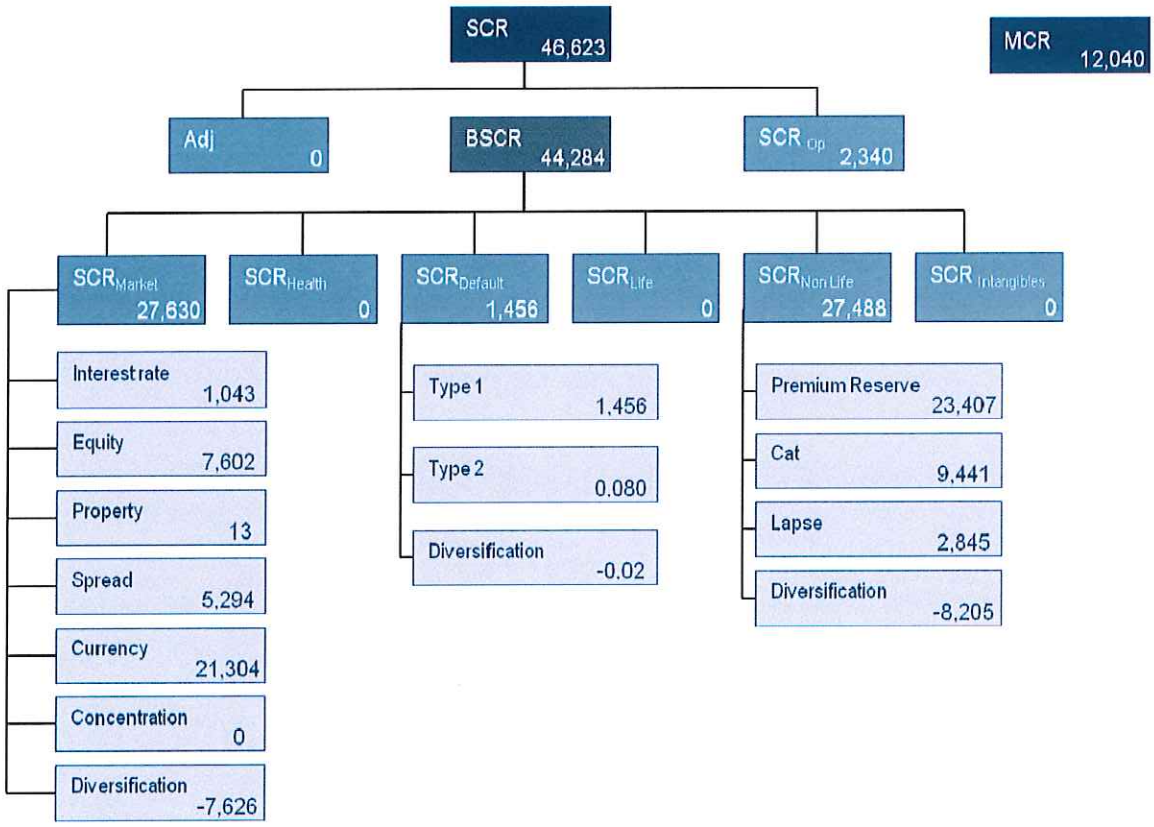
The Company uses the standard formula to calculate its SCR and MCR. The standard formula is intended to be calibrated to ensure all quantifiable risks that the business Company is exposed to are captured, covering all existing business and business to be written over the next 12 months.

The standard formula calculation is based on a calibration of the risk modules using a value-at-risk measure with a 99.5% confidence level over a one year period. This provides a level of confidence that the Company will still be in a position, with a probability of at least 99.5% to meet its obligations to policyholders and other beneficiaries.

The Company has not used simplified calculations in applying the standard formula or applied the use of using specific parameters in the non-life underwriting risk calculations.

In 2016, the Company changed the approach it follows in the treatment of pension schemes within the standard formula. The SCR relating to the UK and Germany pension schemes is now being incorporated into the overall market and counterparty risk modules and the associated sub-modules, allowing for diversifications within the wider business. This is a different approach from how we previously treated the pension schemes within the standard formula – where we just added the pension SCR calculated separately by Aon Hewitt (the Company's Pension Actuaries) to the Basic SCR to arrive at the overall SCR. This change of approach resulted in a reduction in the Company's overall SCR of approximately £6m.

The waterfall chart below shows the Company's SCR as at 31 December 2016.



The total SCR is £46,623k mainly comprising of the following components:

SCR Market Risk

The market risk component of the standard formula SCR £27,630k is driven mainly by risks inherent within the Company's assets and liabilities and pension schemes. The details of this risk over the reporting period are as follows:

- Currency risk £21,304k is the largest component of market risk arising from the exposure of the Company's assets and liabilities denominated in foreign currencies. The Company collects premiums in US Dollars and pay claims in Euro and Sterling.
- Spread risk £5,294k is driven by the company's investment in bonds and securitised assets.
- Interest rate risk £1,043k is driven by changes in assets and liabilities due to changes in discount rates.
- Concentration risk is driven by exposures to default to counterparties or groups of counterparties, referred to as single name exposures. The concentration risk charge is zero as there are no holdings in excess of the specified thresholds prescribed by the EU Delegated Acts.

SCR Non-life Underwriting Risk

The Non-life underwriting risk £27,488k is the largest component of Standard Formula SCR and arises from:

- Premium and Reserve risk £23,407k is mainly driven by earned premiums, forecast premiums and claims provisions of non-life lines (Motor Vehicle Liability, Other Motor, Fire and other Damage to Property and General Liability lines). Reserve strengthening arising from a decrease in the Ogden rate and an increase in earned premiums and forecast premiums has contributed to the increase in this risk.
- Catastrophe risk £9,441k arises from the Company's exposure to man-made catastrophe and natural catastrophe risks.

The Management hold the view that the non-life underwriting risk is overstated as no credit is being taken for the non-proportional stop-loss reinsurance treaty in the standard formula. This is a limitation of the standard formula calculation which does not allow for non-proportional reinsurance.

SCR Counterparty Risk

The counterparty risk component of the standard formula SCR £1,456k arises from the Company's exposure to credit risk on its reinsurers, issuers of investments and financial institutions. The Company has two reinsurance contracts in place: an external auto liability excess of loss treaty and a stop-loss agreement with USAA, the parent company.

MINIMUM CAPITAL REQUIREMENT (MCR)

The MCR represents the minimum level of capital below which the amount of financial resources should not fall. The MCR is intended to be calibrated to achieve an 85% confidence level over a one year period. It is subject to an absolute floor of a fixed euro amount. In addition to not falling below the absolute floor, the MCR must be no less than 25% of the SCR and no more than 45% of SCR.

The non-life MCR is based on factors applied to net premiums written in the previous 12 months and the net best estimate of technical provisions both split by Solvency II lines of business. The charge for premiums and technical provisions are then combined to give a total MCR charge.

The amount of the MCR for the reporting period is £12,040k. The following table shows the MCR calculation:

Overall MCR calculation	MCR £'000
Linear MCR	12,040
SCR	46,623
MCR cap	20,980
MCR floor	11,656
Combined MCR	12,040
Absolute floor of the MCR	3,332
Minimum Capital Requirement	**12,040**

There are no material changes to the Company's MCR during the reporting period.

ELIGIBLE OWN FUNDS TO COVER CAPITAL REQUIREMENTS

The table below presents the ratio of total eligible own funds that the Company holds to cover the SCR and MCR.

Eligible Own Funds	SCR Coverage	MCR Coverage
Available Eligible Own Funds	78,850	78,850
SCR/MCR	(46,623)	(12,040)
Excess Eligible Own Funds	32,227	66,810
Ratio of Eligible Own Funds to SCR/MCR	169.1%	654.9%

E.3 DIFFERENCES BETWEEN THE STANDARD FORMULA AND ANY INTERNAL MODEL USED

The Company only used the standard formula to calculate its SCR and MCR.

E.4 NON-COMPLIANCE WITH THE MINIMUM CAPITAL REQUIREMENT AND NON-COMPLIANCE WITH THE SOLVENCY CAPITAL REQUIREMENT

There were no instances of non-compliance with the Solvency II capital requirements. The Company held Own Funds in excess of both the SCR and MCR requirements during the reporting period.

E.5 ANY OTHER INFORMATION

The Board do not consider that there is any further information which should be disclosed regarding the capital management of the Company.

F. APPENDICES

F.1 PUBLIC QRTs (ALL EXPRESSED IN £ THOUSANDS)

S.02.01.02	Balance sheet
S.05.01.02	Premiums, claims and expenses by line of business
S.05.02.01	Premiums, claims and expenses by country
S.17.01.02	Non-Life Technical Provisions
S.19.01.21	Non-Life insurance claims
S.23.01.01	Own Funds
S.25.01.21	Solvency Capital Requirement – for undertakings on Standard Formula
S.28.01.01	Minimum Capital Requirement – Only life or only non-life insurance or reinsurance activity

General information

Undertaking name	USAA LIMITED
Undertaking identification code	549300IBSMNH2LCY8Q54
Type of code of undertaking	LEI
Type of undertaking	Non-life undertakings
Country of authorisation	GB
Language of reporting	en
Reporting reference date	31 December 2016
Currency used for reporting	GBP
Accounting standards	The undertaking is using local GAAP (other than IFRS)
Method of Calculation of the SCR	Standard formula
Matching adjustment	No use of matching adjustment
Volatility adjustment	No use of volatility adjustment
Transitional measure on the risk-free interest rate	No use of transitional measure on the risk-free interest rate
Transitional measure on technical provisions	No use of transitional measure on technical provisions

List of reported templates

S.02.01.02 - Balance sheet
S.05.01.02 - Premiums, claims and expenses by line of business
S.05.02.01 - Premiums, claims and expenses by country
S.17.01.02 - Non-Life Technical Provisions
S.19.01.21 - Non-Life insurance claims
S.23.01.01 - Own Funds
S.25.01.21 - Solvency Capital Requirement - for undertakings on Standard Formula
S.28.01.01 - Minimum Capital Requirement - Only life or only non-life insurance or reinsurance activity

S.02.01.02

Balance sheet

		Solvency II value
	Assets	C0010
R0030	Intangible assets	
R0040	Deferred tax assets	
R0050	Pension benefit surplus	1,163
R0060	Property, plant & equipment held for own use	612
R0070	Investments (other than assets held for index-linked and unit-linked contracts)	139,294
R0080	*Property (other than for own use)*	0
R0090	*Holdings in related undertakings, including participations*	0
R0100	*Equities*	0
R0110	*Equities - listed*	0
R0120	*Equities - unlisted*	0
R0130	*Bonds*	130,251
R0140	*Government Bonds*	45,655
R0150	*Corporate Bonds*	81,959
R0160	*Structured notes*	0
R0170	*Collateralised securities*	2,637
R0180	*Collective Investments Undertakings*	0
R0190	*Derivatives*	
R0200	*Deposits other than cash equivalents*	9,043
R0210	*Other investments*	0
R0220	Assets held for index-linked and unit-linked contracts	
R0230	Loans and mortgages	0
R0240	*Loans on policies*	0
R0250	*Loans and mortgages to individuals*	
R0260	*Other loans and mortgages*	
R0270	Reinsurance recoverables from:	3,947
R0280	*Non-life and health similar to non-life*	3,947
R0290	*Non-life excluding health*	3,947
R0300	*Health similar to non-life*	0
R0310	*Life and health similar to life, excluding index-linked and unit-linked*	0
R0320	*Health similar to life*	
R0330	*Life excluding health and index-linked and unit-linked*	
R0340	*Life index-linked and unit-linked*	
R0350	Deposits to cedants	0
R0360	Insurance and intermediaries receivables	5,960
R0370	Reinsurance receivables	
R0380	Receivables (trade, not insurance)	550
R0390	Own shares (held directly)	0
R0400	Amounts due in respect of own fund items or initial fund called up but not yet paid in	0
R0410	Cash and cash equivalents	11,650
R0420	Any other assets, not elsewhere shown	232
R0500	**Total assets**	163,407

S.02.01.02

Balance sheet

		Solvency II value
	Liabilities	C0010
R0510	Technical provisions - non-life	77,871
R0520	*Technical provisions - non-life (excluding health)*	77,871
R0530	*TP calculated as a whole*	0
R0540	*Best Estimate*	68,085
R0550	*Risk margin*	9,786
R0560	*Technical provisions - health (similar to non-life)*	0
R0570	*TP calculated as a whole*	0
R0580	*Best Estimate*	0
R0590	*Risk margin*	0
R0600	Technical provisions - life (excluding index-linked and unit-linked)	0
R0610	*Technical provisions - health (similar to life)*	0
R0620	*TP calculated as a whole*	
R0630	*Best Estimate*	
R0640	*Risk margin*	
R0650	*Technical provisions - life (excluding health and index-linked and unit-linked)*	0
R0660	*TP calculated as a whole*	
R0670	*Best Estimate*	
R0680	*Risk margin*	
R0690	Technical provisions - index-linked and unit-linked	0
R0700	*TP calculated as a whole*	
R0710	*Best Estimate*	
R0720	*Risk margin*	
R0740	Contingent liabilities	
R0750	Provisions other than technical provisions	
R0760	Pension benefit obligations	145
R0770	Deposits from reinsurers	
R0780	Deferred tax liabilities	619
R0790	Derivatives	
R0800	Debts owed to credit institutions	
R0810	Financial liabilities other than debts owed to credit institutions	
R0820	Insurance & intermediaries payables	
R0830	Reinsurance payables	
R0840	Payables (trade, not insurance)	4,232
R0850	Subordinated liabilities	0
R0860	*Subordinated liabilities not in BOF*	
R0870	*Subordinated liabilities in BOF*	0
R0880	Any other liabilities, not elsewhere shown	1,690
R0900	**Total liabilities**	84,556
R1000	**Excess of assets over liabilities**	78,851

S.05.01.02

Premiums, claims and expenses by line of business

Non-life

		Line of Business for: non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance)												Line of business for: accepted non-proportional reinsurance				Total
		Medical expense insurance	Income protection insurance	Workers' compensation insurance	Motor vehicle liability insurance	Other motor insurance	Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance	Credit and suretyship insurance	Legal expenses insurance	Assistance	Misc. financial loss	Health	Casualty	Marine, aviation and transport	Property	
		C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0120	C0130	C0140	C0150	C0160	C0200
	Premiums written																	
R0110	Gross - Direct Business				34,747	38,999		6,893	2,919									83,558
R0120	Gross - Proportional reinsurance accepted																	0
R0130	Gross - Non-proportional reinsurance accepted																	0
R0140	Reinsurers' share				4,265	3,108		518	225									8,116
R0200	Net				30,483	35,891		6,375	2,694									75,442
	Premiums earned																	
R0210	Gross - Direct Business				31,021	37,676		6,479	2,815									77,992
R0220	Gross - Proportional reinsurance accepted																	0
R0230	Gross - Non-proportional reinsurance accepted																	0
R0240	Reinsurers' share				4,265	3,108		518	225									8,116
R0300	Net				26,757	34,567		5,961	2,590									69,875
	Claims incurred																	
R0310	Gross - Direct Business				18,755	15,631		2,405	955									37,747
R0320	Gross - Proportional reinsurance accepted																	0
R0330	Gross - Non-proportional reinsurance accepted																	0
R0340	Reinsurers' share				4,355	0		0	0									4,355
R0400	Net				14,400	15,631		2,405	955									33,391
	Changes in other technical provisions																	
R0410	Gross - Direct Business																	0
R0420	Gross - Proportional reinsurance accepted																	0
R0430	Gross - Non-proportional reinsurance accepted																	0
R0440	Reinsurers' share																	0
R0500	Net				0	0		0	0									0
R0550	**Expenses incurred**				9,328	11,326		1,882	796									23,332
R1200	**Other expenses**																	
R1300	**Total expenses**																	23,332

S.05.02.01

Premiums, claims and expenses by country

Non-life

		C0010	C0020	C0030	C0040	C0050	C0060	C0070
		Home Country	Top 5 countries (by amount of gross premiums written) - non-life obligations			Top 5 countries (by amount of gross premiums written) - non-life obligations		Total Top 5 and home country
R0010			DE	IT	ES	BE	NL	
		C0080	C0090	C0100	C0110	C0120	C0130	C0140
	Premiums written							
R0110	Gross - Direct Business	14,644	45,633	17,287	2,342	2,226	810	82,942
R0120	Gross - Proportional reinsurance accepted							0
R0130	Gross - Non-proportional reinsurance accepted							0
R0140	Reinsurers' share	1,480	4,396	1,695	220	200	72	8,063
R0200	Net	13,163	41,238	15,592	2,122	2,026	738	74,879
	Premiums earned							
R0210	Gross - Direct Business	13,230	43,347	15,796	2,152	2,106	752	77,384
R0220	Gross - Proportional reinsurance accepted							0
R0230	Gross - Non-proportional reinsurance accepted							0
R0240	Reinsurers' share	1,480	4,396	1,695	220	200	72	8,063
R0300	Net	11,750	38,951	14,101	1,933	1,906	680	69,321
	Claims incurred							
R0310	Gross - Direct Business	13,287	19,744	2,753	821	613	275	37,494
R0320	Gross - Proportional reinsurance accepted							0
R0330	Gross - Non-proportional reinsurance accepted							0
R0340	Reinsurers' share	2,469	1,886	0	0	0	0	4,355
R0400	Net	10,818	17,858	2,753	821	613	275	33,139
	Changes in other technical provisions							
R0410	Gross - Direct Business							0
R0420	Gross - Proportional reinsurance accepted							0
R0430	Gross - Non-proportional reinsurance accepted							0
R0440	Reinsurers' share							0
R0500	Net	0	0	0	0	0	0	0
R0550	**Expenses incurred**	4,415	13,436	3,876	631	573	218	23,149
R1200	**Other expenses**							
R1300	**Total expenses**							23,149

S.17.01.02

Non-Life Technical Provisions

		Direct business and accepted proportional reinsurance												Accepted non-proportional reinsurance				
		Medical expense insurance	Income protection insurance	Workers' compensation insurance	Motor vehicle liability insurance	Other motor insurance	Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance	Credit and suretyship insurance	Legal expenses insurance	Assistance	Miscellaneous financial loss	Non-proportional health reinsurance	Non-proportional casualty reinsurance	Non-proportional marine, aviation and transport reinsurance	Non-proportional property reinsurance	Total Non-Life obligation
		C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0120	C0130	C0140	C0150	C0160	C0170	C0180
R0010	Technical provisions calculated as a whole				0	0		0	0									0
R0050	Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP calculated as a whole																	0
	Technical provisions calculated as a sum of BE and RM																	
	Best estimate																	
	Premium provisions																	
R0060	Gross				2,388	-7,575		-1,037	-724									-6,948
R0140	Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default				-2,766	-2,229		-374	-165									-5,534
R0150	**Net Best Estimate of Premium Provisions**				5,153	-5,346		-663	-558									-1,414
	Claims provisions																	
R0160	Gross				69,747	3,156		948	1,181									75,032
R0240	Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default				9,481	0		0	0									9,481
R0250	**Net Best Estimate of Claims Provisions**				60,267	3,156		948	1,181									65,551
R0260	**Total best estimate - gross**				72,135	-4,419		-89	457									68,085
R0270	**Total best estimate - net**				65,420	-2,190		285	623									64,138
R0280	**Risk margin**				8,997	471		142	176									9,786
	Amount of the transitional on Technical Provisions																	
R0290	Technical Provisions calculated as a whole																	0
R0300	Best estimate																	0
R0310	Risk margin																	0
R0320	**Technical provisions - total**				81,132	-3,948		53	634									77,871
R0330	**Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - total**				6,715	-2,229		-374	-165									3,947
R0340	**Technical provisions minus recoverables from reinsurance/SPV and Finite Re - total**				74,417	-1,719		427	799									73,924

S.19.01.21

Non-Life insurance claims

Total Non-life business

Z0010 Accident year / underwriting year: Accident Year

Gross Claims Paid (non-cumulative)
(absolute amount)

		C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0170	C0180
	Year	Development year											In Current year	Sum of years (cumulative)
		0	1	2	3	4	5	6	7	8	9	10 & +		
R0100	Prior											46	46	46
R0160	N-9	9,084	4,111	1,459	505	675	195	230	137	249	19		19	16,664
R0170	N-8	10,422	4,902	1,163	468	792	607	841	312	88			88	19,595
R0180	N-7	14,021	5,739	1,818	1,827	994	482	-255	149				149	24,775
R0190	N-6	15,451	7,468	1,444	892	766	1,040	102					102	27,163
R0200	N-5	15,978	4,891	1,524	1,899	949	104						104	25,345
R0210	N-4	15,851	5,989	2,124	1,154	2,986							2,986	28,104
R0220	N-3	16,146	5,667	1,539	599								599	23,951
R0230	N-2	18,176	6,488	1,218									1,218	25,882
R0240	N-1	25,619	7,948										7,948	33,567
R0250	N	25,166											25,166	25,166
R0260												Total	38,425	250,258

Gross Undiscounted Best Estimate Claims Provisions
(absolute amount)

		C0200	C0210	C0220	C0230	C0240	C0250	C0260	C0270	C0280	C0290	C0300	C0360
	Year	Development year											Year end (discounted data)
		0	1	2	3	4	5	6	7	8	9	10 & +	
R0100	Prior											9,931	9,848
R0160	N-9	0	0	0	0	0	0	0	0	0	339		336
R0170	N-8	0	0	0	0	0	0	0	0	2,786			2,780
R0180	N-7	0	0	0	0	0	0	0	821				818
R0190	N-6	0	0	0	0	0	0	1,662					1,651
R0200	N-5	0	0	0	0	0	2,489						2,474
R0210	N-4	0	0	0	0	3,440							3,394
R0220	N-3	0	0	0	3,292								3,266
R0230	N-2	0	0	7,111									7,051
R0240	N-1	0	18,203										18,103
R0250	N	25,485											25,311
R0260												Total	75,032

S.23.01.01

Own Funds

		Total	Tier 1 unrestricted	Tier 1 restricted	Tier 2	Tier 3
	Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation 2015/35	C0010	C0020	C0030	C0040	C0050
R0010	Ordinary share capital (gross of own shares)	13,100	13,100		0	
R0030	Share premium account related to ordinary share capital	348	348		0	
R0040	Initial funds, members' contributions or the equivalent basic own-fund item for mutual and mutual-type undertakings	0	0		0	
R0050	Subordinated mutual member accounts	0		0	0	0
R0070	Surplus funds	62,864	62,864			
R0090	Preference shares	0		0	0	0
R0110	Share premium account related to preference shares	0		0	0	0
R0130	Reconciliation reserve	2,540	2,540			
R0140	Subordinated liabilities	0		0	0	0
R0160	An amount equal to the value of net deferred tax assets	0				0
R0180	Other own fund items approved by the supervisory authority as basic own funds not specified above	0	0	0	0	0
R0220	**Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds**	0				
R0230	**Deductions for participations in financial and credit institutions**	0				
R0290	**Total basic own funds after deductions**	78,851	78,851	0	0	0
	Ancillary own funds					
R0300	Unpaid and uncalled ordinary share capital callable on demand	0				
R0310	Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand	0				
R0320	Unpaid and uncalled preference shares callable on demand	0				
R0330	A legally binding commitment to subscribe and pay for subordinated liabilities on demand	0				
R0340	Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC	0				
R0350	Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC	0				
R0360	Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC	0				
R0370	Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC	0				
R0390	Other ancillary own funds	0				
R0400	**Total ancillary own funds**	0			0	0
	Available and eligible own funds					
R0500	Total available own funds to meet the SCR	78,851	78,851	0	0	0
R0510	Total available own funds to meet the MCR	78,851	78,851	0	0	
R0540	Total eligible own funds to meet the SCR	78,851	78,851	0	0	0
R0550	Total eligible own funds to meet the MCR	78,851	78,851	0	0	
R0580	**SCR**	46,623				
R0600	**MCR**	12,040				
R0620	**Ratio of Eligible own funds to SCR**	169.12%				
R0640	**Ratio of Eligible own funds to MCR**	654.92%				

	Reconcilliation reserve	C0060
R0700	Excess of assets over liabilities	78,851
R0710	Own shares (held directly and indirectly)	0
R0720	Foreseeable dividends, distributions and charges	
R0730	Other basic own fund items	76,311
R0740	Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	0
R0760	**Reconciliation reserve**	2,540
	Expected profits	
R0770	Expected profits included in future premiums (EPIFP) - Life business	
R0780	Expected profits included in future premiums (EPIFP) - Non- life business	6,567
R0790	**Total Expected profits included in future premiums (EPIFP)**	6,567

S.25.01.21

Solvency Capital Requirement - for undertakings on Standard Formula

		Gross solvency capital requirement	USP	Simplifications
		C0110	C0080	C0090
R0010	Market risk	27,630		
R0020	Counterparty default risk	1,456		
R0030	Life underwriting risk	0		
R0040	Health underwriting risk	0		
R0050	Non-life underwriting risk	27,488		
R0060	Diversification	-12,291		
R0070	Intangible asset risk	0		
R0100	**Basic Solvency Capital Requirement**	44,284		

	Calculation of Solvency Capital Requirement	C0100
R0130	Operational risk	2,340
R0140	Loss-absorbing capacity of technical provisions	0
R0150	Loss-absorbing capacity of deferred taxes	0
R0160	Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	0
R0200	**Solvency Capital Requirement excluding capital add-on**	46,623
R0210	Capital add-ons already set	0
R0220	**Solvency capital requirement**	46,623
	Other information on SCR	
R0400	Capital requirement for duration-based equity risk sub-module	0
R0410	Total amount of Notional Solvency Capital Requirements for remaining part	0
R0420	Total amount of Notional Solvency Capital Requirements for ring fenced funds	0
R0430	Total amount of Notional Solvency Capital Requirements for matching adjustment portfolios	0
R0440	Diversification effects due to RFF nSCR aggregation for article 304	0

S.28.01.01

Minimum Capital Requirement - Only life or only non-life insurance or reinsurance activity

Linear formula component for non-life insurance and reinsurance obligations

		C0010
R0010	MCR_{NL} Result	12,040

		Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance) written premiums in the last 12 months
		C0020	C0030
R0020	Medical expense insurance and proportional reinsurance	0	
R0030	Income protection insurance and proportional reinsurance	0	
R0040	Workers' compensation insurance and proportional reinsurance	0	
R0050	Motor vehicle liability insurance and proportional reinsurance	65,420	30,483
R0060	Other motor insurance and proportional reinsurance	0	35,891
R0070	Marine, aviation and transport insurance and proportional reinsurance	0	
R0080	Fire and other damage to property insurance and proportional reinsurance	285	6,375
R0090	General liability insurance and proportional reinsurance	623	2,694
R0100	Credit and suretyship insurance and proportional reinsurance	0	
R0110	Legal expenses insurance and proportional reinsurance	0	
R0120	Assistance and proportional reinsurance	0	
R0130	Miscellaneous financial loss insurance and proportional reinsurance	0	
R0140	Non-proportional health reinsurance	0	
R0150	Non-proportional casualty reinsurance	0	
R0160	Non-proportional marine, aviation and transport reinsurance	0	
R0170	Non-proportional property reinsurance	0	

Linear formula component for life insurance and reinsurance obligations

		C0040
R0200	MCR_L Result	0

		Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance/SPV) total capital at risk
		C0050	C0060
R0210	Obligations with profit participation - guaranteed benefits		
R0220	Obligations with profit participation - future discretionary benefits		
R0230	Index-linked and unit-linked insurance obligations		
R0240	Other life (re)insurance and health (re)insurance obligations		
R0250	Total capital at risk for all life (re)insurance obligations		

Overall MCR calculation

		C0070
R0300	Linear MCR	12,040
R0310	SCR	46,623
R0320	MCR cap	20,981
R0330	MCR floor	11,656
R0340	Combined MCR	12,040
R0350	Absolute floor of the MCR	3,332
R0400	**Minimum Capital Requirement**	12,040